



**Middle East North Africa  
Financial Action Task  
Force**

**Anti-money laundering and  
counter-terrorist financing  
measures**

**The Republic of Lebanon**

**Mutual Evaluation Report**



**December 2023**

**The Republic of  
Lebanon**

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## Executive Summary

1. This report summarizes the anti-money laundering and counter-terrorist financing (AML/CFT) measures in place in the Republic of Lebanon (Lebanon) during the on-site visit from 18 July to 3 August 2022. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of the AML/CFT system and provides recommendations on how the system could be strengthened.

### Key Findings:

- a) Lebanon conducted the national ML/TF risk assessment and updated it according to a sound national methodology which was based on an analysis of quantitative and qualitative data, with the participation of all categories of stakeholders from the public and private sectors. The results of the National Risk Assessment (NRA) included the most serious crimes and the financial and non-financial sectors which are at greatest risk of money laundering and terrorist financing, however, it is found with less level of understanding of ML/TF risks arising from the unregulated financial sector, the activities of a major local paramilitary organization, as well as those arising from senior-level government corruption in the country. A summary of both the national assessment and its update was published on the Special Investigation Commission (SIC) website and copies thereof were provided to stakeholders and not detailed copies, according to the competence of each entity.
- b) Also, Lebanon conducted many sectoral assessments for the financial sector, and the TF competent authorities have good understanding of the most risks of terrorism and financing terrorism except for the potential threats linked with local paramilitary groups. As for the ML, most of the public entities have good understanding while some of them have developing understanding. As to the private sector, some have a good understanding for ML/TF risks, mainly banks, while others have a developing level of understanding.
- c) Some issues were identified in the logic of Lebanon's understanding of the risks related to the traders of precious metals and stones sector, with its characteristics as a safe haven for saving and investing during crises, as the country's assessment of these risks is primarily based on the relative importance of this sector, which necessitates to update the assessment of risks associated with this sector to be more comprehensive.
- d) Competent authorities have direct and indirect access to a wide range of financial and other relevant information while examining ML, associated predicate offenses and TF cases. They largely use financial intelligence in TF investigations, and limitedly in ML and associated predicate offense cases. It is worth noting that investigative authorities send requests for assistance to obtain necessary financial intelligence to the SIC through the Cassation Public Prosecutor.
- e) ML cases are mainly identified through investigations conducted by the Internal Security Forces and the SIC, based on reports referred to the Cassation Public Prosecution and to a lesser extent by tax and customs authorities. ML investigations pursued by Lebanese authorities are to some extent inconsistent with the threats and risks which have been identified in the NRA in 2019 and the prosecutions are not closely in line with the threats and risk profile, namely with respect to customs smuggling, tax evasion, illicit drug trafficking and human trafficking crimes.

- f) Lebanon has no clear policy in place to identify, freeze and confiscate the proceeds of crime on regular basis. On this note, competent authorities have not demonstrated their pursuit to confiscate criminal proceeds as a policy objective or as part of their criminal justice system, given that they were not able to convert the preventive measures regarding freezing and seizure into a final ML confiscation, except for one case, despite the good legal framework in place (the National Fund for the Management and Investment of Assets under Recovery or Recovered Related to Crimes and Proceeds during the freezing or seizure phase) . In addition, there is no clear policy or measures to identify the priorities of recovering the assets held or moved to other jurisdictions, considering the related risks. In this context, confiscations in Lebanon were limited only to local predicate offenses.
- g) LEAs represented by the General Intelligence Directorate of the Lebanese Army, the Information Division of the General Directorate of Internal Security Forces and the General Directorate of State Security pursue various TF activities, including the collection of funds (from a legitimate or illegitimate source), their movement and transportation, either through the formal or informal sector or through the physical cross-border transportation. They also pursue self-financing, stand-alone financing and financing of terrorist groups that are mainly active at the domestic level, in addition to the financing of the travel of fighters to conflict zones. However, these efforts did not include investigations regarding the potential threats posed by the activities of a major local paramilitary organization.
- h) Lebanon has a mechanism in place to identify the persons and entities targeted for designation, pursuant to UNSCR 1267 and successor resolutions. Over the last five years, Lebanon has made a proposal for the designation of several persons, ex parte, to the Sanctions Committee. It has also designated, with foreign countries, a group of persons and entities and presented detailed information on some designees. There is a disparity in following the updates of the 1267 list and successor resolutions by FIs (except for banks) and most DNFBPs, which may affect the implementation of the freezing obligations without delay. Lebanon has an appropriate mechanism for implementing UNSCR 1373. A large number of persons and some entities were designated on the domestic list and their assets were frozen. Most financial institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs) are well aware of the requirements for monitoring the updates made to the domestic list, freezing and reporting to the SIC. However, there are some gaps in the practical implementation of these requirements.
- i) Lebanon has a proper mechanism for applying targeted financial sanctions related to countering the financing of proliferation, as all financial institutions and DNFBPs are required to review updates of the sanctions lists related to UNSCRs 1718 and 2231 on North Korea and Iran on a daily basis and directly through the websites of relevant sanctions committees. Banks, money transfer companies, exchange companies of type "A" make sure to timely track these updates and use electronic systems to screen against these lists. However, DNFBPs are not aware of their obligations in this regard and do not interact with the list updates. The General Directorate of Customs follows the relevant UNSCRs on countering the financing of proliferation and disseminates any updates to all border crossings without delay, to be used during inspection of imported or exported shipments and goods at border crossings. Customs has also established procedures to handle dual-use materials upon import or re-export to another country. The country successfully intercepted prohibited trade transactions and imports of dual-use goods.

- j) Banks and money transfer companies are applying the risk-based approach ( RBA) toward their customers, and they are periodically updating it. They are also taking appropriate measures to mitigate the risks. Notaries public have a limited understanding of the ML risks related to their business and they are not applying the risk-based approach, noting that they are taking general mitigating measures that are not associated with the risks they are facing. They also showed some deficiencies in applying the AML/CFT obligations.
- k) FIs are applying customer due diligence (CDD) measures in a satisfactory manner. However, the measures for identifying the beneficial owner of a legal person are limited, in some institutions, to the verification of the identity of the real owner only. Furthermore, the measures applied by banks on how to deal with the bank accounts of notaries public also vary.
- l) Lebanese authorities adequately implement licensing and registration procedures and carry out fit and proper tests, however, there are few gaps that need to be addressed. The measures for identifying the beneficial owner in FIs are not considered sufficient to identify entities exercising indirect control. Controls applied toward persons appointed in key positions do not cover the verification of the status of their designation on the UN lists. There are no periodic measures to verify the continued integrity of criminal records and non-designation on UN lists. There are no measures to prevent associates of criminals from being professionally accredited to exercise designated non-financial businesses and professions. The FIU follows risk-based supervisory approach over the supervised sectors, and the risk-based supervisory approach is not comprehensively applied to the lawyers and notaries' sectors. There are obstacles concerning the professional secrecy that prevent the Bar Association, which is the entity supervising the lawyers' sector, from accessing any information to verify the lawyers' compliance with the AML/CFT obligations. Financial and administrative penalties were applied against banks and FIs, but no disciplinary measures were taken against DNFBPs, except for the notaries, for the violation of AML/CFT requirements.
- m) Lebanon seeks to provide and request mutual legal assistance in the ML, predicate offenses and TF field. The -MLA requests are not consistent with the country's risk profile. Moreover, there is a delay in sending MLA requests, a lack in making requests for the recovery of stolen assets and the absence of additional efforts to overcome the obstacles to executing these requests. The country is undertaking informal cooperation with counterparts on other countries, in the CFT field, through its competent authorities, in an uneven manner. However, its cooperation on combating money laundering and predicate offenses, such as drug trafficking, is considered inconsistent with the risk profile.

## Risks and General Situation

2. The size of the financial sector in Lebanon is very modest compared to the global or regional financial hubs that attract funds worldwide. Remittances made by Lebanese expatriates constitute a lever for the Lebanese economy, as the volume of remittances to Lebanon recorded in 2021 amounted to US\$6.5 billion approximately. The economic and financial crisis that Lebanon is going through has led to a shrinking in the size of the banking/financial sector, a sharp decline in international trade and a deterioration in the exchange rate of the national currency against the US dollar, in addition to increased unemployment rates. The Gross Domestic Product (GDP) has declined from US\$55 billion in 2018 to US\$33 billion approximately in 2020. By the end of 2021, it amounted to about US\$21

billion. The large numbers of refugees in Lebanon pose an additional burden at all levels. Banks represent the largest component of the financial sector, accounting for approximately 96% of the total assets of the financial sector, while the non-banking financial sector represents about 4% of the total assets of the financial sector.

3. The summary of the NRA results for 2019 and its update in 2022 indicates that the major threats of predicate offenses that generate criminal proceeds of money laundering are corruption and tax evasion (such as tampering of shipping documents and submission of falsified invoices, as well as tax fraud schemes related to illegal VAT refunds), illicit trafficking in narcotic drugs and psychotropic substances and cybercrimes, (which have relatively decreased, according to the NRA update for 2022), in addition to new criminal threats related to smuggling to other countries (due to the commodity subsidy policy applied locally) and counterfeiting of goods (related to COVID-19 Pandemic), as revealed by the NRA updated in 2022.

#### **Overall Level of Effectiveness and Technical Compliance:**

4. Regarding the legislative and regulatory developments, the legal framework of the AML/CFT system in Lebanon is based on law No.44 dated 24/11/2015 on fighting money laundering and terrorist financing which was ratified by the Lebanese Parliament at its legislative session held on 13/11/2015. AML/CFT law No. (44) of 2015 included a list of ML predicate offenses comprising twenty-one predicate offenses (such as racketeering, human trafficking and migrant smuggling, sexual exploitation, corruption and bribery, smuggling and piracy, insider trading and market manipulation). The said law criminalized the attempted ML crime, called for more severe sanctions for the cases of ML conviction and added new forms of TF criminalization with respect to financing travel, organization, training, and recruitment. It also criminalized the financing of terrorist individuals or organizations. It comprised provisions on granting the SIC powers to receive reports and conduct investigations of transactions suspected of being related to TF crimes, and to request individuals and public and private stakeholders to take the necessary measures to prevent disposing of movable or immovable property belonging to names which are or will be designated on the national lists issued by the Lebanese competent authorities or any other lists they disseminate on terrorism, terrorist financing and associated activities, to require persons, official and competent authorities and the private sector to respond to any such request made by the SIC without delay, to include some DNFBPs among the sectors covered by the provisions of the law, with respect to due diligence and to expand the scope of the obligation to report suspicious transactions and transactions suspected to be related to TF by reporting entities.
5. Art.6 of AML/CFT law No. (44) of 2015 provided for the establishment of an independent<sup>1</sup> legal entity with judicial status at Banque du Liban (BDL), which shall discharge its functions without being subject to Banque du Liban's authority. It shall have the competences provided for in this law.

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<sup>1</sup>The Special Investigation Commission established by virtue of law No.318 of 2001 on fighting money laundering.

6. Regarding the supervisory controls, supervisors issued AML/CFT controls and circulars to the entities subject to their supervision, where BDL issued AML/CFT supervisory controls to each of: Banks, non-banking FIs, exchange houses, money transfer companies, credit counters and financial brokerage companies. The SIC also issued regulatory texts addressed to the entities covered in art.5 of the law (insurance companies and DNFBPs). In addition, the Bar Association and the Association of Certified Public Accountants issued guidance to entities which are subject to their supervision in the AML/CFT field.
7. The Lebanese Lawmaker regulated the rules for the entry and exit of currencies and negotiable bearer instruments across borders under Law No.42 (Declaration of Cross-Border Transportation of Funds). The law includes special provisions on the implementation of the two systems of declaration and disclosure of cross-border negotiable assets and the issuance of mechanisms for implementing UNSCRs on targeted financial sanctions related to terrorism and terrorist financing, and targeted financial sanctions related to proliferation, in implementation of the UNSCRs.

#### **Assessment of Risks, Coordination and Policy Setting (Chapter 2; IO.1, R.1, 2, 33 & 34)**

8. The country prepared the NRA in 2019 for the years 2016 to 2018, led by the Special Investigation Commission (SIC), which received high-level political support, with the participation of various public sector entities (regulatory authorities, law enforcement entities, judicial authorities, and other members of the two national committees for AML and CFT); in addition to all private sector categories, especially those of high-risks (such as banks, money transfer companies, exchange houses of category “A”), in addition to all non-banking FIs, Casino du Liban and a sufficient sample representing about 70% of the market shares of FIs and DNFBPs of not high risks).. This shows that the participation of various entities in the NRA process was sufficient, and its results were adopted by the two national committees for AML and CFT.
9. The SIC, the Bar Association, the Commercial Registry, the Capital Markets Authority, the Banking Control Commission, the Cassation Public Prosecution, the General Directorate of Customs, the Ministry of Economy – Insurance Control Commission, and the Ministry of Foreign Affairs and the Ministry of Finance have a good understanding of ML and TF risks. The competent authorities concerned with money laundering investigations (Financial Crimes and Money Laundering Office, Ministry of Justice – Notaries Public Control, Central Narcotics Repression Bureau, and Cybercrime Repression Bureau) have a developing level of understanding of the ML risks.
10. The country has a good understanding of most TF risks, as this understanding has been reflected by all State agencies, including the authorities concerned with combating the financing of terrorism (the Lebanese Army Intelligence Directorate, the Military Court, the Information Division within the Internal Security Forces, the General Directorate of State Security, and the National Committee for the Suppression of the Financing of Terrorism). However, they do not account for TF risks stemming from the activities of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.



11. Regarding the private sector institutions, there is a good understanding of the ML/TF risks among banks, money transfer companies, exchange houses of category "A", credit counters, financial intermediary companies, non-banking financial institutions, Casino du Liban, dealers in precious metals and stones, and lawyers, according to the NRA results. As to exchange houses of category "B", insurance companies, notaries public and real estate brokers and dealers, they have a developing level of understanding of these risks.

**Financial Intelligence, ML Investigations, Prosecutions and Confiscation (Chapter 3; IO.6, 7, 8; R.1, 3, 4, 29–32):**

12. Competent authorities in Lebanon have direct and indirect access to a wide variety of financial and other relevant information while examining ML, associated predicate offenses and TF cases. Competent authorities largely use financial intelligence in TF investigations and limitedly when investigating money laundering and associated predicate offenses. It is worth noting that investigative and prosecuting authorities send requests for necessary financial intelligence to the SIC through the Cassation Public Prosecutor.
13. The SIC receives suspicious transaction reports (STRs) mainly from financial institutions and at a low percentage from DNFBPs. It also receives domestic and international assistance requests and automatic disclosures. It maintains these reports in its database and uses them in performing its functions and making its operational and strategic analysis. This data is made available to stakeholders either spontaneously or upon request.
14. There is good domestic cooperation and coordination in combating money laundering and terrorist financing. The SIC plays a key role in cooperation and exchange of information with competent law enforcement entities and judicial authorities. The National Coordination Committee for Anti-Money Laundering and the National Coordination Committee for the Suppression of the Financing of Terrorism which both include representatives of all AML/CFT stakeholders contribute to the activation of cooperation. As to cooperation with counterpart Financial Information Units (FIUs), it is undertaken through the "Egmont" group.
15. ML cases are mainly identified through investigations conducted by the Internal Security Forces and the SIC, based on reports referred to the Cassation Public Prosecution and to a lesser extent by tax and customs authorities. ML investigations pursued by Lebanese authorities are to some extent inconsistent with the threats and risks which have been identified in the NRA in 2019 and the prosecutions are not closely in line with the threats and risk profile, namely with respect to customs smuggling, tax evasion and illicit drug trafficking.
16. Lebanon's criminal justice system is largely devoted to the prosecution and conviction of predicate offenses, with investigations focusing primarily on predicate offenses rather than money laundering. Most parallel financial investigations are limited to identifying assets used in the commission of the crime for the purposes of recovery rather than money laundering investigations. The sanctions imposed in relation to money laundering were not effective, proportionate and dissuasive compared

to the nature of the sanction which was imposed for misdemeanors rather than felonies. Fines imposed on legal and natural persons are considered dissuasive to a certain extent.

17. It is not clear that the authorities are pursuing the confiscation of criminal proceeds as a policy objective and if this measure represents an important part of their criminal justice system despite a good legal framework (the National Fund for the Management and Investment of Assets under Recovery or Recovered Related to Crimes and Proceeds during the freezing or seizure phase) and whether they have capabilities to identify and freeze funds derived directly from predicate offenses and from ML/TF crimes. Lebanon does not have a clear policy for identifying, freezing, and confiscating the proceeds of crime on a regular basis.

#### **Terrorist and Proliferation Financing (Chapter 4; IO.9, 10, 11; R.1, 4, 5–8, 30, 31 & 39):**

18. The General Intelligence Directorate of the Lebanese Army, the Information Division of the Directorate General of the Internal Security Forces, and the General Directorate of State Security<sup>2</sup>. The General Intelligence Directorate and the Information Division submit their preliminary reports they collected, once finalized, to the Military Public Prosecution. The General Intelligence Directorate of the Lebanese Army and the Information Division investigate all forms of TF and they both coordinate during the preliminary investigation phase after the investigations are submitted to the Military Public Prosecution. The General Intelligence Directorate of the Lebanese Army and the Information Division's understanding of the TF risks is good and better than the General Directorate of State Security.
19. The General Intelligence Directorate and the Information Division carry out parallel financial investigations. However, there is a delay in obtaining financial intelligence which requires lifting the banking secrecy in timely manner, as well as the reoccurrence of financial analysis by the FIU and competent authorities when conducting parallel financial investigations in TF cases, which hinders such investigation and delays its accomplishment on time. There is a discrepancy in the effectiveness and dissuasion of the penalties imposed against TF crimes, due to reducing the sentences in many issued judgments to less than the legally assigned minimum penalty, due to military court applying reasons for minimizing penalties as prescribed by the law. The country also indicated that it has taken limited alternative measures to be applied in cases of non-conviction; however, the country did not provide statistics or case studies about these measures for their confidentiality.
20. Lebanon has an appropriate mechanism in place to identify the persons and entities targeted for designation, pursuant to UNSCR 1267 and successor resolutions. Over the last five years, Lebanon has made a proposal for the designation of several persons, ex parte, to the Sanctions Committee. It has also designated, with foreign countries, a group of persons and entities and presented detailed information on some designees. There is a disparity in following the updates of the 1267 list and successor resolutions by FIs (except for banks) and most DNFBPs, which may affect the

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<sup>2</sup> specialized in gathering preliminary evidence, but do not conduct financial investigations. They submit their reports to the Military Public Prosecution which in turn refers them to the Intelligence Directorate or the Information Division.

implementation of the freezing obligations without delay. Most of the implementing entities have electronic systems that allow them to directly access these updates. FIs conduct an electronic scanning of their customer databases as well as transactions, while this process is done manually by DNFBPs, except for Casino du Liban. Lebanon also has an appropriate mechanism in place for implementing UNSCR 1373. A large number of persons and some entities were designated on the domestic list and their assets were frozen. Most FIs and DNFBPs are well aware of the requirements for following the updates made to the domestic list, freezing and reporting to the SIC.

21. There are no economic or commercial dealings between Lebanon and North Korea, where the import and export of any goods to and from it are banned, Lebanon inspects all ships and goods passing through its territorial waters in implementation of UNSCR 2270. Lebanon is directly and indirectly exposed to threats of proliferation due to its trade relations with Iran and the trade links between the two countries. According to official data published on the website of the Lebanese Ministry of Economy and Trade (economy.gov.lb), Lebanese exports to Iran consist of books and agricultural seeds, while imports consist of carpets and household items such as fresh and dried vegetables and fruits. Lebanon implements measures to inspect and screen all shipments of goods and materials exchanged with Iran (import and export) that could be used for the purpose of proliferation of weapons of mass destruction, in order to ensure that they are not prohibited under UNSCR 2231, including dual-use materials. The competent authorities also seek to raise awareness among the private sector (banks and cargo companies) regarding the risks of their exploitation for the purpose of proliferation of weapons of mass destruction, and to ensure that they are screened for these risks accordingly. The assessment team believes that the volume of bilateral trade is modest, especially since the mutual goods do not fall under the prohibited goods according to Security Council resolutions, and also in light of the international pressures on the productive sectors in Iran and its exports, and thus on the volume of trade and economic exchange between Lebanon and Iran in recent years.

#### **Preventive Measures (Chapter 5; IO.4; R.9–23):**

22. Banks, money transfer companies linked to global networks, insurance companies and financial intermediary companies have a good level of understanding of the ML/TF risks associated with their activities, as their understanding is in line with the results of the NRA and its update. Exchange institutions and credit counters' level of understanding of risks is uneven; while DNFBPs' understanding of the risks related to their activities was not consolidated and not comprehensive and varies even between the components of the same sector. All sectors are aware of the obligations but vary in terms of the quality of application, namely in the DNFBP sector.
23. Banks, money transfer companies, insurance companies and some financial intermediary companies apply the risk-based approach toward their customers and update it periodically and according to changing risk factors. They also take specific risk mitigating measures. However, except for lawyers, DNFBPs do not apply a risk-based approach and are taking general risk mitigating measures that may not be associated, in all cases, with the risks they are facing.

24. FIs are applying CDD measures in a satisfactory manner. However, the measures for identifying the beneficial owner of a legal person are limited, in some institutions, to the verification of the identity of the real owner only. Furthermore, the measures applied by banks on how to deal with the bank accounts of notaries public also vary. Transaction monitoring procedures are also applied in a satisfactory manner, except for exchange companies of category (B) and some companies of category (A). The level of implementation by DNFBPs of the measures for transaction monitoring and identifying the source of funds and the beneficial owner is uneven among the sector components.
25. Most components of the financial sector are satisfactorily applying enhanced CDD measures toward politically exposed persons (PEPs), correspondent banking relationships, wire transfer rules, and high-risk countries, while the quality of implementing the obligations related to targeted financial sanctions varies. There were gaps in the DNFBPs' application of the obligations related to targeted financial sanctions, and except for lawyers and Casino du Liban, other segments of the sector did not have a clear understanding of the definition of PEPs.
26. Suspicious transaction reports were mostly filed by the banks, as they are the largest component of the financial sector, followed by money transfer companies and exchange houses. However, the level of reporting is low across the DNFBP sector and is inconsistent with the risk classification according to the country's context. Except for banks and money transfer companies, other subject entities make no distinction between indicators of money laundering and terrorist financing.

#### **Supervision (Chapter 6; IO.3; R.14, R.26–28, 34 & 35):**

27. Lebanese authorities implement licensing and registration procedures and carry out fit and proper tests over financial sector to an acceptable degree, however, with several gaps found. The measures for identifying the beneficial owner in FIs are not considered sufficient to identify entities exercising indirect control. Controls applied toward persons appointed in key positions do not cover the verification of the status of their designation on the UN lists. There are no periodic measures to verify the continued integrity of criminal records and non-designation on UN lists.
28. Regarding the DNFBP sector, the conditions for joining the profession apply to the notaries public, lawyers and accountants sectors. These conditions include the verification of the criminal record and the designation status on the UN and national lists. There are no periodic measures to verify the continuous non-designation on UN lists. Dealers in precious metals and stones and real estate agents are subject to registration procedures with the Commercial Registry and no controls are applied to verify the criminal record or names checked against the UN and national lists for shareholders, directors and authorized signatories. The same observations apply to Casino du Liban, but those in senior positions in the casino are subject to controls according to the casino's bylaws, including the verification of criminal records and ID documents. Except for the mechanism applied in the case of notaries public, there are no measures to prevent associates of criminals from being professionally accredited to exercise other Designated Non-Financial Businesses and Professions.

29. The SIC, which acts as the regulator of the financial sector, dealers in precious metals and stones, real estate agents and the casino, has a good understanding of the ML/TF risks associated with the sectors subject to its supervision. On the other hand, the other regulators' level of understanding of risks varies between good and moderate. The risk-based supervisory approach is not comprehensively applied to the lawyers and notaries in the public sectors.
30. Although the chartered accountants are covered by art.5 of the AML/CFT law, the supervisory authority of the sector, which is the Association of Certified Public Accountants, consider that accountants are not allowed to exercise any of the activities referred to in the said article, by virtue of the law regulating the accountants' profession. The SIC confirms that this sector does not practice these activities.- Financial and administrative sanctions are imposed on banks and FIs for violations related to AML/CFT compliance. These sanctions are considered proportionate and dissuasive. Except for the sanctions imposed on notaries for violating regulations and laws in general, no sanctions were imposed on the DNFBP sector because no significant violations were detected. The limited supervisory role played by regulators of the notaries and lawyers sectors affects their ability to detect violations for non-compliance with AML/CFT requirements.
31. Efforts are being made to enhance banks and FIs' understanding of their obligations through training events and courses, but the DNFBP sector has not been adequately covered.

#### **Legal Persons and Legal Arrangements (Chapter 7; IO.5; R.24, 25):**

32. Information on the creation of legal persons, legal arrangements and their various types are available to the public. As to the information on legal persons which were actually created in the country, it is available to the public through a request made to the commercial register against payment of small fees (less than USD 0.5). As to the information on civil companies established in the country and Endowments, it is not made publicly available.
33. The ML/TF risks for legal persons were assessed within the national risk assessment prepared by the country in 2019 and updated in 2022, which reflected a good understanding of the risks of misusing legal persons in money laundering and terrorist financing among several competent authorities and reporting entities (namely Banque du Liban, banks, dealers in precious metals and stones, lawyers and notaries public). However, the national risk assessment did not cover the possibility for any person, by virtue of a power of attorney to deal directly with the Commercial Registry to establish companies, without obliging any such person to comply with any AML/CFT obligations. As to legal arrangements, the NRA covered the risks of legal arrangements with respect to ML/TF.
34. Although the country has taken several measures to reduce the risks associated with legal persons and arrangements, some of these measures are marred by deficiencies related to the commercial registry's suspension of requesting criminal records on the founders of legal persons since 2018, which means that it does not continue to verify their criminal status. This may allow criminals to establish legal persons, in addition to the shortcomings that the commercial registry suffers from,

which is the weak information infrastructure, in addition to the existence of very limited measures with regards to preventing the misuse of endowments (waqf) for ML/TF purposes.

35. The Commercial Registry obtained accurate and sufficient basic and beneficial ownership information, however, there are some doubts that such information is updated in a timely manner. Also, there is no validity for the Commercial Registry's document once issued. Moreover, the Tax Administration obtains accurate and sufficient, but not updated in a timely manner, basic and beneficial ownership information, due to the lengthy time taken to report the amendments made, which is within the annual declaration. The information collected by FIs, especially banks, under CDD measures is accurate, sufficient and updated, the FIU has access to this information in timely manner.
36. The accurate, sufficient and updated beneficial information about foreign trusts and fiduciaries is available through banks to the authorities competent by the law, i.e. FIU (for the secrecy of this information) in a timely manner. Also, there is no beneficial owners in Waqf.
37. The country does not apply proportionate, dissuasive, and effective sanctions against legal persons and arrangements when they do not comply with the information requirements, according to the requirements of IO.5. Only total financial fines imposed on companies that did not submit their registration application to the Tax Administration and did not identify the beneficial owner of their activity within the legal deadlines have been provided.

#### **International Cooperation (Chapter 8; IO.2; R.36–40):**

38. The number of legal assistance requests in Lebanon is inconsistent with the ML/TF risks, and is not commensurate with ML/TF offenses, particularly predicate offenses, and ML crimes. In cases where the country does not extradite criminals, it conducts investigation and prosecution procedures for them. Extradition requests made by the country remain low according to the ML/TF risks, and there is still considerable scope to increase the number of these requests.
39. The SIC receives a number of international requests through the network of financial information units (Egmont Group), as well as a number of requests for financial intelligence received by the country through other entities. The Intelligence Directorate of the Lebanese Army and the Information Division within the General Directorate of Internal Security Forces also largely cooperate in combating terrorism and its financing, and the information they exchange with countries is of good quality and timeliness. These authorities do not have the power to exchange financial intelligence in a direct manner.
40. The Customs Directorate cooperates with its counterparts through the Global Customs Information Network, and most of this cooperation relates to customs evasion and its methods.

## Priority Actions:

### **The priority actions for Lebanon are as follows:**

- a) Lebanon should provide each of the stakeholders with detailed copies of the NRA results and its update, each within its competences. This would enhance their understanding of the risks and implementation of appropriate mitigating actions, while observing that the risk assessment deals in precious metals and stones as well as the characteristics of this sector and not its materiality only. It should also continue to adopt and enhance the national policies and the necessary measures to reduce the risks of the most serious crimes, such as corruption (particularly risks arising from senior-level government corruption in the country) and illicit drug trafficking.
- b) Lebanon's NRA process should include a more comprehensive and up-to-date assessment of ML and TF risks stemming from the unregulated financial sector. Lebanon should prioritize implementation of the relevant parts of its AML/CFT Action Plan in this area, including plans to eliminate the informal hawala system.
- c) Lebanon should produce an assessment of ML and TF risks associated with a major local paramilitary organization and ensure these risks are mitigated.
- d) Lebanon should develop clear national policies to enable concerned competent authorities, especially the Custom Directorate and Tax Directorate, develop their skills and expertise that allow them to use financial intelligence proactively and continuously to develop evidence in ML investigations and to trace criminal proceeds, in order for the investigative authorities to be able to prioritize and conduct investigations and prosecutions related to money laundering. In parallel, All concerned competent authorities should conduct investigations in stand-alone, third-party money laundering and predicate offenses specially those related to corruption, in consistency with the country's risk profile, including complex ML cases.
- e) Law enforcement entities and the Cassation Public Prosecution should develop their ability to measure their performance in ML prosecutions and convictions by keeping reliable, consistent, and centralized data and statistics on ML prosecutions and convictions. The SIC, law enforcement entities and the Cassation Public Prosecution should review this data periodically to identify the effects arising from the policy and to determine the need for any remedial actions. ML investigations and related follow-up should be given priority and a working group or similar arrangements should be created to conduct joint ML investigations, as appropriate, in order to facilitate the gathering of evidence (national and foreign). Investigations of serious crimes that generate large financial proceeds should be also given priority, which would help reduce the delay in the prosecution and in deciding on the ML cases.
- f) Lebanon should give effect to the law establishing the National Fund for the Management and Investment of Assets under Recovery or Recovered Related to Crimes and Proceeds during the freezing or seizure phase at the soonest. The Cassation Public Prosecution should also develop guidance on tracing and recovering assets and continue to deepen international coordination with relevant counterparts on asset tracing; develop a risk-based work method and policies that prioritize qualitative seizures and confiscations commensurate with the risk profile, and a centralized system for keeping up-to-date and accurate data and statistics on the confiscation of proceeds of crime in ML, associated predicate offenses and TF cases.
- g) All Lebanese authorities should make significant use of formal international cooperation (legal assistance, extradition), in a timely manner, commensurate with the size of predicate offenses and ML/TF crimes.

- h) The Cassation Public Prosecution should create cases management system specialized in international cooperation requests, due to its essential role in coordinating these requests and ensure the response in timely and quality manner, and issuing guidance tools and instructions in cooperation with the competent authorities, to help those authorities increase the number of requests issued in a timely manner, and raise the quality and speed of the information they provide. In addition to taking measures to help implement requests for MLA with counterpart external parties, especially with those with whom they may have multiple requests for legal assistance, by signing mutual understanding agreements, or holding face-to-face meetings to discuss obstacles and ways to address them.
- i) The Cassation Public Prosecution develop urgent measures to increase the outgoing requests in timely manner and enhance the quality and speed of information they provide. Also, the mechanism of international cooperation should be reviewed, if the request is about financial information to ensure the speed and quality of execution, and to issue guidelines to ensure the speed and quality of requesting and providing such assistance.
- j) Authorities concerned with combating narcotic drugs and terrorist activities should establish a mechanism to ensure that international cooperation is used quickly and effectively to limit such cross-border activities.
- k) Lebanon should put in place an appropriate mechanism that enables the General Intelligence Directorate and the Information Division to have access to all financial intelligence, in a timely manner, so that they can better expand financial investigations and parallel financial investigations more effectively and thoroughly, to identify and monitor all TF cases, including those related to a major local paramilitary organization.
- l) The supervisory authorities should, each within their mandate, remind FIs and DNFBPs of the requirements of the national mechanism with regards to reviewing updates of UN lists directly via the UN Website to implement immediate freezing and without delay. These authorities should also carry out special and independent inspection missions to verify the extent to which all FIs and DNFBPs comply to TFS requirements, as well as imposing proportionate and dissuasive sanctions against any violation towards those requirements.
- m) The Ministry of Justice and the SIC, being the entities supervising notaries public, dealers in precious metals and stones, real estate agents and exchange houses should take steps to enhance the understanding of these sectors of the ML/TF risks associated with their activities, including raising awareness and outreach with these subject entities regarding the completion of the self-assessment of risks and enhance the quality of application of appropriate measures.
- n) Lebanon should unify the concept of the beneficial owner and its identification procedures across various categories of reporting entities and issue specific guidance on this subject, in order to explain how to deal with the bank accounts held by notaries public.
- o) All licensing, regulation and registration authorities in the financial sector should strengthen eligibility and competence controls through the periodic application of these measures to ensure the continued competence and eligibility of shareholders, beneficial owners, board members and those who hold key positions, especially regarding the criminal records and UN lists. Procedures for identifying the beneficial owner should also cover persons exercising indirect control. Regulators of the notaries, lawyers and accountant sectors should apply periodic measures to verify the designation of their members on UN lists, and to prevent associates of criminals from being professionally accredited. The Commercial Registry should apply the eligibility and competence procedures when registering dealers



in precious metals and stones and real estate agents and periodically verify that such procedures are being implemented.

- p) Regulators of financial institutions in Lebanon should continue their exerted efforts to strengthen the mechanisms in place to monitor unlicensed activity, in line with the NRA findings, and take disciplinary and legal actions.
- q) Effective oversight should be applied to the lawyers sector. The supervisory tasks carried out by the Ministry of Justice for the notaries public sector should be widened and deepened, in line with the high level of risk of the sector and the classification of risks posed by the components of the sector. The activities of the accountants sector and its compliance with AML/CFT obligations should also be re-evaluated in accordance with art.5 of the law and the articles of the law regulating the practice of the profession, which prohibit accountants from engaging in such activities.
- r) Competent authorities should continue to enhance understanding of financial institutions and DNFBPs with the TFS requirements associated with UNSCRs 1718 and 2231 on North Korea and Iran and urge them to follow updates of these lists directly on the Security Council’s website, as prescribed in the national mechanism, in order to take immediate freezing orders without delay and adopt the RBA in inspecting persons working on behalf of sanctioned persons and entities.
- s) Competent authorities should closely monitor NPOs that receive foreign support or solicit public charity-donations (i.e. donations in cash and in kind), and use a risk-based approach to NPOs within the sub-group.
- t) The General Directorate of Customs should continue their efforts to enhance their technical and technological abilities for identifying persons and entities involving in sanction evasion, as well as detecting and seizing banned goods through borders.

### Effectiveness and Technical Compliance Ratings:

#### Effectiveness Ratings:

<b>IO.1</b> Risk and Policy Coordination	<b>IO.2</b> International Cooperation	<b>IO.3</b> Supervision	<b>IO.4</b> Preventive Measures	<b>IO.5</b> Legal Persons and Legal Arrangements	<b>IO.6</b> Financial Intelligence for ML/TF
<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>
<b>IO.7</b> ML Investigation and Prosecution	<b>IO.8</b> Confiscation	<b>IO.9</b> TF Investigation and Prosecution	<b>IO.10</b> TF Preventive Measures and Financial Sanctions	<b>IO.11</b> TFS related to Proliferation Financing	
<b>Low</b>	<b>Low</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	

#### Technical Compliance Ratings:

<b>R.1 - Assessing Risks &amp; Applying a Risk- Based Approach</b>	<b>R.2- National Cooperation and Coordination</b>	<b>R.3- Money Laundering Offense</b>	<b>R.4- Confiscation and Provisional Measures</b>	<b>R.5 Terrorist Financing Offense</b>	<b>R.6 - Targeted Financial Sanctions related to Terrorism and Terrorist</b>
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					Financing
LC	LC	PC	LC	LC	LC
R.7- Targeted Financial Sanctions related to Proliferation	R.8- Non-Profit Organizations	R.9- Financial Institution Secrecy Laws	R.10- Customer Due Diligence	R.11- Record-Keeping	R.12- Politically Exposed Persons
LC	LC	LC	C	LC	C
R.13- Correspondent Banking	R.14- Money or Value Transfer Services	R.15- New Technologies	R.16- Wire Transfers	R.17- Reliance on Third Parties	R.18 - Internal Controls and Foreign Branches and Subsidiaries
C	LC	PC	C	C	LC
R.19 - Higher-Risk Countries	R.20 - Reporting of Suspicious Transaction	R.21- Tipping-Off and Confidentiality	R.22- DNFBPs: Customer Due Diligence	R.23- DNFBPs: Other Measures	R.24 - Transparency and Beneficial Ownership of Legal Persons
C	LC	C	LC	LC	LC
R.25- Transparency and Beneficial Ownership of Legal Arrangements	R.26- Regulation and Supervision of Financial Institutions	R.27- Powers of Supervisors	R.28- Regulation and Supervision of DNFBPs	R.29- Financial Intelligence Units	R.30 - Responsibilities of Law Enforcement and Investigative Authorities
PC	LC	C	PC	LC	LC
R.31- Powers of Law Enforcement and Investigative Authorities	R.32- Couriers	R.33- Statistics	R.34- Guidance and Feedback	R.35- Sanctions	R.36- International Instruments
C	LC	LC	LC	LC	LC
R.37- Mutual Legal Assistance	R.38- Mutual Legal Assistance: Freezing and Confiscation	R.39- Extradition	R.40- Other Forms of International Cooperation		
LC	PC	PC	LC		

## MUTUAL EVALUATION REPORT

### Preface:

This report summarizes the AML/CFT measures in place in the Lebanese Republic (referred to as “Lebanon”) as at the date of the on-site visit. It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of the AML/CFT system and provides recommendations on how the system could be strengthened.

This evaluation was based on the 2012 FATF Recommendations and was prepared using the 2013 Methodology and the amendments made thereto. The evaluation was based on information provided by the country and information obtained by the assessment team during its on-site visit from 18 July to 03 August 2022.

The evaluation was conducted by an assessment team consisting of:

- Dr. Yassine Fidali, legal expert, responsible for the AML/CFT central body at the Central Bank of Morocco, the Kingdom of Morocco.
  - Mr. Bassem Dabouan, financial expert/ FIU expert, head of the FIU, the Republic of Yemen.
  - Mr. Abdul Aziz Qarni, legal and law enforcement expert, Presidency of State Security, the General Secretariat of Counter-Terrorism Committees, the Kingdom of Saudi Arabia.
  - Mr. Emad Bayoumy, financial expert, General Manager of the Research and Strategic Analysis Department at the AML/CFT Unit, the Arab Republic of Egypt.
  - Ms. Mariam Salman, financial expert, head of the AML/CFT Unit, the Central Bank of Bahrain, the Kingdom of Bahrain.
  - Mr. Hashem Al-Hassan, legal expert, public prosecutor and magistrate, the Hashemite Kingdom of Jordan.
- The Secretariat team consisted of:
- Dr. Mohammad AlRashdan, executive officer, Mutual Evaluation, MENAFATF Secretariat.
  - Mr. Chakib Al-Adib, mutual evaluation expert, MENAFATF Secretariat.
  - Dr. Shatha Ismaeel, senior officer - Mutual Evaluation, MENAFATF Secretariat.
  - Mr. Alaaeldin Awad Abdul Rahim Gubara, senior officer - Technical Assistance and Typologies, MENAFATF Secretariat.

The report was reviewed by:

- The FATF Secretariat
- The International Monetary Fund (IMF)
- The United States of America (USA)
- The Republic of Italy (Italy)

Lebanon has previously undergone a mutual evaluation with the MENAFATF in 2009, which was conducted according to the 2004 FATF Methodology. The Mutual Evaluation Report (MER) was

published in 2009 and is available on the MENAFATF website <https://www.menafatf.org/ar/information-center/menafatf-publications>. This Mutual Evaluation concluded that Lebanon was compliant with 4 Recommendations; largely compliant with 19; partially compliant with 16; and non-compliant with 10.

Periodical follow-up was undertaken by the MENAFATF immediately after the adoption of the 1<sup>st</sup> round Mutual Evaluation Report. Lebanon exited the regular follow-up process and was placed under biennial update in April 2017, on the basis that the progress achieved in all Core and Key Recommendations was equivalent to a rating of largely compliant.

## Chapter 1: ML/TF Risks and Context

41. The Lebanese Republic is an Arab country located in the Middle East, west of the Asian continent. It borders Syria to the north and east, Palestine to the south and overlooks the Mediterranean Sea to the west. Lebanon covers an area of 10452 km<sup>2</sup> and its Capital is Beirut. It is administratively divided into nine provinces and most of the population is concentrated in cities and urban places. The length of Lebanon's land border is: 454 km (divided into 79 km with Palestine, and 375 km with Syria). According to the UN estimation, the population reached (6,831,971) in 2021, and this figure represents about 0.10% of the total population in the world, and for this reason, Lebanon occupies the 109<sup>th</sup> place in the list of countries in terms of population.
42. The political system is parliamentary and democratic, the Lebanese pound is the national currency, and economically, the GDP has declined from US\$55 billion in 2018 to US\$33 billion approximately in 2020. According to the latest published study of the World Bank, the volume of the GDP reached about US\$21 billion in 2021.

### ML/TF Risks and Scoping of High-Risk Issues

#### Overview of ML/TF Risks

43. Lebanon faces ML threats stemming from the proceeds of crime generated domestically and abroad and in other countries and is also exposed to high TF risks internally and abroad. In terms of its size and diversity of services, the banking sector is the main component of the financial sector and is considered to have filed the most STRs. Due to the operating conditions of the banking and financial sector, the failure to settle the public debt and the economic crisis, the level of financial inclusion has been declining since 2020 and the economy and financial transactions have become highly dependent on cash dealing.
44. According to the National ML/TF risk assessment report issued in 2019 and its update in 2022, TF risks are high, and the high ML risks are linked to corruption which is a crime that has a significant effect at the country's level, tax evasion, and illicit drug trafficking. The subsidies provided by the State for some consumer goods, as a result of the economic crisis, were misused, which increased risks associated with smuggling of the subsidized goods to other countries. As to the other crimes, including forgery, fraud and extortion of private funds, they generate relatively lower proceeds than those generated by the more serious crimes which have been identified in Lebanon.
45. Banks, exchange houses of category "A" (exchange companies in Lebanon are divided into two categories "A" and "B". The first category (A) conducts more activities than the second, which necessarily requires it to have a larger capital, and it includes exchange houses licensed to provide hawala services and cross-border shipping of money) and Money transfer companies have been identified as important sectors in terms of their size, role and threats they face compared to other financial sectors. Some of the services and products they provide, particularly those related to cash and hawala transactions, were considered more exposed to being misused. As for the non-financial sector, notaries public were considered more exposed than others to ML threats, especially in terms of the type of services they provide, such as those related to real estate sales and the establishment of companies, and the level of exposure of all DNFBPs to TF threats was considered low in general.

46. For legal persons in Lebanon, the Risk Assessment revealed that some of the characteristics of the legal persons may be exploited for ML purposes. Examples include companies whose activity is linked to commitments with the public sector, offshore companies which have business and operations abroad, and companies with a complex ownership structure, such as holding companies where it is difficult to identify the ultimate beneficial owner. The misuse of companies for terrorist financing was considered low.
47. Lebanon's geographic location has an effect on the risks related to ML/TF operations, noting that the country shares a vast area of its borders with Syria which suffered from the terrorist activities of Da'esh and other terrorist groups whose effect and some activities reached the Lebanese side (see IO.9). Lebanon assessed the TF risks and identified terrorism-related threats from outside and within its borders to gain a better understanding of terrorist activities and their impact on TF activities. The threat related to the financing of terrorism was found high and from external and internal sources. Some terrorist groups such as ISIS, Jabhat Al-Nusra and Al-Qaeda who have carried out attacks inside Lebanon, and foreign terrorist fighters pose a threat to the country, as well as the general exploitable situation of the refugees. Methods used for the transportation of funds included cross-border cash smuggling, illegal/unlicensed hawala activities (most commonly used within refugee communities), cash transfers through money transfer companies and to a lesser degree the banking transactions. Nevertheless, Lebanon does not account for ML/TF risks stemming from the activities of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.
48. Cash has been mainly used in the financing of terrorism and is at low and sometimes high values according to the cases detected, which is the favorite method used by terrorists to raise funds. There were many forms of terrorist financing, including cash from terrorist groups present in conflict areas, either directly or through other countries, as well as self-financing, and external financing through remittances intended to be used inside the country and to a lesser degree abroad.
49. The funds have been primarily used to finance terrorist attacks inside Lebanon and to provide logistical support and recruitment. And to lesser degree, to finance terrorist attacks and groups abroad.
50. The risks of NPOs were assessed and some categories were identified as being more exposed than others to the possibility of being misused for terrorist financing. (Unlicensed) NPOs that are subject to be abused in TF were tracked which were active in border areas.

### **Country's Risk Assessment & Scoping of Higher Risk Issues**

51. Lebanon has a good understanding of most ML/TF risks it is facing (but not ML/TF risks stemming from the activities of a major local paramilitary organization), as the first national ML/TF risk assessment was conducted in 2014. A national risk assessment was then completed in 2019 for the period 2016-2018 and updated in early 2022 for the period 2019-2021. This work was carried out at the request of the Prime Minister and under the auspices of the two national committees for Anti-Money Laundering and the Suppression of the Financing of Terrorism.
52. The Special Investigation Commission (the Lebanese Financial Intelligence Unit) undertook coordination between stakeholders at the operational level, in order to prepare the national risk assessment, through a team deriving from the two national committees, which was formed under the chairmanship of the SIC, with the membership of a number of stakeholders represented in both committees. The public sector

stakeholders that are members of the national committees for Anti-Money Laundering and Combating the Financing of Terrorism as well as reporting entities from the private sector, participated in the national risk assessment.

53. In order to prepare -NRA, a wide range of quantitative and qualitative information was relied upon, including the data of the Financial Intelligence Unit (STRs, requests for assistance, spontaneous disclosures), data of law enforcement agencies, and government departments on estimated proceeds of crime, as well as ML/TF cases of external and internal origin, names included on the National List of Terrorism and Terrorist Financing, prosecutions, and convictions. The results of the monitoring and questionnaires were also taken into account, as well as the experts' opinions during meetings and workshops, including with the private sector, in addition to intelligence information and information from open sources, i.e. available to the public.
54. The National Risk Assessment (NRA) for 2019 and its update for 2022 included an assessment of both money laundering and terrorist financing risks in Lebanon, the results of which were approved by the two National Committees in June 2019 and February 2022, respectively. They were prepared according to a national methodology based on the FATF guidance, where risks in the context of money laundering and terrorist financing were considered as being the result of three factors: threats, vulnerabilities, and consequences.
55. ML/TF threats were considered to be from internal and external sources, and they result from predicate offenses and associated proceeds, from terrorist activities and related financing, and from persons associated with such offenses. Vulnerabilities were considered in the context of political, economic, social, technological, geographic, and legislative factors affecting the AML/CFT regime. The data and information collected on the ML/TF threats and vulnerabilities were also analyzed in light of the consequences (impact/damage) that Lebanon has suffered in terms of: Its economic/financial system, the security and reputation of the country, and society in general. Scores were awarded to determine the level of risk of ML/TF crimes which are therefore classified between high and low risk, and the level of exposure of the categories of the financial sector and DNFBPs to these risks was also determined. The risks of virtual assets and virtual asset service providers (VASPs), legal persons, legal arrangements and NPOs were also assessed.
56. The assessment team has reviewed the materials and information provided by Lebanon regarding the national ML/TF risks mentioned above, and information from credible external sources (e.g. international reports). The assessors focused on the following priority issues that are broadly identical to the issues identified in the national risk assessment.

### **Terrorist Financing**

57. Lebanon is exposed to the risks of terrorism and its financing, as it has experienced a number of terrorist attacks on its soil. The most important terrorist groups that have been active are ISIS, Jabhat Al-Nusra, and Al-Qaeda, in addition to foreign terrorist fighters who have carried out attacks in Lebanon. The threat was also posed by small cells of terrorist groups that emerged during the occupation of barren areas on its borders by ISIS and Al-Nusra. The threats are also related to returning foreign terrorist fighters and the overall situation of refugees that can be exploited.

58. The TF risk assessment showed that the financing was linked to organized and professional gangs primarily, cash originating from terrorist groups presents in conflict zones, as well as cash from self-financing. The funds were primarily used to carry out terrorist attacks inside Lebanon and to a lesser degree abroad. The most used TF channels are cross-border cash smuggling, as well as illegal/unlicensed hawala activities, followed by cash transfers through money transfer companies and, to a lesser extent, banking transactions. During the on-site visit, the assessment team found that the country has a developed understanding of the nature of threats and risks associated with most terrorist financing activities. Competent authorities concerned with combating terrorism and terrorist financing are exerting great efforts in prosecuting various TF activities. In this context, 123 TF convictions were issued during 2017-2021, in a manner that is commensurate to a certain extent with the country's TF risk profile, especially when considering TF risks stemming from the activities of a major local paramilitary organization, which are not account by Lebanon.
59. Non-profit organizations: There are about 11,000 non-profit organizations, only 7,512 of which have an activity. Approximately 5,634 NPOs are in line with the FATF definition, about 4% of which have been classified as presenting a higher risk of being potentially misused for TF purposes, namely the newly established NPOs concerned with refugee and displaced persons issues, which operate in border areas, and which adopt names indicating that their subject matter is religious. The NPO sector in Lebanon provides its services inside the Lebanese territories and these associations receive a wide range of funding coming from wealthy individuals and international donors, including foreign governments. The growth in this sector recorded over the past years is attributed to the crisis in Lebanon's neighborhood and the refugee situation, which has generated tremendous social and economic challenges. NPOs with international funding, such as those which dedicate their services to Palestinian refugees living in camps and to Syrian refugees, are active in Lebanon.
60. The assessment team found through the on-site visit that the country has a good understanding of the nature of the TF threats and risks that may hinder the activities of NPOs. This understanding stems from the NRA and the study prepared by the Ministry of Interior and Municipalities as the supervisory authority of the sector, according to which NPOs were classified based on the degree of risks they represent and subjected to the risk-based supervision. The team also found that NPOs have an uneven level of understanding of the risks to which they may be exposed.

### **Predicate Offenses and ML Patterns**

61. The NRA concluded that ML threats arise from predicate offenses committed in Lebanon and abroad. Patterns used vary between complex and advanced, non-complex, or non-advanced, such as cash-based money-laundering or the integration of illicit funds with funds derived from legitimate sources. More complex patterns are associated with corruption, as well as tax evasion, in addition to tax fraud schemes related to illegal tax refunds (VAT refunds). The crime of corruption (particularly senior-level government corruption in the country), tax evasion, drug trafficking, as well as smuggling that has increased due to subsidies of consumer goods, pose high risks and constitute a threat with respect to Lebanon's context. On the other hand, there are crimes whose risks are classified in the National Risk Assessment Report as being moderate, such as forgery, fraud, extortion of private funds, and other crimes classified as representing lower risks.
62. The assessment team found through the on-site visit that there is still a need to develop capacities in the



field of conviction of perpetrators of ML crimes due to the scarcity of convictions compared to the number of cases prosecuted and in consistency with the crimes classified as high-risk, as concluded by the national risk assessment.

### **The Financial Sector**

63. In terms of their size and the diversity of their services, banks are the main component of the financial sector and the only entities that receive deposits. The sector consists of commercial banks, modest investment banks mainly owned by the commercial banks which are seeking to close them, as well as a limited number of small Islamic banks. Some commercial banks that have an overseas presence through branches or subsidiary banks are also selling them. Three money transfer companies dominate the market in terms of the volume of remittances and local geographical coverage through their sub-agents. They are linked to money transfer companies which are licensed outside Lebanon and use their platforms and networks to make transfers. As for exchange houses of category "A", they are spread throughout the Lebanese territory and offer their products and services to occasional customers and conduct cash-generating businesses.
64. According to the NRA, banks deal with a large and diverse customer base, including high-risk customers, and offer through different channels various products and services. This sector has been classified as high-risk. As for money transfer companies, the channels of money transfers correspond to the locations of Lebanese diaspora abroad and to the foreign labor force in Lebanon. The challenging global characteristics of money transfer companies help identify the source and final destination of a small amount. The predominance of cash transactions, and the speed of cross-border movement of funds contribute to making the level of exposure of these companies to the ML/TF risks high. As for exchange houses of category "A", their operations are particularly related to occasional customers and to cash transactions, currency exchange, remittances and hawala operations, and these characteristics, especially those associated with the provision of hawala services, make their exposure to risks high.

### **The DNFBP sector:**

65. According to the NRA, notaries public were classified as high-risk. They have an important role as they prepare agencies, authenticate official contracts related to real estate agreements and certify documents to formalize them, including when establishing legal persons.

### **Materiality:**

66. Lebanon is not a financial center. The size of its financial sector is very modest compared to the global or regional financial hubs that attract funds worldwide. Remittances made by Lebanese expatriates constitute a lever for the Lebanese economy, as the volume of remittances sent to Lebanon as recorded in 2021 amounted to US\$6.5 billion approximately. The economic and financial crisis that Lebanon is going through has led to the loss of confidence in the banking sector, a shrinking in its size, a sharp decline in international trade and a deterioration of the exchange rate of the national currency against the US dollar, in addition to increased unemployment rates. The GDP has declined from US\$55 billion in 2018 to US\$33 billion approximately in 2020. By the end of 2021, it amounted to about US\$21 billion.
67. Banks represent the largest component in the financial sector, with their share amounting to about 96%

of the total assets of the financial sector, while the non-banking financial sector represents about 4% of the total assets of the financial system. The repercussions of the financial and economic crisis that the country is going through have led to a shrinking in the activities of banks and the implementation of measures represented in not opening accounts for new customers, restricting financial transactions such as cash withdrawals and others, the reluctance of many citizens to open accounts and deposit funds, having recourse to cash dealing as a result of the lack of confidence in the banking sector, trying to free their money trapped in the banks by purchasing real estate through checks that have lost their actual value. Moreover, many banks have completely or partially closed their activity.

68. The following two tables show the number of FIs and DNFBPs operating in Lebanon:

**Table No. 1.1: Financial Institutions**

<b>Sector</b>	<b>Number of operating institutions as of 31/12/2021</b>
Banks	49
Non- banking financial institutions	30
Money transfer companies	10
Exchange houses	299
Financial brokerage companies	11
Insurance companies	19
Credit counters	16

**Table 1.2: DNFBPs**

<b>Sector</b>	<b>Number of operating institution as of 31/12/2021</b>
Notaries	228
Traders of precious metals and stones	376
Real estate brokers	168
Casino	1

69. The following table shows the share of non-banking sectors in the total assets of the financial system.

**Table 1.3 the share of non-banking sectors in the total assets of the financial system**

<b>Sector</b>	<b>Percentage of the sector's assets in the total assets of the financial system</b>
<b>(Non- banking) financial institutions</b>	0.55%
<b>Money transfer companies</b>	0.20%
<b>Exchange houses</b>	0.11%
<b>Financial intermediary companies</b>	0.04%
<b>Insurance companies</b>	3.07%
<b>Credit counters</b>	0.02%

70. The size of the non-financial sector is modest and consists of many DNFBPs which are subject to the AML/CFT requirements. The real estate sector is generally involved in high-value transactions and value-preserving assets. In recent years, there has been inflation in the value of total real estate sales, which amounted to about US\$15 billion in 2021. This was due to the Lebanese resorting to buying high-value real estate through bank cheques that have lost their actual value (local dollars' worth 75% less) to free their money stuck in their bank accounts. Notaries public have an important role in real estate transactions, as they prepare agencies and authenticate official contracts related to real estate agreements, in addition to their role in legalizing official documents, including when establishing companies. The jewelry sector consists mostly of small enterprises with modest activity, and a small number of jewelers who have a large activity and control the largest market share in terms of transaction value. Besides, a few of the total number of lawyers carry out activities that make them subject to the obligations of the AML/CFT law, while chartered accountants do not carry out these activities. As for Casino du Liban, the volume of its financial transactions for 2021 amounted to about US\$140 million.

### **Structural Elements**

71. Lebanon has an integrated AML/CFT system that is consistent with the requirements of the FATF standards. Lebanon has the necessary structural elements to implement a system - to combat money laundering and terrorist financing, where the high-level political commitment is reflected in the existence of two national committees for combating money laundering and terrorist financing, established by the Council of Ministers and concerned with activating domestic cooperation between the stakeholders, in addition to the establishment by several intelligence agencies within their agencies of departments specialized in TF investigations, and the existence of a financial intelligence unit that has powers to immediately freeze accounts and/or transactions.

### **Background and Other Contextual Factors**

72. The operating conditions of the banking and financial sector since 2019, the failure to settle the public debt and the economic situation resulted in the decline of the progress previously recorded with respect to the financial inclusion and the economy and financial transactions have become highly dependent on cash dealing. The average rate of bank account holders reached 45% as recorded in 2018 and the number of credit and loyalty cards was 2.7 million. The concerned authorities are trying to restore confidence in the financial and banking sector and are issuing regulations that encourage the use of debit and payment cards to reduce cash dealing.

73. Lebanon is aware of the risks of corruption and its low rating in the report of Transparency International and has a national anti-corruption strategy (2020-2025) in place. Legal, regulatory, and institutional frameworks have been put in place to combat corruption, including the recent establishment of a national anti-corruption agency.

### **The AML/CFT Strategy**

74. The national committees for AML/CFT have adopted a number of measures to mitigate the risks as a result of the 2019 national ML/TF risk assessment. Therefore, the NRA was updated in 2022, and more measures were added, which included objectives to mitigate the risks, including the issuance of laws, regulatory texts and operational matters that covered judicial authorities, law enforcement agencies,

regulatory authorities, and the Financial Intelligence Unit. They aim to ensure a unified understanding of the ML/TF risks at the national level, directing the resources of stakeholders in consistency with the risks, giving priority to addressing issues related to high-risk crimes, and activating domestic and international cooperation.

### Legal and Institutional Framework

75. The legislative framework is primarily based on AML/CFT law No. 44/2015 as well as other legislations, including the Penal Code, which criminalizes the financing of terrorism, including the financing of the activities of foreign terrorist fighters, in accordance with UNSCR 2178. The Tax Procedures Code and the Commercial Law set out the requirements relating to the economic right holder of legal persons, and Banque du Liban and the SIC issue detailed AML/CFT obligations to all reporting entities. The AML/CFT law defines the financial sector institutions and the DNFBBs as reporting entities, including notaries public, lawyers, chartered accountants, dealers in precious metals and stones, real estate brokers and casinos. The said law establishes obligations including CDD measures, identification of the economic right holder, record keeping and reporting suspicions. It also provides for the establishment of the Financial Intelligence Unit and its powers, which include the power to freeze. It specifies the entities responsible for monitoring the reporting institutions and for issuing regulatory texts for the application of the provisions of the law. The AML/CFT law also lays down the legal basis for the application of targeted financial sanctions related to terrorism and terrorist financing and allows for the confiscation of assets and the sharing of confiscated assets with the countries concerned.
76. MLA requests are managed by the Ministry of Justice (MOJ) and the Public Prosecutor. The latter oversees the parallel financial investigations in ML /TF crimes and ensures the prosecution of these crimes. The National Anti-Corruption Agency has recently been established.

### The Lebanese Financial Intelligence Unit

77. The Special Investigation Commission (SIC) was established as an independent judicial body at Banque du Liban in 2001 by virtue of law No. 318/2001, which was amended to become law No. 44/2015 on Combating Money Laundering and the Financing of Terrorism. It has multiple functions, including receiving and analyzing STRs related to money laundering, predicate offenses, terrorism, and terrorist financing crimes, lifting banking secrecy, freezing accounts and/or operations and referring them to the Cassation Public Prosecutor, and preventing the disposal of movable or immovable funds. In addition, it sends and receives assistance requests, exchanges information with foreign counterparts and with local and foreign concerned authorities and takes the necessary measures to coordinate with them to trace, freeze or seize funds.
78. The SIC prepares strategic analysis to identify ML/TF trends and patterns, issues regulatory texts for the application of the provisions of the law and makes recommendations to stakeholders. It also has AML/CFT supervisory powers over the financial sector and a number of DNFBBs.

### AML/CFT Supervisory Authorities of the Financial Sector

79. **Banque du Liban:** By virtue of the Code of Money and Credit, it is a legal person of the public law and has autonomy. Its several functions include maintaining the integrity of currency, economic stability, and

the conditions of the banking system, as well as the issuance of banknotes and determining their denominations and specifications. It has regulatory and supervisory powers over the financial sector and grants licenses including for the establishment of banks, non-banking financial institutions, exchange houses, money transfer companies, and credit counters. It issues regulatory circulars to the financial sector, and in accordance with art. 4 of AML/CFT law No. 44/2015, it issues regulatory texts for the purposes of implementing the provisions of this law.

80. **The Special Investigation Commission:** In addition to being the Financial Intelligence Unit, it is the regulatory body responsible for verifying the financial sector institutions (banks, non-banking financial institutions, exchange houses, money transfer companies, financial intermediary companies, credit counters and insurance companies) and DNFBPs, including real estate brokers, jewelry dealers, and Casino du Liban for their AML/CFT compliance. It carries out off-site and on-site supervision according to a risk-based approach.
81. **The Banking Control Commission:** It is the entity concerned with the prudential supervision of financial sector institutions licensed by Banque Du Liban and verifying these institutions for their AML/CFT compliance is one of the many components covered by its supervision. The Banking Control Commission performs its functions mainly through periodic on-site and documentary oversight of the institutions subject to its supervision and assesses the financial conditions of financial sector institutions by analyzing their financial statements and monitoring their compliance with laws and regulatory texts, as well as the recommendations of the Basel Committee and the international accounting standards.
82. **The Capital Markets Authority:** This Authority regulates, supervises and licenses the activities of Capital Markets in Lebanon since the beginning of the second half of 2011. It licenses activities related to private business such as trading, gives advice, arranges, manages, and keeps financial instruments. It has no role in monitoring financial intermediary companies for their compliance with the AML/CFT obligations.
83. **The Insurance Control Commission:** the function of this Authority at the Ministry of Finance consists of licensing, regulating, supervising, and monitoring the insurance companies and brokers to verify their compliance with the licensing and registration terms and conditions. However, it has no role in monitoring insurance companies for their compliance with the AML/CFT obligations.

#### **AML/CFT Supervisory Authorities of the DNFBP sector and Self-Regulatory Bodies**

84. **The Ministry of Justice:** It is the entity that supervises notaries public.
85. **The Bar Association:** It is a self-regulatory body concerned with the supervision of lawyers.
86. **The Association of Certified Public Accountants:** It is a self-regulatory body concerned with the supervision of chartered accountants.
87. **The Special Investigation Commission:** It is the entity that supervises the jewelry dealers, real estate agents and Casino Du Liban.
88. **The Ministry of Justice (MOJ), the Association of Certified Public Accountants and the Bar**

**Association:** These entities, each within its competences, supervise notaries public, chartered accountants and lawyers. It is worth mentioning that the lawyers are subject to two bar association in Beirut and Tripoli. The assessment team met with representatives from Beirut Bar Association only, as the country did not arrange an interview with the Tripoli Bar Association during the onsite visit. Therefore, the AT could not verify how it is committed to AML/CFT requirements, so the analysis of the related IOs and Recommendations is limited to the Beirut Bar Association only.

89. **The Commercial Register at the Ministry of Justice:** It undertakes monitoring and supervision of companies.
90. **The Ministry of Interior and Municipalities through the General Directorate of Political Affairs and Refugees and the General Directorate of General Security:** They have a joint role in monitoring the NPO sector.

### **The Investigative Entities and Law Enforcement Entities**

91. **The Cassation Public Prosecution:** It is a judicial entity and a body legally authorized to exercise the public right lawsuit, conduct its proceedings before the courts, and supervise the investigations of the judicial police. Attorneys General investigate ML/TF cases, supervise parallel investigations, and assign investigations to the judicial police agencies. The Public Prosecutor at the Court of Cassation requires the Appellate Public Prosecution to prosecute money laundering cases and requires the Government Commissioner at the Military Court to prosecute terrorism financing cases.
92. **The Directorate General of the Internal Security Forces:** It is an armed public force whose powers cover all the Lebanese territory, and whose main task is to preserve security and order, in addition to carrying out the functions of the judicial police (investigating crimes, seizing their evidence, uncovering, tracing, arresting the perpetrators and handing them over to the competent judicial authority). The Directorate General of the Internal Security Forces includes the entities concerned with investigations of money laundering and associated predicate offenses, namely: The Financial Crimes and Money Laundering Bureau, the Central Drugs Repression Bureau, the IT Crimes Repression and Intellectual Property Protection Bureau and the International Relations Department. With regard to terrorism and terrorist financing investigations, it also includes the Information Division and the Directorate of National Security.
93. **The Intelligence Directorate of the Lebanese Army:** It is concerned with terrorism and terrorist financing investigations.
94. **The General Directorate of Customs:** It is concerned with combating smuggling activities, controlling the borders, and implementing law No. 42/2015 on the Declaration of Cross-Border Transportation of Funds. Its functions also include monitoring the movement of import and export of goods and collecting customs duties.

### **Ministries and Committees**

95. **The Ministry of Justice (MOJ):** The Ministry of Justice is concerned with the regulation of judicial affairs. The Ministry of Justice has a commercial registry, which records all information about companies,

including beneficial owners, and there is also the International Cooperation Bureau concerned with the mutual legal assistance requests.

96. **The Ministry of Foreign Affairs and Emigrants:** The Ministry of Foreign Affairs and Emigrants is concerned with expressing foreign policy and protecting the interests of the State and the interests of citizens abroad. It also represents the Lebanese State before other countries and international organizations. It has a role in applying the mechanisms for implementing targeted financial sanctions.
97. **The Ministry of Finance:** It is the ministry responsible for collecting all types of taxes and for managing the country's imports and expenditures in accordance with the annual budgets it establishes. The Ministry of Finance has a Land Registry Secretariat, where the ownership of all real estate in Lebanon is registered.
98. **The Ministry of Interior and Municipalities:** This Ministry has many functions and powers and is affiliated with the General Directorate of Political Affairs and Refugees, and the General Directorate of General Security, which are the bodies concerned with regulating and monitoring the NPO sector.
99. **The National Coordination Committee for Anti-Money Laundering:** It consists of the membership of the Financial Intelligence Unit, regulators/supervisors of the financial and non-financial sector, law enforcement agencies, judicial authorities and a number of relevant ministries. This committee coordinates national efforts to activate cooperation in the field of combating money laundering and follows up on the national risk assessment and the policies and strategies emanating from it to mitigate the risks.
100. **The National Coordination Committee for the Suppression of the Financing of Terrorism:** It consists of the membership of the Financial Intelligence Unit, regulators/supervisors of the financial and non-financial sector, NPOs, law enforcement agencies, judicial authorities, and a number of relevant ministries. This committee coordinates national efforts to activate cooperation in the field of combating terrorist financing and follows up on the national risk assessment and the policies and strategies emanating from it to mitigate the risks, including the risks of misusing NPOs. The functions of the Committee also include monitoring the two mechanisms for implementing the UNSCRs relating to targeted financial sanctions.

### **The Financial, DNFBP and VASP Sectors**

101. The level of ML/TF risks affecting subject entities significantly varies among them. This section provides general information on the size of the financial and non-financial sectors in Lebanon which are unequal in terms of materiality, given the identified risks and the country's context.
102. The assessment team classified the sectors based on the materiality and level of ML/TF risks they face, and the assessors used these classifications to make their conclusions in the report. Positive and negative issues were given more weight for the major sectors and, a lesser weight, for less important sectors. This approach is applied throughout the report and is further reflected in chapter 5 on preventive measures and chapter 6 on supervision.
103. The banking sector was weighted as the most important with respect to Lebanon's context based on its materiality and risks. The banking sector consists of commercial banks, investment banks mainly owned

by large local commercial banks, as well as a small number of Islamic banks. Some banks have a limited overseas presence represented by branches, subsidiary banks, or representative offices. The banking sector accounts for about 96% of the total assets of the financial sector. The reasons why the level of risk faced by the sector is high include its relative size, the size and diversity of its customer base, which includes high-risk customers, the diversity of services and products that are provided through different channels that can be exploited, such as cash operations, operations associated with legal persons accounts, especially offshore companies where it is difficult to identify and verify the beneficial owner and source of funds, and companies whose activity is associated to the public sector.

104. The money transfer sector, the exchange sector of category “A” and the notaries public sector were weighted as highly important sectors in Lebanon’s context based on their materiality and risks.
105. **The money transfer sector:** Three money transfer companies dominate the market in terms of the volume of remittances and local geographical coverage through sub-agents. They are linked to money transfer companies which are licensed outside Lebanon. The level of risks faced by the sector is high due to its global inherent characteristics that contribute to making it more vulnerable to ML/TF risks, such as the potential misuse of the sector for terrorist financing by foreign terrorist fighters, the methods used to transfer criminal proceeds in small amounts from a large number of originators to a single beneficiary, with the predominance of cash transactions and the ease of moving funds across borders and the provision of services through a large number of sub-agents.
106. **The exchange sector of category “A”:** A low number of exchange houses have a category “A” license, where a few of them conduct hawala transactions, and a very limited number have a license to ship banknotes. Their activity is based on cash transactions, and this contributes to an increase in the level of risks they face.
107. **The notaries’ public sector:** Notaries public in Lebanon are under the authority of the Ministry of Justice. Their functions consist of legalizing documents to give them official character and receiving fees owed to the State treasury. They also include verifying the identity of persons when issuing official documents and establishing companies, approving the minutes of meetings of ordinary and extraordinary general assemblies and the minutes meetings of boards of directors and filing them in the commercial register, preparing agencies, authenticating official contracts related to real estate agreements, and establishing legal persons, which makes them more exposed to being potentially misused in ML activities, as the sector's risks have been classified as high, according to the NRA.
108. The exchange sector of category “B”, lawyers, real estate agents, and dealers in precious metals and stones were weighted as moderately important in Lebanon's context due to their materiality and risks.
109. **The exchange sector of category “B”:** The business conducted by exchange houses of category “B” is based on buying and selling foreign currencies in exchange for other foreign currencies or the Lebanese pound. Most exchange houses have a category “B” license, are small with a modest transaction volume, and are not authorized to conduct transactions involving transfers or hawala. The National Risk Assessment rated the exchange sector of category “B” as presenting a moderate level of ML/TF risks.
110. **The lawyers sector:** Lawyers’ exposure to ML risks is moderate according to the NRA results, and some of them provide services for preparing and executing transactions on behalf of the client, such as



establishing companies, buying and selling real estate or businesses, managing funds and other assets, establishing bank accounts and some company service provider activities, which makes them exposed to being misused in ML operations. The authorities stated that a low percentage of lawyers conducting the activities identified in the AML law which make them subject to AML/CFT obligations.

111. **The real estate agents:** The real estate sector is involved in high-value transactions and value-preserving assets, and the NRA indicates that it may be potentially misused in ML operations by investing illicit funds in it to hide their source and the beneficial owner. Therefore, the ML risks in the sector were rated as being moderate, but real estate brokers are concerned with a small part of all real estate transactions according to the NRA results.
112. **Dealers in precious metals and stones:** In Lebanon, they offer products that are exposed to risks and that are accessible to a wide range of customers. One of the characteristics of their profession is dealing with occasional customers and conducting cash transactions against high-value commodities such as gold or diamonds, which can be transported and exchanged for similar amounts. while maintaining a degree of privacy, which in turn contributes to the potential misuse of this sector. The sector was rated as presenting moderate to low ML risks according to the NRA. It should be noted that Lebanon is a member of the Kimberley Process, which is concerned with monitoring the production and trade of rough diamonds since 2006, and the value of Lebanon's imports of rough diamonds amounted to about US\$100,432,949.33 in 2020 against exports worth US\$89,058,961.72<sup>3</sup>.
113. **The other financial sector institutions:** The other financial sector institutions were also weighted: A-Financial intermediary companies, insurance companies, credit counters and Casino du Liban - as less important in Lebanon's context given their materiality and risks.
114. Financial intermediary companies and credit counters form a small part of the financial sector, do not receive deposits and are modest in terms of their size and volume of transactions. As for the products and services they offer, a large number of financial intermediary companies offer advisory services only, and credit contours focus in particular on granting small loans. Insurance companies are also considered less exposed to ML/TF risks, especially given the modest value of insurance premiums paid for life insurance policies that have investment characteristics that allow for the option of transferring, transmitting and safeguarding funds.
115. As for Casino du Liban, it is a Lebanese joint stock company that has the exclusive privilege and right to invest gambling games in Lebanon, in which Banque du Liban and the State own the majority of the shares. Casino du Liban does not offer its customers the ability to receive or transfer funds electronically, nor does it issue cheques to third parties. The casino's ownership structure and the controls set in its operating mechanism make it the least exposed to exploitation, according to the NRA report.
116. There is a difference in the level of ML risks facing the DNFBP sector in Lebanon, with the notaries public sector being the most exposed to these risks, while the level of exposure of all DNFBPs to TF risks is low according to the NRA. The following is a table showing the number of those which are subject to AML/CFT requirements in Lebanon:

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<sup>3</sup> <https://www.kimberleyprocess.com/en/lebanon-0>

**Table No. 1.4: Number of those which are subject to AML/CFT requirements in the DNFBP sector.**

<b>Sector</b>	<b>Number of subjected entities in each sector as at the end</b>
<b>Notaries public</b>	228
<b>Jewelry dealers</b>	376
<b>Real estate dealers and brokers</b>	165
<b>Casino du Liban</b>	1

117. According to the authorities, a small percentage of lawyers carry out the activities specified in the AML/CFT law that make them subject to the law. Chartered accountants also do not carry out activities that make them subject to the law.
118. **Virtual Asset Service Providers:** Virtual asset services and their providers are among the prohibited activities in Lebanon. Nonetheless, such activity outside the formal financial sector began to exist according to the NRA results, but it is still limited across all Lebanese governorates and is not important in terms of ML/TF risks, partly due to the difficulty of monetizing virtual currencies in the purchase of goods and services, the lack of trading by financial sector institutions, and the actions of law enforcement authorities to prevent the development of these activities randomly.

### **Preventive Measures**

119. The financial sector institutions, as well as DNFBPs are subject to the AML/CFT law No.44/2015 and the regulatory texts issued thereunder by BDL and the SIC. The law and these regulatory texts establish AML/CFT internal controls and procedures that include the implementation of CDD measures, as well as the application of enhanced due diligence where necessary. The measures imposed also include verifying the identity of the beneficial owner, updating data, applying the obligations of targeted financial sanctions, on-going monitoring, keeping the required documents, reporting suspicions, as well as appointing a compliance officer, allocating an independent audit unit and training staff in the AML/CFT field. The regulatory texts also require the assessment of ML/TF risks, and the application of a risk-based approach.
120. DNFBPs are subject to the obligations and preventive measures referred to above by virtue of AML/CFT law No. 44/2015 and the regulatory texts issued by the SIC. Accountants and lawyers cannot practice the activity of their profession until they join their respective syndicates.

### **Legal Arrangements and Legal Persons:**

121. Different types of legal persons are established in accordance with the legislative frameworks in Lebanon. All legal persons are obliged to be registered before exercising the activity. The information provided about the founders, shareholders, members, and economic right holders is verified for accuracy before registration by reviewing the documents required for the registration of a legal person. The process of registering companies in the commercial register requires the provision of all the required information,

which includes the name, legal form, address, branches, names of partners and shareholders, names of members of the board of directors and the extent of their authority in management and signature, activity or purpose of incorporation, capital and economic right holders. Information related to the establishment of companies, basic information on such companies and information on the economic right holder is made publicly available through the Commercial Register.

122. Trust funds cannot be established in Lebanon, as Lebanon is not a party to Hague Convention on Trust Funds. As for fiduciary contracts, they are created exclusively by opening accounts with banks. As for endowments, they are linked to cults and sects. There are no Trust and Company Service Providers in Lebanon, knowing that lawyers provide services to companies.

**Table No. (1.5): Legal persons established in Lebanon as at 31 December 2021**

	<b>Legal form</b>	<b>Total number of companies</b>
<b>Companies</b>	<b>joint stock company</b>	20722
	<b>Limited liability company</b>	56633
	<b>Partnership limited by shares</b>	21
	<b>Holding company</b>	4999
	<b>Offshore company</b>	10546
<b>Partnerships</b>	<b>General Partnership</b>	6756
	<b>Simple Limited partnership</b>	8888
<b>Foreign companies</b>	<b>Branch</b>	26
	<b>Representative office</b>	370
<b>Civil companies</b>		746
<b>Cooperatives</b>		1238
<b>Total</b>		110945

### **Non-profit organizations**

123. The NPO sector in Lebanon provides its services inside Lebanon. The Directorate General of Political Affairs and Refugees at the Ministry of Interior and Municipalities has identified the subset of NPOs that meets the FATF definition. Through this study and the NRA, about 4% of them were classified as presenting a higher risk of being potentially misused for TF purposes due to their activities or characteristics, namely the newly established NPOs, concerned with refugee and displaced persons issues, which operate in border areas, and which adopt names indicating that their subject matter is religious.

124. The Associations law and related circulars impose procedures on NPOs and prohibit them from carrying out any work or activity without being advised by the Directorate General of Political Affairs and Refugees, which has in turn issued guidelines to prevent the misuse of NPOs for TF purposes, whereby they encourage the use of official financial channels in their work. Basic information on the NPOs which

are established is published in the Official Gazette, and all information relating to associations is available at the Directorate General of Political Affairs and Refugees, which in cooperation with the General Directorate of General Security conduct monitoring, according to the risk-based approach.

125. It was found that there are a number (unlicensed) NPOs in Lebanon. The Lebanese authorities discovered an NPO that was misused for TF purpose, which was prosecuted and convicted for TF crime and dissolved as a result.

### **International Cooperation**

126. International cooperation is important in the country's in order to mitigate the ML/TF risks and to trace the proceeds of crimes, especially those related to high-risk crimes such as corruption and illicit drug trafficking.
127. The Lebanese Republic signed several international conventions in the context of combating crime, including AML/CFT. Lebanon receives and responds to requests for mutual legal assistance unevenly and broadly with respect to money laundering crimes, associated predicate offenses and terrorist financing. Regarding extradition, the Cassation Public Prosecution is responsible for executing all requests for extradition and ensuring that the requests meet the legal requirements and conventions in force, in coordination with the competent authorities.
128. The concerned Lebanese authorities use - wide forms of international cooperation with their foreign counterparts to exchange different types of information, including financial, regulatory, intelligence and law enforcement information for the purposes of combating money laundering, associated predicate offenses and terrorist financing.
129. The SIC exchanges information with counterpart FIUs abroad, and the EG charter and EG Principles for Information Exchange are observed. It does so either for its own purposes or on behalf of local competent authorities.

## Chapter 2: National AML/CFT policies and coordination

### Key Findings and Recommended Actions:

#### **Key Findings:**

##### **IO.1:**

- a) The FIU, most of the LEAs, Cassation Public Prosecution and most of other major authorities (such as Customs, Commercial Registry and a number of Ministries) and all supervisory authorities have good understanding for most ML risks faced by the country, while the supervisors of notaries (classified as high-risk sector) and some LEAs have developing understanding for some high risk crimes such as illicit drug trafficking and tax evasion. However, Lebanon lacks a comprehensive understanding of the ML and TF risks related to corruption among senior levels of the Lebanese government.
- b) The NRA in Lebanon relied on sound methodology depended on quantitative and qualitative data of different sources, in which all concerned authorities have participated in. the NRA process was able to address the novel risks to ensure that the country's understanding of risks is up to date, and able to detect the threats followed the economic crisis. However, some issues were identified in the logic of Lebanon's understanding of the risks related to the traders of precious metals and stones sector, with its characteristics as a safe haven for saving and investing during crises, as the country's assessment of these risks is primarily based on the relative importance of this sector, which necessitates to update the assessment of risks associated with these sectors to be more comprehensive.
- c) Lebanon does not adequately address illicit finance risks stemming from the large informal cash economy in the country and competent authorities significantly understate the role of the informal Lebanese economy.
- d) The country developed a strategic action plan that includes many actions and measures to mitigate the risks identified by the NRA and its update, some of which have already been implemented and others are either being implemented or will be implemented in the future. Considering the circumstances of the economic crisis that Lebanon is going through, and due to the loss of confidence in dealing with banks, cash dealing has spread with high intensity, which increases the ML/TF risks, and the country started to take some measures within the limits of the current situation.
- e) Lebanon's NRA does not account for ML and TF risks stemming from the activities of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.
- f) Lebanon does not allow the application of exemptions or simplified measures in cases of low risks and obligates the FIs and DNFBPs to apply EDD measures when ML/TF risks are high.
- g) Many authorities (SIC, LEAs, Security Authorities and Lebanese Army) have taken additional efforts and measures to mitigate the identified risks. However, the Cassation Public Prosecution has not taken the required measures to direct sufficient resources for high risks crimes based on the NRA results.
- h) There is a good cooperation and coordination including through the two national committees for AML/CFT, and joint training workshops between the SIC, law enforcement and judicial authorities to ensure a consistent understanding of risks and an effective cooperation between national authorities. However, there is weakness in the Cassation Public Prosecution's activation of the cooperation and coordination in ML investigations in particular.

- i) The private sector participated in the NRA process and its update, and their results were circulated to them. The Lebanese authorities issued a number of guidelines regarding the ML/TF high threats and risks, and the banks established anti-corruption units/departments in response to the NRA results. The FIU has supported the efforts of banks in this regard. However, it was clear that several private sector entities (Exchange Companies of Type “B”, insurance companies, notaries, and real estate brokers and traders) were not aware of NRA results or of the existence of the NRA in the first place.

### **Recommended Actions**

- a) The country should take the necessary measures to enhance the understanding of ML risks among concerned competent authorities such as Financial Crimes and Money Laundering Office, Ministry of Justice – Notaries Public Control, and Central Narcotics Repression Bureau. This may help in providing each of the AML/CFT authorities with detailed copies about the NRA results and updates according to their mandate, which enhances their undertaking of proper measures to mitigate these risks.
- b) Lebanon’s NRA should be updated to reflect a stronger understanding of ML/TF risks arising from senior-level government corruption in the country. This should include an assessment of all key competent authorities.
- c) The country should update the risk assessment of dealers in precious metals and stones (DPMS), to consider its characteristics of being a safe haven for saving and investment during crises, and refrain from depending only on the relative importance of this sector, in order to make the assessment of risks associated with this sector more comprehensive and logical.
- d) Lebanon’s NRA process should include a more comprehensive and up-to-date assessment of ML and TF risks stemming from the unregulated financial sector. Lebanon should prioritize implementation of the relevant parts of its AML/CFT Action Plan in this area, including plans to eliminate the informal hawala system.
- e) Lebanon should produce an assessment of ML and TF risks associated with a major local paramilitary organization and ensure these risks are mitigated.
- f) Lebanon should expedite actions to ensure competent authorities are focused on the highest ML risks, including those related to high-level corruption and drug trafficking, including operationalizing and building on the recommendations identified by the National Strategy of Combating Corruption 2020-2025.
- g) Lebanon should strengthen actions to develop and adopt appropriate policies and procedures to bring individuals and activities further into the formal financial sector, to reduce risks associated with cash dealing that exists heavily in the country under the current circumstances.
- h) It should develop proper procedures to support the abilities of all AML/CFT competent authorities to extract, maintain, analyze, and use the required statistics in timely and effective manners, to enhance those authorities’ efforts in the AML/CFT field.
- i) The Cassation Public Prosecution should take required measures to adequately direct resources towards high-risk crimes based on the NRA, which enables the Public Prosecution to employ the financial investigations in combating TF crimes and positively reflects on its activities in investigating such crimes and confiscating their proceeds, as well as enhances its role in local cooperating and coordinating in ML investigations.

130. The relevant Immediate Outcome considered and assessed is IO.1. The Recommendations relevant for the assessment of effectiveness under this chapter are Recommendations (1), (2), (33) and (34) and some elements of Recommendation (15).
131. The findings of the assessment team regarding IO.1 are based on its review of the documents submitted by Lebanon, in particular the summary and update of the NRA, the sectoral assessments conducted by some regulatory authorities, the self-assessments conducted by some FIs, particularly banks, in addition to the outputs of interviews during the on-site visit with law enforcement entities, supervisors of the financial and non-financial sectors, intelligence agencies, the Special Investigation Commission (Financial Intelligence Unit), judicial authorities, a number of relevant ministries, and members of the two national committees for Anti-Money Laundering and the Suppression of the Financing of Terrorism and the private sector.
132. During the meetings with the assessment team, representatives of some entities (the Commercial Registry, the judicial authorities, the Public Prosecution, and the Bar Association) explained that there are problems that limit their ability to extract some of the statistics requested by the team. These problems are related either to the inability to extract any statistics in the first place or the reliance on the manual method to extract them and therefore it will take a long time to provide them, which caused the assessment team not to obtain a number of statistics that help them judge how effectively these entities are implementing the AML/CFT requirements.

## **IO.1: Risk, Policy, and Coordination**

### **Country's Understanding of its ML/TF risks**

133. The FIU, most of the LEAs, Cassation Public Prosecution and most of other major authorities (such as Customs, Commercial Registry and a number of Ministries) and all supervisory authorities have good understanding for ML risks faced by the country, while the supervisors of notaries (classified as high-risk sector) and some LEAs have developing understanding for ML risks regarding illicit drug trafficking and tax evasion. This finding was confirmed during the meeting with the National Committees for AML and CFT and the team involved in the NRA process. All concerned authorities in the country have good understanding of most TF risks faced by Lebanon, but that does not extend to ML and TF risks stemming from the activities of a major local paramilitary organization, corruption among senior levels of the Lebanese government, and the large informal cash economy in the country.
134. Some FIs and DNFBPs (especially those considered of high risk) have good understanding of the ML/TF risks, while other FIs and DNFBPs showed developing understanding of those risks (see IO.4).
135. The country's understanding of ML/TF risk is mainly dependent on the NRA conducted by Lebanon in 2019 for the years 2016 to 2018, led by the Special Investigation Commission (SIC), which received high-level political support, with the participation of various public sector entities (regulatory authorities, law enforcement entities, judicial authorities, and other members of the two national committees for AML/CFT); in addition to all private sector categories, especially those of high-risks (such as banks, money transfer companies, exchange houses of category "A"), in addition to all non-banking FIs, Casino du Liban and a sufficient sample representing about 70% of the market share of FIs and DNFBPs of not high risks). The country indicated the participation of all those entities and institutions with the necessary

information, which led to the results of this assessment). Its results were adopted by the two national committees for AML/CFT.

136. The country has a framework and a mechanism that allow it to respond to the variables related to risk assessment, and they are reflected in the presence of a team within the SIC responsible for the national risk assessment that was tasked with updating the risk assessment whenever needed, such as the occurrence of major events or developments. Accordingly, after the recent economic crisis, the NRA was updated in 2022 by the national assessment team with the participation of all the said authorities, and the results of the update were also approved by the two national committees, which reflects the country’s keenness to follow and update the NRA on regular basis to highlight the illicit activities of ML/TF risks, especially the higher ones.
137. The Lebanese authorities followed sound methodology for the NRA and its update, in which they relied on the FATF guidance on this subject matter and on comprehensive and diverse inputs from all participating parties, which included qualitative data, such as common ML Typologies, data and intelligence information from law enforcement agencies, names included in the national list of terrorism and terrorist financing, expert opinions and information collected from reliable public sources, in addition to examples of quantitative data shown in the following table:

**Table No. 1.1.1 Examples of Quantitative inputs for the NRA process**

Description	Number	Description	Number	Description	Number
STRs	2322	ML investigations	832	ML court judgments	20
Foreign assistance requests	706	TF investigations	407	TF court judgments	123
Domestic assistance requests	670	ML Prosecutions	281	Rogatory letters issued	38
Automatic disclosures	932	TF prosecutions	297	Rogatory letters received	171

138. A summary of each of the National Risk Assessment and its update was published on the SIC website and copies thereof were provided to stakeholders from the public and private sectors and not in detailed copies, within the competence of each entity. The assessment team reviewed the two summaries, and although the country was able to calculate the residual risk ratings, it preferred that the published results reflect the inherent risk, i.e., without taking into account the controls and obligations to be applied that would reduce the degree of risks.

### Understanding of ML risks

139. The SIC, the Bar Association, the Commercial Registry, the Capital Markets Authority, the Banking Control Commission, the Cassation Public Prosecution, the General Directorate of Customs, the Ministry of Economy (Insurance Control Commission) and the Ministry of Foreign Affairs and the Ministry of Finance have a good understanding of ML risks, in terms of threats and vulnerabilities, whether related



to money laundering of locally-generated proceeds or (to lesser degree) those generated from crimes committed abroad. These authorities have good understanding of the most serious ML predicate offenses in Lebanon which are corruption in general (with less comprehensive understanding of the ML and TF risks related to corruption among senior levels of the Lebanese government), tax evasion, illicit drug trafficking and smuggling and counterfeiting of goods. Moreover, the understanding of the authorities for the risk level of reporting entities such as sectors of banks, financial transfers and exchange companies type “A” as well as notaries are considered high risk sectors and Lebanon provided the total proceeds of some most serious crimes as follows:

**Table No.1.1.2: Total proceeds of the remaining most serious crimes (value in thousand US dollars)**

Offense	2017	2018	2019	2020	2021	Total
Illicit drug trafficking	107,660	92,178	47,270	44,314	317,136	608,559
Smuggling and counterfeiting of goods	5,641	56,165	6,279	6,424	95,929	170,438

140. The table above shows the extent to which the total proceeds of illicit drug trafficking, smuggling, and counterfeiting of goods have increased over the last five years in Lebanon, especially in 2021, which indicates the great threat posed by these crimes as an element of ML risks in the country, which is consistent with the NRA results as being one of the most serious crimes.
141. The economic and financial crisis led to a shrinking in the size of the financial and banking sector, of which did not cease practicing its activities (whereby the banking crisis is linked to financial flows and returning old deposits within specific thresholds). Banks continue to carry out basic activities such as transfers, financing international trade, cash operations and currency exchange, in addition to opening new accounts. Banks still represent the largest relative importance in the financial sector, which was addressed by the NRA, in addition to monitoring an increase in cash transactions, and a decrease in the activity of most DNFBSs.
142. This resulted in a disparity in the exchange rate of the national currency (several exchange rates in the formal and informal banking market (black market)), which led to an increase in cash dealing at the expense of dealing with banks and led to the existence of unlicensed money dealers and hawala activities. This increase is considered a weak point that increases the ML/TF risks. Lebanon does not adequately address illicit finance risks stemming from the large informal cash economy in the country and competent authorities significantly understate the role of the informal Lebanese economy.
143. Some issues were identified in the logic of Lebanon’s understanding of the risks related to the traders of precious metals and stones sector, which was classified as low-medium risks in the NRA results and update (especially that these risks are considered inherent risks as clarified) considering that this sector’s entities are small companies of modest activities and few of them have big activities and control the major market share. However, this understanding should be updated to be more comprehensive and independent only of the size of the sector and consistent with the nature of this sector, which is considered as safe haven for saving and investments, especially in the times similar to what Lebanon is going through in terms of intensive cash dealings and lack of confidence in banking sector.
144. The concerned authorities such as SIC have good understanding of the risks of virtual assets, in light of

the current situation and legal frame of such assets. Lebanese security agencies, through security follow-up mechanisms under the umbrella of the NRA, made a comprehensive study on this subject, to trace the extent to which the unlicensed VASPs are exist on Lebanon. This study relied on collecting the necessary information, benefiting from the efforts and expertise of the Financial Crimes and Money Laundering Office, analyzing the relevant internal security forces database, in addition to a study of websites via the Internet and social media pages. The study concluded that the risks associated with virtual assets in Lebanon were rated as low, given that trading activities, whether mining or VASPs, are very limited.

145. Moreover, it was clear that the Office of Financial Crimes and Money Laundering and the Central Anti-Drug Office are developing their understanding of some of the high-risk threats that the country is exposed to. The onsite visit revealed that these agencies have reduced the risks of illicit drug trafficking and tax evasion since they are not carried out within an organized criminal framework. Rather, they mostly involve individual criminal acts that do not qualify to the level of professionalism in setting up complex ML schemes, despite being classified as some of the most serious crimes generating proceeds (See IO. 7).
146. Also, it turned out that the supervisor of notaries has developing understanding of ML risks compared to what was shown as an understanding not based on scientific inputs, considering that the notaries don't practice activities that make them largely exposed to ML risks, which led the supervisor to reduce the risks of this sector in a way that is inconsistent with the NRA results stating that this sector is of high risk. The assessment team concluded that the NRA results are more solid for their reliance on quantitative and qualitative indicators that justified this classification (high risk) which led the supervisor to reduce the risks of this sector.

### **Understanding of TF risks**

147. The country has a clear understanding of most of the TF risks, as this understanding has been reflected by all State agencies, including the authorities concerned with combating the financing of terrorism (the Intelligence Directorate of the Lebanese Army, the Military Court, the Information Division within the Internal Security Forces, the General Directorate of State Security, and the National Committee for the Suppression of the Financing of Terrorism). It was clear that these authorities are aware of most of the TF high risks that Lebanon faces, as well as the threats arise from the terrorist groups that constitute a local or international threat to Lebanon except TF risks stemming from the activities of a major local paramilitary organization. Those authorities understand the methods and techniques of collecting, transferring and using the funds by the terrorist groups that constitute a threat to Lebanon, whether coming from abroad for executing terrorist acts in Lebanon, or collected locally to be used internally/abroad, or those passing through Lebanon to be used abroad, except TF risks stemming from the activities of a major local paramilitary organization. The NPOs, especially the unlicensed ones at the border areas of the country, are exposed to be misused, the existence of illegal/unlicensed Hawala activities, and the increase of non-registered displaced people in Lebanon from neighboring conflict zones, and the weak control of the country's authorities over some of these areas, as well as the transportation of money through unofficial channels. It turned out that the country's authorities are aware of these factors as these authorities confirmed that the TF risks remain high which requires continuing the efforts and raising awareness in all cases.
148. The SIC showed good understanding of TF risks including the TF threats and how to deal with STRs and extract indicators of TF behaviors, given the available expertise of many of the SIC members and the

official and non-official continuous communication between the SIC and the authorities concerned with countering terrorism, which allowed the SIC to continue their formation of clear understanding the TF risks on regular basis.

149. The country has a good understanding of risks of cross border transportation of funds, as this understanding is based on the assessment of these risks by analyzing quantitative and qualitative information on the cross-border physical transportation of funds through legitimate and illegitimate means, which included about more than 100 declaration and disclosure reports of different nationalities and amounts, and a sample of 40 reports on cases of non-declaration / non-disclosure or false disclosure. The results found that these risks are not related to the transportation of funds through legitimate means, but the high risks are more related to the smuggling of cash through illegitimate means across the land borders, which have been linked to terrorist financing cases, where cash remains the favorite method for terrorists to collect and move funds, knowing that these funds smuggled internally to finance local terrorist attacks were of modest values and difficult to detect, and most of them came from Syrians and Lebanese coming to or leaving some neighboring countries. These results are consistent with the situation in Lebanon and with the facts reached during the on-site visit.
150. The authorities understand the TF risks of legal persons which are considered low in nature (except for the risks of NPOs which are considered high). The authorities confirmed their understanding based on that some NPOs, especially the unlicensed ones, are more exposed than others for being misused for TF purposes and that the cash donations to these NPOs make it harder in some cases to identify the source of these funds. In understanding the nature of TF threats and risks associated with NPOs, the authorities relied on the study prepared by the Ministry of Interior and Municipalities (the authority supervising the sector), which outputs were reflected on the NRA of this sector.

### **National Policies to Address Identified ML/TF Risks**

151. The country has a strategic AML/CFT action plan that arose from the NRA results and which was adopted by the National Committees of AML and CFT. Such results stated that the most serious crimes included tax evasion, corruption, illicit drug trafficking and TF. Therefore, it involved many measures, the most important of which are:
- Computerize the judiciary, directing the resources of law enforcement and judicial authorities in consistency with the NRA results.
  - Develop an integrated plan to limit the informal hawala system.
  - Strengthen border control and eliminate the phenomenon of unofficial displaced persons.
  - Strengthen oversight of specific types of NPOs.
  - The country issued some legislative amendments to several laws to address the threats resulting from the most serious crimes, especially corruption, illicit drug trafficking and related tax evasion, the most important of which are:
    - Anti-Corruption Law No. 175 dated 8/5/2020, which established the National Anti-Corruption Agency, where the Council of Ministers Resolution No.15 was issued on 24/1/2022 regarding its establishment (but it has not become operational as at the end of the on-site visit).
    - Law on Declaring Financial Liabilities and Interests and Punishing Illicit Enrichment (189/2020).
    - Amended Whistleblowers Protection Law (Law 182/2020),
    - Law of Recovery of Funds Derived from Corruption Crimes (214/2021),

- Law No.178 dated 28/5/2020 on Licensing the Cultivation of Cannabis Plant for Medical and Industrial Use.
- Amended Tax Procedures Law by Law No.144 of 31/7/2019, to expand the definition of tax evasion.
- Amended Banque du Liban Circular No.83 regarding the definition of the beneficial owner and politically exposed persons.
  - Banque du Liban Circular No. 163 on monitoring accounts of public officers.
  - Issuance of Banque du Liban Circulars Nos.147 and 521 to reduce the risk of tax evasion.
- Develop criteria for prioritizing the processing of STRs in line with the NRA results.
- Establish indicators of suspicion regarding corruption, tax evasion and other more serious crimes.

152. The aforementioned procedures cover the ML/TF high risks in Lebanon and most of which were completed (such as developing suspicion indicators for crimes of corruption, tax evasion and other more serious crimes) and developing an integrated plan to eliminate the informal hawala system, strengthen border control and eliminate the phenomenon of unofficial displaced persons and issuing legislative amendments to several laws and developing criteria for prioritizing the processing of STRs.

153. The country has national policies and strategies in place for predicate offenses, especially the most serious ones, including the National Anti-Corruption Strategy (2020-2025), the Inter-Ministerial Strategy to Combat Drugs and Addiction (2016-2021), the National Cyber security Strategy (2019-2022), the Strategic Plan for the Internal Security Forces (2018-2022), in addition to the main themes of the strategy for combating terrorism and terrorist financing, and the most important measures of the army to control borders. These are considered as comprehensive and good strategies and they help the country organize its efforts to face such crimes. Although there are insufficient investigations in ML, the policies and measures mentioned above with regards to corruption and associated ML, showed to some extent, effect in implementation (Refer to table 7.2.2 IO7).

154. The NRA results included some of the most serious predicate offenses that fall under the category of organized crime<sup>4</sup>. However, it was not found that the country has adopted appropriate national policies to deal with ML threats associated with crimes falling under the category of organized crime, as the country considered that these threats were primarily related to persons and not gangs and organized criminal groups. For example, the crime of illicit drug trafficking is considered high risk in Lebanon, as it closely relates to organized crimes, especially in light of the presence of Captagon pill factories and the entry of cocaine from abroad, as reported by the concerned security authorities during their meeting with the assessment team. Lebanon issued national policies and procedures for combating drugs trafficking, such as the Inter-Ministerial Strategy to Combat Drugs and Addiction (2016-2021), and policies to combat drugs trafficking within the Strategic Plan for the Internal Security Forces (2018-2022). The strategic plan includes a component on combating ML related to drug trafficking. it includes five main pillars to combat illegal trafficking, which relates to strengthening capabilities, strengthening partnerships with the concerned authorities to raise the level of response to this crime, enhancing border security, developing capabilities in conducting criminal investigations, and strengthening forensic and biometric capabilities. the pillars include number of measures, most importantly:

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<sup>4</sup>The United Nations Convention against Transnational Organized Crime defines an "organized criminal group" as the formation of a structured group of three or more persons, existing for a period of time and acting in concert with the aim of committing one or more serious crimes or acts criminalized by this Convention, in order to obtain, directly or indirectly, a financial or other material benefit.

- Benefit from information exchange structures between the competent offices and other agencies to enhance coordination and deepen collective understanding of the emerging patterns and environments of drug trafficking in order to dismantle networks and increase confiscations.
- Follow up on drug trafficking networks that are active outside Lebanon and exploit Lebanese territory as a transit land for their trade.
- Strengthening partnership with abroad and developing comprehensive approaches for rapid cooperation with countries that have a direct impact on drug trafficking in Lebanon or are affected by it, as well as activating international cooperation in cases of controlled delivery.
- Enhancing the presence and activity of the Central Narcotics Control Office at the border posts and the roads and paths leading thereto.
- Updating the lists of raw materials used in the drug industry through constant coordination with the relevant international bodies.
- Strengthening the network of informants in the border areas to combat any attempts to smuggle drugs through any illegal crossings, and strengthening cooperation with the land border regiments belonging to the Lebanese army.
- Enhancing specialized human capacity in the field of combating drug smuggling and promotion by subjecting personnel to intensive training courses in Lebanon and abroad, especially in the field of investigation and criminal and financial analysis.
- Prioritizing independent and parallel financial investigations of drug trafficking and to convict those involved in drug trafficking and ML and confiscate the associated illicit proceeds.
- Establishing a database for narcotic substances and another for Captagon, which allows identifying the source of the seized drugs through their chemical compositions.
- Developing detection mechanisms for Captagon pills and using advanced and specialized devices that allow knowing its source through the external shape and manufacturing fingerprint.
- Developing technical detection mechanisms for categories of "manufactured drugs" that are difficult to detect through regular forensic analysis.
- Members of the Criminal Laboratories Office followed several specialized courses inside and outside Lebanon in the field of drugs and body fluids.

155. In addition to the above-mentioned measures to combat illegal trafficking in narcotic drugs and psychotropic substances, the country also issued a law to license cultivation of the cannabis plant for medical and industrial use and closed many Captagon factories, but it should exert more efforts to deal with the threats related to illicit trafficking in drugs and narcotics and the National Anti-Corruption Strategy, especially in relation to implementing the laws issued in execution of aforementioned policies and strategies, in order to mitigate their risks being one of the higher risk crimes and have close link to the organized crimes.

156. Based on the assessment of the risks of virtual assets, the country has taken several measures, appropriate with the risk level of these activities, including assigning the Cassation Public Prosecution to identify the legal nature of mining. The Prosecution proposed that the Ministries of Justice, Finance, and Industry consider mining activity as an industrial activity which is subject to all licensing and monitoring obligations for an industrial activity. As for VASPs, they are a form of financial intermediation governed by the provisions of the Law Regulating the Financial Intermediation Profession and anyone who practices this profession without a license is punished by the penalties stipulated therein, in addition to reports that are made against those who engage in mining by assaulting the public electricity network and who provide virtual asset services, and shutting them down, and taking their pledges not to engage in these activities in the future, while pursuing prosecution procedures to prevent the development of these activities randomly. This would largely help in preventing their use in ML/TF, until the issuance of the necessary legislations governing these activities or the necessary licenses from the competent authorities.
157. In light of the economic crisis in Lebanon and the lack of confidence of customers in dealing with banks, the cash dealings are increased, which increases the ML/TF risks, the country made some policies and procedures to mitigate these risks resulting from cash dealings, and from the informal financial system, as an item was dedicated to it in the adopted national AML/CFT strategic action plan to mitigate ML/TF risks, that included measures being implemented gradually, as banks were encouraged to accept checks deposited by customers in their accounts (BDL intermediate circular 611 in 2022), using credit cards (BDL intermediate circular 629 in 2022), opening new accounts not subject to restrictions (BDL basic circular 150 in 2020), in addition to the measures for recovery and restoring confidence that is being developed in coordination with one of the financial institutions, to reduce cash dealings.
158. By examining the content of these circulars, it became clear to the assessment team that they include measures that gradually enhance the return of customer confidence in dealing with the banking system through customers resorting to the services specified in these circulars, such as the electronic settlement system for payment and credit cards used locally on point-of-sale (POS) devices, in addition to banks accepting cheques deposited by customers in their accounts, and exempting banks operating in Lebanon from a mandatory employment procedure with the Banque du Liban in exchange for money transferred from abroad and/or funds that are received in cash in foreign currencies after the date of 9/4/2020, and each bank must deposit an equivalent 100% of the value of these funds is in cash with it or with its correspondents abroad in an account free from any obligations, which gradually led to an increase in the number of new bank accounts that are not subject to restrictions, the number of new credit cards, the use of previously issued cards, and the relatively restoration of confidence in banks in order to reduce the risks of dealing in cash as a high-risk channel in money laundering and terrorist financing.
159. The aforementioned national strategic plan also singled out measures to reduce the risks of the activities of unlicensed exchange institutions (the black market) and the illegal/unlicensed transfer (hawala) that was monitored by the NRA. The procedures implemented in stages included allowing banks and official exchange institutions to deal, when exchanging currencies, based on market price instead of the official price, which was complemented by the efforts of the security services to track down and close the monitored unofficial activity, and thus the volume of this activity decreased.
160. However, the country must strengthen measures to increase the adequacy and effectiveness of the national measures taken in confronting the risks of ML and TF posed by cash dealings and the informal financial system.

### Exemptions, Enhanced and Simplified Measures:

161. The Lebanese Republic does not allow the implementation of exemptions or simplified measures for lower risk scenarios. FIs and DNFBPs are committed to apply enhanced due diligence where ML/TF risks are higher. (See c.10.17).
162. Based on the NRA results for 2019, the SIC issued circular No.25 on 18/9/2019 to obligate all reporting entities, when assessing their own risks and adopting the risk-based approach, to consider the ML/TF crimes and the associated most serious crimes identified by the National Risk Assessment as high-risk crimes and to apply measures and controls commensurate with these risks.
163. For example, the assessment team could verify that a number of institutions understand and apply the requirements of circulars issued to them including banks, non-banking FIs, financial brokerage companies, money transfer companies, some exchange companies of category (A), and insurance companies through applying EDD measures to reduce the potential commission of the most serious crimes through them and thus the potential misuse of the services and products they provide, especially those related to cash operations, hawala operations and accounts of legal persons, namely offshore companies, and when dealing indirectly or through third parties. DNFBPs also understand and apply the necessary measures and controls to reduce the potential commission of the most serious crimes through them and thus the potential misuse of the services and products they provide, namely notaries public, that apply EDD measures when preparing and/or executing real estate transactions and establishing companies (see IO.4).

### Objectives and Activities of Competent Authorities

164. The Special Investigation Commission , as the Financial Intelligence Unit, has developed its prioritization criteria for the processing of STRs, especially those related to high-risk crimes according to the NRA results. Their analysis is started regardless of their degree under the prioritization criteria, with the existence of trained and informed financial analyzers who have experience to deal with these high risks. Also, the FIU issued many guidelines that help the reporting entities in tracing the cases suspected to be related to higher-risk crimes such as corruption and tax evasion. The FIU, being the supervisor, developed risk-based supervisory works to combat ML/TF to be consistent with the results of the aforementioned NRA (see IO.3).
165. The Banque Du Liban issued many circulars to the supervised FIs to the effect of combating corruption and tax evasion, being higher-risk crimes. The Ministry of Finance took many measures to combat tax evasion, such as tighten the supervision over the entities responsible for taxes and fees to prevent them from committing tax evasion, through the Circular issued in 2021.
166. The efforts of Ministry of Interior and Municipalities and Ministry of Justice in cooperation with other ministries to combat the illicit drugs and narcotics trafficking resulted in issuing a legislation to license cannabis plant for industrial and medical uses, and continue pursuing the producers of Captagon through closing dozens of factories, and raise awareness to fight addiction and explain its dangers among youths, in light of comprehensive study as a part of a cooperation strategy between many ministries to combat the illicit drugs and narcotics trafficking for various exposed social sectors.

167. Law enforcement authorities have taken additional measures through enhancing their resources to mitigate the identified risks related to smuggling to other countries and counterfeiting of some goods, and confiscating goods prepared for smuggling, especially the subsidized ones, which has increased due to COVID-19. Additional resources have also been allocated by these authorities in line of their efforts to combat TF in order to strengthen the control over certain border areas and close illegal border crossings. The Ministry of Interior and Municipalities has adopted a system for applying a risk-based approach to supervision of NPOs (being the supervisor over them) as a precautionary measure to combat TF cases happening through NPOs.
168. Regarding the TF crime, the security authorities established offices specialized in TF investigations, and requested the designation of many names on the local list under the UNSCR1373. The security authorities, with the Lebanese army, are making good efforts, as they have deployed border regiments along the eastern and northern borders to control them, erected about 40 control towers and closed several illegal border crossings. One of the positive things is that these authorities are detecting the factors and vulnerabilities that increase the risks, and the procedures contained in the action plan include procedures that are being implemented to control these factors more effectively, particularly strengthening border control and eliminating the phenomenon of unregistered displaced persons.
169. The Cassation Public Prosecution has not taken the necessary measures to direct resources towards high-risk crimes based on the national risk assessment, nor investing the financial investigations in combating ML crimes to an adequate extent, which negatively affects the PP activities in investigations related to those crimes and confiscating their proceeds (see IO.7).

#### **Domestic Coordination and Cooperation:**

170. Domestic coordination and cooperation are well established between competent authorities (LEAs and supervisors), on operational and policy development levels, including through the two national committees for AML/CFT. Cooperation and coordination have been strengthened among the majority of Lebanese authorities during and after the NRA process and update. The results of the interviews conducted by the assessment team during the onsite visit revealed the existence of joint working groups between several entities, that are constantly communicating to coordinate efforts in AML/CFT. Regarding combating proliferation, the FIU cooperates with the Ministry of Foreign Affairs and Emigrants on the application of targeted financial sanctions (see IO.11).
171. Through their sub-committee, the two national committees for AML/CFT (see organizational chart and mandates in Para 99 and 100 of the Chapter 1) exert tremendous efforts to identify the significant points and themes in light of the risk structure of the country and its ML/TF risks. Such points include the application of targeted financial sanctions, local enlisting, following and updating the NRA process, and the strategic action plan developed based on them, in addition to the risks related to terrorist groups and NPOs, and following the implementation of the plan developed to eliminate the unlicensed exchange and transfer activities, and tracing any activities related to VAs. The two national committees held several meetings during the five years from 2017 to 2021 according to the statement below, in addition to the periodic meetings to assess the ML/TF risks as part of the NRA, and in addition to 8 monthly coordination meetings between the security agencies that are members of the Committee for the Suppression of the Financing of Terrorism in 2017:



**Table 1.1.3 on the periodic meetings of the National Committees for Anti-Money Laundering and for the Suppression of the Financing of Terrorism**

<b>Committee</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
The National Committee for Combating the Financing of Terrorism	2	1	7	5	5	20
National Committee for Anti Money Laundering	1	3	6	5	4	19

172. The functions of the two National Committees for Anti-Money Laundering and the Suppression of the Financing of Terrorism include communicating when necessary with self-regulatory bodies, as well as cooperation and exchange of information between the SIC, the Cassation Public Prosecution and law enforcement authorities through a secure platform (SEEDS), to ensure that the required information is provided without any restrictions, gradually and in a timely manner to support ML/TF investigations. For the purposes of collecting additional financial intelligence on the TF offense, law enforcement entities also resort to direct communication with the SIC by telephone (a hotline exclusively dedicated to cases of terrorism and terrorist financing) to verify whether the name under investigation is known to the SIC, and if it is so, they send a request for assistance to obtain the necessary information to support parallel financial investigations in the TF offense.
173. The SIC plays a key role that largely contributes to the effectiveness in the field of cooperation, training and awareness raising with law enforcement and judicial authorities, where about 7 events were held during the period 2016-2019, in which many of these entities participated with some ministries. Such events included joint training workshops between them to ensure consistency in understanding risks and effective cooperation between national authorities, as well as annual joint conferences held between the SIC and the Internal Security Forces to raise awareness about cybercrime, combating terrorism and designation of names on the domestic lists.
174. Moreover, local entities (including the Lebanese Army Intelligence, Internal Security Forces, Customs, and the Ministry of Foreign Affairs and Emigrants) cooperate through the National Authority for the Implementation of Lebanon's Obligations towards International Conventions on Chemical, Biological, Radiological and Nuclear Materials. Competent authorities are also cooperating to implement the targeted financial sanctions mechanism linked to the financing of proliferation, for which there are requirements and obligations that impose "immediate freezing without delay".
175. The assessment team could not verify the weakness of the Cassation Public Prosecution's activation of the cooperation and coordination related particularly to ML investigations, while it was evident that the cooperation and coordination are good in terms of TF crimes and parallel financial investigations, where the Internal Security Forces prioritizes the illicit drugs trafficking and TF crimes and directs resources to eliminate the illegitimate exchange and hawala activities (see IOs 7 and 9).

**Private Sector's Awareness of Risks:**

176. The private sector participated in the NRA process and its update, and the summary of the NRA results for 2019 was published and shared with the entities from the private sector which are obliged to report

under circular No. 25 dated 18/9/2019, as well as the results of the NRA update for 2022, on the SEEDS system that connects the SIC to the reporting entities.

177. The country has improved partnership with the private sector (other than its participation in the national risk assessment) by increasing periodic meetings, seminars, meetings, workshops and increasing training events, as it has made good efforts in awareness raising. In this context, during the period preceding the preparation of the NRA in the preparatory stages from 2016 to 2018, many seminars, meetings, workshops and training courses (approximately 41) were held for the private sector (FIs and some non-financial professionals and businesses) in partnership with the competent authorities from the countries and regional and international organizations, which included many topics such as raising awareness about developments and obligations to comply with AML/CFT measures, the risks of cybercrime, and the challenges facing Arab banks and financial institutions.
178. In addition to the seminars, meetings, workshops and training courses that took place after the preparation of the NRA during the period 2019-2021, and their number was about 19 events held for some non-financial professionals and businesses and financial institutions in partnership with regional and international organizations, on many topics, the most important of which are the national ML/TF risk assessment, its results and its update, combating measures, combating corruption, and business integrity.
179. Several guidance documents were issued by the Lebanese competent authorities, such as FIU, which covered important subjects focused on high threats and risks of ML/TF, based on the NRA results in Lebanon, such as the indicators of corruption, tax evasion, terrorist financing and cybercrime, in addition to guidance documents on the application of targeted financial sanctions, how to report suspicious transactions, to identify the beneficial owner, and to prevent the misuse of NPOs for TF purposes. Such documents include information and results concluded by the NRA to help the reporting entities to increase their awareness of its results.
180. Banks have established an anti-corruption and bribery unit/department in line with and in response to the NRA results, which consider that corruption crimes are among the most serious crimes, and this is a good measure, given that it will enable banks to allocate part of their resources to combat one of the most serious crimes in Lebanon. The FIU supported the efforts exerted by banks in this regard.
181. The assessment team found that the reporting entities were aware of the circular containing the NRA results and were applying what was stated therein, and although the application varied between the entities, as indicated by the on-site visit, it was generally good, except for the exchange houses of category (B), insurance companies, notaries public, and real estate brokers and dealers, which were basically not aware of the circular that includes the NRA results, nor aware of the NRA itself, which is considered a shortcoming in the performance of competent authorities to raise the awareness of these institutions and companies about the NRA results and their obligations related thereto (see IO.4).

### **Overall Conclusion on IO.1:**

182. Lebanon prepared the NRA in 2019 and updated it in 2022 and relied mainly upon the risk understanding. The FIU, the majority of LEAs, the [cassation] Public Prosecution, most other important agencies (such as customs, the commercial registry and some ministries), and all regulatory and supervisory authorities

have a good understanding of ML risks arising from the locally-generated criminal proceeds, and those generated (to a lesser degree) from crimes committed abroad and the associated high risk predicate offences, while Financial Crimes and Money Laundering Office and Central Narcotics Repression Bureau have a developing level of understanding of some high-risks threats faced by the country. It is revealed that these authorities reduced the risks of illicit drug trafficking and tax evasion, despite their classification as high-risk crimes. The supervisor of notaries has developing understanding of ML risks compared to what was shown as an understanding not based on factual inputs, considering that the notaries don't practice activities that make them largely exposed to ML risks, which is inconsistent with the NRA results stating that this sector is of high risk. However, Lebanon lacks a comprehensive understanding of the ML and TF risks related to corruption among senior levels of the Lebanese government.

183. The country has a clear understanding of most TF risks, as this understanding has been reflected by all State agencies, including the authorities concerned with combating the financing of terrorism (the Intelligence Directorate of the Lebanese Army, the Military Court, the Information Division within the Internal Security Forces, the General Directorate of State Security, and the National Committee for the Suppression of the Financing of Terrorism, and the SIC). These authorities are aware of the most risks of terrorist financing to which the country is exposed, in addition to their good awareness of the threats emanating from terrorist groups that pose a threat to the country, whether at the local or external level, and the great threat that this poses to the country. It was also clear, the understanding of authorities to the trends and methods of collecting and transferring and the use funds inside and outside Lebanon by terrorist organizations as well as the threats it poses on the country. These authorities emphasized that the risks of financing terrorism remain high, which requires continuing efforts and raising due diligence in all cases. However, state agencies do not account for ML and TF risks stemming from the activities of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.
184. It was found that there are some issues in the logic of the country's understanding of the risks of dealers of precious metals and stones sector, as the country's assessment of this sector relied only on the materiality of the size of the dealers, and it was not more comprehensive.
185. Lebanon has developed a strategic action plan for AML/CFT, that basically relied on the NRA results. This plan includes several procedures to be taken to mitigate the high risks identified by the NRA and its update. The aforementioned procedures cover the ML/TF high risks in Lebanon and most of which were completed such as developing an integrated plan to limit the informal hawala system, strengthen border control and eliminate the phenomenon of unofficial displaced persons and issuing legislative amendments to several laws. However, Lebanon does not adequately address illicit finance risks stemming from the large informal cash economy in the country and competent authorities significantly understate the role of the informal Lebanese economy.
186. The country issued a legislation to license cannabis plant for industrial and medical uses. However, they still have to make additional efforts to deal with the threats related to illicit drugs and narcotics trafficking to reduce its risk, being one of the most serious crimes and are closely related to organized crimes. Also, the country took more measures to mitigate the risks arising from intensive cash dealings.
187. The country does not allow the implementation of exemptions, exceptions and simplified CDD

measures, but applying EDD measures where risks are higher, based on the NRA.

188. Some major competent authorities such as SIC have taken additional measures to mitigate the risks identified by the NRA such as prioritization criteria for processing the STRs in line with the high risks and developing risk-based supervisory approach. LEAs also exerted efforts and measures to mitigate the high-risk crimes identified by the NRA, such as smuggling counterfeited goods to other countries. The Ministry of Interior developed the RBA over NPOs. As for security authorities and Lebanese Army, they took additional efforts and measures to mitigate TF risks, through enhancing the border control, closing the illegal border crossings to control the illegal entrance of displaced people to Lebanon from neighboring countries, and detecting the transfer of currencies and BNIs. However, the Cassation Public Prosecution has a shortcoming because it has not taken the required measures to direct sufficient resources for high risks crimes based on the NRA results.
189. The domestic coordination and cooperation are generally acceptable in all related fields including the cooperation in CPF, as there is a good domestic coordination and cooperation at the operational and policy-making levels, through the two national committees for AML/CFT, and conducting joint training workshops between the SIC, LEAs and judicial authorities to ensure the risk consistent understanding and effective cooperation between the national authorities. However, there is weakness in the Cassation Public Prosecution's activation of the coordination and cooperation of ML investigations in particular.
190. The country has improved partnership with the private sector by increasing periodic meetings, seminars, meetings, workshops and training events in collaboration with various authorities. The private sector participated in the NRA process and update and their results were circulated to them. Moreover, the Lebanese authorities issued a number of related guidelines. The banks established anti-corruption units/departments in response to the NRA results. The FIU supported the efforts exerted by banks in this regard. However, several private sector entities (Exchange Companies of Type "B", insurance companies, notaries, and real estate brokers and traders) are not aware of the NRA results, nor the existence of the NRA process in the first place.
191. **Therefore, Lebanon is rated as having a " Moderate " level of effectiveness for IO.1.**

## Chapter 3: Legal System and Operational Issues

### Key Findings and Recommended Actions:

#### Key Findings:

##### Financial Intelligence (Immediate Outcome 6)

- a) Competent authorities have direct and indirect access to a wide range of financial and other relevant information while looking into cases of money laundering, associated predicate offenses and terrorist financing. Competent authorities largely use financial information in TF-related investigations, and to a limited extent when investigating money laundering and associated predicate offences, and in particular in investigations in tax and customs crimes.
- b) The FIU received STRs electronically through the E-STR system, especially by banks and some financial institutions, while the rest of the DNFBPs depend on filling out the reporting form circulated to them by the FIU and send it manually or via e-mail. Also, the FIU receives local and international requests for assistance and spontaneous disclosures. All these reports are kept in its database and benefit from them in the exercise of their tasks and operational and strategic analyses, and these data are made available to the concerned authorities spontaneously or upon request.
- c) The STRs submitted by the DNFBPs are weak, which limits the provision of accurate information that helps the FIU to conduct its duties.
- d) The reports and referrals of the FIU well support the operational needs of the competent authorities in terms of terrorist financing and to an acceptable extent the operational needs of the Public Prosecution and to a limited extent the needs of LEAs for anti-money laundering and related predicate offences. The FIU provides quality strategic analysis and disseminates its results to a large number of competent authorities.
- e) There is good local cooperation and coordination on the AML/CFT issues. The FIU plays a key role in coordinating policies, cooperation and exchange of information with competent LEAs and judiciaries. The AML and CFT National Committees include representatives from all relevant AML/CFT authorities and contribute to activating cooperation. However, the passage of requests for assistance related to the ML/TF investigations from the authorities concerned with the prosecution and investigation through the Cassation Public Prosecutor constitutes a procedural constraint for making available and accessing financial intelligence in timely manner. Through reviewing a sample of some assistance requests related to TF cases sent by investigative bodies to the FIU through the Cassation Public Prosecutor, the assessment team found out that the process takes a period of time ranging from two days to a week before it reaches the FIU. As for cooperation with counterpart FIUs, it is done through the "Egmont" group.
- f) The FIU has a secure headquarters and good logistic and information resources that allow it to exchange information with local concerned entities through the SEEDS information program, and the FIU takes all necessary measures to maintain the confidentiality of the exchanged data and information, despite the lack of awareness among some entities about using the system.

### **ML Investigation and Prosecution (Immediate Outcome 7):**

- a) Lebanon mainly identifies ML cases through investigations conducted by the internal Security Forces and FIU based on the reports referred to the Cassation Public Prosecution, and to a lesser degree through tax and customs authorities. The investigations basically focus on predicate offences instead of ML, as the LEAs initiate ML investigations only if a predicate offence exists. Therefore, the parallel financial investigations are limited to identifying assets used in committing the crime for recovering purposes, instead of ML investigations, as there is a lack of specialization for most investigation and prosecution authorities.
- b) The ML investigations prosecuted by the Lebanese authorities are largely inconsistent with the risk profile, and the prosecutions are not closely aligned with the threats and risk profile, particularly with regard to the crimes of illicit drugs trafficking, corruption, customs smuggling and tax evasion.
- c) The ML investigations are focused on self-laundering, where the investigation and prosecution authorities do not allocate sufficient resources to identify and manage complex ML cases or standalone ML cases or from a third party.
- d) The criminal justice system in Lebanon is largely dedicated to the prosecution and conviction of predicate offences, as the number of court rulings issued for ML convictions is clearly low, and such convictions were largely inconsistent with the threats and ML risk context.
- e) The ML-imposed sanctions were not effective, proportionate or dissuasive in relation to the nature of the sanction, which was in the category of misdemeanours and not felonies. Therefore, the penal system is unable to achieve the desired goal in dissuading the ML perpetrators. The fines against natural and legal persons are considered dissuasive to some extent.

### **Confiscation (Immediate Outcome 8):**

- a) It seems unclear that the competent authorities are seeking to confiscate proceeds of crime as a policy objective and as an important part of their criminal justice system. Lebanon could not turn precautionary measures taken for freezing and seizure into a final confiscation in ML, except for a single case, despite a good legal framework (a national fund for the management and investment of funds in restitution or recovery related to crime and proceeds for freezing or seizure).
- b) Also, a significant part of the precautionary measures about freezing and seizure were launched by FIU and were not a result of parallel financial investigations initiated by the LEAs.
- c) There is apparently no clear policy or procedures to prioritize the recovery of assets held or transferred to other jurisdictions, given the related risks, where the cases of confiscation in Lebanon were exclusively limited to local predicate offences.
- d) The statistics provided for the years 2017-2021 regarding asset recovery requests from abroad reflect the good commitment of the Lebanese authorities regarding their response to all asset recovery requests from requesting countries. However, it remains for the Lebanese authorities to follow up on international asset recovery requests and procedures

in line with the risk context.

- e) The tax and customs authorities did not undertake to put practical measures for its affiliates to raise their abilities in recovering smuggled assets for the purpose of confiscation, despite the risk profile of these crimes.
- f) The results of seizures and confiscations do not reflect the combating of main crimes identified in the NRA, such as corruption, tax evasion, custom smuggling, illicit drug trafficking, electronic fraud and embezzlement of private funds.
- g) there are no adopted measures to maintain and manage the value of seized or confiscated assets.

### **Recommended Actions**

#### **Immediate Outcome 6:**

- a) All concerned competent authorities, especially the Custom Directorate and Tax Directorate, should develop their skills and experience that allow them to proactively and continuously especially in potentially complex high-risk cases to identify and refer ML cases and trace criminal proceeds through developing a strategy to use the products of the FIU to initiate financial investigations.
- b) The Lebanese concerned competent authorities should use financial intelligence and pay particular attention to their use in ML investigations and associated predicate offenses to increase the number of prosecutions and convictions arising from financial intelligence.
- c) The Cassation Public Prosecution and the SIC should provide operational mechanisms that include short periods and flexible channels to simplify the exchange the financial information subject to banking secrecy to the widest extent, in order not to be a procedural constraint for receiving required information and use them regularly in financing terrorism and money laundering, associated predicate offences specially those related to corruption.
- d) The Lebanese authorities should develop clear national policies to raise the awareness of all investigation authorities to use the abilities of the FIU in financial investigations, prioritize the ML investigations and prosecutions and conducting them in parallel with stand-alone and third-party ML, and predicate offences specially those related to corruption, as proportionate to the risk profile of the country including the complex ML cases.

#### **ML Investigation and Prosecution (Immediate Outcome 7):**

- a) LEAs and Cassation Public Prosecution should develop their ability to measure their performance in ML investigations and convictions by maintaining reliable, compatible, and centralized data and statistics on ML cases and convictions. The FIU, LEAs, and Cassation Public Prosecution should regularly review this data to determine the impact of their policies and identify the need for any corrective measures.
- b) The Lebanese authorities should work to increase the share of investigations in money laundering cases instead of focusing on investigations of predicate offences by improving the capabilities of the investigation and prosecution authorities by setting clear measures for managing cases, for the purpose of identifying money laundering cases, opening investigations and prioritizing them.
- c) The Lebanese authorities should conduct parallel financial investigations into predicate offenses where appropriate and on a regular basis to increase the share of investigations

and prosecutions related to money laundering, provided that investigations and prosecutions are consistent with the understanding and risk context in Lebanon, including complex money laundering cases.

- d) Concerned authorities should prioritize ML investigations and follow-ups and establish task forces or similar arrangements for joint ML investigations, wherever appropriate, to facilitate the collection of evidence (national or foreign) and prioritize investigations into high-risk crimes that generate significant financial proceeds. This helps to expedite judicial prosecutions and resolutions in ML cases.
- e) The capacity of all investigative authorities should be built to ensure providing investigators and prosecution authorities with adequate resources and training on a regular and ongoing basis on ML methods and trends, including the different types of ML offenses (particularly stand alone and third-party ML), how to collect evidence and how to effectively follow up on prosecutions in the ML field to reduce delays in the prosecutions and resolutions of ML cases.
- f) Competent authorities should upgrade the current ML criminalization from a misdemeanour to a felony to enhance prosecutions and enforce effective, proportionate and dissuasive sanctions against ML.

#### **Immediate Outcome 8:**

- a) Lebanon should work as soon as possible to activate the “National Fund for the management and investment of under recovery or recovered funds” and to include in its records updated and accurate data about confiscating proceeds of crimes of money laundering, associated predicate offences and financing terrorism cases. Also, the Cassation Public Prosecution should also develop guidance on asset tracking and recovery.
- b) Lebanon should prioritise asset recovery in cases where proceeds are transferred abroad. To do so, Lebanon should establish a policy to recover assets from abroad, and work further to strengthen international coordination with relevant counterparts on assets tracing.
- c) Customs and LEAs officials involved in border and port control should focus more on identifying cross-border movements of currency and precious metals and stones.
- d) Customs authorities should strengthen their cooperation with relevant international partners and organizations to ensure officers are trained, as well as deepen its understanding of and identify currency and precious metal smuggling networks and establish a risk-based approach and policies that prioritise qualitative seizures and confiscations consistent with the risk profile.
- e) Given the risks of tax evasion, the competent authorities should work to recover smuggled assets through developing effective mechanisms to identify and trace these assets for confiscation in coordination with local and international concerned authorities.
- f) The competent authorities should establish a central system for keeping updated and accurate data and statistics on the confiscation of criminal proceeds in money laundering, associated predicate offenses and terrorist financing

192. The related immediate outcomes which were studied and analysed in this chapter are Immediate Outcome 6 - 8. The Recommendations related to this Chapter are 1, 3, 4 and 29-32.



## Immediate Outcome 6 (Financial Intelligence ML/TF)

### Use of financial intelligence and other information

193. The assessment team based its conclusions on a variety of information, in particular: Statistics on the various types of data kept in the database of the FIU, and interviews with its officials and with many investigation and prosecution authorities (the Lebanon's Military Intelligence Directorate, the Information Division of the Internal Security Forces, the Military Court, the Financial Crimes Control Office, the Office of Combating Narcotics, Ministry of Justice, Cassation Public Prosecution, and Public Security) which makes clear that financial intelligence is used in practice to support ML/TF investigations and asset tracking and confiscation. In addition to visiting the headquarters of the FIU and reviewing a number of referred and archived financial investigation reports.
194. Various investigative authorities have direct or indirect access to a range of diverse sources including criminal records, administrative and commercial data and customer data that they use in their investigations of money laundering, terrorist financing and predicate offenses to develop evidence and trace related criminal proceeds.
195. Table 6.1.1 below also shows the sources of information that the FIU, LEAs and investigative authorities use in financial and criminal investigations, and when necessary, information is requested from abroad through the Egmont Group or INTERPOL and bilateral channels with foreign counterparts (see IO .2).

**Table 1.1.6: sources of Information used by the FIU, LEAs and Investigative authorities in financial and criminal investigations.**

No.	Database	Supervisor	FIU		Customs		MOI		Ministry of defence- military intelligence directorate		MOF	
			Direct access	indirect access	Direct access	indirect access	Direct access	indirect access	Direct access	indirect access	Direct access	indirect access
1	Financial intelligence	FIU	√			√		√		√		√
2	information available for reporting entities			√		√		√		√		√
3	information available all FIs subject or not to banking secrecy	FIs/Banque du Liban		√		√		√		√		√
4	Information e-database	Customs	√		√			√		√	√	

	including declaration /disclosures <sup>5</sup>											
5	KYC database	FIs		√		√		√		√		√
6	Commercial registry database: legal person and BO	Commercial registry	√		√		√		√		√	
7	Properties owned by legal and natural persons	Real Estate registry		√		√		√		√	√	
8	Database of vehicles, cars, boats etc.	Vehicles registry		√		√	√		√			√
9	Departures /arrivals	General Directorate for Public Security		√		√	√			√		√
10	Previous investigations about persons, criminal records, prosecutions, wanted persons (local/international/administrative) and arrested, their IDs	General Directorate for Internal Security Forces:		√		√	√			√		√
11	NPOs, members and boards database	General Directorate for Political Affairs		√		√	√			√	√	
12	Tax issues database	MOF		√		√		√		√	√	

<sup>5</sup> The Information e-database including declaration/disclosures don't include the false declarations which can be access indirectly.

13	Open source-World Check		√		√		√		√		√	
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196. The FIU can obtain information from all reporting entities (see table 3.2 below) and foreign counterparts (see table 3.3 below), where the FIU requests information from banks and FIs which provide the FIU with related operations and documents such as the KYC form information, copies of checks and transactions, account opening data, financial accounts movements and information about the beneficial owner and signatory.

197. It should be noted that banks and financial institutions must keep a cash transactions statement (CTS) that contains information about the transaction, the source of funds, and the beneficial owner, and the FIU may also request this information when needed.

198. The FIU also resorts to the DNFBPs subject to Law No. 44/2015 (except for lawyers' sector, which requires complex procedures in obtaining data according to the law regulating the profession) to request information that may support investigations when necessary, and the FIU has the authority to directly access the database of the General Directorate of Customs, which contains information on declarations and disclosures.

**Table 6.1.2: requests for additional information from reporting entities**

Year	FIs					DNFBPs			
	Banks	FIs	Money transfer companies	Insurance companies	Exchange companies	Lawyers	Auditors/Accountants	Real estate brokers	Notaries
2017	322	2	14	1	-	-	-		-
2018	330	3	16	2	2	-	-		2
2019	340	2	45	13	10	1	-		1
2020	159	1	37	3	12	-	2		1
2021	112	1	31	-	1	-	-		1
Total	1263	9	143	19	25	1	2		5

199. To identify and trace proceeds, the FIU largely exchanges the financial intelligence with the foreign counterparts as it submitted 389 requests and received 406 requests during 2017-2021.

**Table 6.1.3: incoming/outgoing requests for assistance sent from/received from counterpart FIUs**

Cooperation with counterpart FIUs		
Year	Outgoing requests	Incoming requests
2017	125	95
2018	108	82
2019	83	93
2020	32	67
2021	41	69

Total	389	406
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200. It should be noted that the SIC’s usage of financial information enabled it to develop analytical products that have contributed to providing investigative and LEAs with information and reports to initiate investigations into money laundering, related predicate offenses, terrorist financing, and tracing the criminal proceeds (see IO.8). The analysis carried out by the FIU on STRs has led to the identification of new targets for financial investigations. An example of this is a case that started with a STR from a bank to the FIU, and the analysis carried out by the FIU revealed additional suspicious transactions, new individuals involved, and real estate assets through querying the names of suspects in all financial institutions operating in Lebanon and consulting other relevant authorities such as the commercial registry and the public notary. The following case study illustrates this:

**Case Study No. 1: using financial intelligence to trace criminal proceeds.**

**Reporting Suspicious Activity:** In 2018, a local bank sent several reports regarding suspicious transactions linked to clients who made cash deposits, claiming that they were proceeds from real estate sales. These clients presented several sales powers of attorney that were used in the transactions, promising to provide additional supporting documents.

**Analysis and Investigation:** The FIU initiated its investigations by analysing the accounts of the suspected clients and disseminating their names to all banks, financial institutions, and money transfer companies in search of any related bank transactions or accounts. The FIU also made inquiries with relevant local authorities, including LEAs and the real estate registry, in search of any properties owned by the suspects.

During the investigations, the FIU received a request for assistance from the public prosecutor in a case involving individuals accused of drug trafficking. The names of these individuals were also disseminated to all banks, financial institutions, and money transfer companies, allowing for the identification of more bank accounts and transactions. The analysis showed that the suspected clients mentioned in the reports had sold their properties to drug dealers for cash.

As a result, the FIU also disseminated the names of the suspects to notaries to identify any real estate transactions made through sales contracts or agencies on their behalf.

**Measures Taken:** The FIU decided to freeze the balances of the specified bank accounts, place a hold on the real estate properties belonging to the suspects, and refer the investigation results to the public prosecutor who initiated the prosecution. The case is still under trial to date.

**The competent authorities’ usage of financial intelligence in investigations of ML and associated offences**

201. LEAs rely on the FIU as one of the main sources of financial intelligence, especially from entities subject to banking secrecy under the current legislation. The FIU receives requests for assistance from LEAs through the Cassation Public Prosecutor, and the results of FIU’s analysis are used in investigations related to money laundering and related predicate crimes.

202. The investigative authorities and LEAs use, to a limited extent, financial intelligence requested from FIU

to develop evidence in investigations and trace proceeds of crime related to money laundering. This is evident from the comparison between the number of parallel financial investigations (350) out of the total number of predicate crimes generating criminal proceeds (refer to IO.7).

203. More specifically, Table 6.1.4 below shows a weakness in the number of information requests received by FIU from the General Directorate of Customs (only 9 requests for the years 2017-2021) and a complete absence of information requests from the General Directorate of Taxes, which does not align with the context of the risks posed by customs smuggling and tax evasion crimes identified in the NRA, given the high risks posed by these crimes. The country stated that this is attributable to the Cassation Public Prosecution referring the investigations initiated by the General Directorate of Customs to the specialized offices at the General Directorate of internal Security Forces to follow up them and cooperate regarding them.

**Table 6.1.4: LEAs reliance on the FIU as a source of financial information**

Requesting entity	2017	2018	2019	2020	2021	Total
LEAs specialized in ML/predicate investigations (General Directorate of internal Security Forces)	83	96	83	86	59	407
General Directorate of Customs	1	0	2	6	0	9
Total	84	96	85	92	59	416

204. Despite the efforts of the FIU mentioned above to obtain and provide intelligence information upon request, it was not clear to the assessment team whether the Customs and Tax Directorates utilized the FIU’s capabilities, especially since the results of financial investigations into ML cases did not show sufficient regular use of intelligence and financial information to develop evidence or trace money in ML investigations or identify new targets.

205. Therefore, it is not clear to the assessment team whether LEAs use financial intelligence information in developing evidence in ML investigations apart from the information requested from the FIU or provided to it automatically. This may be due to the obstacle posed by banking secrecy in requesting information, which could constitute a procedural impediment to receiving the necessary information and using it regularly in ML investigations.

206. On the other hand, the onsite visit showed the ability of LEAs to use non-financial information to develop evidence in ML-related predicate offences, such as search operations, human intelligence, information conveyed in cooperation with foreign police forces, judicial cooperation, surveillance cameras in streets and various locations, and wiretapping in accordance with the law.

207. Except for some limited cases, investigation and prosecution authorities were able to enrich their investigations, especially in the most complex cases, with financial intelligence information, using the capabilities of the FIU irregularly.

**Case Study No. 2: using of financial intelligence in ML case.**

In 2020, the FIU responded to a request for assistance from the Cassation Public Prosecutor regarding acts of corruption involving abuse of office and embezzlement of public funds. Accordingly, the FIU circulated the names of the accused to all banks and financial institutions operating in Lebanon and asked them to immediately freeze any identified accounts. The results showed the existence of several accounts belonging to one of the accused, some of which are closed, and others are joint accounts with the spouse.

When analysing these accounts, it was found that cash deposits occurred, most of which do not exceed the thresholds of USD 10,000, in addition to depositing checks and transfers from abroad, followed by cash withdrawals and other transactions. The FIU also asked the Real Estate Registry and the Vehicles Registration Department to freeze any assets belonging to them. Both authorities reported the existence of properties belonging to one of the accused.

Information obtained from a counterpart FIU also revealed the existence of accounts abroad for two of the accused, one of whom was mentioned in an STR submitted by a foreign bank regarding several cash deposits from unknown source, followed by issuing checks in the name of beneficiaries that the bank was also unable to determine their relationship with the owner of the checks, nor the purpose of the checks. The FIU froze the assets and referred all its findings and information to the Cassation Public Prosecutor to follow up on the investigation, where the prosecution was made. The case is still under trial.

### The competent authorities' usage of intelligence in TF investigations

208. LEAs and investigative authorities heavily rely on financial intelligence information, whether developed spontaneously or requested from the FIU, to advance their investigations and trace criminal activities associated with terrorist financing. The Information Division of the General Directorate of Internal Security Forces and the Intelligence Directorate of the Lebanese Army possess the necessary human and technological resources and expertise to access large quantities of information and wide-ranging financial intelligence reports and analysis from the FIU to develop cases related to terrorist financing. These authorities can also access data from non-banking institutions (exchange companies, insurance companies, etc.) in cases related to terrorism and its financing.

**Table 6.1.5 financial formation requested by the competent authorities specialized in TF investigations**

Requesting entity	2017	2018	2019	2020	2021	Total
LEAs specialized in TF investigations	12	4	2	2	0	20
Ministries /TF crimes	1	2	1	2	1	7

209. The table below shows that despite the low number of requests submitted to the FIU, the authorities specialized in investigating TF cases were able to directly investigate 364 cases during the period from 2017-2021. (Refer to IO.9).

**Table 6.1.6 : Number of investigations generated from using financial intelligence by the LEAs in TF Investigations**

Terrorism, and TF investigations	2017	2018	2019	2020	2021	Total
No. of Investigations	129	86	50	48	51	364
Number of individuals included in the	143	87	48	46	53	377

investigations						
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210. The following is a case study about a request for assistance from an LEA to the FIU about TF investigation to develop evidence and trace proceeds.

**Case 3: case study Using intelligence information in TF case**

**Request for information:** The FIU has received a request for assistance from an LEA through the Cassation Public Prosecutor, regarding two individuals who were arrested and questioned for smuggling potential terrorists across the border. LEA used the FIU to obtain any information that might be available in its database, and to assist in identifying any bank accounts and related transactions.

**Analysis and Investigation:** With the aim of determining whether the suspects had conducted transactions or kept bank accounts, the FIU circulated their names to all banks, financial institutions and money transfer companies operating in Lebanon, and at the same time requested the freezing of any found bank accounts and transactions. The LEA also asked the Real Estate Registry and the Vehicles Registration Department to place a non-disposal order on any assets associated with them. The results of the investigation revealed the existence of two accounts in two financial institutions, which are small loans, including a loan to purchase a motor vehicle and an unpaid debt classified as uncollectible debt. A money transfer company also provided information on incoming and outgoing transfers of small amounts.

**Measures Taken:** The FIU decided to lift the bank secrecy on the identified accounts, put a no-action order on the identified traffic vehicle, and referred the results of the investigation to the Cassation Public Prosecutor to expand the investigation, where the prosecution was made. The case is still under trial.

**STRs received and requested by competent authorities.**

211. The FIU receives reports from financial institutions and DNFBPs about transactions that are suspected to be proceeds or involving ML/TF. The FIU also receives requests for domestic and international assistance, and spontaneous disclosures. Also, the FIU saves all these reports in its data.

212. Suspicious transactions are reported electronically in the form of E-STR mainly by banks and some financial institutions. The submission of the report requires all the necessary fields to be included. On the other hand, some exchange companies of type “A”, exchange companies of type “B”, lending counter companies, insurance companies, gold shops, real estate trustees, and notaries report using the reporting form provided by the FIU, which is manually filled out by them and then imported or uploaded to the SEEDs messaging system or handed over to the FIU manually.

**Table 6.2.1: The distribution of the number of STRs/cross-border fund transfers received by the FIU during 2017-2021:**

Types of reports	2017	2018	2019	2020	2021	Total
STRs	457	455	529	279	193	1913
Cross-borders money transfer <sup>6</sup>	0	4	5	6	5	20

213. The above table shows that the number of STRs decreased significantly during the year 2020 and 2021,

<sup>6</sup>The number of false/non-declarations received by the FIU.

despite the increased risks related to the context of Lebanon according to the NRA, especially in the areas of corruption, tax evasion, drug trafficking, movement of criminal proceeds to abroad, fraud through electronic means, weapons smuggling and refugees trafficking. The authorities have justified, through the meetings that took place with them, that the reason for the decrease in the number of STRs in recent years, especially with banks, is due to the long and repeated public closure periods due to the COVID-19 and the financial / banking crisis in the country and the reduction of many services that were provided before the crisis by some reporting institutions. However, based on the cases of cross-border money transfers received by the FIU, there appears to be no consistency between the reports and the risks of customs smuggling, especially given the justifications presented, as the risks of using and physically transferring cash have not been reflected in the statistics provided.

214. The table 6.2.1 above shows the weak number of cross-borders money transfer declarations received by the FIU from the General Directorate of Customs, whereas it received 20 cases of false/non-declarations for cross-borders money transfer comparing to the ML/TF risks analysis in the IO.1. Moreover, it was not clear to the assessment team the extent to which such information is used by the FIU to support the analysis of the STRs, especially that the FIU mentioned that it has the authority to access to the e-database that contains the declarations, documents and reports.
215. The -SIC evaluates the received STRs according to priorities based on previously established criteria, which means identifying the reporting entity type/risk level classification as well as precedents in the FIU’s registry or criminal precedents registry (criminal record)/size of the funds associated with the report and their connection to high-risk countries/number of suspects within the report/other criteria such as (type of operation subject to the report, such as cash transactions, presence of links with other reports and cases, etc.).
216. The priority in financial analysis is given to STRs that are highly prioritized based on three levels of risks (low, medium, high). In all cases, the STRs related to high-risk crimes in the NRA results are considered prioritized and directly analysed, regardless of their degree based on the prioritization criteria.
217. The SIC performs the operational analysis of the STRs received from the reporting entities. The information contained in the STRs is also used in the operational and strategic analysis conducted by the FIU on the one hand, and the operational needs when assisting the competent authorities, LEAs, and the prosecution on the other hand. The following table shows number of cases received and referred to the Cassation Public Prosecutor, and the percentage of referral:

**Table 6.2.2: Number of received and referred STRs**

	2017	2018	2019	2020	2021	Total
Number of received requests	457	455	529	279	193	1913
Referred STRs (to the Public Prosecution)	121	107	112	65	54	459
Archived STRs* after analysing	336	348	417	214	139	1454
Archiving percentage	74%	76%	78%	77%	72%	76%
Percentage of referrals	26%	24%	22%	23%	28%	24%

\* No inquiries under the jurisdiction of the FIU are rejected pursuant to the Law No. 44/2015.

\*Archiving means temporary saving pending any updates in the case for reopening.

218. The above table shows that the percentage of the STRs that are archived by SIC has increased, reaching



an average of 76% of the total number of STRs during the last five years. The Lebanese authorities have indicated that the reports that are archived after analysis are of low-risk category, and the FIU requests the reporting party, in some cases where the report is archived, to prepare periodic reports on the suspicious account. The reporting entity is also required to make the account "traceable", which makes all related transactions subject to tracking. Additionally, during field inspections, the FIU reviews the effectiveness of the systems that identify the transactions that must be reported and the supporting documents to ensure the quality of the reports and prevent the reporting parties from resorting to defensive reporting.

219. During the onsite visit, it was clear that the FIU has taken a series of measures to improve the quality of reports, including providing feedback to reporting entities, issuing a guidance manual on reporting suspicious activities published on the FIU's website, conducting awareness-raising and training sessions for reporting entities on how to report, and publishing a list of indicators of suspicion on the FIU's website.
220. According to table below No. 6.2.3, the number of STRs amounted to 1,913 reports in the period 2017-2021, i.e. an average of 382 reports. The majority of the STRs received by the FIU were from banks, and amounted to 1,634 during the last five years, which means more than 85% of the total STRs, because the banking sector controls about 95% of the total financial sector, in addition to the large size of the customer base, geographical spread throughout the country, the diversity of provided banking services, and the effectiveness of its information systems that allow detection of suspicious transactions.

**Table 6.2.3: distribution of STRs as per the reporting entities during 2017-2021**

	2017	2018	2019	2020	2021	Total
Banks	431	421	435	203	144	1634
Money transfer companies	17	22	57	48	44	188
Insurance companies	3	3	17	5	0	28
FIs	4	4	4	2	1	15
Exchange companies	0	2	13	17	1	33
Financial brokerage companies	0	0	1	0	0	1
Banking Control Commission	2	0	0	0	2	4
Notaries	0	3	1	1	1	6
Lawyers	0	0	1	0	0	1
Licensed auditors/accountants	0	0	0	3	0	3
Traders of precious metals and stones						
Casino Du Liban						
<b>Total</b>	<b>457</b>	<b>455</b>	<b>529</b>	<b>279</b>	<b>193</b>	<b>1913</b>

221. Despite the moderate risks specific to the lawyers' sector, according to the NRA results, this sector may constitute a suitable environment for money laundering due to the presence of various vulnerabilities, including those related to (1) structural reasons, where suspicious transactions are reported by law firms to the President of the Bar, who in turn reviews STRs and take decision to refer them to the FIU within two weeks. This perhaps explains the absence of STRs during the previous five years, except for one

STR, and to (2) weak supervision over the sector, as there is no supervisory or regulatory authority over the President of the Bar, and no authority is authorised to review, view, or know the number of STRs submitted to the President of the Bar by the reporting entities (See the IO.3).

222. The reporting activity in the precious metals and stones traders and Casino Du Liban sectors in Lebanon was no-existent, despite the efforts made by the FIU , especially during the years 2017-2018-2019, to provide the necessary feedback to the reporting entities. This calls for additional measures to be taken to achieve greater effectiveness. (Refer to the table below.)

**Table 6.2.7: field inspections of 2017-2021 during which the reporting entities received feedback.**

Sector	Number of field inspections				
	2017	2018	2019	2020	2021
Banks	28	22	32	19	24
Exchange companies	83	90	55	44	26
Money transfer companies	7	2	9	12	4
Non-banking FIs	18	17	16	0	3
Financial brokerage companies	1	8	7	0	0
Insurance companies	28	21	0	0	5
Comptoirs	21	0	20	0	0
Traders of precious metals and stones	14	18	25	0	0
Real estate traders and	10	22	13	0	0
Casino Du Liban	0	1	0	0	0

223. There is also a weakness in STRs from insurance companies, financial brokerage companies, notaries, and licensed auditors/accountants. The concerned authorities attributed this to AML/CFT measures applied to these entities, such as requiring all these entities and their subsidiaries to open accounts with banks, and for customers to use the products and services of these sectors through bank accounts, subject to the procedures applied to their customers in terms of opening accounts, reporting, and other procedures.

224. Assessment team suggest that the weak reporting activity in these sectors is due to a lack of compliance measures and field inspection on those sectors, where regulatory mechanisms that do not rely on independent measurement of the application of AML/CFT measures are relied upon, such as hearing sessions and confirmation of commitment from the supervise parties, in addition to obstacles related to confidentiality in some sectors (see IO.3).

**Table 6.2.5: STRs as per the type of suspicious 2017-2021**

STRs	2017	2018	2019	2020	2021	Total
ML	447	450	518	275	186	1876
TF	10	5	11	4	7	37
Total	457	455	529	279	193	1913

225. The above table shows a noticeable decrease in the number of STRs from the year 2020 and 2021, especially the ML-related STRs, despite the increased risks related to the context of the country, and this may be due to the exclusion of the financial and banking system and the excessive use of cash as a result

of the economic crisis and stumbled banking sector, given the weak number of non/false declarations received by the FIU about cross-border money transfer (20 case during 2017-2021) compared to the heavy usage of cash in these circumstances.

**Table 6.2.6: STRs received by the FIU as per the type of crime (after the FIU financial analysis) during 2017-2021**

Crime (as per predicate offences)	2017	2018	2019	2020	2021	Total
Forgery	101	97	96	52	49	395
Fraud	17	17	43	41	32	150
E-crimes	148	119	91	47	38	443
Corruption	2	8	29	20	13	72
Drugs trading	24	20	47	26	18	135
Embezzlement of private funds	31	11	16	18	7	83
Terrorism/terrorist financing	20	10	13	7	8	58
Tax evasion	13	7	23	11	4	58
Smuggling	1	2	13	5	3	24
Exploiting special information	3	2	2	1	2	10
Trafficking in human beings and migrant smuggling	0	0	1	2	1	4
Kidnapping	1	0	1	0	2	4
Extortion	1	0	1	3	0	5
Illicit arms trafficking	1	0	1	0	0	2
Sexual Exploitation	2	1	0	0	1	4
Counterfeiting of goods	0	0	1	0	1	2
Murder	1	1	0	0	0	2
Organised crimes	0	1	1	0	0	2
<b>Total</b>						<b>1453</b>

226. The table above indicates a mismatch between the number of STRs received by the FIU and some of the crimes that were considered high-risk according to the 2019 NRA results, which include corruption, tax evasion, and illicit drug trafficking. There has been a noticeable decrease in STRs from relevant parties about these crimes, particularly during the years 2020 and 2021. The Lebanese authorities attribute this decline to the economic crisis and the stagnation of the banking and financial sector, which has led these parties to suspend many of their services.

227. The FIU provides feedback on the quality of STRs to reporting entities through the STR Feedback model, which is sent to the reporting entities, or through field inspections conducted by the FIU (as it is also a supervisory body in AML/CFT matters). According to the provided statistics, a total of 1913 feedback reports were issued from 2017 to 2022. The FIU also provides these entities with information in the form of statistics on the most prominent patterns and trends related to money laundering and terrorist financing, through meetings, workshops, or remote communication.

228. Regarding the reports of disclosure or declaration of foreign currency for travellers arriving or departing through customs ports, and the number of reports examined and those reported to investigative authorities, the table below shows statistics on these reports. As part of its work, the FIU, whether as a financial intelligence unit or a regulatory authority, requests cash operations and reports of wire transfers and supporting documents attached to these transfers, which financial institutions maintain under the CTS form.

**Table 6.2.7: reports of disclosure/declaration of foreign currency**

Details	2017*	2018	2019	2020	2021	Total
Declared/acknowledged cases		115	218	227	239	799
Archived cases after investigation		111	213	221	234	779
Cases referred to investigative authorities		4	5+	6	5	20

### Operational needs supported by FIU analysis and dissemination.

229. LEAs rely largely on financial analysis reports issued by the FIU during its investigations in terrorist financing. The FIU's analyses and referrals to an acceptable extent support the operational needs of Cassation Public Prosecution and to a limited extent the needs of the LEAs for AML/CFT and combating their associated predicate offences purposes, especially the General Directorate of Taxes and General Directorate of Customs.

230. The Lebanese FIU is an independent body of a judicial nature established at the Banque du Liban and mandated with multiple tasks. In practice, these tasks include financial analysis, through the Analysis and Investigation Unit, and for that it has the right to request information from reporting entities, LEAs and other government authorities, as well as requesting information from counterpart foreign FIUs. This Unit currently has 12 trained and qualified analysts and includes sections dealing with strategic and operational analysis.

231. The SIC consists of a chairman and members (4 persons), the Secretary-General (1 person), and directors and employees of units (50 persons):

**Table 6.3.1: distribution of FIU units and main tasks**

Units	Main tasks	No.
Chairman, members and secretary-general		5
The Analysis and Investigation Unit,	Responsible for analysis and investigation	12
Database Administration Unit	Responsible for data and helps in strategic analysis	7
Procedure Verification Unit	Responsible for onsite and offsite inspection	17
Information and Safety Unit	Responsible for information technology systems and safety procedures	7

Administrative staff (Support)		7
<b>Total</b>		<b>55</b>

232. The SIC enjoys good financial and technological resources, and all employees are specialists with more than 15 years of experience, and they hold university degrees, including a large number of graduate degrees and CAMS certificates. The volume of human resources in the Analysis and Investigation Unit (12 analysts) might raise some concerns for the assessment team in view of the many tasks entrusted to this Unit, which are in particular, as stated in the FIU Operating Rules, to receive reports STRs, collect and analyse information, refer the results to the Cassation Public Prosecutor, provide competent authorities with their requests for information in the context of ML/TF investigations, follow-up incoming and outgoing international cooperation requests with counterpart FIUs, and feedback from reporting entities as well as the tasks of strategic analysis.

### Box 3.5: The FIU Organisational Chart



233. The SIC receives STRs through a specialized information program (SEEDs), which allows receiving STRs from most of reporting entities, and this system is a secure and encrypted channel for exchanging information. While Laserfiche is used only for saving information.

234. The information program (I2) helps the FIU to trace financial transactions, suspects, and track property and proceeds based on financial and non-financial inputs obtained from reporting entities, especially in large and complex transactions and in the event of analysing a large amount of financial and non-financial data to get realistic and reasonable results and build network diagrams to connect the persons involved in each case.

### Operational Analysis

235. The onsite visit showed that the reports prepared by the FIU are good and include the results of the analysis it conducts, using financial information and other relevant information obtained from competent authorities, using its databases to determine the scope of criminal networks and trace suspicious assets, in addition to information it receives from financial institutions, reporting entities, supervisory and regulatory authorities, and foreign counterparts FIUs. This analysis is an integral part of the intelligence information that the FIU refers to law enforcement agencies spontaneously or upon request.

236. The number of reports referred by the FIU to the Cassation Public Prosecution during the years 2017-2021 were 430 reports regarding the ML crimes and 29 reports about TF cases. Moreover, 62% of ML cases and 59% of TF case were archived.

**Table 6.3.2: ML/TF cases referred by the FIU that were prosecuted/archived by the PP**

Details	2017		2018		2019		2020		2021		Total	
	ML	TF	ML	TF	ML	TF	ML	TF	ML	TF	ML	TF
<b>Referred Reports to PP</b>	113	8	103	4	105	7	62	3	47	7	430 <sup>7</sup>	29
<b>Archived reports by the PP after investigations</b>	72	2	68	1	69	4	28	3	29	7	266	17
<b>Percentage of archived cases by the PP after investigations</b>	64 %	25 %	66 %	25 %	65 %	58 %	45 %	100 %	61 %	100 %	62 %	59 %
<b>Investigated reports out of referred cases by the PP</b>	41	6	35	3	36	3	34	0	18	0	164	12
<b>Percentage of the investigated cases of the Referred STRs</b>	36 %	75 %	34 %	75 %	34 %	42 %	55 %	0%	39 %	0%	38 %	41 %

237. It should be noted that the disseminations of reports above are calculated by the PP based on the judicial files as follows:

<sup>7</sup> It should be noted that the FIU disseminations amounting to 430 reports led to initiating 282 ML investigations by the Cassation PP.

**Table 6.3.3: number of investigations/prosecutions generated from spontaneous STRs in ML/TF referred by the FIU**

	ML	TF
number of investigations generated from spontaneous STRs (459)	282	29
Number of prosecuted cases	106	12

238. These statistics indicate that the spontaneous dissemination of the FIU support, to an acceptable degree, the needs of the Public Prosecution in relation to identifying investigations related to money laundering and associated predicate offenses. The FIU has directly contributed to the Public Prosecution initiating 282 ML investigations out of a total of 914 investigations in the country for the period from 2017-2021, representing 31% (IO.7).

239. As for supporting referrals and analyses by the FIU to the needs of LEAs, it has become clear that they do not fully utilize the capabilities of the FIU possible in cases of money laundering and related predicate offenses, in a way that supports their operational needs, especially in complex cases potentially included in high-risk ML schemes.

240. The assessment team believes that it is not clear whether LEAs rely on financial intelligence information for use in money laundering and related predicate offences investigations to increase their enforcement activities, especially in complex cases within high-risk ML schemes. Interviews with relevant authorities have shown that financial information provided by the FIU is often used in investigations into predicate offences instead of ML, which explains the weakness of parallel financial investigations into predicate offences related to money laundering (see IO.7).

241. On the other hand, reports and referrals from the FIU strongly support the needs of the authorities responsible for combating terrorist financing, as the FIU has a specialized team to follow up the TF cases to support the operational needs of the relevant authorities. The table (6.3.4) below shows the added value of the FIU's referrals and analyses related to terrorist financing through their disseminations, which directly resulted in the opening of 29 investigations during the period 2017-2021, representing 8% of all investigations in the country, totalling 364 investigations, in addition to the other distributions made at the request and automatically in ongoing investigations by the relevant authorities.

**Table 6.3.4: distribution of investigations/prosecutions as per the STRs received by the FIU in TF cases during 2017-2021**

Details	2017	2018	2019	2020	2021	Total
TF STRs	10	5	11	4	7	37
Investigated STRs (TF)	8	4	7	3	7	29
Prosecuted cases out of referred cases (TF)	6	3	3	0	0	12
Percentage of Investigated cases out of referred cases (TF)	75%	75%	42%	0%	0%	41%
Archived cases after investigation	2	1	4	3	7	8
Percentage of Archived cases	25%	25%	58%	100%	100%	59%

242. The below two cases show preliminary indicators that reflect the efforts of the FIU in analysing received STRs, conducting the necessary investigation about them, and referring the information, results of analysis and other relevant information to the Cassation Public Prosecutor to take the necessary actions,

on the basis of which a verdict was issued against the defendants in two TF cases, assisting terrorist entities, and moving and transferring sums of money to these parties in order to finance their terrorist acts.

#### **Case Study 4: the SIC's support in the TF investigations.**

**STR:** In 2017, the FIU received an STR from a bank about a customer whose name was mentioned in some Lebanese newspapers that a money laundering network was arrested for the benefit of ISIS in a South American country.

**Analysis and Investigation:** The FIU initiated its investigations by obtaining from the reporting bank the available bank records, including the customer KYC form, copies of the supporting documents and statements of accounts belonging to the customer and any accounts linked to them directly or indirectly. It was found that cash deposits were made in the customer's account, which is the result of selling clothes abroad, according to the cash transactions form. The FIU expanded its investigations and circulated the name of the suspect to all banks, financial institutions and money transfer companies operating in Lebanon, in search of related bank accounts and transactions. Therefore, accounts for related persons were identified with a number of banks, all of which received cash deposits of amounts less than USD 10,000, and where withdrawn later in cash or by credit card. The money transfer company reported that the suspect made 521 transfers, totalling USD 1.7 million, during a period of 7 years, to 121 persons located in Lebanon or in countries in Europe and the United States of America. Also, the suspect's sister received 156 transfers amounting USD 516,000, during 5 years from her second brother in South America. It was also found through the operational analysis carried out by the FIU, that new persons and networks linked to the suspect and his brothers existed, due to the similarity of the transfers. Two counterpart FIUs were contacted in this regard.

**Measures Taken:** Based on the results of the analysis and investigation, the FIU decided to request all money transfer companies to refrain from carrying out any transactions in favour of or at the request of the names mentioned in the case, as well as freezing the accounts and transactions of the suspect, lifting banking secrecy from them by the judicial authorities, and referring the results of the audit to the Cassation Public Prosecutor for further investigation and providing information and documents to LEAs. During 2017, the Cassation Public Prosecutor decided to refer the defendant and his brothers to the government commissioner at the Military Court to prosecute them based on Clause 2 of Article 3 of Law 44/2015 and notify the FIU with a copy of this judgment.

In 2021, the suspect and his brothers were convicted of financing terrorism for laundering money to assist terrorist organizations and transferring and moving funds to these parties in order to finance their terrorist acts.

#### **Case Study 5: the FIU's support in the TF investigations.**

**STR:** The FIU received an STR from a local bank regarding three associated customers, whom the movement of their accounts reflected a similar and unusual pattern represented by cash deposits followed by cash withdrawals using an ATM in a country neighbouring a conflict zone with ISIS. After the bank inquired about this, it found out that the suspects had made cash withdrawals abroad to avoid traveling with cash. The bank requested to stop this activity and provide additional supporting documents justifying the cash deposits, but the customers failed to provide any additional documents and stopped using the



accounts.

**Analysis and Investigation:** The FIU started its investigations by circulating the names of the suspects to all banks and financial institutions operating in Lebanon, searching for any bank accounts belonging to them and any executed transactions. Two banks reported that they had accounts belonging to suspects, and a money transfer company reported that they had executed some transfers through them. Analysing the statements of accounts showed cash deposits and withdrawals through ATMs abroad, as well as other transactions.

**Measures Taken:** The FIU decided to provide a counterpart FIU with the available information and to inquire about the suspects. It also decided to freeze the accounts of the suspects, lift banking secrecy by the judicial authorities, and referring the results of the audit to the Cassation Public Prosecutor for further investigation and providing information and documents to LEAs, since according to STRs and studies on cases issued by international organizations, such transactions are among the indicators of terrorist financing.

The Cassation Public Prosecutor decided to refer the defendants to the government commissioner at the Military Court to prosecute them based on Clause 2 of Article 3 of Law 44/2015 and notify the FIU with a copy of this judgment.

Later, the suspects were convicted of financing terrorism for conducting financial transactions in order to conceal the source of funds and then transfer these amounts to finance and support persons involved in terrorist acts.

## Strategic Analysis

243. The FIU also conducts high-quality strategic analyses by using all information available in its database or obtained from other entities, in order to determine ML/TF trends and patterns. Some of the results of the strategic analysis have been published in the annual reports issued by the FIU, and the latter includes proven cases, indicators, trends and patterns related to ML/TF transactions. The results of strategic analyses (14 including 4 ML, 3 TF and 7 Cybercrime) are also presented in workshops and training courses conducted by the FIU or sent to the relevant reporting entities and LEAs. Some examples of strategic analyses carried out by the FIU include reports related to the analysis of trends and patterns related to TF crimes.

## Cooperation and exchange of information/financial intelligence

244. There is good local cooperation and coordination for the AML/CFT purposes. The FIU plays a key role in cooperation and information exchange with LEAs and the competent judicial authorities. The AML National Committee includes representatives from all relevant authorities and contribute to activating domestic cooperation, where it includes representatives from the following authorities: (Cassation Public Prosecution, Banking Control Commission, Customs, Directorate of Internal Security Forces, Ministry of Justice, Ministry of Finance, Ministry of Interior and Municipalities, Ministry of Foreign Affairs and Emigrants, Ministry of Economy and Trade, and Beirut Stock Exchange).

245. The ML/TF key trends and patterns resulting from the strategic analysis conducted by the FIU are disseminated to official entities in bilateral meetings, national committees, and coordination meetings. As for the private sector, this is done at the end of the supervisory field visit or through training courses, workshops, bilateral meetings, and other events.

246. The -SIC has also participated during the period of 2017-2021 in joint forums and workshops that included representatives from both the public and private sectors, including banks, finance companies, financial brokerage companies, exchange companies, money transfer companies, lawyers, notaries, accredited accounting experts, and internal security forces. The discussions covered a range of topics related to compliance and auditing requirements, risk and measures to combat illegal financing activities for compliance and auditing employees, feedback on STRs, and risk mitigation measures.
247. On the other hand, the National Committee for Combating Terrorism Financing includes a number of specialized entities in the fight against terrorism and its financing that cooperate with each other to implement targeted financial sanctions mechanisms. It is also worth noting the participation and cooperation of the members of these two committees in the 2019 NRA and its update for 2022.
248. Domestically, the FIU exchanges information with the concerned authorities and gives priority to requests for assistance according to the order of risks. Moreover, the FIU exchanges information with its counterpart FIUs abroad through Egmont Secure Web, and the EG Charter and Principles for Information Exchange are observed.
249. The SIC uses the information program SEEDS, which allows the exchange of information with most of the concerned authorities and takes all the required measures to maintain the confidentiality of the data and information exchanged with the parties using the program for reporting. The system is equipped with all means that guarantee the safety of information (anti-hacking software, Firewalls). The assessment team found, through meetings with the reporting entities and the private sector, that some entities do not have sufficient awareness to use this system, such as dealers of jewel and gold, notaries.
250. The SIC also has procedures to ensure the security and confidentiality of documents and information, including case handling, storage, referral, and protection of information as well as how to access the information and their rights. These measures are to separate servers from the internet, and to adopt encryption for electronic communications with external parties.
251. All SIC employees are subject to the obligation of confidentiality according to Article 6 of Law No. 44/2015. In this regard, the oath is taken before the head of the FIU, and a document of undertaking to maintain confidentiality is signed by them. Employees are required to maintain high professional standards, including those relating to confidentiality, and to a high degree of integrity.
252. It should be noted that SIC headquarters is located in a floor of the Banque du Liban, and access to it is limited and secured and it is not possible to enter the headquarters of the FIU without using the fingerprints, and the building is monitored by cameras from the outside and inside. Moreover, there are rules for eligibility to access information, documents, and IT programs inside the FIU according to the need and the powers granted. Calls are recorded, and there are electronic control systems to monitor entry and exit from the headquarters and offices.
253. The SIC has an electronic source of information (server) in an alternative location and special procedures to ensure the continuity of work in case of disasters. Also, all employees of the FIU are familiar with the security and protection procedures in force and to restore work from the alternative location, and all of them have a sufficient understanding of these procedures.

### Overall conclusion on IO.6:

254. The FIU has a good number of resources and efforts in developing its capabilities to receive, analyse and use financial intelligence. The FIU has also demonstrated strong participation and coordination among the relevant authorities for the exchange of intelligence information.
255. Competent authorities use financial and non-financial information in investigations to collect evidence and trace proceeds related to terrorist financing, and money laundering, associated predicate offences to a lesser degree.
256. Despite the risk profile of the country, the STRs submitted by the DNFBPs were weak, which prevents providing sufficient information to help the FIU conducting its tasks as required.
257. The reports and referrals of the FIU largely support the operational needs of the competent authorities, and satisfactorily the operational needs of the PP and to a limited extent the needs of the LEAs for the purposes of combating ML and associated predicate offences, and in particular the tax and customs crimes investigations.
258. The FIU also produces useful and detailed quality strategic analysis and distributes it to a wide range of competent authorities.
259. The cooperation between the competent authorities for the exchange of information and financial intelligence is good, and there are few obstacles to this cooperation mainly represented in the passage of requests for assistance related to ML/TF crimes from LEAs or from any other local authorities through the Cassation Public Prosecutor. This may constitute a procedural constraint for obtaining the necessary information at the required speed, which requires reviewing the applicable procedures to minimize the timeframes.
260. **Therefore, Lebanon is rated as having a “Moderate” level of effectiveness for IO.6.**

### Immediate Outcome 7 (ML investigation and prosecution): ML identification and investigation

261. The assessment team based its conclusions on several case studies submitted by the authorities, available statistics related to ML investigations, discussions with representatives of the Cassation Public Prosecution, LEAs such as the Internal Security Forces and Customs officials.
262. Lebanon identifies ML cases mainly through investigations conducted by LEAs and the FIU reports referred to the Cassation Public Prosecution which supervises ML-related investigations and is headed by the Cassation Public Prosecutor and their assistants from the Public Prosecution judges and investigative judges. The LEAs that were given the capacity of judicial police such as the Directorate of Internal Security Forces, and the General Directorate of Customs (customs police) undertake initial identification and investigation of suspected ML activity and associated predicate offenses (see Immediate Outcome 6).

## ML Identification

263. The Lebanese authorities follow three main approaches to identify and detect ML crimes:
264. The first approach: Through LEAs that conduct parallel financial investigations, either on their own when there is ML suspicion during investigations related to the predicate offence, or upon the directive of the Public Prosecution, which allows them to request assistance from the FIU as the only entity authorized by law to access accounts and other transactions at banks and non-banking financial institutions, collect information from various local entities, communicate with their counterparts abroad, and send the file to the Public Prosecution upon completion of the investigation. The assessment team believes that lifting banking secrecy measures has represented an obstacle to LEAs in identifying ML cases, given that this path is primarily focused on the FIU to detect ML crimes.
265. The Second approach: After receiving STRs from reporting entities regarding suspected money laundering, the FIU conducts financial analysis and auditing. Once it confirms the seriousness of the suspicion, it submits the documents to the Cassation Public Prosecutor to carry out the necessary investigations in accordance with the law. The FIU disseminated 430 suspicious reports to the Cassation Public Prosecutor, representing 282 cases in which investigations were initiated, accounting for 31% of the total number of ML investigations in the country, which amounted to 914 from 2017 to 2021 (see IO.6).
266. The Third Approach: If information is received by the relevant authorities in Lebanon regarding suspicious transactions from counterpart agencies abroad, this is done through official and unofficial channels related to international police cooperation through Interpol and the General Secretariat of the Arab Interior Ministers Council or through the anti- narcotics and anti – money laundering division in the general directorate of Customs or through the Ministry of Finance as the competent authority authorized to exchange information for tax purposes with counterparts. (See IO.2).
267. The table 7.1.1 below shows the share of each competent authority in pursuing ML cases for the period 2017-2021, as it was clear that the Internal Security Forces has the biggest share in ML investigations (61%) followed by the FIU (31%), the General Directorate of Customs (6.4%) and General Directorate of Taxes (1.6%).

**Table 7.1.1: identifying number of ML investigation as per the source of competent authorities (2017-2021)**

	2017	2018	2019	2020	2021	Total	%
Internal Security Forces	164	107	112	98	76	557	61%
Customs	5	7	23	18	6	59	6.4%
Taxes	3	5	3	1	4	16	1.6%
FIU	95	70	53	31	33	282	31%
Total	267	189	191	148	119	914	100%

268. The Public Prosecution and LEAs specialized in ML investigations did not provide a proof that they depend on an effective system to identify and prioritize these crimes, particularly those related to high-risk or complex local or foreign crimes that generate proceeds. It is also unclear whether the Customs and

Tax administrations are capable of identifying ML cases arising from commercial, customs, and tax crimes, given the risk context in Lebanon, compared to the number of investigations into predicate offences and the corresponding investigations into money laundering for the period 2017-2021 (see Table 7.1.3 below) .

### ML investigations

269. The LEAs has indirect access to the necessary databases such as bank accounts and other financial information included in the banking secrecy (see IO. 6) Those investigations are conducted by these authorities supervised by the Cassation Public Prosecution. Preliminary investigations are usually conducted the judicial police agents of the Internal Security at the Ministry of Interior and the rest of the LEAs such as the General Directorate of the General Security, and the Directorate of General Customs (Customs Police). In parallel, the FIU responds to the requests for assistance and collects financial and other information analyses it and disseminates it for investigation purposes.
270. Lebanon provided general statistics about the number of predicate offence investigations from 2017 to 2021, whereas they reached 34,610 investigations and the authorities reported that among them, there were 3,734 proceeds-generating predicate offences, distributed according to the table below into four types of crimes, which are illegal drug trafficking smuggling, bribery, corruption and tax evasion, while the remaining part of the predicate offenses, amounting to 30,876, are mostly predicate offenses that do not generate criminal proceeds:

**Table 7.2.1: Number of predicate offence investigations from 2017 to 2021**

Investigations into predicate offenses	2017	2018	2019	2020	2021	Total
Illicit drugs trafficking	439	293	309	251	290	1582
Smuggling and counterfeiting of goods	137	201	362	230	336	1266
abuse of office, bribe, corruption	97	111	140	108	172	628
Tax evasion	42	37	93	53	33	258
Theft, forgery, murder, fraud, electronic crimes, embezzlement of private funds and other crimes	5591	6168	6200	6574	6343	30876
<b>Total</b>	<b>6306</b>	<b>6810</b>	<b>7104</b>	<b>7216</b>	<b>7174</b>	<b>34610</b>

271. Lebanon also provided statistic about the ML investigations between 2017 and 2021 which amounted to 632 investigations.

**Table 7.2.2: number of LEAs investigations in predicate offences compared to ML investigations during 2017-2021**

PO/ML investigations	2017			2018			2019			2020			2021			Total		
	P O	M L	%	P O	M L	%	P O	M L	%	P O	M L	%	P O	M L	%	PO	M L	%
Illicit drugs trafficki ng	43 9	24	5 %	29 3	13	4 %	30 9	38	12 %	25 1	25	10 %	29 0	17	6 %	158 2	11 7	7 %
Smuggli	13	5	4	20	7	3	36	23	6	23	18	8	33	6	2	126	59	5

ng and counterfeiting of goods	7		%	1		%	2		%	0		%	6		%	6		%
abuse of office, bribe, corruption	97	2	2%	111	2	2%	140	17	12%	108	14	13%	172	12	7%	628	47	7%
Tax evasion	42	3	7%	37	5	14%	93	3	3%	53	1	2%	33	4	12%	258	16	6%
Theft, forgery, murder, fraud, electronic crimes, embezzlement of private funds and other crimes	5591	138	2%	6168	92	1%	6200	57	1%	6574	59	1%	6343	74	1%	30876	393	1%
Total	6306	172	3%	6810	119	2%	7104	138	2%	7216	117	2%	7174	86	1%	34610	632	2%

272. According to the table 7.2.2, the percentage of ML investigations was weak compared to the number of associated predicate offences such as corruption and drug trafficking (7% of the total predicate offences) and tax evasion (6% of the total predicate offences) Smuggling and counterfeiting of goods (5% of the total predicate offences). In general, the results of money laundering investigations raise questions for the assessment team, stating that the most important part of these 393 investigations, accounting for 62% of the total money laundering investigations (632 investigations), was, on the one hand, stemming from the predicate offences (which most of them were considered by the Lebanese authorities not generating criminal proceeds), and on the other hand, they are not commensurate with the threats in the country, the risk context , and the national anti-money laundering policies.

273. Accordingly, the assessment team finds that LEAs in Lebanon do not target investigations of the most serious crimes and do not investigate cases of money laundering on a large scale, and they are still in the stage of developing their expertise and the ability of their systems to identify parallel financial investigations and target money laundering crimes in line with the risk structure. . and they mainly focus on investigating predicate offences instead of ML. Moreover, when starting parallel financial investigations, they focus primarily on identifying the assets used in committing the crime for the purposes of recovering them instead of investigations into money laundering, in addition to the number of parallel financial investigations, which amounted to 350 investigations, on the one hand, did not cover the number of investigations in predicate offences (which is supposed to be conducted alongside a traditional criminal investigation or within its context on money laundering), and on the other hand, it did not cover, the minimum number of investigations in money laundering crimes, which amounted to 632

investigations, which indicates the weakness of the investigation authorities in identifying and targeting crimes associated with money laundering schemes and the use of financial intelligence outputs. .

274. The competent authorities in Lebanon do not conduct joint investigations regarding the predicate offences or ML crimes. The competent authorities attributed this to that the cassation public prosecution is the responsible authority to distribute cases to offices as per their respective mandate (Office of Combating Financial Crimes and Money Laundering, Central Narcotics Control Office, Anti-Cybercrime Unit). All of these offices are affiliated to the General Directorate of internal Security Forces (one body), therefore, the cooperation exists between them.
275. On the other hand, the assessment team sees that the joint investigation system in ML cases has a wider scope, allowing the use of investigation units with multiple specialties (General Directorate of internal Security Forces, Customs Directorate, and Tax Directorate), or allows, for example, postponement or avoidance of arrest or seizure of funds in order to identify individuals involved in major crimes that generate proceeds such as corruption, illicit drug trafficking, customs smuggling, and tax evasion.

### **Investigative Authorities Training**

276. Except for the Department of Investigations at the National Police Forces, the onsite visit showed that the competent investigations and prosecution authorities at the Cassation Public Prosecution do not have sufficient financial and technical resources to investigate ML cases, as well as the lack of jurisdiction which may prevent the effective ML investigations. The situation was similar about the investigative authorities at the Directorates of Taxes and Customs.
277. Given the context of ML risks in Lebanon, especially corruption crimes, smuggling, tax evasion and drugs, there is concern about financial and technical resources and jurisdiction, as the number of investigative judges appears to be insufficient in comparison to the number and complexity of cases and the context of risks in the country.
278. Regarding the training, the statistics provided by the competent authorities showed that the competent investigative authorities (the Cassation Public Prosecution) did not receive any training courses except from the beginning of 2019, which requires continuing the same approach to increase the investigative capabilities in the field of ML investigations and the new financial crimes associated with them.

### **Consistency of ML investigations and prosecutions with threats and risk profile**

279. The ML investigations and prosecutions followed by the Lebanese authorities are largely inconsistent with the threats and the risk profile especially with regard to corruption crimes, smuggling, tax evasion, drug trafficking crimes and human trafficking crimes. (See IO. 1)
280. The criminal justice system and institutional framework in Lebanon is largely focused on prosecuting and convicting predicate offences, given the lack of resources and specialization, as well as the lack of a mechanism to manage and target suspected ML cases according to a risk-based approach, to guarantee prioritizing and following up high risk ML cases identified by the NRA.

## Consistency of investigations with risk profile

281. Based on the identified key risks and priorities, and the scoping note, the assessment team increasingly focused on how Lebanon identifies corruption, smuggling, tax evasion, drugs and human trafficking crimes. Also, the assessment team considered the way Lebanon follows to detect the complex ML schemes.
282. During the onsite visit, the competent authorities responsible for ML investigations did not identify significant cases involving investigations in complex ML schemes or that relied on laundering through financial institutions, cash, or money transfer companies, or trade-based ML through the notaries' sector as areas identified by Lebanon as high risk.

### Case 6: about LEAs investigations through referring to notaries.

In December 2019, the Public Prosecution carried out an ML investigation and obtained information from a notary public regarding suspicious real estate sales transactions. The investigation relied on:

- Analysis of real estate transactions carried out through sale contracts or agencies obtained from the notary public.
- Financial analysis of bank accounts of the suspects
- Properties owned by them according to the real estate registry.

The FIU also reported a STR received from a bank linked to clients who made cash deposits, claiming that they were proceeds from real estate sales and promising to provide supporting documents. The report distributed by the commission included financial and banking information about the suspects.

Based on this, the Public Prosecutor decided to prosecute the suspects on charges of money laundering due to the link between real estate sales and drug trafficking, and the case is still under consideration.

## Consistency of prosecutions with risk profile

283. The Lebanese authorities provided statistic about prosecuting 402 cases of 914 ML investigations (see table below No. 7.1.4) all of which were referred to the court. With regard to the total number of investigations that were prosecuted, only 6 ML convictions were issued for financial corruption and money laundering, i.e. with a rate of 1.5% which is weak.

**Table 7.3.1: number of ML prosecutions compared to investigations during 2017-2021**

Details	Investigations	Prosecutions
Number of ML investigations and prosecutions (LEAs)	632	296
Number of ML investigations and prosecutions (FIU)	282	106
Total	914	402

284. On the other hand, it is noted that investigations by the Cassation Public Prosecutor were largely inconsistent during the prosecution or trial stages with the list of investigations into major predicate offences. For example, statistics on ML investigations indicate that crimes of illicit trafficking in drugs, corruption, forgery, fraud, cybercrimes, embezzlement, tax crimes, and customs crimes are among the



recurring crimes in the files of the FIU and investigations, while their proportions have not been reflected in the results of allegations and convictions in ML cases.

285. Therefore, the statistics provided by the Lebanese authorities shows the inconsistency in the results of the prosecution, in which only 6 ML convictions were issued from 2017 to 2021 of financial corruption in light of total absence of prosecutions of higher-risk crimes identified by the NRA about drug trafficking, customs smuggling, goods counterfeiting and tax evasion.

#### **Types of ML cases pursued.**

286. Based on the interviews conducted during the onsite visit, it was clear that the competent authorities focus mainly on local self-money laundering related to the persons involved in committing the predicate offence, as it is the prevailing pattern according to the estimates of the Lebanese authorities, although this differs, according to the assessment team's opinion, with the reality and context of the country. Upon reviewing some cases presented by the Lebanese authorities, it was found that predicate offences are also committed in an organized manner within the framework of criminal groups, especially in drug trafficking crimes that are based on the local and foreign production and promotion of specific types (such as Captagon and Indian cannabis).

287. Interviews with the Public Prosecution Office of the Court of Cassation during the onsite visit showed that there were cases that were ML investigated committed by a third party who was not involved in the predicate offence, and the proceeds of which were laundered abroad. Also few case studies showed that investigation in the laundering of criminal proceeds arising from predicate offences are committed abroad.

#### **Case 7: investigations of laundry of proceeds generated from predicate offences committed abroad.**

In January 2017, the Cassation Public Prosecution began investigating a ML case involving a person who was born and lived in Lebanon for a period and holds the citizenship of a European and Arab country. Information was available about his arrest for drug trafficking in a European country where he resided and held its citizenship. As a result, the Cassation Public Prosecution collected the necessary information and sent a request for assistance to the FIU, requesting information about the suspect's possession of bank accounts or financial transactions related to the case. It turned out that the suspect had a bank account in one of the Lebanese banks, so the FIU froze the account and provided the Cassation Public Prosecution with a report on the analysis of the transactions that took place on the account.

The Cassation Public Prosecution used the information obtained to support the results of its investigation, which showed that the suspect had received cash deposits and bank transfers from the European country where the predicate offence (drug trafficking) was committed. After suspicions arose that the deposited and transferred funds may have been the result of drug trafficking abroad, the Cassation Public Prosecutor issued a decision to prosecute the accused person and anyone associated with him for the ML crime. The case is still under trial.

288. According to the Lebanese AML/CFT law in Lebanon allowing for prosecuting ML case if the conviction or accusing of the predicate offence cannot be secured, the Lebanese authorities provided a

case study for a stand-alone ML in which the competent authorities successfully investigated, prosecuted and convicted the person in ML crime although no conviction in the predicate offence was secured.

#### **Case 8 about stand-alone ML prosecutions and trial**

In May 2017, the Public Prosecution received a report from the FIU containing a financial analysis carried out following a STR received by one of the banks regarding a client.

According to the details of the financial analysis report referred by the FIU, bank became suspicious after noticing a significant change in the client's account activity that did not correspond to the information declared in the "Know Your Customer" form. Additionally, the client failed to provide the necessary supporting documents to justify the source of the deposited funds in the account. The bank then submitted STR to the FIU. The analysis report also revealed a study of the client's account activity with other banks, where it was found that the deposited amounts in the account were mostly circular and of the US hundred-dollar denomination, with consecutive serial numbers. Therefore, the FIU froze the suspect's accounts in the banks and lifted bank secrecy on them.

As the original crime could not be determined, and since the accused had concealed the true source of the illicit funds and provided a false justification for that source, the public prosecutor decided to pursue him for money laundering.

After the prosecution was referred to the court, it decided in July 2020 to convict the defendant of money laundering according to Articles 1 and 2 of the AML/CFT Law, sentencing him to five years in prison and a fine of LBP five hundred million.

289. In general, it is inferred that the prevailing pattern of ML in Lebanon is self-laundering, as only six cases have resulted in convictions, five of which were related to self-laundering and one to stand-alone money laundering. Although the series of criminal investigations, prosecutions, and trials in money laundering focus on the predicate offences, as stated above, the assessment team believes that there are positive indicators that could increase the pace of pursuing various types of ML cases, such as the predicate offences committed abroad, money laundering by third parties, and stand-alone money laundering, especially if the relevant authorities' capabilities are enhanced in this regard.

#### **Effectiveness, proportionality, and dissuasiveness of sanctions**

290. The number of ML convictions during the period from 2017 to 2021 did not exceed six, which is a very weak number, and not commensurate with the threats and the ML risk profile in the country. Therefore, Lebanon still needs to develop capacities ML offenders' convictions due to the scarcity of their number (two judgments during the year 2017, one judgment in 2019, one judgment during 2020 and two judgments during 2021), compared to the number of cases in which the prosecution took place. The Lebanese authorities attributed the weak number of convictions to the long period of time to issue sentences, because all defendants resort to challenging sentences in all investigation and trial stages, up to convictions. In addition to other factors that contributed to the accumulation of cases and the delay in the trials in many ML prosecutions. For example, the economic and financial crisis that began in 2019 and the repeated strikes in many sectors as a result of the crisis and intermittent work cycles due to the prevailing conditions in Lebanon and finally the impact of the COVID-19 pandemic that affected most

of the official departments in the country as well as the operational difficulties involved.

**Table No. 7.4.2 Number of ML convictions and the imposed penalties for the years 2017-2021**

Year	Crimes	Number of ML verdicts	ML penalty
2021	Fraud/ML	Conviction of a natural person	10 years imprisonment Fine of LBP 22 million Confiscation of movables and immovable properties inside and outside Lebanon of the accused - order the defendant to pay USD 15,000 or its equivalent in LBP to the plaintiff, and pay LBP 20 million as a compensation for failure and damage, and order the defendant to pay all expenses
	Illicit drug trafficking /ML	-Conviction of 4 natural persons	- Life penal servitude with a fine of LBP 300 million - Imprisonment of 4 years with servitude and a fine of LBP 100 million - Imprisonment of 3 years with servitude and a fine of LBP 10 million
2020	Standalone ML	Conviction of 3 natural persons	Imprisonment for 5 years Fines of LBP 500 million for each
2019	Fraud/ML	Conviction of 4 natural persons Conviction of a legal person	Imprisonment for 3 years Fines of LBP 180 million Confiscation of USD 1 million
2017	Embezzlement of public funds/ Corruption/ML	Conviction of a legal person Conviction of 4 natural persons	5 years of penal servitude Fine of LBP 50 million Order the convicted person to pay LBP 1.6 billion 2 years of penal servitude Fine of LBP 10 million Order the convicted person to pay LBP 3.2 billion
	Fraud/embezzlement Funds	Conviction of 5 natural persons	7 years of penal servitude Fine of LBP 150 million for each Order the convicted person to pay LBP 8 billion

291. Upon analysing the 6 convictions issued by Lebanese courts in ML crimes and the imposed penalties below that the average imprisonment sentence is 4 years which included 21 natural persons and 2 legal persons with imposing fines of LBP 10 million to 3.2 billion.

**Table 7.4.3 penalties imposed in ML convictions in Lebanon during 2017-2021**

Year	Number of ML-convicted natural persons	Number of ML-convicted legal persons	Imprisonment average (years)
2017	9	1	6 considering the predicate offence
2019	4	1	3
2020	3	-	5
2021	5	-	10 (total)
Total	21	2	4

292. The ML-imposed sanctions in terms of fines for ML crime are considered somewhat dissuasive against legal and natural persons, but the assessment team believes that they are not effective, proportionate, or not dissuasive due to the nature of the penalty, which was categorized as misdemeanours and not felonies, for other legal considerations such as the statute of limitations for public prosecution, the statute of limitations for punishment, and the period of reputation recovery, which is longer in felonies than in misdemeanours, as well as repetition. What determines whether the offense is felony or misdemeanour is the amount and nature of the penalty. If the penalty is temporary or permanent servitude, temporary or permanent detention, or execution, the crime is criminal, while if the penalty is imprisonment, the crime is a misdemeanour.

293. The Lebanese Penal Code also imposes criminal penalties for committing other financial crimes, such as embezzlement and abuse of office (Article 360), bribery (Article 352), theft (Articles 638, 639, 640, 641), forcing signature and intimidation (Article 649), currency forgery (Article 440), and criminal forgery (Article 456). Moreover, it is unlikely that the predicate offence is criminal, and the money laundering offense is a misdemeanour, which renders the penal system ineffective in disusing ML offenders, taking into account all the factors mentioned.

### Use of alternative measures

294. Lebanon uses alternative measures in the cases involving ML investigation when an ML conviction could not be made for justified reasons. The authorities resort to alternative measures under legal provisions applicable in Lebanon. These measures include prosecuting the accused by the Public Prosecutor in the predicate or other offences. In case of legal persons, the tax evasion can be used and in some cases the suspension of the case pending completing evidence. The Lebanese authorities resort to other measures such as compulsory deportation for foreign violators.

### Overall conclusion on IO.7:

295. Lebanon has various bodies concerned with identifying ML crimes and supervised by the Cassation Public Prosecution, based on the preliminary investigations submitted by the FIU and the judicial police agents of LEAs. The ML investigations and prosecutions pursued by the Lebanese authorities are largely inconsistent with the risk profile, particularly with regard to customs smuggling and tax evasion.

296. The number of ML investigations and prosecutions is very low compared to the number of investigations into the predicate offences, especially the most serious ones according to the country risk profile, and this

is due to the fact that the authorities do not conduct the parallel financial investigations properly in most of the predicate offences that generate large financial proceeds to identify possible ML operations, which explains the reason for the low ML convictions.

297. The ML prevailing pattern in Lebanon is self-laundering, although there are little number of stand-alone ML that ended up with conviction (one conviction for 5 years) or investigations in third party ML which did not end with conviction. This might be mainly because the authorities do not initiate their investigations into money laundering except in the presence of a predicate offence. The competent authorities still need to develop capacities in the field of convicting ML perpetrators due to the weak number of convictions and the penalties imposed for money laundering were not effective, proportionate or dissuasive due to the nature of the punishment that was in the category of misdemeanours and not felonies.

298. **Therefore, Lebanon is rated as having a “Low” level of effectiveness for IO.7**

### **Immediate Outcome 8 (Confiscation)**

299. Confiscation is a supplementary penalty in case of ML/TF conviction. The AML/CFT Law No. 44 of 2015 allows for confiscation without conviction.

300. Confiscation-related investigations are conducted by the Cassation Public Prosecution, LEAs, and the SIC using financial intelligence and other information to trace property and criminal proceeds, to identify and freeze funds derived directly from predicate and ML offenses.

### **Confiscation of proceeds, instrumentalities, and property of equivalent value as a policy objective**

301. During the year 2021, Lebanon created a national fund to manage and invest funds recovered or under recovery in relation to crimes and proceeds, for the stage of freezing or seizure, but this fund did not start its tasks until the date of the onsite visit. However, the statistics and discussions with competent authorities showed that Lebanon does not have a policy for identifying, freezing, and confiscating proceeds on a regular basis, such as having guidelines for criminal procedures related to ML crimes that establish clear methods for managing and disposing of funds that may be confiscated, or coordinating and responding to requests of international assistance regarding the confiscation and identification of assets. There is no information about confiscating properties of an equivalent value.

302. The Cassation Public Prosecution has not developed a strategy to prioritize investigations to monitor funds, and to take action to identify and freeze illegal assets that may be subject to confiscation. As most ML investigations are initiated by the FIU and are not the result of parallel financial investigations, which means that the investigative authorities are not proactive in tracking the illicit assets resulting from the investigation of predicate offences. This is mainly due to the lack of capacity and experience to conduct financial investigations by the competent authorities (see IO. 7).

303. No public policy framework or specific tools to prioritise the recovery of asset held or sent abroad, despite the high risk of asset transfers from domestic crimes out of the country.

304. On the other hand, and during the onsite visit, the Lebanese authorities indicated that they are working to activate the law establishing the National Fund for the management and investment of recovered or under-recovery funds related to crimes and proceeds for the purpose of freezing or seizure. Also, the Cassation Public Prosecution confirmed that it is working to develop guidelines on international asset tracking and recovery, which are good steps if implemented to prioritize recovering seized assets or those moved abroad.

**Confiscation of proceeds from foreign and domestic predicates, and proceeds located abroad.**

305. The competent authorities seek to identify and trace assets during investigations and field inspections, and the judicial police agents from the investigative authorities collect evidence that enable the identification and freezing of funds for the purpose of confiscation. To this end, they have access to several sources that provide information about suspects, such as real estate, bank accounts, vehicles, businesses and other associated assets. The FIU uses its own domestic and foreign information sources and capabilities to collect and analyse financial intelligence to support relevant LEAs investigations. The internal procedures of the FIU, prior to initiating these actions, especially the lifting of banking secrecy, require the Cassation Public Prosecution's approval of the requests of LEAs, and then sending this information to the Attorney General's Office for use in the prosecution for the purpose of confiscation, which may affect the efforts of the competent authorities to trace and recover illegal proceeds in timely manner, considering the procedures of banking secrecy.

306. The authorities provided statistics that include frozen amounts of USD 40.4 million associated to portfolio of financial instruments accounts. The table below shows the total of frozen bank accounts in USD amounting to 61,267,941 during 2017-2021. However, no precise statistic about proceeds seizure were provided as per predicate offence for vehicles and real estate properties.

**Table 8.2.1: Value of confiscated criminal proceeds (in USD)**

<b>Crime</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Corruption	4720485	9914439	72304	7579472	2026898	23593598
Drug trafficking	136948	6266075	1385560	473418	7824336	16086337
Embezzlement of private funds	5799440	2001735	307376	19142	0	8127693
Forgery	261300	54216	8410886	0	0	8726402
TF	12975	93268	1525057	0	0	1631300
Terrorism	4831	1750	21841	22442	0	50864
Miscellaneous	937771	1626682	167800	161291	158203	3051747

**Table 8.2.2: Number of properties seized /non-disposed from 2017 to 2021**

Number of properties seized /non-disposed					
2017	2018	2019	2020	2021	Total
1	143	227	73	124	568

**Table No. 8.2.3: Number of vehicles seized /non-disposed from 2017 to 2021**

Number of vehicles seized /non-disposed					
2017	2018	2019	2020	2021	Total
13	0	131	15	59	218

307. The above statistics indicate that the Lebanese judicial authorities have been unable to convert the precautionary measures taken regarding freezing and seizure into final confiscation for the purpose of depriving criminals of their proceeds. Out of 6 convictions issued in ML cases, confiscation was only ordered in one judgment in 2021. Therefore, it is still unclear how the competent authorities decide and initiate a financial investigation for the purpose of confiscation.

308. The assessment team believes that the achieved number of confiscations in ML cases (only one judgment with confiscation) is very low and does not correspond to the large number of predicate offences investigated and their corresponding proceeds. This may be due to the approach adopted by the competent authorities when targeting proceeds and assets, which mostly focuses on the money seized during the investigation of the predicate offence, without seeking to identify and trace all criminal proceeds due to the lack of regular parallel financial investigation in most high-risk predicate offence, as well as the excessively lengthy judicial procedures which hinder the confiscation of criminal proceeds and assets of equivalent value. (See IO. 7).

309. In general, the table below shows the total of local criminal proceeds that were confiscated and amounting to USD 781 million.

Crimes	2017	2018	2019	2020	2021	Total
Illegal drugs Dealing	107660179	92178260	47269803	44314391	317135980	608558613
Smuggling	4805335	29101662	5861854	6185550	89688848	135643249
counterfeiting of goods	835324	27063602	417068	238530	6240339	34794863
Illegal Arms Dealing	758100	584750	591175	275225	159625	2395875

310. The above table shows that some of the criminal cases in which confiscation was applied did not appear in the ML investigations and prosecutions, such as illegal arms trafficking, in addition to the disproportionate value of the confiscated criminal proceeds with the investigations conducted in crimes of corruption, electronic fraud and embezzlement of private funds.

311. Although the tax evasion is classified of high risk crimes, the assessment team could not verify the extent to which Lebanon benefits from its tax system to recover tax evasion proceeds.
312. The authorities conducted some investigations and seized and confiscated proceeds suspected of being proceeds of domestic predicate offences. The below case studies shed light on some examples:

**Case study 9: about seizing and confiscating assets in corruption case**

The FIU received two STRs from two banks about two customers' accounts (one of whom is a public employee). The bank records were obtained, and the account transactions was analysed. Suspicions increased, as it was found that the two reported clients had banking operations and transactions with other persons, including deposits transferred to accounts abroad that did not match the information available in the KYC form.

The FIU circulated all names to all banks and financial institutions operating in Lebanon and identified additional related accounts and transactions and took a decision to freeze them and to place a non-disposition order on real estate after it was found that the sources of funds deposited in the accounts linked to the public official are from a government institution.

The FIU also communicated with a foreign FIU about this case to freeze the balances resulted from transfers from Lebanon. As a result of the cooperation between the FIU and the judicial authorities, a judicial sentence was issued in Lebanon convicting them of money laundering and confiscating the funds frozen in Lebanese banks (equivalent to about USD 888,000) and abroad and recovering them (about USD 2.8 million). Moreover, a letters rogatory was issued to recover the abroad frozen amounts.

**Case study 10 about seizing and confiscating assets in drugs trafficking case**

On 7/4/2022, the Central Narcotics Control Office at the Ministry of Interior sent a request for assistance to the SIC through the Cassation Public Prosecution after arresting a person for the offense of drug trafficking who possessed a quantity of cocaine and cash in different currencies amounting to a total of LBP 13, 010, 909,770, equivalent to USD 8.5 million.

As a result, a conviction sentence against the accounts' holder was issued for money laundering and seizing the balances in the bank accounts for the favour of Lebanon.

313. With regard to - asset recovery requests from requesting countries, the table below shows statistics provided for the years 2017-2021 reflect a good commitment by the Lebanese authorities regarding requests for asset recovery through the amounts of criminal proceeds that have been seized and confiscated using multiple channels, including mutual legal assistance, and other forms of international cooperation, Including INTERPOL and through the cooperation of the FIUs within the Egmont Group. The Lebanese authorities confiscated funds deposited in bank accounts and returned them to the requesting countries on three occasions, with a total amount of USD 43,402,037.

**Table No. 8.2.5: the value of assets recovered during the period from 2017 to 2021**

Crimes	2017	2018	2019	2020	2021	Total
Corruption	-	502037	-	-	-	502037



Fraud	-	-	-	-	2500000	2500000
Fraud and exploiting special information	-	-	-	-	40400000	40400000

314. The following is a case study about responding to an MLA request for returning assets.

**Case study 11 about responding to an MLA request for returning assets.**

On 14/04/2021, the Lebanese Ministry of Justice has received a request for mutual legal assistance from judicial authorities in X country related to several persons who have committed crimes of conspiracy to commit fraud, and money laundering, including international ML, and for their fraudulent claim for government credits and subsidies.

The authorities in country X requested the seizure of a yacht worth USD 2.5 million, after which the Cassation General Prosecutor in Lebanon asked the X authorities for additional information about the ownership of the yacht, so the counterparty sent detailed statement stating that the convicted persons own the yacht as a result of illegal funds through money laundry and provided a decision to seize the yacht.

The Cassation Public Prosecution in Lebanon issued an order to seize the aforementioned yacht, and it was handed over, at the request of the US judicial authorities, to an American team that came specifically to Lebanon to receive it.

**Note: the prosecution did not take place in Lebanon, as the Lebanese authorities considered that the assets seizure and recovery were an execution for MLA request.**

315. Out of the total seized proceeds, the Lebanese authorities did not return any proceeds to the victims under reconciliation including the assets seized in tax and customs crimes.

316. Given the context of the risks, the authorities have not exerted sufficient efforts for the purpose of asset recovery, nor have they initiated requests for proceeds of crime transferred abroad, especially considering the importance of the proceeds transferred abroad within the framework of corruption crimes for example.

317. The Lebanese authorities have not confiscated properties of equivalent value for domestic or foreign crimes, whether through criminal or civil proceedings, including confiscations not based on conviction.

318. As for the measures taken to maintain and manage the value of seized and confiscated assets, the Lebanese authorities, during the onsite visit, reported as mentioned above that they are working to enforce and activate the law establishing the National Fund for the Management and Investment of Recovered and under-recovered Assets. The Cassation Public Prosecution also confirmed that it is working to develop guidelines for tracing and recovering international assets.

**Confiscation of falsely or undeclared cross-border transaction of currency/BNI**

319. The assessment team believes that the system of monitoring and confiscating currency and bearer negotiable instruments across borders is a very important part of the AML/CFT system in Lebanon, given the total dependence on cash, especially after the severe financial crisis that Lebanon experienced in recent years, and considering Lebanon's location, as it is located next to high-risk and unstable countries

in the Middle East, such as Syria. Given this context, which is characterized by a high-risk environment regarding the false disclosure/declaration of cash and its transfer in and out of the country, the assessment team focused on the extent to which the customs authorities understand these risks and threats and the consistency of existing controls and sanctions with the risk profile.

### Customs Controls

320. Lebanon has the powers required to seize funds resulted from falsely or undeclared cross-border transaction of currency/BNI. Lebanon relies on a declaration system for arriving and departing travellers who make a physical transfer of BNI of all kinds when their value exceeds or equals USD 15,000, and a disclosure system instead of a declaration in terms of physical movement of BNIs outside the Lebanese borders, which can be sufficient for customs authorities to accept declaration instead of disclosure when their value exceeds or equals USD 15,000. Regarding the mechanism of applying Law No. 42 dated 24/11/2015 about disclosing cross-border money transfer, the customs authorities relied on declaration for departing travellers. The procedures applied to those who make false declaration/disclosure or non-disclosure include withholding the BNIs and imposing financial fines (see the analysis of R. 32).
321. The following statistics (tables 8.3.1/8.3.2) reveal unexpected numbers compared to the country’s risks mentioned above, where during the period from 2017-2021, only 20 cases of non-disclosure/declaration of a total amount of USD 15 million were recorded, with no seizures in 2017 and a complete absence of cases involving seized precious metal ingots, jewellery, or gemstones. On the other hand, it is noted that the seizures were concentrated at the border crossing (Rafic Hariri International Airport) without any seizures at other land border crossings.

**Table 8.3.1: statistics of foreign currency, ingots and goods operations**

	2017	2018	2019	2020	2021
Foreign currency	0	2 041 700	2 479 841	3 341 248	7 173 705
Ingots and goods	0	0	0	0	0
Total	0	2 041 700	2 479 841	3 341 248	7 173 705

**Table 8.3.2: Statistics of the number of non-disclosure/declaration cases recorded by Egyptian customs during the years 2015-2019:**

Year	Number of false or non-disclosure/declaration	Port/airport
2017	-	Rafic Hariri International Airport
2018	4	
2019	5	
2020	6	
2021	5	

322. Although customs authorities showed during the onsite visit that they have an acceptable understanding of the basic risks of money laundering, terrorist financing, and the risks associated with smuggling and transporting currencies, precious metals, and stones, it appears that the number of seizures and the

amounts seized do not reflect the extent of the customs authorities' efforts to address these risks facing Lebanon. This calls for practical measures to increase awareness and build the capacities of customs officials regarding the risks and spread of cross-border currency smuggling, and to develop guidance for their agents on the methods and practices used in cross-border currencies, precious metals, and stones smuggling.

### Sanctions

323. The authorities presented a statistic about the applied penalties (see Table 8.3.3 below) included financial fines imposed on violators of the conditions of declaration and disclosure, which amounted to LBP 155 million and one referral for confiscation to the Public Prosecution of USD 23,333. The provided data did not clearly show the size of administrative confiscations initiated under the powers of the customs authorities. The annual distribution of false or non-disclosure/declaration (20 cases during 2017-2021) shows that the imposed penalties were not proportionate or dissuasive, given the comparison of seizures mentioned in the tables 8.3.1 and 8.3.2 (USD 15 million) as well as the imposed fines (equals USD 103,000) at a percentage of 0.69%

**Table 8.3.3 regarding penalties against false or non-disclosure/declaration**

	2017	2018	2019	2020	2020	Total
Administrative sanction (customs conciliation)	-	35 000 000	40 000 000	56 000 000	24 000 000	155 000 000
Referral to the Public Prosecution for confiscation	-	USD 23 333				
Total of cases	-	4	5	6	5	20

### Consistency of confiscation results with ML/TF risks and national AML/CFT policies and priorities

324. In general, it is clear that the seizures and confiscations are inconsistent with the risk profile of Lebanon, as the provided statistics about the precautionary and confiscation procedures about many crimes such as corruption, illegal arms trafficking, tax and customs evasion, electronic fraud and embezzlement of private funds.

325. The results of the confiscation did not reflect the current context of Lebanon, given the nature of the cash-based economy, especially after the severe financial crisis that Lebanon has experienced in recent years, and the regional and geographical context that is characterized by a high-risk environment associated with Lebanon's location adjacent to high-risk and unstable countries in the Middle East, such as Syria.

### Overall conclusion on IO.8:

326. It is not clear that confiscation presents a national policy objective, in order to guarantee to seize funds, assets and instrumentalities. There are few cases indicating the ability of competent authorities to seize instrumentalities and funds at the time the detecting the crime and arresting the criminals in preparation

for taking measures to confiscate the funds and properties intended to be used.

327. It seems that there is no public policy framework or specific tools to prioritise the recovery of asset held or sent abroad, given the high risk of asset transfers from domestic crimes out of the country.
328. There is a weakness regarding maintaining accurate and updated statistics regarding the seizure and confiscation of funds and instrumentalities in most of the predicate offences, especially the serious ones (corruption, drug and arms trafficking....) in consistency with the risks context in the country.
329. Limiting the taken procedures to seizing funds when arresting the accused without tracking all proceeds and property of equivalent value limits the effectiveness of the confiscation system in Lebanon.
330. According to the provided data, the efforts of the Customs were weak in processing proceeds through cross-borders seizures and confiscations. This calls for sound processes, especially in light of Lebanon's great vulnerability to cross-border smuggling of cash, precious metals and stones.
331. The data provided by the Lebanese authorities shows that most of the confiscated funds, are largely inconsistent with the ML/TF risks and national AML/CFT policies and priorities.
332. **Therefore, Lebanon is rated as having a “Low” level of effectiveness for IO.8.**

## Chapter 4: Terrorist Financing and Financing of Proliferation

### Key Findings and Recommended Actions:

#### Key Findings:

##### Prosecution/conviction of types of TF activity (IO. 9):

- a) While the competent authorities concerned with TF investigations varyingly exert fruitful efforts to pursue different types of TF activities (such as collecting, movement, and using cash and other assets) through proactive intelligence and parallel financial investigations, which resulted in a satisfactory number of independent TF convictions, Lebanon does not investigate, prosecute, or share information about TF activities fully in line with its risk profile. In particular, Lebanon has not demonstrated it pursues TF offenses, or shares information about TF offenses, committed by members of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.
- b) LEAs represented in Lebanese Military Intelligence Directorate, the Information Division at the Domestic Security Directorate coordinate and cooperate in CFT activities and identify and investigate TF activities, which helped to a good extent to enable the TF policies and actually resulted in detecting professional and organized criminal groups and uncover their funding means.
- c) The authorities identify TF cases (self-financing and independently) to a good extent by referring directly or indirectly to the banking and non-banking FIs and through using special investigation methods. They proved their ability to merge TF investigations with the National Strategy for Combating Terrorism and Financing Terrorism. However, most of that is conducted through parallel financial investigations.
- d) There is a delay in obtaining the financial information that requires lifting the banking secrecy in timely manner, in addition to repeating the financial analysis by the SIC and competent authorities when conducting parallel financial investigations in TF cases, which in turn hinders the investigations and delays its accomplishment in timely manner.
- e) There is a discrepancy in the effectiveness and dissuasion of the penalties imposed against TF crimes, due to reducing the sentences in many issued judgments to less than the legally assigned minimum penalty, due to military court applying for minimum (mitigating) penalties as prescribed by the law.
- f) The country indicated that it took appropriate and various alternative measures for criminal justice and other regulations to intercept the TF activities in cases where TF conviction cannot be secured, such as preventing the concerned person from getting or renewing a passport, or travel in case of holding valid passport, or deporting any foreigner who could not be convicted for TF crime based on a judicial decision. However, the country did not provide any related statistics or case studies.

##### Implementation of TFS related to TF and NPOs without delay (IO.10):

- a) Lebanon has a mechanism to identify and freeze persons and entities targeted for designation in accordance with UNSCR 1267 and successor resolutions. Lebanon, in ex-parte, during the past five years, proposed to the sanctions committee the designation of a number of persons, and also participated with foreign countries in designating a group of persons and entities, and provided detailed information about some of those listed. The FIU is the authority responsible for ensuring the proper implementation of TFS without delay. Banque du Liban and the FIU also issued instructions regarding the freeze without delay to FIs and DNFBPs.
- b) Lebanon has never frozen accounts or funds, whether movable or immovable, in Lebanon linked, directly or indirectly, to any of the names on the UN sanctions lists. -
- c) There is a discrepancy in the tracking of updates to 1267 and successor resolutions by financial institutions (except for banks), and - most DNFBPs, which may affect the implementation of freezing obligations without delay. Most of the agencies concerned with implementation have electronic systems that give them direct access to these updates. Financial institutions conduct an electronic scanning of their customers' databases as well as transactions, while this process is done manually by DNFBPs, with the exception of Casino du Liban.
- d) Lebanon has an appropriate mechanism to implement Security Council Resolution 1373. A large number of persons and some entities have been placed on the local list and have their assets frozen. This mechanism confirmed the principle of “immediate freezing” before enlisting. Most financial institutions are well aware of the requirements for tracking local list updates, freezing, and reporting to the FIU, but the practical application of these requirements has not been spared from some loopholes, especially with category “B” exchange companies and all DNFBPs. Especially, with regard to the frequency of review of updates to this list via the website of the Internal Security Forces (“ISF”).
- e) The country has a well-developed understanding of the nature of the threats and risks related to TF that may confront NPOs’ activities. This understanding stems from the study prepared by the Ministry of Interior and Municipalities as the supervisor of this sector, which led to the classification of NPOs according to the levels of risks they represent and subjecting them to supervision according to a risk-based approach. -
- f) Despite the efforts made by the country to promote and spread awareness among NPOs, it turned out that the sample interviewed by the AT during the onsite visit was completely unfamiliar with the nature of the risks that the sector might be exposed to.

**Proliferation Financing (IO.11):**

- a) The -SIC is the authority responsible for ensuring that TFS are implemented without delay and has adopted a mechanism to implement TFS related to UNSCRs 1718 and 2231 regarding North Korea and Iran. -. This mechanism was based on the text of the introduction to the Lebanese constitution, which is an integral part of it and enjoys a constitutional value, like the provisions of the constitution itself according to the Constitutional Council, as well as a number of international treaties signed by Lebanon.

Therefore, Lebanon is obligated under Article 25 of the Charter of the United Nations to accept and implement Security Council resolutions.

- b) There are no economic or commercial dealings between the country - Lebanon and North Korea - where the import or export of any goods thereto is prohibited, and in application of UNSCR 2270, it inspects all ships and goods that pass through its territorial waters. As for dealing with Iran, the country will examine and inspect all goods exchanged therewith (import and export) to ensure that they are not banned in accordance with UNSCR 2231. According to official data, Lebanese exports to Iran are books and agricultural seeds, while imports are carpets and fresh and dried fruits. The AT believes that the volume of intra-regional trade is of modest value and does not cause concern, especially since the goods exchanged do not fall under the prohibited goods according to UNSCRs.
- c) Lebanon has an adequate mechanism to implement TFS related to CFP, whereby all financial institutions and DNFBPs are required to track updates on the ban lists related to UNSCRs 1718 and 2231 regarding North Korea and Iran on a daily basis and directly through websites of the sanctions' committees.
- d) Banks, money transfer companies, exchange companies of type "A", and other financial institutions are keen to track these updates in a timely manner, and they use electronic systems to scan these lists. As for the DNFBPs, it is completely unaware of its obligations in this field and does not interact in any way with the list updates.
- e) The General Directorate of Customs is aware of its obligations to implement TFS related to CFP, it reviews relevant UNSCRs and circulates all the updates across all the border crossings without delay to be used when inspecting ships and exported and imported goods at the borders. The customs have also adopted measures to deal with chemical goods that are of dual use, in case imported or when re-exported to another country. The country has good case examples of preventing restricted trade and the import of dual used goods.

### **Recommended Actions**

#### **Immediate Outcome 9:**

- a) Lebanon should pursue investigations and share information with foreign partners related to TF investigations linked to a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.
- b) The competent authorities concerned with TF investigations should continue to increase their efforts to pursue TF activities by enhancing the financial investigations and abilities of experts specialized in VA investigations.
- c) The investigative authorities should issue detailed plans or actions plans that include the activation of financial and parallel financial investigations and ensure the non- repetition of financial analysis.
- d) The investigative authorities should issue mechanisms enabling them to access the financial information, especially those subject to banking secrecy in a quicker and timely manner.
- e) The country should ensure imposing effective, dissuasive and proportionate sanctions

against TF crimes, in light of the seriousness of this crime and the large number of sentences that were issued on reasons for minimizing sanctions.

- f) Enhance the collection and provision of statistics regarding CFT, investigations, prosecutions, convictions, and alternative measures in order to show the effectiveness of the system in CFT in light of the related risks.

#### **Immediate Outcome 10**

- a) The supervisory authorities, each in its mandate, should remind the FIs and DNFBPs of the requirements of the national mechanism in terms of following up updates on the international UN lists directly on the Security Council website in order to take immediate freezing measures without delay. These authorities should also conduct special and separate supervisory missions to verify the compliance of all financial institutions and DNFBPs with the TFS requirements, with proportionate and dissuasive penalties against those who violate these requirements.
- b) Authorities should tighten its monitoring over NPOs when they receive foreign support or solicit public charity-donations (i.e. donations in cash and in kind), particularly through the use of a risk-based approach to supervision of NPOs, particularly those within the subgroup.

#### **Immediate Outcome 11**

- a) Competent authorities should continue to enhance understanding of financial institutions and DNFBPs with the TFS requirements associated with UNSCRs 1718 and 2231 on North Korea and Iran and urge them to follow updates of these lists directly on the Security Council's website, as prescribed in the national mechanism, in order to take immediate freezing orders without delay and adopt the RBA in inspecting persons working on behalf of sanctioned persons and entities.
- b) Competent authorities should continue to monitor financial institutions (excluding banks, money transfer companies and exchange companies of type "A") and DNFBPs and impose proportionate and dissuasive penalties against anyone who violates the TFS requirements.
- c) Customs and the other competent authorities should continue to enhance its technical and technological capacity for the purpose of identifying individuals and entities involved in evading sanctions, as well as detecting and seizing prohibited goods through border ports.

333. The related immediate outcomes which were studied and analysed in this chapter are Immediate Outcome 9 -11. The Recommendations related to this Chapter are 5-8.



### Immediate Outcome 9 (TF investigation and prosecution)

334. The conclusions reached by the assessment team in the IO.9 are based on reviewing a number of convictions, accusations and case studies that include different types of TF, in addition to statistics and interviews with the Lebanese authorities during the onsite visit, especially the investigative authorities (Intelligence Directorate, the Information Division at the General Directorate of internal Security Forces and the State Security General Directorate).
335. Lebanon is exposed to TF risks, represented mainly by some terrorist groups inside and outside the country that fund some terrorist cells on the domestic level and to a lesser degree in using the money in funding the travel of fighters to join terrorist groups in conflict zones (see Chapter 1 and IO.1).
336. Terrorist groups that pose a threat to Lebanon resort to collecting funds inside and outside Lebanon from illegal sources to finance terrorist cells related to or affiliated with them in Lebanon. The methods of moving money from abroad are represented by cross-borders money smuggling, or through the use of the unlicensed hawala system, or by resorting to money transfer companies, and to a lesser extent, bank transactions are used to transfer money. Terrorist cells in Lebanon resort mainly to using transferred or moved funds to finance terrorist attacks inside and outside Lebanon. In some cases, they also resort to collecting funds from legitimate sources (selling some collectibles) and illegal ones (resorting to theft crimes, for example) and using the collected funds whether from abroad or in Lebanon to finance terrorist acts in Lebanon or to finance the travel of fighters to conflict zones.
337. However, it should be noted that Lebanon does not investigate, prosecute, or share information about TF activities fully in line with its risk profile. In particular, Lebanon has not demonstrated it pursues TF offenses, or shares information about TF offenses, committed by members of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.

### Prosecution/conviction of types of TF

338. LEAs, including the General Intelligence Directorate, the Information Division, and the National Security Directorate (responsible for collecting leads without financial and parallel investigations), pursue various TF activities, including collecting funds (from a legal or illegal source), moving and transferring them, whether through the formal or informal sector, or through cross-border physical transportation, pursuing self-financing, independent financing, and financing terrorist groups operating at the local level or abroad as well as financing the travel of fighters to conflict zones, in line with the risk profile that the country faces. The assessment team reviewed a sample of case studies related to the financing of terrorism.

**Table 9.1.1 Comparing terrorist acts with prosecutions and convictions in terrorism and financing terrorism.**

<b>Subject/Year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
<b>Number of terrorist operations</b>	2	1	1	1	1	<b>6</b>
<b>Prosecutions (independent TF)</b>	27	19	8	10	6	<b>70</b>
<b>Prosecutions (TF and terrorism)</b>	80	56	31	31	29	<b>227</b>

<b>Convictions (independent TF<sup>8</sup>)</b>	15	28	6	1	1	<b>51</b>
<b>Convictions (TF and terrorism)</b>	29	58	28	5	3	<b>123</b>

339. The table above shows decreasing the number of terrorist acts in Lebanon, which totalled 6 acts between 2017-2021. The independent TF convictions reached 51 sentences, at a percentage of 41% of the total TF convictions. This percentage is considered satisfactory which indicates that the authorities pursue the TF crime independently of the connection of financing to a terrorist act or the association of financiers with terrorist groups. Statistics show that the cases that were prosecuted for independent TF crimes amounted to 70 cases, while the cases that ended with convictions reached 51 cases.

340. The Lebanese fighters joined the terrorist groups during the period 2017-2021 amounted to 60 fighters, and they were prosecuted in absentia, and only 8 of which returned to Lebanon and prosecuted for terrorism. As for methods and resources of financing these fighters to move to conflict zones, this is conducted through facilitators affiliated to ISIL and resident in Lebanon, as they receive transfers (through illegal Hawala system) in small amounts or through self-financing operations resulting from selling some personal belongings and using the funds to facilitate the movement of these fighters in coordination with the logistic network at ISIL.

341. The following are examples of TF activities:

**Case Study 12: TF using funds from illegal resources and abroad transfers.**

In the middle of 2020, a terrorist group killed three people who intercepted members of the terrorist group who were in a car and were in the process of searching for explosives in some of the stone quarries that are widely spread in that area.

The investigations of the security agencies showed that there was a decision to form a terrorist group in Lebanon headed by the terrorist "M.H". The group rented safe houses in border areas and used them to hold meetings and collect weapons and explosives.

Through the investigations, the security agencies followed up the parties of the case based on the information they collected and based on the financial investigations that they initiated, and a parallel financial investigation was opened for TF crime after the arrest of all parties of the group, as it was found that this group began to finance itself independently through different acts of theft that they were carrying out in the border area (they stole and sold an Amiri pistol belonging to the brother of a terrorist, and at the same time stole an amount of LBP 330,000 from a house after forced entry, and by stealing and selling electrical cables as well as an AC device from the house of the a terrorist's wife and the theft of a motorcycle (these thefts were carried out in order to secure financing for their group), in addition to limited financial assistance from the money of its members, leading to the crime that killed 3 civilians. It was also found

<sup>8</sup> Including the convictions not related to crimes of terrorism, or convictions of persons financing terrorism but not participating in terrorist acts and are not members in terrorist groups.

that the terrorist group had purchased military weapons in the areas controlled by "ISIS" through an arms dealer, and the Public Prosecutor of Cassation sent a request to identify and freeze any bank accounts, operations, and movable and immovable funds belonging to persons involved in this crime, as a result of which the "FIU" circulated the names of the suspects to all FIs operating in Lebanon, and also requested information from the Vehicles Registration Authority and from the Real Estate Registry. It was found that there were financial transfers in small amounts inside the country, and other transfers with a number of foreign countries.

The SIC sent spontaneous disseminations and requests for assistance to the concerned FIUs and imposed a non-disposal order on the identified vehicles and properties, and requested all money transfer companies to refrain from executing any transfer for the involved persons and referred the results to the Cassation Public Prosecution in Lebanon.

After the suspects were referred to the competent judicial authority, 12 persons were prosecuted with TF crim before the Military Court, noting that the case is still under trial before the said court and the final sentence is not yet issued.

### **Case Study 13: TF through illegal Hawala System and physical movement**

During the year 2019, a professional and transnational terrorist network planned to carry out two terrorist attacks in Lebanon. The organized criminal group failed to carry out the first terrorist attack since the security agencies have arrested the terrorist hours before the execution, and succeeded in stopping the second attack which was a suicide bomber in a suburb of Beirut. The immediate investigations showed that there was a second suicide bomber in the vicinity of the crime scene, whose body had been cut off as a result of the explosion, and that the belt was similar to the one that was seized with the arrested "A.J."

By expanding the investigation under the supervision of the competent judicial authority, it was found that the External Action section of the terrorist organization "ISIS" had deliberately sent many suicide bombers to the border areas of Lebanon, in order to carry out suicide actions targeting civilian areas.

The security authorities opened a parallel financial investigation for the TF crime under the supervision of the competent judicial authorities, as it was found that upon the presence of the suicide bombers, each of them was provided by the organization's leadership with an amount of two USD 2,000 to self-finance the suicide operation, and an arms dealer located in the border areas of the conflict was resorted to in order to buy large quantities of explosives and detonators were paid for and transported by the so-called "A.R" inside a secret hideout in his car. Also, he moved the suicide bombers and terrorists to their residences and bombing area, in exchange for sums ranging from USD 500 to 2000.

When the terrorist cell needed money to complete the logistical preparations to carry out terrorist acts, such as training, equipping, and purchasing motorcycles for booby-trapping, the organization's leadership sent them an amount of USD 5,000 that had been received in Lebanon through the illegal transfer system, most of which was received by the so-called "K.Z.D." (Responsible for recruiting the arrested terrorist "A.J"). The entire terrorist network was arrested,

explosives were seized, and they were prevented from completing other terrorist plots. Everyone who contributed to the financing of these terrorist acts was also arrested.

Under the financial part of the parallel financial investigation, the Cassation Public Prosecutor sent to the SIC a request for assistance to identify and freeze bank accounts and movable and immovable assets belonging to persons involved in this crime. The SIC circulated the names of the suspects to all financial institutions operating in Lebanon in an effort to identify bank accounts and transactions.

All the results were referred to the Public Prosecutor, and spontaneous disseminations to the counterpart FIUs in this regard. The arrested persons were referred to the competent court, where 4 of them were convicted for TF and sentenced between servitude for 15 years and life, as well as imposing financial fines ranged between LBP 3 and 5.5 million (equal to USD 2,000 and 3650).

#### **Case Study 14: TF through physical movement**

As a result of the investigations and inquiries, the security authorities found out that a Syrian national "A.A." (a terrorist who was seriously injured as a result of armed clashes in a neighbouring country suffering from conflict) surreptitiously entered Lebanon and handed over his homes in the conflict areas to ISIL to turn them into hubs for terrorists. Based on the investigative methods, it became clear that he was assigned by ISIS in Lebanon to work on attracting and recruiting youths through religious meetings in the displacement camps. And for this purpose, he was receiving a monthly salary from ISIS, and collected sums of money that he delivered to his wife to buy a house in conflict areas.

The terrorist "A.A.", in collusion with the female terrorist "Z.T," enticed youths to join the organization, by marrying off her daughter several times in a short period to fighters who subsequently joined the terrorist organization in a neighbouring country suffering from conflict. She also transferred monthly sums of cash through the so-called "H.H" (who transfers money across the border in return for a commission) to her son (a leader in "ISIL" in the border conflict area). The suspects were referred to the competent judicial authority, where the three terrorists were sentenced for imprisonment for servitude for 2 to 5 years and a fine of LBP 5 million for each for the TF crime.

#### **Case Study 15: TF through using an NPO established abroad.**

In 2018, the SIC received a request for assistance from the competent judicial authority, stating that it had conducted parallel financial investigations related to a terrorist under prosecution, as it was found from the investigations that the person raised fund for an NPO (established abroad with a branch in Lebanon), under the pretext of helping refugees in Lebanon and supporting the activities of the NPO. However, it turned out that the funds collected (abroad) were used for the purposes of financing terrorist acts that affected Lebanon.

After fundraised from persons residing abroad and sympathizing with the refugees in Lebanon, the person used to carry the amounts from abroad, or other person sent them with individuals coming to Lebanon from abroad (cash carriers), or through wire and bank transfers to two persons, one of whom works in the NPO, whether in their names or on the names of other

persons in lieu of a commission for receiving the money, which was not used only to support those in need and finance the activities of the NPO, but also to buy arms and train fighters to finance ISIL acts in Lebanon. Also, it turned out that the branch of the NPO in Lebanon was used to raise money to finance its activities.

It turned out that the name of the NPO was already included in the database of the “SIC” based on a request for assistance from a counterpart FIU about one of its citizens stating that he is an agent for this NPO, which has branches in 3 foreign countries, including Lebanon branch, and this FIU had reported that it suspects the NPO for being linked to fund transferring for the benefit of ISIL, and that this citizen may be linked to the suspect (who was abroad carrying the funds) in ML/TF cases.

Therefore, 5 bank accounts were frozen, with total balances of USD 13,000, in addition to seizing 9 properties and two companies. This collected information was provided to the competent court, which sentenced them later for dissolving the NPO for TF crime and a fine of LBP 16 million, and three persons were sentenced with servitude for 5 to 7 years and fines of LBP 10 to 25 million for TF crime. Moreover, after referring its file to the Cabinet, the latter issued a decree dissolving the NPO.

342. The assessment team also noted that despite the TF high risks in Lebanon, the investigative authorities relied on their efforts to prosecute various types of terrorist financing activities (such as collecting, moving, and using cash or other assets) on proactive intelligence and parallel financial investigations as a response to terrorist acts, which helped the authorities to prosecute and convict such activities in proper way, without relying on financial investigations enables it to carry out proactive operations in order to control TF threats or the potential threats posed by a major local paramilitary organisation.
343. It was clear to the assessment team that some efforts exerted by the security authorities responsible for tracing the VAs activities and the existence of unlicensed VA and mining services providers. However, the novelty of wide dealings of VAs and the limited abilities of the related LEAs in investigating these assets reflect the challenges of controlling this activity. Through investigating a case by the authorities, it was clear that ISIL offer a person a bitcoin to finance terrorist acts in Lebanon, but this person refused to deal in virtual currency because of his inability to use or disburse it, under the instructions issued by the Banque Du Liban to the FIs, especially banks, which prevent dealing in VAs, which confirms the increase in the possibility to misuse of this sector by terrorist (see IO. 3 and R. 15).

### **TF identification and investigation**

344. Lebanon makes efforts to identify and investigate TF activities through the General Intelligence Directorate, the Information Division, and to a limited extent through the State Security Directorate. These authorities were able to uncover a number of professional and organized criminal groups and detect complex funding means, and to conduct international cooperation in serious cases or those that have external links. The table below shows the efforts of these authorities in pursuing different types of TF according to different funding means:

**Table 9.2.1: Statistics of TF means included in the investigations in combating terrorism and financing terrorism during 2017-2021**

<b>Year</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>	
<b>Means</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>%</b>
Cross-border money smuggling	47	35	21	17	20	140	38%
Illegal/unlicensed Hawala	31	20	9	10	9	79	22%
Self-financing	21	15	8	9	8	61	17
Recruiting	8	6	4	6	4	28	7.5%
Planning	8	6	2	3	5	24	7%
Miscellaneous*	14	4	6	3	5	32	8.5%
<b>Total</b>	<b>129</b>	<b>86</b>	<b>50</b>	<b>48</b>	<b>51</b>	<b>364</b>	<b>100%</b>

\* Including training, preparation, travel facilitating, e-transfers through money transfer companies and banking transactions

345. The international cooperation conducted by Lebanon in this regard includes exchanging information to be used in investigations and enhance the authorities' efforts to detect the links between the transnational terrorist groups, through many fields such as exchanging security information at various levels and financial information and all intelligence related to different TF forms.
346. TF cases in Lebanon are identified based on information received by the security authorities from secret security sources, or from internal and external security information sources, or from the facts of investigations and examining the statements of the accused in terrorist cases to determine the sources of financing terrorist groups and track, detect and seize funds by resorting to legal frameworks. Also, the Lebanese authorities also identify TF cases within the framework of local coordination and cooperation, or through notifications, requests for assistance, or spontaneous disclosures received by the SIC.
347. LEAs resort to conducting the parallel financial investigation in identifying TF cases in order to determine the special role played by terrorist financiers. One of the case studies included the use of special investigation methods by penetrating information systems and intercepting messages through social media. Another case involved technical investigation methods of a suspect's phone number, which revealed his relationship with a person who runs a network of persons smuggling to conflict zones. The phones of the persons who were arrested were used, and this enabled the authorities to identify their involvement in financing the travel of fighters to conflict zones.
348. The authorities also identify and investigate TF cases based on intelligence information and confidential information obtained from informants and collaborators from their secret sources. This is done mainly through the Lebanese Army Intelligence Directorate, and the Information Division of the General Directorate of Internal Security Forces, and to a lesser extent through the General Directorate of State Security. In the event that other parties identify cases suspected of being linked to the financing of terrorism, they refer them to the Cassation Public Prosecution, which in turn refers them to the authority

it deems appropriate (the Lebanese Army Intelligence Directorate or the Information Division of the General Directorate of the Internal Security Forces) as it has the competence to investigate TF cases. Regarding investigations that may be related to virtual assets, which require modern technologies and financial specialists to identify and track funds, the authorities are still working to improve their technical capacity by assigning specialized employees to specialized courses since 2020.

349. The LEAs daily and directly cooperate among each other on the operational and command levels and formally and informally exchange financial and intelligence information they have, in order to coordinate efforts to identify the TF crimes, given that the number of investigated cases between 2017-2021 amounted to 364 investigations.
350. TF cases that were investigated between 2017-2021 contain sufficient elements and evidence of committing of a TF crime that allows the judicial authorities to follow up and convict these cases. Of the cases that were investigated for the crime of independent TF (113 case), about 62% of them were prosecuted, and the 70 cases that were prosecuted, most of them (73%) resulted in convictions.
351. The LEAs have the suitable human resources<sup>9</sup> to investigate TF crime, considering the number of investigated cases, while the quality of the investigations are considered good given the high percentage of TF cases that were investigated and prosecuted, where most of them resulted in convictions, which indicates that the authorities have the technical expertise to identify TF cases.
352. The LEAs rely when investigating TF cases on terrorism cases investigations as well as the security information they receive and the financial investigation they conduct to identify the independent TF cases without any security work or involvement of financiers with any terrorist groups. The authorities regularly and spontaneously conduct parallel financial investigation in all terrorism and independent TF cases.
353. Preliminary TF investigations begin by evidence collection conducted by the investigative authorities under the supervision of the competent military court. The State Security Directorate (as instructed by the judicial authority) submits its investigations and information reports regarding terrorism and TF cases to the Lebanese Army Intelligence Directorate, since the Lebanese authorities opted to attribute the TF investigations only to Lebanese Army Intelligence Directorate and Information Division at the General Directorate of internal Security Forces as they have specialized offices for CFT. The Directorate of Intelligence and the Information Division submit their initial reports on the collected TF cases to the competent Public Prosecution. The investigations conducted by the Directorate of Intelligence and the Information Division amounted to 364, 11 of which were based on initial investigation and initial report referred by the State Security to the Directorate of Intelligence.
354. The country indicated that the cases that require the collection of financial information (not subject to banking secrecy) from money transfer companies, financial brokerage companies, insurance companies, comptoirs, and exchange companies, are collected by the security services by reporting directly to the companies under the instructions and supervision of the competent Public Prosecution. However, it became clear to the assessment team that there is a delay in some cases that were viewed in order to

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<sup>9</sup> The CFT Unit at the Intelligence Directorate has 3 officers, 15 auditors and 10 analyzers. The Financial Investigations Office at the Information Division of the General Directorate of the Internal Security Forces has 5 officers, 12 financial and security analyzers, 8 investigators and 10 administrative and technical members.

obtain financial information in a timely manner, which in turn hinders the TF investigations.

355. In cases that require collecting information available in the SIC’s database, the security services contact the SIC directly via a hotline dedicated exclusively to terrorism and TF cases. In the event that the person subject of the request is included in the SIC’s database, the latter provides the information immediately to the requesting party, along with sending a copy of the information to the Cassation Public Prosecution. The authorities indicated that the time taken to obtain this information does not exceed two working days, and this period is considered satisfactory as it does not hinder the work of the security services, but it was clear to the assessment team through the reviewed cases that there is a delay in receiving financial information in a timely manner, which in turn hinders the TF investigations.
356. In cases that require the collection of financial information from banks and FIs (which are subject to banking secrecy), the security services send a request for assistance to the SIC through an encrypted electronic system (SIC SEEDS) after obtaining the approval of the competent Public Prosecution. For its part, the SIC communicates directly with all banks and FIs through an automated link system in order to collect the information subject of the request for assistance. In the event that this information is not available to the SIC, the request is first submitted to the Cassation Public Prosecution, which in turn sends the request to the SIC, and then the latter requests information from banking and non-banking financial institutions that demand a response without invoking banking secrecy. Once the SIC receives information, it will send it to the requesting party. The SIC also conducts a complex analytical study and sends it to the requesting party to support its investigations (either the Intelligence Directorate or the Information Division) as well as to the Cassation Public Prosecution through SIC SEEDS.
357. However, the assessment team noticed a delay in receiving the financial information, in a timely manner, which in turn hinders the TF investigations, considering the cases of financial analysis reoccurrence conducted for all cases at the level of the SIC as well as the requesting parties, which negatively affects more the delay of getting the financial information to be used in ongoing investigations.
358. In the year 2021, the number of TF investigations decreased by (65%) compared to the year 2017. This is due to the decline in criminal activities related to terrorism and terrorist financing in neighbouring countries, especially in Lebanon, after the elimination of ISIL remnants and Al-Nusra Front in 2017 as a result of the military operations carried out by the Lebanese army and the investigations carried out by the security services, which led to the dissolving of a number of terrorist cells in some Lebanese regions, in addition to the measures taken by the security services based on the national strategy to combat terrorism and the financing of terrorism emanating from the outcomes of the NRA (see IO.1).
359. As for the role of the SIC to support the investigative authorities in identifying the TF cases, the following table shows the number of reports received and submitted by the SIC about the TF crimes and those of which were prosecuted or archived by the investigative authorities:

**Table 9.2.2: number of reports received and submitted by the SIC about the TF crimes and those which were prosecuted or archived by the investigative authorities during 2017-2021**

Case	2017	2018	2019	2020	2021	Total
Number of TF reports	10	5	11	4	7	37
Referred reports	8	4	7	3	7	29
Prosecuted cases out of referred	6	3	3	0	0	12



cases						
Percentage of prosecuted cases out of referred cases	75%	75%	42%	0%	0%	41%
Archived cases after investigation	2	1	4	3	7	17
Percentage of archived cases	25%	25%	58%	100%	100%	59%

360. The number of STRs received by the SIC during the years 2017-2021 on TF suspicion amounted to 37, 29 of which were referred to the Public Prosecution, which in turn referred 12 to the court after prosecuted the TF suspects. The STRs that were referred to the court represent 41% of the number of referred ones, and the STRs that were kept at the Public Prosecution represent 59% of the total number of referred STRs.

361. The SIC identifies TF cases through STRs that it receives from reporting entities. The statistical data indicates that the SIC referred 29 files (87%) on TF suspicion to the competent authorities during the years 2017 to 2021. The receipt of 37 STRs in TF suspicion by the SIC during 5 years is considered satisfactory, given the decrease of terrorist acts during the said period and that the TF activities largely rely on the unofficial sector and usage of cash, and to a lesser extent on banking transactions according to the outcomes of the NRA and the cases reviewed by the assessment team. The assessment team believes that archiving 17 case (59%) during five years falls within reasonable range.

362. The investigative authorities cooperate with their counterparts abroad through Interpol, the National Security Directorate, Information Division, and the Ministry of Foreign Affairs. The SIC is also used for this purpose (see IO. 2). During the onsite visit, the authorities indicated that dealing with TF cases at the international level is difficult as a result of the complications in identifying the identity of the foreigner due to the limited information about the foreign financier (the identity of the foreign person is rarely identified, as the dealing is conducted whether through the unofficial sector or through cash) and the varied level of cooperation with other countries, especially the countries that are considered tension zones and sources of funds whether in cash or through the unlicensed Hawala system.

363. Therefore, the role and good effectiveness of related Lebanese authorities (Directorate of Intelligence and Information Division) are clear in identifying and investigating TF crime, as well as the role of investigations in detecting the specified roles of terrorist financiers.

**TF investigation integrated with –and supportive of- national strategies**

364. Lebanon relies on information derived from investigations of TF cases to support CFT efforts throughout the entire national territory. The assessment team reviewed the mandates of the national strategy for combating terrorism and terrorist financing and found that the Lebanese experience in combating terrorism depends on a strategy that relies on a number of dimensions such as the security, political, economic and social dimensions. This strategy combines between the prevention of extremism, the removal of extremist ideas, and the combating and eradication of terrorist activity. Also, the strategy includes objectives relevant to the financing of terrorism such as eliminating financial flows that would allow cells, networks, or individuals to commit attacks or recruit new individuals, in addition to investigating the TF sources and terrorism and TF patterns. Based on the above strategy, the competent authorities have been assigned to provide operational units with immediate information on terrorist groups and their financial, material and media support networks.

365. The Directorate of Intelligence and Information Division have confidential strategic plans. The assessment team generally reviewed these plans but the team did not receive the detailed plans at the level of competent authorities due to confidentiality as stated by the country.
366. Based on the above strategy, the authorities have worked to implement some efforts and activities to combat the threats of terrorism and terrorist financing in Lebanon at various levels, including strengthening the security aspects at the land and sea border areas to prevent individuals or groups affiliated with or supportive of terrorist organizations from entering Lebanon surreptitiously or moving or smuggling funds into Lebanon with the intention of using them in financing terrorist acts, and to collect intelligence information about terrorist organizations present in conflict areas in order to know and determine their links to any groups or cells present in Lebanon in order to confront and dismantle them. These efforts practically resulted in dissolving number of terrorist cells and preventing terrorist attacks through the proactive security work, in addition to activate the freezing procedures pursuant to the UNSCR. 1373, after enlisting many persons on national list, which supports the national strategy for combating terrorism and financial terrorism, which led to decreasing the terrorist acts targeted Lebanon during the last five years to 6 terrorist operation during the years 2017-2021. Nevertheless, taking into account the context and terrorist risks of Lebanon, as well as the challenges of controlling borders, especially with neighbouring countries facing terrorist risks. This calls for the development of a detailed action plan among the competent authorities according to time and geographical frameworks that contribute to tightening control in a better way and taking some precautionary and security measures to counter any possible penetration of the borders by terrorist groups.
367. The investigative authorities make efforts to raise the level of qualification of their financial investigators through a number of specialized courses during the period from 2017 to the end of the year 2021, which relatively helped improving the quality of integrating the investigations of TF and terrorism cases in a manner consistent with the national strategy to combat terrorism and terrorist financing.

### **Effectiveness, proportionality, and dissuasiveness of sanctions**

368. Lebanon presented a number of case studies that included sentences (issued by the military court) related to the punishment of independent TF, and terrorism and TF, and it was clear from some of those sentences that judicial rulings were imposed independently on the financiers of terrorism and appropriately in some of those rulings, and the country did not provide details of all cases of independent financing due to the lack of detailed statistics. Accordingly, it became clear that there was a discrepancy in the extent of effectiveness, appropriateness, and dissuasiveness of penalties imposed on TF crimes, due to the presence of a large number of sentences issued in which the penalty was reduced to less than the minimum legally established (servitude for 3 years), which represented (40%) of the total convictions issued in TF cases, and the judicial authorities indicate that this is due to the presence of mitigating measures , as shown in the table below:

**Table 9.3.1: The sentences issued in TF cases (independent TF, terrorism and TF) during 2017-2021**

Penalty	No. of issued sentences in TF cases (independent TF, terrorism and TF)
Death penalty	5
Servitude for life	20
Servitude for life and 20 years imprisonment	1
Servitude for life and 15 years imprisonment	6
Servitude for life and 10 years imprisonment	5
Servitude for life and 7 years imprisonment	10
Servitude for life and 5 years imprisonment	18
Servitude for life and 3 years imprisonment	7
Servitude for life and 2 years imprisonment	5
1 year imprisonment	45
Dissolve of an NPO	1
Total sentences issued in TF cases (independent TF, terrorism and TF)	123

**Alternative measures used where TF conviction is not possible.**

369. The country refers the accused to the military court, where many precautionary measures such as precautionary detention and arrest of persons are taken. If those accused of financing terrorism are referred to the military court, and they are not convicted of financing terrorism, they are subject to field monitoring for a period of time (unspecified, varies according to the case). In the case of NPOs and legal persons, they are dissolved, and their dissolve doesn't require a conviction.
370. The country takes limited alternative precautionary measures for those who are not proven guilty of financing terrorism, such as placing the person under a procedure called "investigative report" by the General Security, whereby this person is prevented from obtaining or renewing a passport, and is also prevented from traveling or leaving the airport if such person has a valid passport for security reasons, and the person can apply to cancel this report. In addition, the authorities may take a decision to deport any foreigner who has not been proven guilty of the crime of financing terrorism, based on a judicial decision. However, the country did not provide statistics that prove these alternative measures where it is not possible to guarantee a conviction for a TF crime due to confidentiality of information.

**Overall conclusion on IO.9:**

371. The Lebanese authorities (the Intelligence Directorate and the Information Division to a good extent, and the General Directorate of State Security to a limited extent) pursue various forms of TF activities, including the collection of funds (from legal or illegal sources), their movement and use in the financing of terrorist acts or groups in Lebanon and in the funding the travel of fighters to conflict zones in a manner resulting in satisfactory number of independent TF convictions. However, Lebanon does not investigate, prosecute, or share information about TF activities fully in line with its risk profile. In particular, Lebanon has not demonstrated it pursues TF offenses, or shares information about TF offenses, committed by members of a major local paramilitary organization with a well-documented track record of committing terrorist acts as defined by the FATF.. The authorities identify TF cases (self-financing and

independently) to a good extent, through parallel financial investigations by resorting directly or indirectly to banking and non-banking FIs and through the use of special investigation techniques, which helped to detect the specified roles of the terrorist financiers. The authorities have proven their ability to combine investigations into TF cases with the national strategy to combat terrorism and terrorist financing. The country is making good efforts in combating the financing of terrorism with the presence of specialized authorities concerned with investigating the financing of terrorism, which have been found to be conducting, through parallel financial investigations, cases of financing terrorism and prosecuting its perpetrators, in a manner that is largely consistent with the risks of financing terrorism in Lebanon. However, the delays in obtaining financial information and repeating the financial analysis with the SIC and the investigative authorities requires developing detailed plans with the concerned authorities in combating the financing of terrorism in order to avoid such delay and repetition. There was a discrepancy regarding the effectiveness, appropriateness and dissuasiveness of penalties imposed on TF crimes, due to the large number of sentences issued in which the penalty was reduced to less than the legally prescribed minimum. Although the country indicated that there are alternative measures applied in cases where it is not possible to secure TF conviction, they are limited, and the country did not provide statistics on these measures due to their confidentiality.

372. **Therefore, Lebanon is rated as having a " Moderate " level of effectiveness for IO.9.**

### **Immediate Outcome 10 (Preventive measures and financial sanctions in combating terrorism financing)**

#### **Applying Targeted Financial Sanctions ("TFS") with relation to CFT without delay:**

##### **UN Security Council Resolution 1267/1989 (and subsequent resolutions)**

373. The National Committee for Combating the Financing of Terrorism ("NCCFT") has adopted an official mechanism to implement TFS related to Security Council Resolutions No. 1267/1989/2253. According to Clause 5 of Article 6 of Law No. 44/2015 related to AML/CFT, and Clause 3 of the mechanism for implementing the aforementioned decisions that was approved by the National Coordination Committee for Combating Terrorist Financing, the burden of tracking any updates in the international lists falls on the concerned authorities to implement TFS by checking the websites<sup>10</sup> of the United Nations sanctions committees and the Executive Office (UNSC Website), on a daily basis, or before conducting any financial transaction or entering into business relationship, since this method is the quicker to deal with these updates. Although this mechanism was imposed on all financial institutions and DNFBPs to track the updates of these lists, it was noticed that there was a discrepancy in following up these updates by some financial institutions, and most of the DNFBPs and execute the requirements related thereto in timely manner (please refer to IO.4)

374. As an additional measure, the Ministry of Foreign Affairs and Expatriates receives from the Permanent Representative of Lebanon to the United Nations in New York, updates of the sanctions lists as soon as they are issued and sends them to the FIU within a maximum of two working days, where the latter

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<sup>10</sup> The FIU calls for subscribing to the "UN Security Council RSS feeds" service, through which notifications are sent to subscribers of the service about any change or update that occurs to the lists (deletion, addition, modification of information related to a listed name), with a reference that the UNSC lists are constantly updated, and there is no specific timetable for such.

circulates them without delay to the Cassation Public Prosecutor and all supervisory authorities, as well as FIs and DNFBPs to take required measures and prevent the disposal of movable and immovable assets belonging directly or indirectly, jointly or severally, to natural or legal persons or entities designated in these lists or under their control, and notify the FIU to that effect in no more than 48 hours. Upon reviewing samples of correspondences issued from the FIU in this regard, it was found that the circular is sent through SEEDs system in the same day in all cases.

375. With regard to designation, the Public Prosecutor at the Court of Cassation shall specify the persons whose names are proposed to be listed on the relevant United Nations Sanctions Committee. On 06/08/2019, the country proposed the listing of 15 names on the Security Council list 1267/1989/2253 unilaterally (ex-parte), using the applicable standard forms, accompanied by all data supporting the designation received from the concerned national authorities, without prior notification (tipping-off) to those concerned with such action. On 10/08/2020, the Sanctions Committee approved the actual listing of one name in late 2020 - with the support of another country. With regard to the fate of the rest of the proposals, which amount to 14, the Ministry of Foreign Affairs and Expatriates confirmed that they meet all the formal and substantive conditions approved by the United Nations, and that they are still being examined and inquired by member countries within the framework of informal negotiations. The country also confirmed its participation with foreign countries in the proposal to list persons and entities on the aforementioned sanctions list. They participated in designating 5 regional branches affiliated to ISIL on SC list 1267/1989/2253, three of which were enlisted. Moreover, the country stated that their risk profile does not include Afghanistan and Taliban, and the Committee's list established by 1988 included only 135 names and 5 groups, all of which are associated with Afghanistan and Middle Asia countries, noting that the countries already filed a designation on this list are permanent members of Security Council or have risks associated with or close to Afghanistan.

376. The number of persons listed in the Security Council resolution 1267/1989/2253 - list is 5 persons (4 entities and 1 natural persons). 3 of the enlisted are no longer acting or residing in Lebanon since a long time, and the other two are Nusra Front and Al-Qaeda, who were defeated in Al Jroud battle back in 2017. The country has not previously frozen any funds, other financial assets, or economic resources belonging to any of the persons and entities on this list. This is due, according to the country, to the fact that, to date, no property has been identified, whatever its legal nature (tangible or intangible, movable or real estate), that may belong directly or indirectly to these persons. No positive matches were detected with any of the other names on the UN lists.

377. Lebanon has adopted an appropriate mechanism for submitting requests to de-list names from the Security Council sanctions lists and to allow the use of frozen funds, financial assets, or economic resources, in whole or in part (see Recommendation 6). The FIU has made an effort to clarify the mechanism in force for submitting requests for the disbursement of basic and exceptional expenses through the guidance published on its website, which detailed ways to apply the relevant items 5, 6 and 7 of the mechanism for implementing UNSCRs 1267/1989/2253. Moreover, the same information was published on the website of the General Directorate of Internal Security Forces. Lebanon has reported that it has not received, to date, any request to de-list names from the UN lists or to obtain approval to dispose of the frozen funds or part of them in order to pay the basic expenses or other exceptional expenses.

### **UNSCR 1373 (and the successor resolutions)**

378. The country adopted a mechanism for designations on the local list, pursuant to UN Resolution No. 1373. As of 2015 until 18/7/2022, the country has listed 222 names on the Local list , including 203 natural persons, and 19 terrorist entities, and they are available to the public through the General Directorate’s website [www.isf.gov.lb](http://www.isf.gov.lb). the -SIC is responsible for circulation to the Cassation Public Prosecutor, all supervisory authorities, FIs and DNFBPs once the designation resolution is approved through SEEDs system.

379. However, the mechanism adopted by the country does not allow inference about the meaning of the term “Entity” nor “Organized Terrorist Group” (refer to the note in sub-criterion 6.1 (a) above). It is also not clear whether the local list includes natural or legal persons who were listed at the request of the FIU.

380. The listing on the local list is represented in issuance of an indictment or conviction decision against natural or legal persons for the crime of terrorism or terrorist financing, or when foreign judicial decisions are issued accusing or convicting a Lebanese or a resident of Lebanon of one of these crimes, it shall be reported to the Ministry of Foreign Affairs and Expatriates<sup>11</sup>. The competent Public Prosecutor, in relation to judicial decisions issued by Lebanese courts, shall refer a list of the names of the accused or convicts and the crimes attributed to them by the indictment or conviction decision, along with a copy of the aforementioned decision to the Public Prosecutor at the Court of Cassation. The Ministry of Foreign Affairs and Expatriates also refers, through the Ministry of Justice, in relation to the aforementioned foreign decisions, a list of the names of the accused or convicts and the crimes attributed to them by the accusation or conviction decision, along with a copy of the aforementioned decision to the Public Prosecutor at the Court of Cassation. In both cases, the public prosecutor at the court of cassation is responsible to (a) review judicial orders (decisions) issued by Lebanese and foreign courts, and classify them as per the designation criteria; and (b) refer these decisions, if the target meets the listing criteria, to the General Directorate of Internal Security Forces, which is responsible for issuing and maintaining the national (local) list, updating it, and publishing it on its website. This mechanism also authorizes the Public Prosecutor at the Court of Cassation to provide the General Directorate of Internal Security Forces with the names of natural or legal persons or entities upon the availability of data from the FIU or any other official body on the possibility of committing or attempting to commit the crime of terrorism or terrorist financing with the aim of being designated on the local list, without the existence of criminal prosecutions against them or the issuance of a final judgment of conviction acquiring res judicata.

381. The following is a table showing the nationalities of listed natural persons (year by year)

**Table 10.1.1: Nationalities of listed natural persons**

Year	Listed Natural Persons	Nationality
2015	03	01 Palestinian/Jordanian 01 Lebanese/Danish 01 Lebanese
2016	23	17 Lebanese 06 Syrians

<sup>11</sup> In accordance with Paragraph 2 of Clause 1 of Circular No. 5025/5, the Ministry of Foreign Affairs and Emigrants takes the decision it deems appropriate with the utmost speed in terms of referring foreign decisions or not referring them to the Public Prosecution of Cassation. In this context, it reviews the submitted application in terms of form to ensure that it includes adequate and complete information about the natural or legal person or entity concerned that authorizes the Lebanese authorities to identify and verify them conclusively and accurately, in addition to a statement of case containing as many details as possible about the reasonable grounds for the listing request on the Local list .

2017	08	06 Lebanese 02 Syrians
2018	21	11 Syrians 09 Lebanese 01 Palestinian
2019	29	14 Syrians 11 Lebanese 04 Palestinians
2020	117	82 Syrians 33 Lebanese 02 Palestinians
2021	02	01 Iraqi 01 Syrian
<b>Total</b>		203

382. The above table includes statistics on the number and nationality of natural persons listed for the years 2015-to date, 203 individuals and 19 terrorist entities. No name from the local list was lifted. It is clear that the number of natural persons listed during 2020 has remarkably increased compared to previous years.

383. The -SIC and the General Directorate of the Internal Security Forces, each within its jurisdiction<sup>12</sup>, prior to the actual listing on the local list, circulate these names to the reporting authorities<sup>13</sup> as well as to other official authorities<sup>14</sup> concerned with imposing an immediate freeze on any other assets, movable or immovable, and recording entries in the official records. The Ministry of Foreign Affairs and Expatriates also circulates the national (local) list to the concerned countries, especially the neighboring countries (Iraq, Syria, Turkey and Jordan), while providing all relevant information. It also requests it to circulate the list to its competent references.

384. The following is a table that shows the various affiliations of the natural persons identified on the local list, and another table showing terrorist entities:

**Table No. 10.1.3 regarding the various affiliations of natural persons listed on the local list and another regarding terrorist entities.**

<b>Terrorist Entities</b>	<b>Individuals</b>
Abdullah Azzam Brigades	01
Al Nusra Front	01
Al Qaeda	01

<sup>12</sup> According to paragraphs 3 and 4 of Item 5 of the mechanism related to the implementation of Security Council Resolution No. 1373.

<sup>13</sup> I.e. those mentioned in Articles 4 and 5 of Law No. 44/2015, which are:

banks and financial institutions; financial leasing companies; institutions that issue debit or credit cards; financial intermediation institutions; collective investment bodies; and any institutions subject to the license or supervision of the Banque du Liban; insurance companies; casinos; real estate dealers and brokers; traders of high-value commodities (jewelry, precious stones, gold, artifacts and ancient antiquities); certified accountants; notaries; and lawyers.

<sup>14</sup> In the definitions mentioned under of Law No. 44/2015, other official authorities mean:

The Ministry of Interior and Municipalities (General Directorate of Political Affairs and Refugees and the Vehicle Registration Authority); Ministry of Justice (commercial registry); Ministry of Finance (Cadastre); Banque du liban; Lebanese Financial Markets Authority (CMA).

Fatah al-Islam (Conquest of Islam)	03
ISIL	28
Jund al-Sham (The Sham Division)	01
Groups emanating from ISIL and AL Qaeda	157
Total	203

**Table No. 10.1.4 regarding the terrorist entities listed on the local list**

Name of listed Terrorist Entities	
Abdullah Azzam Brigades	Al Nusra Front for the Levant
Al Qaeda	ISIL
Liwa Fajr Al Islam (Islam Dawn Brigade)	Al farooq Battalions Brigade
Turkoman Brigade	Hamza (Allah's Lion) Brigade
Righteousness Brigade	Islam Brigade
Force 515	Qara Group
Qara's Martyrs Battalion	Qara's Freeman Group
"...and prepare" Brigade	Strangers Brigade
Chechnya Battalion	Ahrar Alsham (Freemen of the Levant)
Junud Al Sham in Syria (Levant Soldiers)	

385. The implementation mechanism of this decision and the above-mentioned guidance deal with the criteria for listing on the local list and its implications, how names are circulated to the parties concerned with implementation, the procedures for de-listing from the local list, and the conditions for using funds, financial assets, or economic resources that are frozen, in whole or in part, to cover basic and extraordinary expenses. It turned out that most of the financial institutions and DNFBPs are familiar with the requirements for tracking updates of the local list, freezing and reporting to the FIU. However, the practical application of these requirements was not spared from some loopholes, especially among exchange companies of category "B" and all DNFBPs (see IO.4).
386. The mechanism for the implementation of Security Council Resolutions 1267 and 1373 stipulates that any of the listed persons has the right to submit a written request to the FIU to obtain approval to dispose of the frozen funds or part thereof. The FIU may grant this approval under the conditions it deems appropriate to prevent the financing of terrorism and inform the Public Prosecutor at the Court of Cassation for the following purposes: Payment of necessary or basic expenses for a natural person or a member of their family, payment of reasonable professional fees and expenses related to securing legal services, payment of fees, loan dues or service fees due in favor of a bank or financial institution for the management of frozen funds. The FIU shall notify the applicant of its decision regarding the acceptance or rejection of their application. If the request is accepted, the FIU may withdraw its decision in the event that facts emerge indicating that unfreezing funds may be used to finance terrorism. The Country has indicated that the Public Prosecutor at the Court of Cassation did not receive, until the end date of the onsite visit, any petition requests in order for de-listing, or to release funds or other assets or frozen economic resources and allow their use, or a request for the disbursement of basic or exceptional expenses therefor. In light of this, it is difficult to analyze the effectiveness of the mechanism, in particular the deadlines for deciding on petition requests to verify that the requested amounts will be spent for the purposes mentioned in the request and will not be used for financing terrorism.



387. The country provided written, published criteria regarding the designation criteria<sup>15</sup> that are commensurate with the UNSCR 1373. Whereby the designation proposal submitted by the Public Prosecutor at the Court of Cassation should include as much detail as possible about the grounds or justifications behind the designation, accompanied by investigations, documents, or search or information to enable accurate and proper identification of natural or legal persons or entities. The completed research and investigation records were able to support the stage of classifying judicial decisions according to the designation criteria and making a decision regarding whether or not to refer them to the ISF in order to list them on the Local list.

### Listing requests on/from other countries

388. The Ministry of Foreign Affairs and Expatriates stated that the country issued, during 2019 and 2020, within the framework of cooperation with foreign countries, four requests for listing on the local lists of some neighboring countries (Syria, Iraq, Turkey, and Jordan). On the other hand, the country accepted 03 requests from foreign judicial authorities (Sri Lanka and the United States of America) requesting the freeze of property for 102 persons, and it also considered, during 2020, the possibility of including the data of these persons in its local list by ensuring that it fulfills all conditions. The country indicated that there are no restrictions, transactions, or assets belonging to these names in Lebanon. The Ministry of Foreign Affairs and Expatriates also confirmed that accepting the foreign proposal does not necessarily necessitate the names being publicly listed on the country's local list.

389. When requests are received from foreign official authorities that include lists of individuals (natural or legal) or entities whose names are included in decisions issued by the concerned countries in accordance with UNSCR 1373, the Ministry of Foreign Affairs and Expatriates takes the decision it deems appropriate as quickly as possible to refer them or not to the FIU and the Public Prosecutor's Office. In this context, the Ministry formally reviews the request submitted to ensure that it includes sufficient and adequate information about the natural person, legal person, or entity in question, allowing Lebanese authorities to identify and determine them definitively and accurately, as far as possible, in addition to an explanatory statement containing the maximum possible details on the grounds on which they were included in the list, and to ensure that the submitted request is in line with the prevailing national principles and is based on a sound basis of suspicion and designation, supported by sufficient reasons. To confirm that foreign judicial decisions of accusation or conviction are not required to implement external requests under Resolution 1373 in Lebanon, it should be noted that the country has executed 3 requests from foreign countries without any criminal charges or final convictions against the individuals whose names are included in these requests.

390. The following is a table that includes the number of requests submitted by foreign judicial authorities:

**Table No. 10.2.1 regarding the number of requests submitted by foreign judicial authorities.**

Foreign Countries	Number of requests	Persons subject of the requests
Sri Lanka	1	91
USA	2	11
<b>Total</b>	<b>03</b>	<b>102</b>
<b>Requests submitted by foreign judiciary as per UNSCR 1373</b>		

<sup>15</sup> Paragraph 2 of Item 3 of the implementation mechanism of UNSCR 1373.

391. There are 11,000 NPOs in Lebanon; 7,512 thereof only have activity. The equivalent of 35 percent of these NPOs was established between 2011 and 2019, that is, in conjunction with the ongoing Syrian crisis and the displacement of a large number of refugees. 75 percent of the active NPOs (about 5,634) fall into the subgroup that falls within the scope of the FATF definition<sup>16</sup>. Most of this sector provides services in Lebanon in the form of financial<sup>17</sup> and in-kind assistance<sup>18</sup> (about 37 percent provide social activities, about 25 percent provide cultural activities, and 5 percent provide services to refugees and displaced persons). While NPOs concerned with religious affairs constitute only 3 percent. Internationally funded NPOs are also active in Lebanon, dedicating their services to refugees living in camps. Nearly 50 percent of the donor base of NPOs comes from within Lebanon, about 68 percent receive funding of less than USD 25,000 annually, and only 3.8 percent receive more than USD 1 million annually. With regard to foreign financing, 79 percent of it comes from the USA, Germany, France, Switzerland, Canada, Sweden, Norway, Italy, Australia, Netherlands and the United Kingdom.

### **Targeted approach, communication, and supervision of NPOs at risk (identification of subgroups):**

392. The General Directorate of Political Affairs and Refugees at the Ministry of Interior and Municipalities undertakes the task of supervising and monitoring this sector, according to a risk-based approach<sup>19</sup>, targeting in particular NPOs that represent a high level of risk. This ministry has issued a study<sup>20</sup> on the characteristics and types of NPOs that are likely to be vulnerable to exploitation with the aim of financing terrorism by virtue of their activities or characteristics.

393. This study concluded with a classification of the following categories as being the highest exposed to risk of TF: (a) newly established NPOs (after 2012) that have limited experience in program management or funding; (b) NPOs concerned with refugee and displaced issues; (c) NPOs that adopt names to indicate that their subject matter i.e. religious, while their purpose is, in practice, not religious; and (d) NPOs that operate in border areas adjacent to areas of armed conflict and hotbeds of tension. This study concluded that only 4 percent of NPOs are of (high risk), while 35 percent are of (medium risk) and 61 percent are of (low risk). The percentage of 4 percent represents the number of 225 NPOs. The -SIC confirmed that the study prepared by the Ministry of Interior will be updated within the next months as determined by the national plan emerged as a result of the last update of the NRA in 2022. The purpose of this is to analyze the possible risks of increasing the number of NPOs since the explosion of Beirut Port in 2020, the security situation in neighboring countries and the nature of Lebanese borders geographically overlapping with other countries, although controlling the same and refugees issue, as the Lebanese

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<sup>16</sup> “A legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of “good works”.

<sup>17</sup> In cash, cheques or prepaid cards.

<sup>18</sup> such as training, rehabilitation, medicine, medical assistance, food supplies, and clothing.

<sup>19</sup> Based on a mechanism approved by the Ministry of Interior and Municipalities in 2018 - updated in 2019.

<sup>20</sup> The criteria for this evaluation included: The type and size of NPOs, the nature of the activities they undertake, the geographical scope of the implementation of the activities, the source, size and nature of financial flows (in-kind aid, cash, internal or foreign transfers, etc.), the donors and recipients, and the nature of the services provided by these NPOs. The general directorate of political affairs and refugees at the Ministry of Interior for this purpose relied on quantitative and qualitative information, such as: (a) the field outcome of the completion of administrative files relating to automatic or on-demand reports and requests for assistance; (b) The merits of current and adjudicated criminal cases; (c) intelligence reports; (d) sectoral reports by official bodies and published studies; etc.

security bodies managed to develop statistic databases about the refugee camps.

394. At the supervisory level, the Ministry of Interior conducts offsite and onsite inspection tasks, not to mention the existence of a sudden offsite and onsite inspection in the event of specific facts or a complaint that requires verification, especially when it is suspected that the NPOs are: (a) Involved in fundraising on behalf of a terrorist organization; (b) Being used as a channel to finance terrorism or to provide another form of terrorist support; (c) Disguise or conceal the flow of funds dedicated for legitimate purposes to be redirected to the benefit of terrorists or terrorist groups. The General Directorate of Public Security annually conducts 3 onsite visits to NPOs that are more vulnerable than others to the possibility of being exploited for terrorist financing purposes, two visits to medium-risk NPOs and one visit to low-risk NPOs. In each onsite inspection, at the end of the visit, it conducts an awareness session about the risks of terrorist financing that NPOs may be exposed to and provides them again with a copy of the guidance to prevent their exploitation for terrorist financing purposes.
395. This ministry directs its supervisory resources in proportion to the risks and has adopted an action plan based on the following pillars: Oversight, supervision and follow-up; continuous communication and training; local coordination; International cooperation and sanctions. In 2019, the Ministry of Interior and Municipalities reviewed the criteria for scheduling onsite visits according to risks and according to priority, as follows: (a) The size of the NPO in terms of comparison between the size of the NPOs' assets or revenues and the size of the sector as a whole; (b) the presence of offshore tributaries or external activity; (c) the geographical location of the NPO; (d) the nature of the activity; (e) programs and sources of funding; The nature of the financing channels (formal or not); (f) Recording financial resources, income or expenditures, exceeding 50 million Lebanese pounds. However, it was not inferred from the submissions any official practical evidence for the onsite inspection or internal procedures related to such.
396. As a result of the General Security's follow-up and monitoring of the NPOs' activities, the latter detected some suspicious acts which resulted in withdrawing the "information and acknowledgment statement" given to establish associations based on rulings issued by the military court and after the approval of the Council of Ministers on the grounds of "deviation of these NPOs from their objectives and the scope of the license granted to them and their conviction of the crime of financing terrorist activities, financing terrorism, training fighters and preparing terrorist acts" as concluded by the investigations of the General Directorate of the Internal Security Forces. These decisions are issued pursuant to government decrees published in the Official Gazette. By reading the verdicts, it was found that these NPOs were fined and stripped off of their civil rights.
397. On the other hand, the Directorate of Political Affairs and Refugees relies on the Directorate of Public Security of the same ministry for security inquiries about all founders and associates (i.e. Absence of individual criminal acts (felonies/misdemeanors) or history of criminal record). It is also verified that their names are not listed in the UN ban databases or in the local list. The Directorate of Political Affairs and Refugees and the General Directorate of Public Security seek to monitor unlicensed/secret NPOs, whose number has been on the rise since the beginning of the Syrian crisis, assisted by security support; their activities are stopped, and their resources confiscated according to a court ruling. The statement of the NPOs' funds and expenditures, and their compliance with the conditions for granting funding, are constantly verified. This control is tightened in the event that the NPO benefits from government support, as it is ensured that the programs and projects are completed and that funds are not diverted from their original destination and directed to a person, entity, or terrorist act. Such support is carried out by the

Audit Court of Lebanon as a supreme inspection body. However, The legislation in force did not impose any penalties in the event that NPOs or the persons acting on their behalf committed violations of the obligations stipulated for by the Ministry of Interior and Municipalities. This is mainly due to the absence of legal provisions specific to the obligations of NPOs in the field of CFT.

398. The following table shows the number of NPOs that did not obtain a license during the last five years:

**Table No. 10.2.2 regarding the number of NPOs that did not obtain statement of notification.**

<b>Year</b>	<b>NPOs submitted registration applications<sup>21</sup></b>	<b>The NPOs that was notified and apprised</b>	<b>The NPOs that was not notified and apprised<sup>22</sup></b>
<b>2017</b>	644	357	287
<b>2018</b>	502	257	245
<b>2019</b>	537	239	298
<b>2020</b>	382	115	267
<b>2021</b>	553	329	224
<b>Total</b>	<b>2618</b>	<b>1297</b>	<b>1321</b>

399. As for unlicensed NPOs, the authorities clearly stated that most of these NPOs were de facto established in zones controlled by terrorist groups. This was changed after Joroud Battle (2017) in which the Lebanese Army liberated the lands occupied by the terrorist groups. The Department of refugees and Political Affairs at the Ministry of Interior and the General Directorate of Public Security follow up and trace activities of NPOs and detect those working without a license. Moreover, General Directorate of Public Security monitors the persons filed for “statement of notification” and failed to get the approval, for being riskier than other persons, in order to prevent them from conducting any activities without license. Once any unlicensed activity is practiced, the NPO is tracked down to stop its activity. The country has resorted to freezing memberships in several NPOs and dissolved two NPOs, bearing in mind that the legislation in force punishes anyone who maintains an NPO that has been dissolved because it or one of its members committed crimes related to state security or helped it carry out an activity. This measure remains inconsistent with the size of the sector and the risks it poses.

400. On the other hand, the Directorate of Political Affairs and Refugees stated that it held extensive meetings with NPOs that represent high risk in order to discuss weaknesses and raise awareness about the nature of the threats and risks surrounding the sector in light of the general characteristics of the country, as well as ways to mitigate them. It turned out that the Ministry of Interior and Municipalities, in partnership with the FIU, issued a guidance for NPOs to prevent their exploitation for TF purposes. This guidance includes information on the definition of TF, how an NPO is abused to TF, the consequences if this is done, an understanding of the risks, due diligence measures, and principles of transparency. etc.

<sup>21</sup> All applications submitted by representatives of NPOs in order to establish and obtain a “notified and apprised” statement are sent to the General Directorate of Public Security.

<sup>22</sup> The refusal to grant a statement of notified and apprised is due either to a recommendation from the General Security (a security suspicion, for example) or to the lack of conditions related to its establishment.

401. However, it became clear that the sample of NPOs interviewed by the AT during the onsite visit was completely unaware of the nature of the risks that the sector might be exposed to, especially in light of the following contextual threats: (a) The widespread use of cash within the Lebanese society in light of the prevailing financial crisis; (B) the continuous exodus of refugees from neighbouring countries, with reference to the fact that a large part of them do not have identification documents and are not recognized by the Lebanese security authorities, and (C) diverting cash and in-kind assistance for TF purposes; (D) The existence of two standard practical cases of exploiting this sector for TF purposes, which led to several follow-ups and convictions, in addition to referral to the Cabinet to complete the procedures for dissolving the two NPOs.
402. The security authorities have confirmed that the terrorist organizations seek to ensure the continuity of their activities, to diversify their funding sources, whether through economic projects and investments that they undertake, or the funds they receive from the NPOs that support them. It turned out that one of the terrorists being pursued in a foreign country had financed a Lebanese branch of an NPO established abroad, which was used as a cover for terrorist acts that affected Lebanon. Going back to the merits of the case, it became clear that this NPO was used to collect donations through boxes distributed in shops and pharmacies, as well as donations received from sympathizers, especially foreigners, after which the proceeds were diverted to purchase weapons and train fighters affiliated with terrorist organizations." (Refer to cases studies in IO.9).
403. Basic information was not provided about continuous training and the number/percentage of NPOs benefiting therefrom, in addition to the rest of the initiatives aimed at spreading awareness among Lebanese society regarding the risks of exploiting NPOs for TF purposes, the methods used therein, and the possibilities available in the sector, such as using official financial channels to transfer donations. However, it should be noted that the Directorate of Political Affairs, Expatriates and Municipalities holds annual meetings with NPOs upon their submission to obtain an annual statement, the aim of which is to spread more awareness about the risks that this sector may be exposed to in the field of terrorist financing, where threats, weaknesses and ways of mitigation are discussed. The Ministry also provides these NPOs with a paper copy of the Guidance originally published on the Ministry's website.

### **Control and Supervision**

404. The FIU conducts periodic offsite and onsite inspections to verify the financial sector's compliance with its obligations under the international ban lists and the local list. The FIU also has inspection teams specialized in the electronic field, which verifies that the electronic survey (scanning) programs are updated on a daily basis. The targeted financial sanctions constitute an integral part of the inspections, and no special tasks are conducted in this subject according to the risk-based approach, despite the violations by many FIs and DNFBPs. Moreover, no effective, proportionate or dissuasive sanctions were imposed after detecting such violations, where the penalties were limited to financial fines against three banks between 2018 and 2019, and 5 warning letters between 2017 and 2019 as stated by the FIU (see IO.4).
405. The following is a table showing the number of supervisory tasks completed during the last five years and the observations discovered related to the daily review of regulations by financial institutions (without the presence of a listed name that requires immediate freezing):

**Table No. 10.2.3 regarding the number of supervisory tasks completed in recent years**

	Number of tasks	National bylaws	Bylaws of Security Council	Number of tasks	National bylaws	Bylaws of Security Council	Number of tasks	National bylaws	Bylaws of Security Council	Number of tasks	National bylaws	Bylaws of Security Council	Number of tasks	National bylaws	Bylaws of Security Council
<i>Banks</i>	28	08	05	22	06	03	32	05	01	19	01	-	24	01	-
<i>Exchange Category A</i>	24	11	09	20	08	06	32	08	05	25	06	04	26	04	03
<i>Money Transfer</i>	07	03	01	02	-	-	09	01	-	12	01	-	04	-	-
<i>Exchange Category B</i>	59	39	23	70	42	30	23	09	05	19	06	03	-	-	-
<i>Non-banking financial institutions</i>	18	09	05	17	07	03	16	03	01	-	-	-	03	01	-
<i>Insurance Companies</i>	28	12	06	21	06	04	28	05	02	-	-	-	05	01	-
<i>Financial Brokerage (intermediation) Companies</i>	01	01	-	08	03	02	07	02	01	-	-	-	-	-	-
<i>comptoirs</i>	21	14	11	-	-	-	20	07	04	-	-	-	-	-	-

406. As for DNFBCs, the Ministry of Justice and the Bar Association verify, in a varying and uneven manner, that the SRBs deal properly with the ongoing updates of the ban lists and the local list with the aim of scanning customer databases and implementing their obligations to freeze funds, or other financial assets, or economic resources, or to refrain from carrying out transactions in cases of matching or suspected of any matching. This process is carried out by filling out questionnaires on each inspection mission and comparing them with samples from customer files. While LACPA does not conduct any inspection tasks in this matter. The Ministry of Justice and Bar Association confirmed following the approach of continuous following up with the supervised entities, even in case of committing punishable violations. Up to date, no penalties were imposed, as corrective program is provided in most cases, in addition to raise the awareness of the violating entity about the nature of the violation. No remarkable violations were identified.

407. The country took many measures to mitigate the risks related to legal persons, but these measures have some shortcomings related to the implementation of lawyers and notaries of the targeted financial

sanctions, and the Commercial Registry not scanning the legal persons' founders against the negative lists, except in certain cases when doubts arise about the natural persons related to the company, especially due to their nationalities.

408. All the regulatory authorities have confirmed that they rely on the local and UN lists as part of the licensing procedures, as they scan electronically or manually the names of license applicants. No cases of identical or similar names have been detected (See IO.3).

### Deprivation of TF assets and instrumentalities

409. During the period from 2015 to date, assets belonging to listed names in the local list, mostly Lebanese natural persons, were frozen. The country has resorted to freezing memberships in several NPOs and dissolved two NPOs, bearing in mind that the legislation in force punishes anyone who maintains an NPO that has been dissolved because it or one of its members committed crimes related to state security or helped it carry out an activity. Whereas these procedures included the issuance of a judicial ruling on the financing of terrorism against an NPO. Also, the percentage of bank accounts includes accounts for one of the NPO's founders and 3 of its managers. The country also indicated that the local list includes four members of NPOs.

410. The table below shows the total frozen assets according to the UNSCR 1373 and their financial value.

**Table 10.4.1 on total frozen assets and their financial value**

<b>Classification as per type</b>	<b>Number</b>	<b>Financial value (JOD)</b>	<b>Number of natural persons and entities subject of the freezing</b>
<b>Real estate</b>	39	1.818.467	16
<b>Vehicles</b>	39	110.500	33
<b>Membership in NPOs</b>	04	—	
<b>Opened bank accounts</b>	20	1.403.834	16
<b>Closed bank accounts</b>	23	—	18
<b>Total</b>	125	3.332.802	

411. The above table does not provide information on the nature of the frozen funds (P.O. boxes, shares and insurance policies of the listed persons and entities, etc.). The country has indicated that the figures in the table are exclusively related to the freeze on the basis of TFS.

412. It is also noted that this table is lacking any reference to cash (despite its modest value<sup>23</sup>), which, according to the latest NRA Report update, is considered the main source of financing terrorism in Lebanon, as it was used for several purposes such as purchasing explosives, weapons, and ammunition, and paying funds to terrorists and providing logistical support. This assessment also indicated that the

<sup>23</sup> The proceeds are either from illegal sources, or from terrorist groups present in the conflict zone, or from self-financing.

NPOs sector has been exploited for the purpose of financing terrorism, as cash donations make it difficult to determine their source, and it is also difficult to determine the final destination of the funds when a partner organization, intermediaries, or representatives interfere with the disbursement or distribution of cash.

413. No information was provided about the value of the confiscated assets and instrumentalities, nor about the national mechanism for managing frozen or seized assets to protect the rights of the country in the event of a judgment for their confiscation, or to protect everyone who has a right in the event of a judgment to return them or after proving innocence. In the absence case studies, it remains unclear whether the country is keen to preserve the rights of bona fide third parties, especially when there are shareholders in legal persons or entities not listed in the lists. It should be noted that the Ministry of Justice confirmed the absence of any legal restriction preventing the notary public from depositing funds related to professional transactions in its personal account, which is separate from the account of the office. This raises the question of how to implement precautionary measures such as freezing and seizure, in addition to the penalty of confiscation, in light of the principle of “indivisibility of the bank account” and the inevitability of prejudice to the rights of third party depositors as they are bona fide parties.

#### **Consistency of measures taken with the overall risk structure**

414. Lebanon gives great importance to the issues of combating the financing of terrorism and possesses an advanced understanding of the risks of terrorist financing in view of the context of the country, as it assessed the risks of terrorist financing through the 2019 NRA (updated in 2022). Over the past few years, it has taken important actions to increase its effectiveness in mitigating TF risks, including Improving supervisory capabilities, including to supervise the work of NPOs using a risk-based approach. Exploiting monetary donations from the public, changing the course of foreign support, self-financing, and diverting in-kind assistance are among the sources of financing terrorism. The country has also issued a watch list of persons against whom there are present and previous reports, investigations, or criminal records indicating that they are linked to terrorism, in order to monitor them and provide a prior or immediate response in the event that they commit any violations affecting security.

415. A special study was conducted on the risks of exploiting NPOs sector for TF purposes. The country enjoys strong licensing and supervisory controls, which helps prevent abuse of the sector in TF. However, this does not preclude the abuse of NPOs for TF purposes in light of the prevailing contextual factors and threats, especially the situation of refugees from neighboring countries, the increasing spread of cash and informal transfers, and the presence of persons sympathetic to or operationally connected with terrorist organizations or their supporters.

416. The total funds and assets frozen since 2015 have reached around USD 3.5 million. This value appears modest over a 7-year period compared to the number of judgments issued in terrorist financing and the country's risk structure, as the terrorist financing threat is located at the highest risk level referred to in the executive summary of the NRA. Thus, TFS seem to play a modest role in Lebanon's approach to drying up the sources of terrorist financing.

#### **Overall Conclusion on Immediate Outcome 10:**

417. Lebanon has an appropriate mechanism to identify the persons and entities targeted for designation in



accordance with UNSCR 1267 and successor resolutions. During the last five years, the country proposed to the Sanctions Committee to designate a number of persons, as the Sanctions Committee agreed on 8/10/2020 to list a name submitted by Lebanon. Furthermore, it participated with foreign countries in designating a group of persons and entities, providing detailed information on some of the listed persons. However, the country has not previously frozen any funds, other financial assets, or economic resources belonging to any of those on this list. This is due to the fact that the country did not specify any property that may belong directly or indirectly to these individuals. Although this mechanism was imposed on all financial institutions and DNFBPs to track the updates of these lists, it was noticed that there was a discrepancy in following up these updates by some financial institutions, and most of the DNFBPs and reflect them in timely manner. And in implementation of the country's obligations related to UNSCR 1373, a large number of persons and some entities have been listed on the local list and their assets have been frozen. It turned out that most of the financial institutions and DNFBPs are familiar with the requirements for tracking updates of the local list, freezing and reporting to the FIU. However, the practical application of these requirements was not spared from some loopholes, especially among exchange companies of category "B" and all DNFBPs. The country has a well-developed understanding of the nature of the threats and risks related to TF that may confront NPOs' activities. This understanding stems from the study prepared by the Ministry of Interior and Municipalities, which led to the classification of NPOs according to the levels of risks they represent and subjecting them to supervision according to a risk-based approach. Despite the efforts made by the country to promote and spread awareness among NPOs, it turned out that the sample interviewed by the AT during the onsite visit was completely unfamiliar with the nature of the risks that the sector might be exposed to.

**418. Therefore, the Level of Effectiveness achieved by Lebanon in IO.10 is Moderate.**

#### **Immediate Outcome 11 (Financial Sanctions Related to Proliferation Financing)**

419. The FIU is the authority responsible for ensuring that TFS are implemented without delay and has adopted a mechanism<sup>24</sup> to implement TFS related to UNSCRs 1718 and 2231 regarding North Korea and Iran and the relevant successor resolutions. -, the role of coordinating this mechanism and ensuring its implementation by the FIU is based on texts of the introduction of the constitution, which is an integral part of it and enjoys a constitutional value, like the provisions of the constitution itself according to the Constitutional Council, as well as a number of international treaties signed by Lebanon. Lebanon is obligated under Article 25 of the Charter of the United Nations to accept and implement Security Council resolutions. On the other hand, it should be noted the absence of VASPs, as this activity remains prohibited in the country (see IO.3).

#### **Implementing UNSCR related to combating proliferation financing without delay:**

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<sup>24</sup> This mechanism addresses: (a) Official (Public) Authorities: Ministry of Interior and Municipalities (Directorate General for Political Affairs and Refugees; Vehicles Registration Authority); Ministry of Justice (Commercial Registry); Ministry of Finance (Land Registry); Lebanon bank; Lebanese Financial Markets Authority; (B) The entities listed under Articles 4 and 5 of Law No. 44/2015 (banks and FIs; financial leasing companies; institutions that issue debit or credit cards; institutions that engage in financial intermediation; collective investment bodies; and any institutions subject to a license or supervision of the Banque du Liban; Institutions not subject to bank secrecy law, especially insurance companies; casinos; real estate dealers and brokers; high-value commodity dealers [jewelry, precious stones, gold, antiques, and artifacts]; chartered accountants; notaries; and lawyers).

420. Lebanon is committed to implement Security Council resolutions related to combating proliferation, No. 1718 and 2231, and successor resolutions. Accordingly, a mechanism was adopted to implement TFS in implementation of FATF's Recommendation 7 related to Security Council resolutions on proliferation. Based on the approved mechanism, the FIU is the authority responsible for ensuring the implementation of TFS without delay, and a number of circulars were issued by the Banque du Liban and the FIU regarding the freezing without delay of financial institutions and DNFBPs (see Recommendation 7). There are also no economic or commercial dealings between Lebanon and North Korea. It banned the import and export of any goods thereto, and, in implementation of UNSCR 2270, it inspects all ships and goods passing through its territorial waters.
421. Lebanon is directly and indirectly exposed to the threat of proliferation of weapons of mass destruction due to its trade relations with Iran, and the resulting commercial transportation links between the two countries. According to official data published on the website of the Lebanese Ministry of Economy and Trade (economy.gov.lb), Lebanon's exports to Iran consist of books and agricultural seeds, while imports include carpets and foodstuffs such as fresh and dried fruits and vegetables. Lebanon implements measures to address and inspect all shipments of goods and materials exchanged with Iran (imports and exports) that could be used for the purpose of proliferation of weapons of mass destruction, to ensure that they are not prohibited under UNSCR 2231, including dual-use materials. The competent authorities also seek to raise awareness among the private sector (banks and cargo shipping companies) regarding the risks of misusing them for the purpose of proliferation of weapons of mass destruction, and to ensure that they check for these risks accordingly.
422. The assessment team believes that the size of bilateral trade is of modest value, especially that the exchanged goods do not fall under the prohibited goods according to the UNSCRs, and in light of the international pressures on the productive sectors and exports of Iran, as well as the size of trade and economic exchanges between Lebanon and Iran during the recent years.
423. In addition to the circulation through SEEDs system conducted by the FIU<sup>25</sup>, the applicable mechanism set an obligation to all financial institutions and DNFBPs where they are required to track updates on the ban lists related to UNSCRs 1718 and 2231 regarding North Korea and Iran on a daily basis and directly through browsing websites of the relevant sanctions' committees. As for the practical level, it was found that banks, money transfer companies, and exchange institutions, without any other financial institutions, are keen to track these updates in a timely manner. As for the DNFBPs, it is completely unaware of its obligations in this field and does not interact in any way with the list updates. The FIU remains in constant contact therewith to raise its level of awareness and urge it to develop its monitoring and compliance

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<sup>25</sup> The FIU receives, on a regular basis, updates to the lists (listing, amendment or de-listing) from the Ministry of Foreign Affairs and Expatriates immediately after receiving it from the permanent mission of Lebanon to the United Nations in New York, so that the FIU immediately and without delay issues a decision addressed to the FIs and DNFBPs referred to in Articles 4 And 5 of Law No. 44/2015, as well as to all other official authorities, is intended to prevent the disposal, spontaneously and immediately, without delay and without prior notice, of movable or immovable funds, other financial assets and economic resources belonging to the listed names. According to a statement by the Ministry of Foreign Affairs and Expatriates, receiving and circulating updates requires two working days at the latest.

Banque du Liban Circulars (1, 2, 3, 69 and 83) and FIU Circular No. 26 also prohibit granting belonging funds, directly or indirectly, individually or jointly with others, to those listed in one of the two lists, and those acting on their behalf, unless there is a permission or otherwise authorized by the Ministry of Foreign Affairs and Expatriates. This procedure includes marking (making reference to) entries and records of movable or immovable funds.

programs to ensure its proper implementation of its obligations in this field.

424. Banks and money transfer companies use, to varying degrees, subscriptions to private databases to track any update on the UN lists, and specialized electronic software to scan their customer databases against the updated UN lists. This enables it to immediately implement the freezing requirement without prior notice (tipping-off) as soon as the names are listed, while providing the FIU with proof of the designation within 48 hours as a maximum.
425. On the other hand, trade finance departments at financial institutions ensure that no transactions are carried out for the benefit of designated individuals or entities or those acting on their behalf. These institutions: (a) review available business transaction documents (certificate of origin, shipping invoices) and identify the parties involved; (b) scan the names of all parties involved in the transactions to ensure that none of them are on the lists issued pursuant to SC resolutions related to the proliferation. These parties include: the applicant, the beneficial owners, banks (beneficiary and intermediary), the transport company, the sender and the recipient, the shipping company and the insurance company, the ship and its number with the International Maritime Organization, and agents, the country of origin of the goods, the loading/unloading port and the transit port. In the event that the transported goods have a dual use, EDD measures are applied by financial institutions to ensure that these goods are in line with the nature of the client's business and that their purpose of use is justified. EDD measures are also applied whenever one of the parties to the transaction is a national or a resident of countries that do not apply the recommendations of the FATF or do not apply them sufficiently, and this is verified through regular review of the FATF's website, especially after each preliminary meeting. Trade finance departments obtain approval from compliance departments, the same procedures are followed when issuing shipping bills.

**Case study no. 16 : Summary of a successful case**

The assessment team reviewed a successful operation that took place in 2017, during which a bank froze the personal account of one of its clients and the account of their sole establishment. The bank also notified the FIU of financial transactions that did not match the information obtained from the client in the "know your customer" statement and were suspected to be related to international trade (Arab, European and East Asian countries) in dual-use goods. The file was referred by the FIU to the Public Prosecutor's office for necessary action after lifting the banking secrecy.

426. In addition to FIs and DNFBPs that receive freezing orders directly from the FIU, all natural and legal persons within the scope of the country are obligated to prevent access to or use of funds to those listed, based on the requirements of Article 770 of the Penal Code. Whereby anyone who violates the mechanism, as it is one of the administrative regulations issued in accordance with the law, shall be punished with imprisonment up to 3 months and a fine from 100,000 to 600,000 Lebanese pounds, or one of these two penalties.
427. It turned out that the Banking Control Commission and the rest of the non-banking financial institutions relied on these lists as part of the licensing procedures, as they electronically scanned the names of the founders, shareholders, members of the boards of directors and management bodies against these lists, and did not allow the opening of any branches of Lebanese financial or commercial institutions in North Korea or Iran nor opening branches of financial or commercial institutions owned wholly or partly by one of these two countries on Lebanese soil (See IO.3).

428. In addition, the General Directorate of Customs carries out its responsibilities in inspecting shipments and goods imported or exported at the level of the Lebanese border crossings and in analyzing the attached bills of lading and invoices to ensure that the names mentioned in the documents are not listed. To that end, the Directorate monitors the UN lists of sanctions on daily basis, as well as the list of prohibited goods and the schedule of restrictions and prohibitions, in order to compare the types of imported/exported goods and ensure the type of restrictions imposed on them. Procedures have been developed in this regard for dealing with dual-use chemicals when they are imported or re-exported to another country. Lebanon had successful cases in this regard. In addition, the information is entered into the "Najm" customs information system for analyzing goods according to risk indicators and clearing measures.
429. In 2013, Lebanon established a national body, at the level of the Cabinet, responsible for implementing Lebanon's obligations towards international conventions related to chemical, biological, radiological and nuclear materials (CBRN).
430. The following is a case study for intercepting prohibited commercial transactions and importing dual-use goods.

**Case study no. 17: Summary of a successful case**

The customs officers received information at the port of Beirut as a result of investigations and inquiries, based on the customs declaration information and risk indicators that they rely on in their work (such as the country of origin, type of goods, and the fact that the company's activity does not match the imported goods, previous violations by the customs broker, etc.) about the possibility of importing dual-use goods that may be used for illegal activities. The customs officers expanded the investigation by reviewing information related to the container, shipping documents, invoices, delivery permits, and company papers. Based on the aforementioned procedures, the relevant agencies in the customs authority inspected the container upon arrival, where it was found to contain plastic bottles labeled "Engine Oil" containing an alternative chemical substance (Ether). It was also found that the rest of the container contained blue gallons of Carbon Tetrachloride and another part contained Acetate Anhydride, and samples were taken for laboratory analysis. It was found that these chemicals are also used in the production of explosives and drugs. Therefore, the Public Prosecutor's office was notified to expand the investigation and to arrest the owners of the goods as well as all involved parties. The investigations led to the arrest of five people, red waxing and confiscate the container.

431. The SIC has provided a guidance available to the public on its website, on how to submit requests to delist names from the UN sanctions lists, and to allow the lifting of restrictions on funds or other financial assets or economic resources, in part or in whole, with the aim of disbursing basic and exceptional expenses.

**Defining and blocking funds and assets held by designated persons and entities:**

432. To date, the country has not identified any funds, other financial assets, or economic resources of whatever nature, directly or indirectly belonging to any of the names on the United Nations lists related to proliferation financing. Nor has there ever been a positive or false positive match for anyone on the North Korea-Iran blacklist.

### **FIs and DNFBPs Understanding and complying to their obligations:**

433. This clause does not apply to VASPs due to the absence of this activity in Lebanon (see IOs 1, 3 and 4).

434. The SIC provided a guidance that includes the following: Obligations related to the suppression of proliferation (basic definitions; how to access the lists; procedures that must be followed continuously such as daily review of lists and how to determine compliance and immediate freezing in case of match and attempts to perform transactions and additions to frozen accounts; petition mechanism against the freezing decision if the person holds matching name of similar to the listed person or entity; the procedures that a person or entity can take to dispose of its frozen funds or assets; the procedures that a person or entity can take to de-list its name; the procedures required of all natural and legal persons within the Lebanese borders.

435. Banks, money transfer companies, and exchange institutions are well aware of their obligations - related to the implementation of TFS to combat the proliferation, and they start implementing them without waiting to receive any circulars, as they refrain from carrying out any transactions with Iran and North Korea despite the existence of commercial exchanges with Iran. These institutions use electronic systems to control any suspicious activities of transactions related to Iran or North Korea, and they also check all commercial transfer proofs such as invoices, certificates of origin, certificates of disclosure of goods, and bills of lading, including all parties to the commercial relationship, and the names of intermediary companies and shipping companies and the names of ships and associated countries. –

### **Ensuring and monitoring compliance by the competent authorities:**

436. The SIC follows up on the financial and non-financial sectors to ensure their implementation of the obligations related to the relevant Security Council resolutions. This is done through an inspection plan (offsite and onsite) based on the risk-based approach. Through these tasks, it is verified that there are written procedures approved by senior management to determine how to deal with these requirements and the existence of appropriate information systems for real-time screening that allow the discovery of new names on the UN sanctions lists. The supervisory work also includes ensuring that the databases are reviewed periodically for any updates in a timely manner, and that surveys are conducted before executing transactions for each of the account holders and other concerned parties (the beneficiary, the agent, and the owner of the economic right (“BOs”)). It is also ensured that there is an effective mechanism for immediate freezing and for informing the FIU, within 48 hours of the customer whose funds, assets, or economic resources have been frozen, or cases where the name of the bank’s customer is similar to the name on the sanctions lists. The country did not provide any information about the number of inspection tasks conducted by the FIU in this field.

437. The SIC has the power to take proportionate and dissuasive measures if it discovers violations or deficiencies in internal systems and controls. The country indicated that the inspection tasks of the FIU showed that there were some violations related to the failure to carry out the daily review of the lists, and not to the presence of a listed name that requires immediate freezing.

438. While the Ministry of Justice, the Bar Association, and LACPA do not conduct any supervision over notaries, certified accountants, and lawyers in the implementation of the obligations imposed on them in this field.

### Overall Conclusion on Immediate Outcome 11:

439. Lebanon has an adequate mechanism to implement TFS related to CFP, whereby all financial institutions and DNFBSs are required to track updates on the ban lists related to UNSCRs 1718 and 2231 regarding North Korea and Iran on a daily basis and directly through websites of the relevant sanctions' committees. On a practical level, only banks, exchange institutions and money transfer companies are keen to follow these updates in a timely manner. As for the DNFBSs, it is completely unaware of its obligations in this field and does not interact in any way with the list updates.

440. **Therefore, the Level of Effectiveness achieved by Lebanon in IO.11 is Moderate.**

## Chapter 5: Preventive Measures

### Key Findings and Recommended Actions

#### Key Findings:

#### Immediate Outcome 4

- a) Banks and money transfer companies linked to global networks have a good level of understanding of the risks of money laundering and terrorist financing associated with their activities, as their understanding is in line with the results of the NRA and its update. On the other hand, Exchange Companies have moderate understanding. Moreover, the understanding of DNFBPs to the risks is uneven, since the notaries have limited understanding to their ML risks, while lawyers have good understanding. The level of understanding among the component of the same sector varied, as traders of precious metals and stones and real estate agents have moderate to low understanding, while all sectors are aware of the obligations, but vary in implementation, especially in the DNFBPs.
- b) Banks and money transfer companies apply the risk-based approach to their customers and update it periodically according to the change of risk factors. Specific measures are taken to mitigate risks, and for DNFBPs; lawyers apply policies and controls commensurate with their risks, and notaries and other DNFBPs do not apply the risk-based approach, whereby general measures are taken to mitigate risks that are not related to the risks they face.
- c) Banks and Financial institutions apply CDD measures in a satisfactory manner, but the procedures of verifying the identity of the BOs of a legal person are limited in some institutions to verifying the identity of the actual owner(s) only, and the procedures applied by banks vary with regard to how to deal with bank accounts of notaries. Operations monitoring procedures are also applied in a satisfactory manner, with the exception of category (B) exchange companies and some category (A) companies. The money transfer companies apply CDD measures towards secondary agents, which include monitoring how compliant they are with the AML/CFT obligations. DNFBPs apply procedures to identify customer and verify their identity in a satisfactory manner, but the level of application of procedures for determining the source of funds and monitoring transactions by notaries is insufficient.
- d) Banks and most components of the financial sector have satisfactorily implemented enhanced due diligence measures for PEPs, correspondent banking relationships, wire transfers, and high-risk countries. However, there are shortcomings were found in the understanding and application of some exchange companies of the enhanced measures towards PEPs. Except for money transfer companies, gaps were found in some banks, exchange companies and other financial institutions which can be represented in the periodicity of updating the UN lists and re-scanning customer database. Notaries, DPMS, and real estate brokers did not have a clear understanding of the definition of PEPs, how to identify them, and how to apply the necessary measures towards them. Gaps were found among notaries when applying the obligations related to TFS, as some notaries apply procedures for verifying listing status in exceptional cases, while procedures for re-confirming the listing status are applied at separate intervals as well as a number of gaps were also found in the understanding and application of DPMS and real estate brokers to those obligations.
- e) The majority of STRs were reported by banks, as they are the largest component of the financial sector, followed by money transfer companies and exchange companies. The submitted STRs are generally low, especially in the DNFBPs sector, as the number of submitted STRs is not commensurate with the classification of risks in the context of the country. The notaries sector, which is rated as high risk, submitted a limited number of STRs, while there were no cases of reporting by DPMS and real estate

brokers. With the exception of banks and money transfer companies, there is no distinction among other subject entities between indicators of ML/TF.

- f) Reporting entities apply internal controls commensurate with the size of their business, but category B exchange companies, comptoirs and DNFBPs do not apply the requirement of independent auditing for anti-money laundering and terrorist financing programs. As for banking secrecy laws, it was not found that there is anything that prevents any of the financial institutions from implementing their obligations related to AML/CFT, but banks share information with foreign branches and their subsidiaries abroad in a limited scope that does not include due diligence information and analysis of suspicious reports at the group level in order to benefit from them for AML/CFT purposes.

### **Recommended Actions:**

#### **Supervisory Authorities should:**

- a) Take steps to enhance the understanding of DNFBPs and some stakeholders of the financial sector of the risks of money laundering and terrorist financing related to their activities, including raising awareness and communicating with these subject entities regarding the completion of the self-assessment of risks and the application of AML/CFT measures in commensurate to the risks.
- b) Lebanon must unify and clarify the definition of the beneficial owner and the procedures for determining it among the various categories of entities subject to reporting, issue specific instructions for this, and improve the continuous monitoring in this regard, especially with regard to dealing with bank accounts of notaries.
- c) Issuing instructions for non-banking financial institutions, exchange companies, insurance companies and DNFBPs regarding how to apply TFS without delay to ensure effective application and focus on the importance of not limiting the application of procedures to verify the listing status to exceptional cases or specific transactions ceilings. Oblige the subject entities to follow up updates on the UN lists directly on the Security Council website and compare the updates with their database and customer information constantly and at every change to ensure compliance with the monitoring (detection) and immediate freezing requirements.
- d) Taking vigorous steps to increase communication and raise awareness among the notaries sector, which is rated at high risk, with the aim of enhancing their understanding of the risks of money laundering and terrorist financing related to their work, and how to apply the obligations related to identifying and understanding risks, and preventive measures, and ensuring that measures are taken to manage and mitigate money laundering risks associated with the activities that they provide in a way commensurate with these risks, by promoting the holding of continuous training courses and workshops and issuing guidelines for the sector.
- e) Instruct and educate notaries, DPMS, and real estate brokers, and keep raising the awareness of the exchange companies of type “A” about the definition of PEPs and how to identify them, their family members, and persons associated therewith, and ensure that enhanced due diligence measures that are required to be applied in those cases are taken.
- f) Continuing efforts to improve the number and quality of STRs, especially from the reporting entities that are characterized by a low number of or no reporting cases, such as notaries, lawyers, Casino du Liban, DPMS, and real estate brokers, through supervisory procedures and continuous communication to urge these entities to improve systems for monitoring unusual transactions and report them. This should include educating those authorities on identifying suspicious activities and transactions, the patterns and indicators for each category. Issue special instructions on how to apply ongoing monitoring



of operations and monitoring suspicious indicators related to the various types of activities practiced by the reporting entities, especially DNFBPs.

- g) Take measures to ensure the effectiveness of applying internal controls as a requirement for independent auditing of AML/CFT programs by non-compliant categories of subject entities.

441. The Immediate Outcome considered and assessed under this chapter is IO4. Recommendations Relevant to the Effectiveness Assessments under this chapter are: R9-23.

442. Given the materiality and risks in the context of Lebanon, the implementation of preventive measures by the relevant sectors was weighted as follows; where issues related to (implementation) weighted the greatest in the banking sector, whereby a large weight in the sectors of money transfer companies and exchange companies of category “A” and the notaries sector, and a medium weight was given to the sector of exchange companies of category “B” and the sectors of lawyers, DPMS and Real estate brokers, whereas a low weight was given to insurance sector, non-banking financial institutions, financial intermediation companies, comptoirs and Casino du Liban (see Chapter One).

443. Accordingly, the evaluation of the level of effectiveness in IO.4 is affected by the quality of the implementation of the measures by banks, money transfer companies, category “A” exchange companies, the notary sector, lawyers, DPMS, and real estate brokers. Also, the extent to which the accountants sector applied preventive measures was not assessed due to the reasons mentioned in the analysis of IO.3 regarding the nature of the activities they provide. Likewise, VAs and VASPs activities have not been assessed due to being banned activities in Lebanon (see Chapter One).

444. The findings of IO.4 are based on meetings with a sample of representatives of reporting entities from banks and other financial institutions and DNFBPs, discussions with supervisors, data and statistics related to supervisory activities and suspicious reports, the NRA report and sectoral assessments regarding the materiality and risks in each sector.

#### **Immediate Outcome 4 (Preventive Measures)**

##### **Understanding ML/TF risks and AML/CFT obligations**

445. Banks and financial institutions have clear obligations to take appropriate steps to identify, evaluate and understand the risks of money laundering and financing terrorism, adopt a risk-based approach to classify clients and operations, and apply a number of measures based on an understanding of these risks, considering, but not limited to, the risks of the clients and the risks of the country, service risks. Nonetheless, there are also obligations available to insurance companies and DNFBPs. Financial institutions participated in the 2019 NRA process through annual questionnaires and meetings with the - SIC and were informed of its outcomes. The FIU published the second NRA report that was prepared in 2019.

446. The SIC issued Circular No. 25 of 2019, based on the results of the second assessment, according to which it imposed on the reporting institutions to consider money laundering, terrorist financing, tax evasion, and electronic crimes as high-risk crimes, and required the application of measures that would mitigate those risks and to mitigate the abuse of services provided thereby for the purposes of committing such crimes. The circular’s items mentioned some examples of services that are vulnerable to abuse. The

AT found that the reporting entities are aware of the circular - that includes the NRA outcomes and apply what is stated therein, although the application varies between the entities except for notaries, and real estate brokers that were not aware of the existence of circular that includes the NRA outcomes or is not aware of the NRA itself.

447. A number of bilateral meetings and training courses were held for various sectors, during which topics related to the NRA outcomes, its update, and risk mitigation procedures were covered. The NRA was included in the SIC's annual report. Annual questionnaires are circulated to financial institutions, which have contributed to raising the level of understanding of risks by drawing their attention to some categories of clients, operations, and products with high risks.

## **Financial Institutions**

### **Banks**

448. Banks have a commensurate understanding with the NRA outcomes and its update. - Banks also apply the risk-based approach towards their customers, and they review the effectiveness of the risk-based approach and update it periodically and according to the change of risk factors in response to certain events. Banks classify the risks of their clients and operations based on the risk-based approach according to at least three ratings (high/medium and low risk) and takes into account, as minimum, when rating – the customer's criteria, country, services, and service delivery channels, and adopts the NRA as a primary source of information related to ML/TF risks.

449. It was found that banks have a good understanding of the risks surrounding their activities and it is consistent with the NRA outcomes. Banks considered that the highest risks are related to cash transactions and cash-dependent businesses mainly, NPOs, and customer categories of politicians, public officials (employees) and companies that deal with the government sector, notaries, and dealers in basic/primary consumer goods (materials) which are subsidized (supported) by the government. Banks apply risk mitigation measures, due diligence measures, and enhanced due diligence in a manner consistent with those risks, and the results of supervisory operations between 2017 and 2021 support the development of banks' understanding of their risks and their application of a risk-based approach. It was also shown that banks have a comprehensive understanding of the obligations related to AML/CFT and are aware of how to implement these obligations.

### **Money Transfer companies**

450. The money transfer companies interviewed, which are accredited companies as main agents of global money transfer networks, showed that they have a good understanding of their obligations related to AML/CFT and of the risks associated with their activities, as their understanding of the risks is linked to the NRA outcomes and their self-assessments. These companies provide their services through a large network of secondary sub-agents. Its self-assessment of risks includes a classification of agents' risks based on criteria such as the nature of the agent's profession, the geographical area in which the agent is located, the volume of operations carried out through the agent for certain destinations/countries, in addition to their level of compliance with the required procedures and their experience in the field of money transfer and the company's experience in dealing therewith. While the risks of customers are

classified based on criteria that include the customer, the country, in addition to the volume of operations. It updates the self-assessment based on the emergence of new indicators or the detection of specific behaviors associated with the agents.

### Exchange Companies

451. It was found that the understanding of category (A) exchange companies - of the risks of money laundering and terrorist financing related to their activities is moderate and that they are aware of the NRA outcomes - and that their self-assessment of risks is brief, but they take into account the risks of countries/regions, the customer, and the size of operations, and it turns out that they have good understanding of AML/CFT obligations. It was also found that category (B) exchange companies are aware of classifying their risks according to the NRA outcomes, but they consider the risks of money laundering and terrorist financing associated with the currency exchange activity to be insignificant due to the small volume of operations and their dealings with clients known thereto, in addition to tourists and expatriates. Category B companies are aware of their obligations related to AML/CFT, but the quality of their implementation is less developed than that of Category A's.

### Insurance Companies

452. The foreign insurance companies within the country (subsidiaries) have a good understanding of the risks they face as well as their obligations in relation to AML/CFT. Its understanding of risks is consistent with the NRA outcomes, since life insurance policies and policies that have investment characteristics that allow the option of transfer, transport and store constitute the highest risks for the sector. These companies apply the risk-based approach and classify risks based on several criteria, including the risk of the customer, the country, the type of insurance policy, the size of the customer's portfolio, and the size of their annual premiums.

### Other FIs

453. Financial intermediation institutions are familiar with the AML/CFT requirements. Its understanding comes in the form that ML/TF risks it faces are low and is consistent with the NRA outcomes, since it does not deal in cash and transfers the proceeds to the original source and does not allow transfer to third parties. As for the ML/TF risks self-assessment for a financial intermediation institution affiliated with a financial group abroad, it was completed at the group level, and it does not seem that the risk context of the country was taken into consideration. comptoirs are familiar with AML/CFT requirements, but their understanding of the risks related to their services comes at a relatively lower level.

### DNFBPs

454. Some of the DNFBPs have participated in the -2<sup>nd</sup> NRA process and are aware of its outcomes. Some of them may not agree with those outcomes, as these businesses have a non-uniform and non-comprehensive understanding of the risks of money laundering and terrorist financing, and most of them did not complete a risks self-assessment and did not apply a risk-based approach.

455. The notaries interviewed have a limited understanding of the risks associated with their activities. Their understanding revolves around the threats of forgery crimes, but it is not related to ML/TF risks according

to their understanding.

456. Lawyers understand the risks related to their activities, such as those resulting from clients requesting the establishment of companies with complex ownership, or not related to their usual business, and dealings related to high-risk countries. They classify the risks based on criteria including the risks of the customer, the country, the type of services requested by the customer, and the means of communication. The same interviewed sample revealed that the classification of risks is documented by some lawyers.
457. There is also a discrepancy in real estate brokers' understanding of the risks of money laundering and terrorist financing related to their business, and it ranges from an acceptable understanding consistent with the results of the NRA, with examples of such risks being given, such as the client's indifference to the price of the real estate, buying a property for an amount higher than its market value, and the frequent activity of the client in sale and purchase. Poor understanding and lack of knowledge of the topic of the national assessment and its results.
458. DPMS understood ML/TF risks related to their business, varying between medium and weak.
459. Casino du Liban is aware of the NRA outcomes, but its understanding of the risks related to the activities it provides is not comprehensive, taking into account the activities it provides, in terms of cash dealing and providing its services to categories of high-risk customers and customers belonging to high-risk countries, as the casino considers that the risks of ML associated with its activities are almost non-existent due to the casino's application of international requirements applied in all other casinos in the world, and their understanding of the risks of TF is limited to cash transactions through the exchange of small cash denominations.
460. All categories of DNFBPs are aware of the AML/CFT provisions, but the quality of implementation of these obligations varies among them.

### Applying risk mitigation measures

#### Banks and FIs

461. Banks have good level of understanding of AML/CFT requirements, and they apply policies approved by senior management that include a risk-based approach, where measures are applied commensurate with the degree of ML/TF risks that were identified in the institution's assessment of risks in order to mitigate them as they have the resources for that. Among the procedures applied by banks to mitigate risks is limiting customers belonging to certain categories such as dealers in primary materials which receive support from the government, businesses based on cash dealings, and public officials, and intensifying operations control procedures according to a scope and pace commensurate with the risks of these customers, and a number of banks have established a unit specialized in combating corruption and bribery, whose primary mission is to focus on the risk factors associated with corruption in order to take appropriate measures. Among the responsibilities of the said unit is to identify and evaluate the risks of corruption and bribery and include them in assessing the risks of financial crimes related to the work of the bank and to develop a specific policy to combat corruption and bribery based on the outputs of the evaluation process and update it periodically. However, some banks considered that the funds obtained from corruption crimes do not target the banking sector in light of the current circumstances as a result

of the difficulty of accessing the funds deposited with banks. Banks also apply additional procedures to mitigate risks, such as seeking help from specialized institutions to investigate information related to certain categories of customers for the purpose of verification, conducting onsite visits to the customer to verify the validity of the information, and not dealing with fictitious entities. In addition, a number of banks interviewed during the onsite visit indicated that they had studied and analyzed the operations of the branches according to their location and identified the risk indicators on the basis of which risk mitigation measures were applied.

462. Some banks follow conservative policies represented in not providing their services to certain categories of customers instead of taking measures commensurate with the degree of risk, for example: Cease dealing with all customers in the category of used car dealers as a result of accusing a Lebanese bank in the United States years ago of involvement in financial operations resulting from the trade in used cars as a cover for money laundering operations.

463. Money transfer companies also apply additional procedures towards secondary agents in order to mitigate risks. This includes specific controls before establishing the business relationship in accordance with the KYC policy applied by the global money transfer networks that they represent, such as checking the validity of the commercial license, the location of providing services, checking the status of the agent's listing on international and national lists, and searching publicly available sources for reputation-related information, and in some cases the criminal record is requested, in addition to enhanced procedures towards agents who have been classified at a high level of risk, such as mitigating the thresholds, the company's compliance unit carrying out intensive onsite control tasks, and enhanced follow-up of all transfers and due diligence measures applied by the agent. Money transfer companies implement continuous measures to monitor the compliance of secondary agents with centralized AML/CFT programs. As a result, 747 secondary agents were suspended from conducting transactions during the period from 2019-2021 due to non-compliance with AML/CFT requirements, or with the terms of the contract between the parties.

464. The secondary (sub-) agents were included in the 2019 sectoral assessment, which included an analysis of their geographical distribution across the regions of Lebanon and the type of services they provide. Whereby the analysis concluded that their geographical distribution would facilitate the works of citizens, since they provide other service aside from money transfer such as paying taxes and fees, and the payment of traffic fines, without the need for them to go to government departments, which are often far from their areas of presence.

465. Non-banking financial institutions and financial intermediation companies apply measures to mitigate risks, including not receiving cash from their customers, limiting receiving funds in cheques and transfers, not executing transfers in favor of third parties, monitoring indicators of insider trading and proactive trading, and conducting onsite visits to the customer.

### DNFBPs

466. Notaries apply general measures, such as inquiring from members of the local community and from notaries in other regions about clients who are unknown to them, and the sources of their funds, or when there are doubts related to the background of these clients. The lawyers have established policies and internal controls commensurate with their risks, including assessing clients' risks, high-risk countries and

complex ownership structures, and taking actions commensurate with those risks. This includes using additional sources of information to verify beneficial owner information. Casino du Liban applies procedures to mitigate risks represented in prohibiting receiving or transferring funds electronically or issuing cheques to third parties. While other DNFBPs apply general measures to mitigate risks, they may not always be related to the risks they face.

## Implementing CDD measures and record keeping

### FIs

467. Financial institutions (banks, non-banking financial institutions, financial intermediation companies, insurance companies, and comptoirs ) apply due diligence measures to natural and legal customers, as due diligence measures are applied before establishing a business relationship and opening accounts, and these institutions refrain from starting a business relationship if they do not complete due diligence measures.
468. It was found from the interviews (as per one of the financial brokerage firms) that it established business relationships with non-resident clients in a non-face-to-face manner and did not apply due diligence measures commensurate with the risks of such dealings, as unauthenticated copies of the identity document were obtained, and no additional procedures were applied to verify the identity of the client. . The FIU, after monitoring this violation through supervisory work, gave the institution 10 days to take corrective measures, under the penalty of enforcing disciplinary measures in the event that the correction was not made within the specified time limit.
469. Data update measures depend on assessing the client's risk level, so financial institutions update high-risk clients' data within a period not exceeding one year. As for updating files of clients with less serious risks, the periodicity of updating varies between financial institutions, between two to three years for medium-risk clients and four to five years for low-risk customers. However, the maximum period for updating low-risk customers' data does not exceed 5 years. . The update may take place as a result of monitoring changes in the client's risk structure. The main challenge lies in persuading customers to update their data with banks in light of the current circumstances and the lack of confidence in the banking system. Banks, non-banking financial institutions, and financial intermediation institutions place restrictions on the operations of customers whose data has not been updated, and the verification units of these institutions submit periodic reports to their senior managements on the level of compliance with the plan for updating customer data.
470. Money transfer companies apply due diligence measures before the customer makes the transfer, regardless of the value of the amount, and refrain from carrying out the transfer if it is unable to complete the due diligence measures. These companies apply due diligence measures towards secondary agents and subject them to specific controls in accordance with the know-your-customer policy applied by the global money transfer network that they represent. Category (A) exchange companies apply due diligence measures to all customers who transfer money via the hawala (transfer) system, regardless of the value of the transaction. Also, due diligence measures are applied to the correspondent institutions in the hawala system, and an updated list of their names is maintained.
471. As for the exchange companies of category (A) that provide the activity of shipping money, dealing is done exclusively with local and foreign licensed banks and exchange companies. Due diligence measures

include completing detailed questionnaires, checking license validity, and periodic onsite visits.

472. The banks that were interviewed by the AT have, in general, a good understanding of the definition of BOs in the case of natural and legal customers as well as legal structures. These banks also confirmed that the number of accounts belonging to legal structures is limited, and that it may face challenges in identifying the BOs in the case of companies with complex ownership or offshore companies, and it relies on requesting official documents, the regulations for the distribution of shares and quotas, and the list of authorized signatories, in addition to the identity of the legal representative, managers, and natural persons who own directly or indirectly a percentage that authorizes them actual control over the management of the company and some banks may refrain from establishing the business relationship in complex ownership cases. Some banks use the Commercial Register database to ensure the validity of the information, and there is no specific validity period for the Commercial Register document from the date of its issuance, and the time period for requesting an updated copy thereof ranges between one to five years (see IO.5 for reference on the quality of the Commercial Register information). However, many banks annually request documented copies of the minutes of the meetings of the general assemblies from their moral (natural) customers, which would indicate the existence of any amendment about the BOs and apply periodic procedures to update the data of the BOs in the work relations related to loans and financing. And it monitors operations to detect any indications of the existence of a BO other than that declared by the client. In the case of legal persons, it may resort to independent sources to verify the authenticity of information about the BOs, and some banks may rely on the customer's declaration. Banks have also created an internal register of beneficial owners.
473. However, the procedures applied by banks have varied with regard to how to deal with the bank accounts of notaries, as they are allowed to deposit their clients' money in the account of their business for an indefinite period and without a threshold on the amount of that money. Some banks oblige notaries public to disclose the information of the BOs of those funds and create sub-accounts attached to the account of the notary public to distinguish them, while other banks separate these funds in attached accounts without distinguishing them with the names of the BOs, which affects the effectiveness of applying the BOs obligations and the obligations of TFS and freezing. Whereby these banks relied on the fact that these obligations and are binding to notaries as reporting entities.
474. Money transfer institutions deal with natural persons in most of their dealings, but in limited cases they provide services to legal persons for the purpose of transferring the salaries of their employees and apply due diligence measures to the legal person, including determining the BOs, but this does not include identifying the controlling persons indirectly.
475. Exchange companies that provide hawala (transfer) services deal with natural persons. Exchange companies that provide money shipping services deal exclusively with licensed banks and exchange companies, and it seems that their understanding of the concept of the BOs does not cover the controlling persons indirectly. The client base of financial brokerage firms consists mainly of natural persons and licensed financial institutions. Insurance companies have a good understanding of the concept of the BOs, but the application of procedures in some of them is limited to the owners and authorized signatories. Lebanon has indicated that with regard to the identity of the BOs, it is subject to daily and periodic follow-up and supervision of customer transactions and accounts without waiting for the specified period for updating customer data.

476. Banks apply information programs to monitor operations and ensure the suitability of their size and nature with the activity authorized by the customer and monitor suspicion indicators based on specific scenarios that have been defined in advance, and use scenarios to monitor daily, weekly and monthly operations, and the banks mentioned during their interview that they update these scenarios based on changes in patterns. However, it was not clear that there are special scenarios for monitoring terrorist financing indicators for some of them. Banks take specific measures to monitor trade-based money laundering, and a bank was able, through monitoring some indicators, to monitor the activities of unlicensed money exchange companies . Money transfer companies linked to global money transfer networks apply information programs to monitor operations and extract suspicious indicators for each of the activities of money laundering and terrorist financing, and for this purpose they adopt a number of daily, monthly and quarterly scenarios. Whereas Class A exchange companies that provide hawala services adopt less sophisticated methods to monitor suspicious indicators, such as monitoring customer behavior, the size of the transaction, and the relationship between the two parties.
477. The methods of monitoring operations vary between the category (A) exchange companies that provide the activity of shipping money between relying on the quality of CDD procedures without applying operations control procedures, and between monitoring indicators such as repeated operations, change in the pattern of customer activity, and exchange requests from small to large groups. Class B exchange companies monitor the volume of transactions as the only indicator of suspicion.
478. The procedures for monitoring operations applied by financial brokerage firms vary between monitoring withdrawals that exceed a certain amount and monitoring the speed of trading and the volume of subscription. Some non-bank financial institutions monitor indicators of insider trading, proactive trading, and cases of receiving and transferring funds without doing any trading.
479. Insurance companies monitor a number of suspicious indicators commensurate with their activities, such as paying insurance premiums in cash, paying in favor of third parties, paying amounts that exceed the value of insurance premiums, purchasing more than one insurance policy, and canceling the policy before its expiry date.
480. The supervision of financial institutions showed that they are applying their obligations related to keeping records in a satisfactory manner, and that many of them keep records, both in paper and electronically.

### DNFBPs

481. In general, all DNFBPs refrain from executing any contracts/transactions when the required due diligence measures are not completed.
482. Notaries apply due diligence measures before establishing a business relationship, and this includes identifying and verifying the identity of the client, requesting information about their commercial activity, indirectly inquiring about the source of funds, and the BOs. They also review the commercial registry to verify the information declared about the BO, in case of natural customers (see IO.5 for comments on the adequacy, accuracy and current of CR information). Notaries do not monitor certain indicators, but they may inquire from the sources of their social networks in the event of suspicions about clients who are not



known to them or who come from outside their territorial jurisdiction. The authorities indicated that the implementation of notaries' obligations to keep copies of contracts, operations, and documents related to due diligence measures and STRs is satisfactory.

483. Lawyers apply due diligence measures and understand the type of operations that require the implementation of these obligations. They also have a good understanding of the concept of the BOs, and by virtue of the nature of their work and their knowledge of many financial statements and constituent systems of legal persons, they are able to determine the ultimate beneficiary of the legal person. The lawyers monitor indicators such as the client's request to establish companies with complex ownership or that are not commensurate with his usual business activities. It can be seen from the supervisory works that they satisfactorily apply the requirements for record-keeping related to due diligence measures and contracts.

484. Real estate brokers and DPMS, who were met during the onsite visit, deal with clients known to them as well as occasional clients, who are mostly natural persons. And it was found from the supervision that they have a good understanding of the application of procedures for identifying the client and verifying their identity in addition to whether they apply satisfactory due diligence measures. They are also obligated to keep copies of the contracts and operations they carry out, as well as supporting documents, for a period of no less than five years. It became clear from the discussion that they monitor certain indicators in order to monitor unusual operations, as DPMS monitor repeated cash operations that are carried out by customers they are not known to, or operations that are not consistent in size with the purchasing pattern of a customer known to them. Some real estate brokers monitor repeated purchase and sale operations from the same client, and behaviors such as indifference to the price of the property and the purchase of a property for an amount higher than its market value.

485. Casino du Liban deals with natural customers. Due diligence measures are applied when the customer requests membership in the casino and when occasional customers perform financial transactions equal to or greater than the amount of USD 3,000 or its equivalent or achieving profits of LBP 5 million. The identity of the customer is identified and verified using documents issued by an official source, and information related to their business or job is requested to determine the source of funds, and to determine the BOs of the transactions by observing certain indicators in the customer's behavior. The casino applies the requirements for maintaining documents related to due diligence measures and applies operations control procedures by monitoring certain indicators such as the use of small cash denominations and the request to replace them with larger denominations, the movement of chips and their circulation between casino visitors and third parties, and suspicious playing patterns, and they use cameras and observers from the casino staff.

## Applying Enhanced Due Diligence Measures

### FIs

### PEPs

486. Banks are aware of their obligations related to dealing with PEPs in terms of identifying them and applying enhanced due diligence measures to their business relationships. Also - they have a good understanding of the concept of local and foreign PEPs and persons associated therewith. Where they take measures to identify PEPs before and during entering into the business relationship. In order to

determine whether an existing customer has changed their status to a PEP, it searches the database of its customers for the names of members of the new Lebanese governments and the Parliament upon its formation, and the database of existing customers is periodically re-examined using information programs (software) and commercial lists to determine the change of status of any of its customers to a PEP, whether local or foreign. Banks rely on publicly available sources of information, knowledge of the employee responsible for the work relationship with the local community, diplomatic passports, specialized programs (software) to examine names that are used to identify members of their families as well, and the customer is required to mention whether they are a PEP or has a relationship with PEPs, specify their profession so that it becomes clear if they are a PEP, and they verify, through supervisory works into monitoring clients' accounts, that there are transfers originating from governments or international organizations.

487. As for the enhanced measures that are applied by banks to clients from the PEPs category, they include enhanced monitoring and carrying out enhanced ongoing follow-up of the business relationship, determining the source of funds and the source of wealth, obtaining the approval of senior management, to deal or continue dealing with clients and to execute transactions, and conducting a periodic review of the relationship, searching publicly available sources of information for any information related thereto. It was not clear how to verify the source of funds and wealth, but some banks confirmed that they can request any information from PEPs with relation to completing due diligence and transactions information.

488. Money transfer companies, non-bank financial institutions, financial brokerage, insurance companies and some Class A exchange companies have a good understanding of the definition of local and foreign PEPs and their associated persons. Where they take measures to identify PEPs before and during entering into the business relationship. To this end, these institutions use commercial lists to identify local and foreign PEPs, and lists of members of the Lebanese government and parliament, and rely on their employees' knowledge of the local community and identity documents to identify them and their family members, and the client's declaration in the KYC form about their profession and determine whether they are a PEP or has a relationship with PEPs, and EDD measures are applied towards business relations in terms of enhanced monitoring of transactions, periodic review of business relations, and requesting the approval of senior management to deal or continue dealing with them, and it is not clear how to verify the source of funds and wealth.

489. It was noted during the discussion that one of the financial institutions has unclear understanding of PEPs definition. As for the comptoirs and exchange companies of category (B), they have a relatively less understanding of PEPs. Representatives of this category of companies (institutions) stated that they had not previously identified any PEP client(s). It relies mainly on identity documents to identify PEPs.

### **DNFBPs**

490. Notaries did not have a comprehensive understanding of the definition of PEPs, how to identify them and their family members, the BOs of the legal person if they are PEPs, how to determine the source of wealth for those persons, and the enhanced measures to be applied towards them. The same gaps were found in the DPMS and real estate sectors.

491. While lawyers apply a number of measures to identify PEPs, some of them depend on the identity

document and their knowledge of the local community, others use information software, and sources of information available to the public. In special cases, assistance is sought from specialized companies to inquire thereabout, in addition to requesting information of the source of funds and wealth as well as supporting documents to this information and the activities envisaged by the employment relationship.

492. The casino relies on identity documents and any information available at the local level to identify PEPs as the casino prohibits dealing with PEPs. The casino applies additional measures when dealing with foreign PEPs in terms of inquiring about the sources of their money and wealth, and this is usually done informally from external sources.

### **Correspondent Banking Relationships and rules of wire transfers**

493. Relationships with foreign correspondent banks are limited to banks. Some of the banks interviewed by the AT stated that they provide correspondent banking services exclusively within the scope of the financial group to which they belong. It was found through discussion with banks that they do not maintain Payable Through Accounts.

494. Banks apply policies approved by senior management that determine how to deal with correspondent banks, and they have specialized units whose tasks include managing relations with correspondent banks. The procedures followed by banks before establishing a business relationship with correspondent banks include: - Verifying the license and the level of supervision, and that the bank is not a fictitious one and does not deal with fictitious entities, in addition to the control procedures and penalties, obtaining the approval of the senior management, and determining the responsibility of each of the Lebanese bank and the correspondent bank during the business relationship, scanning the names of shareholders, members of the board of directors and the executive management against the UN sanctions lists. The number of foreign correspondent banks that Lebanese banks deal with has decreased during the last two years after the emergence of the financial crisis in Lebanon.

### **New technologies Banks**

495. New technologies adopted by banks in recent years include online banking service and banking applications on mobile phones. However, it is limited to a specific type and size of operations carried out by existing clients with whom the business relationship has been previously established in a face-to-face manner. The operations that can be carried out through electronic (online) services have become limited, as banks have canceled services - transferring money to clients with other banks or transferring money from one account to another in a different currency, and low threshold have been set for operations that can be carried out through electronic (online) services. Banks also prevent the use of their services to deal in virtual currencies and set procedures to monitor any transactions by their customers in virtual assets. Some banks have set standards to monitor operations related to virtual assets, such as keywords and the International Bank Account Number (IBAN) of virtual asset providers globally.

### **Non-banking financial institutions, financial intermediation institutions and insurance companies**

496. It provides limited online services through which it allows its customers to view their balances, account statements and operations.

### **Money Transfer companies**

497. It provides mobile applications that allow the customer to identify the services provided by these companies and track some dues such as traffic fines, phone bills and car mechanics.

### **Exchange Companies and Comptoirs**

498. They do not offer products or services with new technologies or through electronic means.

### **Wire Transfers**

499. Banks are aware of the obligations required of them when they send or receive wire transfers, as they are monitored using information programs and make sure that the name of the sender or beneficiary is not listed in the local sanctions regulations and those issued by the United Nations, and that all required information is included according to the requirements of Recommendation 16, and banks refrain from executing any incoming or outgoing transfer if all required conditions are not met. Money transfer companies and exchange companies of category (A) ensure that information related to the sender and the beneficiary are included in all transfers and implement programs to scan names against national and international lists to verify that they are not listed therein before carrying out operations.

### **High-risk countries**

500. Financial institutions have an awareness of the high-risk countries identified by the FATF that do not apply its recommendations or apply them insufficiently, and apply enhanced measures to operations, customers and beneficial owners associated with these countries. Financial institutions also receive high-risk country regulations and updates from the FIU in conjunction with FATF updates after each plenary. In addition, banks rely on other criteria to classify country risks such as tax havens, corruption indicators, crime indicators, countries subject to Security Council sanctions, the US Treasury Department or the European Union, countries with high risks of terrorism and terrorist financing and countries whose financial system is subject to banking secrecy. Financial institutions confirmed that they take enhanced due diligence measures towards customers and beneficial owners who belong or reside in high-risk countries, including the originator and beneficial owner in the case of transfers. Category B exchange companies do not appear to be following any measures in relation to high-risk countries.

### **DNFBPs**

501. DNFBPs rely on lists provided by the FIU to stay abreast of high-risk countries identified by the FATF, in conjunction with FATF updates after each plenary meeting. It should be noted that DNFBPs deal mostly with local customers. A limited number of lawyers and certified accountants deal with a limited number of foreign customers, noting that the services they provide to these clients are not included in the activities mentioned in the Article 5 of the Law No. 44/2015. Notaries deal in a limited way with foreign customers due to the restrictions imposed by the foreigners' ownership law. Some DPMS in the wholesale sector also deal with other dealers from foreign countries, they must obtain the necessary licenses for import and export. The supervisions conducted by the FIU over the DPMS showed a discrepancy in the

sector's understanding of the high-risk countries, noting that their dealings with them are limited.

### Targeted Financial Sanctions (“TFS”)

#### FIs

502. When banks enter into new business relations, they ensure that the name of the customer, the BOs, or the partners (in relation to legal persons) is not listed on the UN sanctions lists and the national terrorism list. Banks also make sure when sending or receiving wire transfers that the name of the sender or beneficiary is not in those lists. As for money transfer companies, they make sure that the name of the sender or the beneficiary is not listed in the sanctions lists.
503. Banks use technologies and commercial lists, that enable the creation of alerts (red flags) of any cases of similarity or matching in names, to scan their customer database on a daily basis and at each update of the sanctions lists to ensure that none of their current customers are listed. However, one of the banks scans the customer database against the local list every 3 months. Banks are generally aware of their obligations in terms of carrying out the immediate freezing without delay when there is any match between the name of any of their clients or the BO and any of the natural or legal persons or entities whose names are on the sanctions lists, and to inform the FIU of that within 48 hours. Money transfer companies also use technological means to scan names and are keen to update electronically as soon as updates to the international and local lists are issued and are aware of their obligation to immediately freeze and report any match within 48 hours.
504. Exchange companies of category A that provide licensed hawala (transfer) services apply procedures for scanning names manually against national and international lists. These lists are accessed through the website of the ISF and the Security Council. Work is currently underway with the Money Exchange Association to develop an electronic tool for this purpose. Exchange companies licensed to ship money apply the same procedures, but the periodicity of applying procedures to verify the listing status for existing business relationships varies, and in the case of local lists it may reach annually or when due diligence information is updated.
505. Category B exchange companies apply measures for scanning names manually when entering into business relations, and the scanning is repeated, and the lists are updated every 6 months or annually.
506. Insurance companies scan names against the international lists and the local terrorism list upon entering into a business relationship, and before paying insurance policy dues to ensure that the policy holders and beneficiaries are not listed. However, the re-scanning of the database against the UN lists takes place on a weekly basis, and the local list entered into its information system is updated and the database is re-scanned on a weekly basis, and in another case the scanning is repeated every 3 months against the local and international lists.
507. Other financial institutions apply similar procedures, but the periodicity of the procedures for re-confirming the status of listing on the international and local lists reaches every 3 months or annually.
508. Re-scanning the customer database at intervals by some categories of financial institutions such as exchange companies and insurance companies may result in dealing with listed persons and violating the requirements for immediate freezing, but the mechanism used by the FIU regarding the application of

TFS related to Resolution 1373 ( Refer to IO.10) would prevent dealing with persons listed in the local list, as any update on the local list is preceded by a correspondence from the FIU to implement the freeze, and therefore no reporting entity can deal with persons listed in the local sanctions lists.

509. The supervisory work on financial institutions monitored shortcomings related to the periodic update of sanction lists, which resulted in the imposition of financial penalties on two banks in 2018 and one bank in 2019, in addition to five warning letters between 2017 and 2019.

510. No accounts or transactions with financial institutions belonging to persons or entities listed on the UN sanctions lists have been monitored. However, the names listed in the local list issued under UNSCR 1373 were reported, and the funds were frozen during the same day or the next day, and the FIU was informed within 48 hours.

### DNFBPs

511. The implementation of TFS by DNFBPs is not uniform - with a number of loopholes that affect the effectiveness of the application of these measures.

512. The implementation of these obligations with the existence of gaps that affect the effectiveness of implementation by notaries varies, as notaries check the status of the client's listing on the national and international lists at the start of the business relationship or in exceptional cases when they do not know the client, and upon payout in the case of actual offers and deposits, and the frequency of re-verification of the listing status varies between every two weeks annually, or when necessary. Notaries have stated that in the event of a match in the names, a mark (flag) will be placed in the register to indicate the status of the freezing of those funds and to be reported within 48 hours.

513. Lawyers apply procedures for scanning names against national and international lists when entering into a business relationship. The shortcomings can be represented in carrying out procedures for re-verifying the status of listing for existing business relationships vary, as this is done when entering into a new transaction with a former client, or on an annual basis for national lists and weekly for international lists.

514. There is a discrepancy in the level of understanding and application of TFS among real estate brokers, ranging from being unaware of the concept of targeted financial penalties and the obligations related thereto, to applying those obligations in exceptional cases when there are doubts, and when the client is not known to them,

515. DPMS apply name-scanning procedures against international and national lists when conducting one or more combined transactions with a value of USD 10,000 or its equivalent. however, there is discrepancy in understanding within the sector for the freezing obligations and reporting to the FIU.

516. Casino du Liban applies procedures for scanning names when submitting a request for affiliation to the casino, and this procedure is repeated periodically, but its frequency is not clear, and the status of listing of occasional customers is verified when buying gambling chips whose value exceeds USD 3,000 or its equivalent and when making gains equivalent to LBP 5 million.

517. Limiting the application of TFS by the real estate brokers, DPMS and Casino du Liban to categories of

clients who conduct operations with certain amounts prevents the effective application of these obligations, which may lead to non-compliance with the requirements of freezing funds in implementation of the resolutions issued by the Security Council.

**Reporting Requirements, and Tipping off.  
FIs and DNFBPs**

518. Majority of STRs were reported by banks, as they are the largest component in the financial sector (95% of the total sector), and this also corresponds to the high classification of their risks, followed by money transfer companies and exchange companies, which are sectors with high risks, according to the NRA. In mid-2016, the FIU conducted a study on the level of reporting in the banking sector by applying specific standards to classify banks according to their level of reporting on suspicious transactions, either as expected or lower than expected. As a result of that study, communication was established with banks that were classified as having a lower level of reporting to understand the underlying reasons and provide the necessary guidance and awareness. A gradual increase or stability is observed in the level of reporting by financial institutions between 2017 and 2019, followed by a decrease in the years 2020 and 2021. The AT believes that this decrease is mainly due to the repercussions of the financial and economic crisis that the country is going through and taking measures such as not opening accounts for new customers and restricting financial transactions such as cash withdrawals and others, as well as the reluctance of many citizens to open accounts and deposit funds, and the fact that many banks ceased their activities in whole or in part. The closure caused by COVID-19 contributed to decrease the banking transactions, which affected the level of reporting during that period.

519. The level of reporting by DNFBPs is low in a way that causes concern, as they are subject to reporting STRs obligation since the issuance of the AML/CFT Law in 2015. Therefore, the low level of reporting thereby raises a question on their understanding of reporting requirements and indicators of suspicion related to the type of operations and services they provide.

520. The low level of reporting is also not commensurate with the classification of DNFBPs identified in the NRA, especially the notary public sector, which is classified with a high risk level. It was found from the interviews conducted by the AT during the onsite visit that the sector did not understand the suspicious indicators that should be monitored and reported. It is noted that the number of reporting cases submitted by lawyers is low in a way that is not commensurate with the level of sector risks and the type of activities practiced by lawyers in terms of presenting many transactions on behalf of their clients, such as establishing companies and real estate transactions. While there were no reported cases in the Casino du Liban, the DPMS and real estate sectors. The lack of reporting cases from the DPMS sector is not commensurate with the nature of cash transactions in the sector and the risks associated with them, as well as for real estate brokers in terms of the high value of these assets in general.

521. The following is statistics clarifying the number of reports submitted by the various reporting entities:

**Table No. 4.1.1 Number of STRs submitted by the various reporting entities 2017-2021**

	Number of STRs				
	2017	2018	2019	2020	2021
Banks	431	421	435	203	144

Money Transfer companies	17	22	57	48	44
Exchange Companies	0	2	13	17	1
Non-banking financial institutions	4	4	4	2	1
Financial Brokerage (intermediation) Companies	0	0	1	0	0
Insurance Companies	3	3	17	5	0
Notaries	0	3	1	1	1
Certified Accountants	0	0	0	3	0
Lawyers	0	0	1	0	0
Total Reports	455 <sup>26</sup>	455	529	279	191 <sup>27</sup>

522. Financial institutions report suspicious transactions through the specialized information program (seeds), which links them to the FIU. While some other financial institutions and DNFBPs obtain the reporting form from the FIU's website and report via - a hard copy that is sent to the FIU in a closed envelope with the phrase "top secret" written thereon. One of the categories also confirmed that it may be reported verbally due to the importance of speed in the type of activity it delivers, and then directly followed by the official STR to the FIU.

523. With regard to the lawyers' sector, Lebanon has set up a mechanism for reporting suspicious transactions, as the reports pass through the Bar Association, which studies the report in terms of fulfilling the conditions and reporting requirements stipulated in Law No. 44/2015 only, as the president (chairman) does not study the report in terms of its content and sends it to the FIU if it meets the legal requirements. This task is limited to the president of the Bar without further reviews for reasons of maintaining the confidentiality of reports. The AT sees that the speed of reporting lawyers is affected as a result of the reporting mechanism through the Bar Association, as the Bar Association is allowed to study the reporting case and refer it to the FIU within two weeks, which limits the effectiveness of applying these measures.

524. . The SIC adopts a form to provide feedback to the entities subject to reporting, including an assessment of the quality of the suspicion report, the extent of completion of the required data, by relying on Seeds system and the results of the preliminary assessment the actions taken (such as freezing, referral, etc.) and any additional information required (see IO.6). The FIU also publishes the latest patterns of money laundering and terrorist financing in the annual report on its website.

525. There is a good understanding of confidentiality requirements for reporting and not tipping off the client by FIs. Reporting through the information software of the FIU contributes to mitigating the risks of tipping off the client in terms of providing a safe means of reporting and limiting access to the software to a specific number of employees of the compliance unit of the institution/entity. The requirements for avoiding tipping off the client and its risks are also included in the internal training programs and in the institution's policies approved by the Board of Directors and circulated to the institution's senior management and all employees, such as the Code of Ethics and Work Conduct, in order to urge employees

<sup>26</sup> Except for two reports received from the BCC

<sup>27</sup> Except for two reports received from the BCC



to observe the confidentiality of information that they see during the performance of their job, and some subject entities require their employees to sign a pledge not to disclose any information related to the confidentiality of reports under penalty of administrative and criminal sanctions. The supervision work did not detect violations of confidentiality reporting requirements.

526. The discussion with the entities of DNFBPs sector showed that they are aware of their obligations regarding the confidentiality of reporting but given the low level of reporting by these entities, the AT is unable to form a clear conclusion in this regard.
527. Banks and money transfer companies linked to global networks and insurance companies monitor unusual operations by monitoring certain indicators using specialized information programs. Some non-bank financial institutions focus on indicators of insider trading and proactive trading. The other methods are less sophisticated monitoring methods for monitoring general indicators such as the use of cash and customer behavior in general (refer to the analysis in the second core issue), and with the exception of banks and money transfer companies linked to global networks, the AT noted that there is no distinction among other subject entities between indicators of money laundering and terrorist financing. Statistics were provided regarding STRs by the various sectors, as well as statistics on the percentage of referrals to the Public Prosecution (see IO.6).

### **The Imminent Application of Internal Controls and Legal/Regulatory Requirements FIs**

528. Banks, non-banking financial institutions, money transfer companies, exchange companies of category A, and financial intermediation companies have internal controls to ensure compliance with AML/CFT requirements, including at the group level, if any. These controls include appointing a compliance officer and allocating an internal verification unit that has the necessary resources and powers to access information and request documents from branches, divisions and departments of the institution, staff training and independent auditing. Banks and non-banking financial institutions have anti-money laundering and terrorist financing committees affiliated to the Board of Directors, where the internal verification units submit their reports to these committees. Class B exchange companies and comptoirs apply internal controls that are less comprehensive, but they are commensurate with the size of their business. The most important shortcomings were in its AML/CFT systems which are not subject to independent scrutiny (audit).
529. Financial institutions apply procedures for examining employees before hiring them, which include requesting a criminal record from all employees, regardless of their positions and seniority, and submitting a certificate from previous employers showing their qualifications and ethics. Employees have to undergo screening through meetings, committees and examinations depending on the position they applied for.
530. With regard to the laws of banking secrecy, it was not found that there is anything that prevents any of the financial institutions from implementing their obligations related to AML/CFT. However, banks interviewed confirmed that it shares information with its foreign branches and subsidiaries in limited scope represented in sharing indicators and statistics, and that it does not include sharing CDD information and reports analysis.
531. The following is a statistic showing the increase in the number of employees of the compliance units

in the general management of banks - between 2017 and 2021:

**Table No. 4.1.2 regarding the number of employees of the verification units in the general departments of banks**

Year	2017	2018	2019	2020	2021
Number	329	369	421	435	431

### DNFBPs

532. DNFBPs apply internal controls - less comprehensive than those applied by financial institutions. Large businesses have appointed a compliance officer tasked with implementing AML/CFT procedures and training employees, while these tasks are delegated to managers of modest-sized businesses. Those who carry out these tasks have the authority to access information and request documents to implement AML/CFT requirements. Some DNFBPs apply specific criteria when hiring employees, but these professions are not subject to the AML/CFT programs applied by them to independent audit and these DNFBPs were not aware of this requirement.

### Overall Conclusion on Immediate Outcome 4:

533. In general, financial institutions and banks have a good understanding of the risks of money laundering and terrorist financing, but it is moderate for exchange companies. Banks and financial institutions apply due diligence measures towards customers in a satisfactory manner, with a discrepancy in the measures for verifying the identity of the BOs of the legal person in some institutions, which are based on identifying the actual owner only, which would affect the ability of financial institutions to apply mitigation measures effectively. There was also a discrepancy in the procedures applied by banks towards the bank accounts of notaries. The implementation of the enhanced due diligence measures is well done, with the exception of a number of gaps related to the application of TFS, especially in the procedures for periodic updating of the sanctions lists and re-checking the listing status on the UN lists. Some banks may resort to a risk avoidance policy instead of applying measures commensurate with the customer's risks.

534. As for the DNFBPs, their understanding of the risks related to their activities is not unified and not comprehensive. The understanding is limited among notaries, and at a good level among lawyers, while it ranges from medium to weak between the entities of the DPMS and real estate sectors. Shortcomings were found in notaries public related to the application of the risk-based approach and the absence of specific procedures to mitigate risks, and gaps were found in enhanced due diligence procedures related to the definition of PEPs, their identification, and the measures to be followed when dealing with them. It also found shortcomings in their application of the requirements of TFS and the periodicity of checking the status of listing for existing business relationships, which may result in dealing with listed persons and violating the requirements of immediate freezing. Similar deficiencies were found among DPMS and real estate brokers. In addition, the application of TFS by the real estate brokers and DPMS to the ceilings of certain transactions prevents the effective application of these obligations, and shortcomings were found among lawyers in the periodic verification of the listing status of existing business relationships. Majority of STRs were reported by banks, and there is a weakness in the number of STRs submitted,

especially by DNFBPs, in a way that is not commensurate with the level of risk in the context of the country, as notaries and lawyers submitted a limited number of reports, while there were no cases of reports from DPMS and real estate brokers.

**535. Therefore, the Level of Effectiveness achieved by Lebanon in IO.4 is Moderate.**

## Chapter 6: Supervision

### Key Findings and Recommended Actions

#### Key Findings:

##### Immediate Outcome 3

- a. The Banque du Liban adequately applies licensing and registration procedures and fit and proper tests for the financial sector (except for insurance companies and financial brokerage companies), but there are a number of shortcomings, as the procedures for determining the BOs are based on determining ownership only and are not sufficient to determine the indirect controllers, the procedures also do not include checking the listing status on the UN sanctions for persons who are appointed to key positions, and there are no periodic procedures to verify the continued absence of criminal records and non-listing on UN lists.
- b. The regulatory authorities for the DNFBPs sector apply the conditions for affiliation to a profession of the notaries, lawyers, and accountants' sectors. The most important shortcomings are the absence of periodic procedures to verify the status of listing on UNSC lists for the sectors of notaries and lawyers, while DPMS and real estate agents are subject to registration procedures with the commercial registry, but no procedures are taken to verify the criminal record nor the status of listing on UN and local sanction lists of shareholders or beneficial owners, managers, and authorized signatories. The same comments apply to Casino du Liban. Most of them do not apply any measures to prevent associates of criminals from being professionally accredited to practice a profession.
- c. The security authorities, including General Security, State Security, the Information Division and Army Intelligence, apply a mechanism to monitor those who engage in exchange, money transfer and banking activities without a license, and cooperate with other government agencies such as the FIU, the Banque Du Liban and the Cassation Public Prosecution. Also, the supervisory authorities monitor specific indicators for the purpose of detecting those who provide financial services without obtaining a license, in addition to information received from security and tax authorities and from public complaints.
- d. The SIC, which is the supervisory authority for the financial sector, DPMS, real estate agents and casino, has a good understanding of ML/TF risks. This understanding is derived from its playing a key role in the NRA process and its preparation of a number of risk sectoral assessments for the financial sector. While the level of understanding of risks in the Bar Association and the Ministry of Justice as supervisory bodies for the lawyers and notaries' sectors varies between good and moderate. The absence of sectoral assessments affects the ability of these supervisors to maintain and keep a clear understanding of ML/TF risks.
- e. The SIC follows a risk-based supervisory approach in the sectors subject to its supervision, which is directly linked to the understanding of the FIU to the risks of those sectors which is deduced from the NRA and sectoral assessments as well as outputs of the risk matrix it adopts. The risk level of the subject entities is taken into consideration when determining the

scope and frequency of the supervisory visits that are implemented in accordance with the annual supervisory plan.

- f. The risk-based supervisory approach is not universally (wholistically) applied to the lawyers and notaries' sectors. There are obstacles related to professional secrecy that prevent the Bar Association, being the sector's supervisory authority, from accessing any information to verify the lawyers' compliance with the AML/CFT obligations. Therefore, the supervisory visits are limited to obtaining annual confirmation from lawyers about their level of compliance. The scope of the supervisory tasks (visits) carried out by the Ministry of Justice on the notaries' sector is not comprehensive, as it is limited to a number of compliance standards.
- g. Although the certified accountants are covered by Article 5 of the AML/CFT Law, the FIU considers that the certified accountants do not practice any of the activities referred to in Article 5, and according to the sector's supervisory authority, which is The Lebanese Association of Certified Public Accountants (LACPA), accountants are not allowed to practice any of the activities referred to in the aforementioned Article, according to the law regulating the profession of accountants. The AT did not find explicit obstacles in the law regulating the practice of the profession with regard to the practice of these activities.
- h. Financial and administrative penalties have been imposed on banks and financial institutions for violations related to compliance with the provisions of AML/CFT. These penalties are proportionate and dissuasive. With the exception of the penalties imposed on notaries for violating regulations and laws in general, no penalties were imposed on the DNFBPs sector, due to the absence of significant violations that require the imposition of penalties, as the FIU followed the guidance and awareness approach for the DPMS, real estate brokers sectors and Casino du Liban instead of imposing sanctions. The limited supervisory role played by the supervisory authorities on the notaries, and lawyers sector mentioned above affects the ability of these authorities to detect violations of compliance with the AML/CFT requirements.
- i. Efforts have been made to enhance the understanding of banks and financial institutions of their obligations through events and training courses, but the DNFBPs sector have not been adequately covered.

**Recommended Actions:**

- a. All licensing, regulatory and registration authorities in the financial sector should strengthen their fit and proper controls through periodic application of these procedures to ensure the continued fitness and properness of shareholders, BOs, board members and those occupying key positions, including checking their criminal record and their inclusion on UN sanctions lists. The procedures for determining the BOs should also include the controlling persons indirectly.
- b. Regulators of the notaries and lawyers' sectors should address the shortcomings related to the application of periodic procedures to ensure the continued absence of criminal record and the status of their affiliates being listed in the UN sanctions lists, and the necessary measures

to prevent associates of criminals from being professionally accredited (certified) in the sectors of lawyers and accountants. The commercial registry must apply fit and proper tests when registering DPMS and real estate agents, including checking the criminal record and the status of listing on the UN and local sanctions lists of shareholders, managers, authorized signatories, and BOs, and ensuring that these procedures are applied periodically.

- c. The regulators of financial institutions (BCC, the Exchange Department of the Banque du Liban, CMA) should continue their efforts to monitor unlicensed activity in line with the NRA outcomes and take the necessary disciplinary and legal measures in this regard. Measures and procedures should continue to be taken to monitor and punish those who illegally provide VAs services.
- d. The Ministry of Justice, the Bar Association, and LACPA, being supervisory bodies for the notaries, lawyers, and accountants' sectors, should take steps that enhance their understanding of the ML/TF risks in their supervised sectors, especially with regard to inherent and residual risks, and continue to update that understanding, including by collecting and evaluating relevant risk data.
- e. The risk-based supervisory approach should be applied to the lawyers' sector and a radical solution should be found to deal with the obstacles related to professional secrecy in order to implement actual supervision over the lawyers' sector. The Ministry of Justice should also expand the depth and scope of the supervision tasks it carries out on the notaries' sector in proportion to the high level of ML risks in the sector, taking into account the classification of risks at the individual level of the components of the sector.
- f. The supervisory authorities on DNFBPs sector should take appropriate disciplinary measures against entities which violate AML/CFT procedures and take the initiative to gradually impose penalties commensurate with the seriousness of the detected violations.
- g. The activities of the accountants' sector should be re-evaluated and the extent to which it is subject to AML/CFT obligations should also be re-evaluated, in accordance with Article 5 of the AML/CFT law, and articles of the law regulating the practice of the profession, which prohibit accountants from practicing these activities, taking into account that the prohibition is made clearer.
- h. The SIC, the Ministry of Justice, the Bar Association and LACPA, to each that is concerned, being supervisory bodies on DPMS, real estate agents, notaries, lawyers and accountants sectors should make more efforts to enhance the understanding of these businesses and professions of their obligations through events and training courses, by continuous training and the issuance of guidelines on applying AML/CFT obligations in relation to the nature of their activities and monitoring suspicious indicators associated with those activities.

536. The Immediate Outcome considered and assessed under this chapter is IO3. The Recommendations related to effectiveness assessment under this chapter are R.26-28, 34 and 35 as well as elements of R.1 and R.40.

537. Conclusions related to this IO were reached based on the information and statistics provided by the country, the instructions issued by the supervisory authorities, and interviews with the licensing

authorities, the supervisory authorities, and the bodies subject to supervision from various sectors.

### **Immediate Outcome 3 (Supervision and monitoring)**

538. Banque du Liban is responsible for licensing banks, money transfer companies, exchange institutions, non-bank financial institutions, and comptoirs . The Capital Markets Authority (“CMA”) is responsible for licensing financial brokerage companies, whereby Insurance Control Commission at the Ministry of Economy licenses insurance companies.
539. As for VASPs; VA services and VASPs are among the prohibited activities in Lebanon, and within this framework, there are prohibitions and measures that prevent the banking and financial sector from any dealings in VAs whereas the supervisory authorities ensure FIs’ compliance to prohibit dealing with VAs and VASPS through carrying out onsite inspection visits. A security study was conducted to determine the size of the VAs and VASPs activities outside the scope of the formal organized financial sector. Through a mechanism applied by the Internal Security Forces (“ISF”), as a result of that study, a number of persons and institutions that provide the VAs and VASPs activities were detected, and referred to the Cassation Public Prosecution, to take legal action there against.
540. The SIC, in addition to being a financial intelligence unit, is the supervisory authority responsible for verifying the compliance of the reporting institutions as per the provisions of the AML/CFT Law No. 44/2015 and its bylaws, with the exception of lawyers, accountants and notaries.
541. The Banking Control Commission (“BCCL”) performs prudential supervision over financial institutions licensed by “BDL” and the AML/CFT compliance constitutes one of its various supervision components. As for the “CMA” and the “ICC” they do not have any AML/CFT role, as it is limited to the licensing and prudential supervision. Notaries are subject to licensing and supervision by the Ministry of Justice, and the Beirut and Tripoli Bar Associations supervise lawyers, while LACPA supervises certified public accountants.
542. There is cooperation and coordination between the BCC and the FIU in several areas such as monitoring unlicensed financial institutions, checking the status of names being listed in the FIU’s list at the licensing stage, exchanging knowledge about understanding risks and monitoring indicators during supervisory operations (tasks) to determine those who carry out VAs-related transactions.
543. The effectiveness of supervision and monitoring over the above-mentioned sectors was evaluated according to the materiality and level of risk of each sector in the context of Lebanon. Whereas, issues related to the effectiveness of monitoring and supervision gained the heaviest weighting in the banking sector, whereby a significant weight in the sector of money transfer companies and exchange institutions of category “A” and the notaries’ sector was given, in addition to a medium weight was given to the sector of exchange companies of category “B”, lawyers sectors, DPMS and real estate agents, whereas low weight was given to insurance sector, non-bank financial institutions, financial brokerage companies, comptoirs, and the Casino DU Liban. (See Chapter 1 for information on the Materiality and Context).

## Licensing, registrations and regulations preventing criminals and their associates from entering the market.

### Financial Institutions

#### Banks and Non-Banking Financial Institutions

544. Banque du Liban applies specific controls for examination and verification in order to prevent criminals and their partners from owning effective shares in banks and non-bank financial institutions. Number of controls are implemented upon establishment (licensing), subscription through establishment capital, increasing capital or any other increase in allocated funds as well as changes in the senior management. The procedures include examination of the competence of the founding shareholders and to ensure that they have sufficient professional experience and that no judicial rulings have been issued against them, the identity of the founders and the persons expected to be assigned with Board of Directors' responsibilities and senior management positions are verified through an official supporting document and the data of the Commercial Register in the case of shareholder legal person, as well as studying the association with any Lebanese financial institutions. It is noted that these procedures are based on identifying the BOs through ownership, but they are not sufficient to identify the BOs who perform indirect control. The World check system is used to check for PEPs, and in the event that one of these persons is a PEP, the file is transferred to the Central Bank Council to decide on the application, and it is not clear what actions the Council will take later.
545. The assessment of financial receivables is also verified, and a statement of assets is obtained with an estimate of their actual value, a curriculum vitae and a recent copy of the criminal record to ensure that no judgments have been issued. The names of the founders and the persons expected to be entrusted with the board of directors' tasks are examined to ensure that they are not included in the UN sanctions lists and the national terrorism list, in addition to the FIU's database for the purpose of checking the absence of suspicions and ongoing investigations or any potential relationships with criminals. In addition to the available sources of information and conducting personal interviews with the founding shareholders whom hold shareholding or influential (controlling) shares, as well as the persons who will assume administrative positions. The articles of association, the administrative structure, the regulations of organization, internal supervision and auditing, and the operations system are also studied.
546. Then the recommendations are submitted to the Central Council. After the subscription is carried out, the BCC, within the procedures for verifying the validity of the subscription, compares the names of the subscribers with the names mentioned in the capital account and verify the source of the funds and the fact that it is for the BOs and that the names of the subscribers are not on the World-Check system, after that, a correspondence is sent to the FIU to ensure that there are no suspicions or investigations about Subscribers.
547. Banque du Liban received 4 licensing applications for banks between 2017 and 2021, one application was approved, two were withdrawn by the founders, and one was rejected due to insufficient qualifications. During the same period, it received two applications for licensing non-banking financial institutions, one of which was approved. In the case of applying for a license for a financial institution affiliated with a foreign bank, the approval of the supervisory authorities in the home country is requested along with a comfort letter from the parent bank, but no similar requests have been received during the last five years.



548. The approval of Banque du Liban is also sought, when there is any change in the ownership of the shares of any Lebanese bank or a non-banking financial institution that leads to the assignee acquiring more than 5% of the bank's shares or 10% of the shares of the relevant financial institution, directly or indirectly, or in the event assignment of shares to one of the current or elected members of the Board of Directors, regardless of the number of shares assigned (waived). All of these shares are nominal and are kept with the central depository, where the concerned institutions must inform the central depository when a change in ownership of shares occurs within 48 hours of completing the documents required in the assigning (waiver) process. The Central Depository sends the daily reports via electronic means to the BCC that include detailed lists on shareholders of banks and non-banking financial institutions.

**Table 3.1.1: number of violations for non-reporting the change in owning shares in banks**

Year	Cases of change in owning banking shares	Number of violations
2017	83	1
2018	84	0
2019	77	0
2020	70	2
2021	83	2

**Table 3.1.2: number of violations for non-reporting the change in owning shares in non-banking FIs**

Year	Number of cases in change of owning Non-banking FIs shares	Number of violations
2017	19	0
2018	24	0
2019	20	0
2020	13	0
2021	7	0

549. The license application team includes 4 observers with more than fifteen years of experience in relevant fields. The approval of the Banque du Liban is also required when appointing those who occupy senior management positions, but it is not a prior approval, and their names are not scanned against the UN sanctions lists. The BCCL monitors changes in the senior management of banks and non-banking financial institutions. The statistics below show cases of rejection to appoint (or change request) members of some administrative positions in banks and non-banking financial institutions because they do not have the required qualifications.

**Table 3.1.3: Cases of rejecting the appointment (or change request) members of some administrative positions in banks for not having the required qualifications**

Banks	Number of cases				
	2017	2018	2019	2020	2021

Members of AML Committee emanating from board of directors	1	1	0	0	0
Compliance Department	1	1	1	0	2

**Table 3.1.4: Cases of rejecting the appointment (or change request) members of some administrative positions in non-banking FIs for not having the required qualifications**

Non-banking financial institutions	Number of cases				
	2017	2018	2019	2020	2021
Members of AML Committee emanating from board of directors	0	1	0	0	1
Compliance Department	1	0	1	0	0

550. Periodic procedures are not applied to verify the clearance of criminal record of all those mentioned and that they are not included on the UN. However, the status of shareholders' listing is verified in cases of transferring shares or subscribing to a capital increase. After the final approval is issued by the Banque du Liban, the bank or non-banking financial institution is listed on the lists of licensed banking or financial institutions published on the website of the Banque du Liban ([www.bdl.gov.lb](http://www.bdl.gov.lb)).

551. No activity was observed for entities providing banking services without a license. In order to identify such activities, the security authorities rely on information received from public complaints, fraud cases and notifications (advertisements) to the media and social networking. The supervisory authorities, when examining account samples during supervisory visits, monitor certain indicators that may indicate the practice of banking activity by bank customers, in addition to STRs.

### Exchange Companies of Categories (A) and (B)

552. In the case of licensing category (A) or (B) exchange companies, similar controls are applied to those applied when licensing banks, and when assigning shares that lead to a person directly or indirectly acquiring more than 10%, in addition to requiring the completion of the certified qualification courses by Banque du Liban in AML/CFT by both the authorized partner and whoever manages the company.

**Table 3.1.5: number of received and approved licensing requests for exchange companies of category A**

Applications	Licensing Applications for Category A Companies				
	2017	2018	2019	2020	2021
Applications Received	4	3	0	1	2
Applications Approved	1	0	0	0	2
Applications Withdrawn	2	0	3	0	0
Applications Under Review	1	4	1	1	1
Applications Rejected	0	0	0	0	0

**Table 3.1.6: number of received and approved licensing requests for exchange companies of category B**

Applications	Licensing Applications for Category B Companies				
	2017	2018	2019	2020	2021
Applications Received	8	4	6	10	11
Applications Approved	0	1	0	0	0
Applications Withdrawn	0	0	2	1	0
Applications Under Review	6	9	13	22	31
Applications Rejected	2	0	0	0	2

553. According to the statistics provided, 4 applications for licensing Category B exchange companies were rejected between 2017 and 2021. The reasons for the rejection included the inclusion of the name of applicant of a sole proprietorship on the list of defaulters at the Banque du Liban, and the inclusion of the name of one of the partners on the FIU tables. And the failure of the authorized signatories in the Banque du Liban exam related to the laws and circulars that sponsor the money exchange profession, especially the AML Law.

### Money Transfer companies

554. Money transfer companies are subject to controls similar to those applied to exchange companies when licensing, and the approval of the Banque du Liban is required, when there is any change in the ownership of shares that leads to a person acquiring, directly or indirectly, 10% of the company's shares. Additional procedures are applied to obtain a license from the Banque du Liban to establish a money transfer company, which are: An initial agreement signed with a global network for the transfer of funds through electronic means.

**Table No. 3.1.7: regarding the number of licensing applications for money transfer companies**

Applications	Applications for Licensing Money Transfer Companies				
	2017	2018	2019	2020	2021
Applications Received	1	1	1	0	1
Applications Approved	0	1	0	0	0
Applications Withdrawn	1	0	1	0	0
Applications Under Review	0	0	0	0	1
Applications Rejected	0	0	0	0	0

555. The security authorities developed a mechanism to identify persons and companies that carry out money exchange activities and money transfer without a license, based on the decision of the National Coordination Committee for the Suppression of Terrorist Financing on 17/5/2017, whereby a number of government agencies participated in the implementation of the mechanism. Whereas a statistical survey was conducted for institutions and persons engaged in money transfer or exchange activities, whereby the results were shared with the Banque du Liban, the FIU, and the BCC to compare them with their records of licensed institutions, and thus identify unlicensed companies and persons. The violators were referred to the Cassation Public Prosecution for legal action. The implementation of the aforementioned

mechanism resulted in monitoring and tracking by the Intelligence Directorate of the Lebanese Army of exchange activities and/or illegal money transfers in refugee communities, where 3 persons were arrested between 2019-2021 for practicing money transfer activity, and 7 between 2020-2021 for practicing money exchange activity.

556. The Ministry of Finance also surveyed the entities whose tax identification indicates that they practice exchange business and compared them with the lists issued by the Banque du Liban. As a result, the Banque du Liban was contacted with the names of the unlicensed parties, as the Banque du Liban compared them with its database and then referred tables of persons who practice exchange business without a license to the Cassation Public Prosecution.

557. Comptoirs are subject to controls similar to those applied to exchange companies, upon licensing, assignment of shares and change of members of senior management. No violations were discovered with regards to the license and registration requirements under this category.

### **Financial Brokerage Companies**

558. When establishing a financial brokerage institution, it is necessary to obtain the approval of the CMA, as well as obtaining a license to conduct business related to financial instruments. License applications are being studied and recommendations with relation thereto are submitted to the CMA's board.

559. CMA applies procedures to verify fitness and properness similar to those applied to banks in terms of requesting information about each of the influential persons (controllers) and their close links, including founding members, members of the board of directors, subscribers to capital, and members of the senior executive management, but it does not include the BOs who holds indirect control. The status of listing on local and international lists and the FIU database is verified, and periodic procedures are applied in this regard. In the event that one of these persons is a PEP, the matter is referred to CMA's Board, and the procedures for identifying PEPs and the controls that are applied when they own shares in financial brokerage companies are not clear. . Personal interviews with executives and registered persons may be conducted. A statement of the percentage of participation of all subscribers in the company's capital is also requested. Feasibility study that includes the company's financing sources and a statement of the expected financial position, and communication is made with the relevant local authorities and foreign counterparts to study any association with an institution in Lebanon or abroad. 3 license applications were rejected between 2017 and 2021 for reasons related to not meeting the required criteria.

560. Licensed institutions are also obligated to inform the "CMA" immediately of any imposed disciplinary penalties thereon or its influential persons (controllers), or any conviction thereon against any felony or cancelation of any request to join the financial markets and any change in the registered persons with detailed information on the fitness and properness of those to be appointed as registered persons.

561. The assignment of shares in the capital of any financial brokerage institution is subject to a prior authorization from the CMA if the assignment leads to a person acquiring, directly or indirectly, more than 10% of the total shares of the financial brokerage institution, or if the assignee or the assigned to is a member of the current Board of Directors or elected members, regardless of the number of shares assigned. Transfer of shares cannot be inherited.

562. CMA can take punitive measures against financial brokerage companies that do not comply with the terms of registration and licensing and the conditions for registration of key positions. The CMA discovered 3 violations to the CMA's regulations where 2 institutions corrected their position and one institution's license was struck-off for not complying with the licensing conditions. CMA maintains a database on the distribution of ownership of financial brokerage companies and the activities of these companies, in addition to the address of the main headquarters and branches, the names of senior management members and managers, and the company's governance structure. Also, the CMA does not implement specific procedures to monitor unlicensed activity, but information was reached regarding 3 cases of practicing activity without a license through the media, and a report was submitted to the CMA's Board of Directors and complaints were submitted to the Cassation Public Prosecution.

### **Insurance Companies:**

563. ICC at the Ministry of Economy applies a number of controls when examining registration applications., the criminal record of the founders, managers and representatives of insurance companies is required, and the listing status is verified, but periodic procedures are not applied in this regard. A practical experience of not less than 10 years in the same field is required for the general manager and assistant director. In the case of a legal person, commercial registration data and a commercial statement are requested, and it is noted that these procedures are not sufficient to identify the controllers in indirect ways, the information available on the Market Intelligence, or information from peer regulators. The articles of incorporation, economic feasibility and a document evidencing the capital and its distribution are also studied (reviewed). Similar conditions are applied when registering foreign insurance agencies, where a certificate is required to prove their legal capacity to practice insurance activities in their country, and to prove their domicile in Lebanon and their legal representative residing in Lebanon.

564. Occupation of key positions in insurance companies is subject to registration with the ICC , and this includes the general manager, the assistant general manager, members of the board of directors and shareholders of the company. The certified actuarial expert must also be reported to the ICC. The same controls are applied in cases of assignment of shares. According to information received from the country, 58 cases of change in the ownership of shares of insurance companies were recorded between 2017 and 2021, and no violations were found.

565. The Lebanese authorities stated that applications for registration of any new insurance companies are not currently accepted due to the market sufficiency, as one application was received and rejected in 2020. Two companies were also struck-off as a result of being listed on OFAC's list.

566. Counterparts are contacted to inquire or request additional information or documents related to foreign companies that own shares in Lebanese companies or have a relationship with the company. The information requested includes but is not limited to: Legal status of foreign companies, financial positions and solvency. Some case studies were provided, as the Central Bank of one of the countries was contacted in 2021 to inquire about the reasons for issuing a decision to amend the license granted to a company that owns most of the shares in a Lebanese insurance company. In another case, the Central Bank of a country was contacted to inquire about what was stated on one of the official websites regarding the period of prohibition of disposal of shares belonging to some shareholders in a company, given that one of the shareholders subjected to this period is a Lebanese insurance company.

## DNFBPs

567. The table below shows licensing or registration bodies, and supervisory authorities of different DNFBPs.

**Table 3.1.8 on licensing or registration bodies, and supervisory authorities of different DNFBPs.**

DNFBPs	Licensing/Regulatory Authority Or Registration	AML/CFT Supervisory Authority	Public Supervisory Authority
Casino du Liban	Lebanese Government	FIU	MOF
Real estate dealers and brokers	MOF	FIU	MOF
DPMS	MOF	FIU	MOF
Notaries	Ministry of Justice	Ministry of Justice	Ministry of Justice
Certified Accountants	LACPA	LACPA	LACPA
Lawyers	Bar Association (Beirut/Tripoli)	Bar Association (Beirut/Tripoli)	Bar Association (Beirut/Tripoli)

## Notaries:

568. The Ministry of Justice is responsible for licensing notaries, granting practice of business certificate and the permitting the address of business. A number of fit and properness controls are applied, which include that the candidate holds a Lebanese license in law, and that it holds clean criminal record, as well as verifying their status on international and national lists. There are no periodic procedures to verify the ongoing absence of any criminal records and non-inclusion in the UN lists.

569. Through a mechanism between the Ministry of Justice and the General Directorate of Public Security, candidates are investigated to ascertain any suspicions about them, their family, or their partners that prevent them from practicing the profession of notary public. Whereby candidates are considered not qualified in case of any negative information thereabout by the general security agencies, a number of nomination applications were rejected as a result of follow-up and investigation in accordance with this mechanism. The rejection rate for security and justice reasons was about 7.5% in the last five years. Candidates applications are checked by a committee of judges, including personal interviews with each candidate.

**Table 3.1.9: Statistics on the Persons Submitted for the Notaries Competition**

Statistics on the Persons Submitted for the Notaries Competition	Number		
	2010	2013	2020
Persons submitted for the competition	721	471	1561
Successful - accepted persons	39	40	69
Failed Persons	682	431	1476

## Lawyers:

570. The Bar Associations in Beirut and Tripoli undertake the task of registering those wishing to practice

the legal profession, where specific conditions for fit and proper must be met, including being Lebanese, holding qualified certificates, also clear criminal record is being studied as well as their status on the international or national sanctions lists. Accepted applicants are subject to a three-year internship in an appellate attorney's office. The internship applicant is required to attach their criminal record, then the successful applicant will be registered in the Bar's general list after passing the internship period. Whoever is proven to have offended the ethics of the profession shall be referred to the Disciplinary Council, and disciplinary measures may be taken that may amount to suspension for a specified period from practicing the profession up to final strike-off. In case of strike-off, the ministry of Justice will be notified. When establishing professional civil companies that include lawyers as partners, they are registered with the Bar.

571. No procedures are in place to prevent accomplices of criminals from being professionally certified, and there are no periodic procedures to verify the ongoing absence of any criminal records and the status of listing on the UN sanction lists.

### **Certified Public Accountants**

572. The responsibility for registering CPAs rests with LACPA and no person who is not registered on LACPA's list is allowed to practice the profession. Specific controls are applied to ensure the fitness of persons to practice the profession, including that he be Lebanese, possessing the qualifying certificates, pass the prescribed examination, and finish a period of no less than 3 years of internship in the office of a certified accountant. The validity of their criminal record and the status of their listing in the UN and local sanctions lists are verified, and the data of the registrants is updated every 5 years, and the listing status is re-verified when updates to the sanctions lists are issued. However, no procedures are in place to prevent accomplices of criminals from being professionally certified. 14 applications for affiliation with the LACPA were rejected in the last five years because the conditions of practitioners of the profession were not met. Foreign CPAs are registered with the same professional conditions and qualifications required of Lebanese, provided that they work in Lebanon with the partnership of a Lebanese CPA and fulfills the legal requirements for work and residency in Lebanon. However, it is not clear if there are procedures for communicating with counterparts to obtain information about the foreign CPA or their criminal record and legal status. LACPA stated that it did not license any foreign CPAs during the past 7 years. When CPAs establish professional companies among themselves and with experts in other fields, which are registered in the companies' register organized by LACPA, the fit and proper tests are not applied to the BOs of these companies, except for partners.

### **Casino du Liban**

573. The Commercial Registry does not apply the controls for verifying the criminal record nor clearing names against the UN and local sanctions lists. According to an agreement signed with Casino du Liban, the Central Depository manages the company's shareholder register, carries out share ownership transfers, and provides the Casino du Liban company's management with daily reports stating ownership transfers. Casino du Liban submits an annual statement on the holder of the economic right (BOs) to the Ministry of Finance in implementation of Resolution 2472/1 issued by the Minister of Finance on 27/9/2018. None of these procedures include controls to verify the non-criminal record and whether the persons are included on the UN and local sanctions lists. As for those who occupy senior positions in the casino, they are subject to controls in accordance with the casino's bylaws, including the criminal record and

identification certificates.

### **DPMS and Real Estate Dealers and Brokers:**

574. DPMS and real estate agents are subject to registration with the commercial register, but no controls are applied to prevent criminals or their associates from acquiring large or controlling shares or being BOs therein or occupying administrative or authorized signatory positions as no action is taken to verify the criminal records nor there is a screening of names against the UN and local sanctions lists, whether for new registration requests or periodically, or upon change in the names of owners, companies, or members of senior management, and neither the indirect BOs nor the controllers are verified.

### **Supervisory Authorities' Understanding of ML/TF risks: The FIU, FIs**

575. The FIU has a good understanding of the risks of money laundering and terrorist financing, which derives from its main role in the NRA process, and from its preparation of sectoral assessments related to the financial sectors subject to its supervision and the information it collects periodically from financial institutions, which allows the FIU to identify the type and size of operations, customer categories, and the countries that are dealt with.

576. The FIU's understanding of the ML/TF risks was consistent with the NRA outcomes, as the FIU identified the sectors of banks, money transfer companies, and exchange institutions as category A high-risk sectors. The FIU has good understanding to the threats linked to ML facing the financial sector which is resulted from the proceeds of crimes of corruption, tax evasion, subsidized material smuggling activities, and counterfeit goods trade. The FIU adopts the conclusion related to the importance of cash in terrorist financing activities and the preferred channels for terrorists, such as cross-border money smuggling, illegal Hawala (transfer) activities, transfers through money transfer companies, and to a lesser extent banking transactions.

577. It based its classification of the risks of the banking sector on the fact that it constitutes the largest component in the financial sector, as its share exceeds 95 percent of the total financial sector, and the expansion of its customer base and its dealings with high-risk customer categories such as offshore companies, where the FIU believes that determining the ultimate beneficiary and the source of funds may pose a challenge to banks in these cases, and companies dealing with the public sector, where corruption constitutes one of the most important risks in these dealings, and the provision of services subject to exploitation, and the channels for providing products such as third-party dealings. It is also the only institutions that receive deposits, given the nature of their cross-border operations, the speed and scope of these operations, which include dealings with countries with high risks, and the presence of ML/TF cases.

578. As for money transfer companies, the FIU bases its high-risk rating on the global patterns and typologies that can be exploited in the financing of terrorism by foreign terrorist fighters, the methods of transferring proceeds of crime, the predominance of cash transactions, and the ease and speed of its cross-border operations. The NRA outcomes concluded that cash transfers through money transfer companies were among the methods used by terrorists to transfer money. The FIU believes that the high risks of Class A exchange institutions result from cash transactions and the type of their services, which include transfers,



Hawala operations, cross-border money shipments, and the provision of services to occasional clients and cash-based businesses.

579. Non-banking financial institutions, financial brokerage companies, comptoirs and insurance companies were classified at a low level of exposure to ML/TF risks due to the modest volume of their transactions and the regulatory restrictions imposed on them as they do not receive deposits and are modest in terms of their volume and the volume of their transactions. As for the products and services they provide, a large number of financial intermediary companies provide advisory services only, while comptoirs focus on providing small loans. Insurance companies are considered to be less exposed to ML/TF risks, due to the modest value of premiums paid for life insurance policies that have investment qualities that allow the option of transferring, transport and safekeeping of funds.

580. Compliance Unit of the FIU prepared two sectoral assessments in 2016 and 2019 and comptoirs were added in the last sectoral assessment. Sectoral assessments were approved by the Secretary-General of the FIU, and were based on quantitative and qualitative information collected from several sources, including data from the FIU related to patterns, strategic analysis and suspicious reports, in addition to information from the financial sector collected through questionnaires, annual reports and information derived from the experience of the supervisory authority with the sector and mainly from the results of the supervisory visits (tasks). The analysis was conducted at two independent levels, namely identifying vulnerabilities and their impact on each sector, then assessing ML/TF risks across each sector based on a number of variables such as the nature of activity, services and products, business volume, delivery channels, customer categories, and country risks. Risks were rated without taking into account risk mitigation measures. The FIU supported those results by means of providing information on residual risks concluded from the NRA process.

581. The FIU adopts a risk matrix for each financial sector that includes the criteria associated with the inherent and residual risks. The criteria adopted in the risk matrix are modified as needed and as their understanding of the risks of sectors and organizations evolves. The risk rating of financial institutions in various sectors is updated periodically, on an annual basis, or immediately when there are any new variables or information, such as those resulting from on-site supervision or in the light of prudential information. Financial institutions were rated according to risk ratings: Low, or Moderate or High Information related to the risk structure and level of compliance of financial groups is also taken into consideration when preparing the risk matrix. An example case study of information received regarding a financial institution was discussed, and as a result, some of the risk parameters in the matrix have been updated.

**Table 3.1.10: Rating institutions' risks across sectors**

Sector	High risks	Moderate risks	Low risks
Banks	11	17	21
Money Transfer companies	3	5	2
Category A Exchange Institutions	24	12	7
Category B Exchange Institutions	5	37	214
Non-banking financial institutions	7	12	11

Financial brokerage companies	1	3	7
Insurance Companies	7	17	25
Comptoirs	3	6	7

### DNFBPs

582. The supervisory authorities on DNFBPs derive their understanding of ML/TF risks in the sectors subject to their control from the results of the NRA that they participated in preparing. With the exception of the Ministry of Justice, the supervisory authorities have not prepared sectoral risk assessments, but they base their supervisory approach on the results of the NRA. The NRA rates the sector's exposure to ML risks as follows:

**Table 3.1.11:**

<b>Designated and Non-Financial Businesses and Professions Sector</b>	<b>Level of exposure to risk ML</b>
Notaries	High
Traders and Real Estate Brokers	Moderate
Lawyers	Moderate
Certified Accountants	Moderate
DPMS	Moderate - Low
Casino du Liban	Low

Note: Exposure of all DNFBPs to TF risks is Low in general, as per the NRA.

### Ministry of Justice

583. The Ministry of Justice has an average understanding of ML/TF risks in the notaries sector and is familiar with the rating of the notaries sector according to the NRA of 2019 and the last update in 2022 which is at a high level of exposure to ML risks as a result of the sector's provision for services related to the implementation of real estate transactions and the establishment of legal persons, however, it is not consistent with this rating.

584. The AT was not provided with any sectoral risk assessment of the notaries' sector. However, the Ministry of Justice stated that it had conducted a sectoral risk assessment based on general criteria relying on the NRAs in addition to the Ministry's understanding of the risks of the sector, and special criteria related to the geographical location, size and nature of business and the type of clients. The Ministry of Justice has categorized the level of risk of notaries in order to implement on-site and off-site supervision based on these criteria. An annual questionnaire is also circulated to collect information from the sector, and the supervisory authority uses this questionnaire as a means to draw the attention of notaries to cases that may lead to ML activities.

**Table 3.1.12 on rating Notaries' risks**

<b>Year</b>	<b>high risk</b>	<b>Moderate risks</b>	<b>Low risks</b>
<b>2017</b>	20	44	152

<b>2018</b>	25	49	142
<b>2019</b>	31	30	155
<b>2020</b>	29	63	136
<b>2021</b>	43	55	130

585. During discussions with the Ministry of Justice, it was found that the aforementioned sectoral assessment resulted in finding vulnerabilities related to the issue of (actual offers) and (deposits), as the Lebanese law allows the debtor to present to the creditor, through the notary, the amount that they consider themselves owed and to deposit it with the notary in a bank account or in the Treasury fund (Article 822 of the Code Criminal Procedures). There is no specific threshold for the value of the amount and for the duration of its deposit in the notary's account. Where the representatives of the Ministry of Justice mentioned the existence of a proposal to amend the law to require depositing into the account of the state treasury, and thus setting the required controls in this regard.

### LACPA

586. Despite the inclusion of the certified accountants' sector in the NRA and its classification at a medium exposure level to the risks of money laundering and terrorist financing, and despite that certified accountants are addressed under Article 5 of the AML/CFT Law; LACPA, the FIU and representatives of the sectors who were interviewed consider that this sector does not practice the activities mentioned in the above-mentioned Article. Both LACPA and the sector representatives justify this by the fact that Article 15 of the Law regulating the work of the profession prevents them from providing these activities. LACPA also confirmed that it communicated a circular to all experts registered in its list with the aim of limiting those who provide these activities and taking disciplinary measures against them. It was found from this survey that the vast majority of registered experts do not offer any of these activities, and the remaining cases for which no information was available for reasons of travel, illness or death are being investigated, and they represent a limited number (about 7 cases). By reviewing the provisions of Article 15 of the Law No. 364 Regulating the Profession of CPAs, it was found that it is free of any explicit obstacles that prevent accountants from practicing these activities. Accordingly, the AT considers the need to re-evaluate this sector and determine the extent to which it is subject to AML/CFT Law's requirements as an obligated reporting entity, provided that the decision to prevent accountants from engaging in the activities mentioned in Article 5 is clearer.

### Bar Association

587. The Beirut Bar Association, which is the supervisory authority over the sector, has a good understanding of the risks of money laundering and terrorist financing, and this understanding is consistent with the NRA results. The Bar believes that the risks to which the sector is exposed result from the type of services it provides, specifically establishing and operating companies, and the sale and purchase of real estate as well as managing funds and assets on behalf of clients. The lawyers' sector was classified at a medium level of exposure to ML risks. The Bar has not conducted a sectoral assessment and there are no criteria for rating risks and defining the risk structure at the individual level for the application of risk-based supervision. However, the category exposed to risks is determined by a specialized company to identify law firms that provide services that fall under Article 5 of the law and address them to obtain confirmation of their self-assessment regarding their compliance to their obligations. Lawyers who hold managerial positions in companies are also identified as an indicator of who provides those services for the benefit

of other nominees. The Bar Association did not provide any statistics to clarify the size of the sector subject to the obligations of AML/CFT Law. However, the Bar Association considers that those who practice the activities mentioned in Article 5 of the law constitute about 10% of the lawyers practicing the profession, but the actual size varies from year to year, as the all lawyers have the right to practice those activities.

## FIU Real Estate Agents

588. The FIU has good understanding of the risks of real estate sector, whereby it has rated the sector at a medium exposure level to ML risks, taking into account the inherent characteristics such as high-value transactions, assets that preserve value in general, and the possibility of exploiting the sector to hide the source of funds and the BOs. The FIU considered that the inflation in the value of real estate sales resulted from the Lebanese resorting to buying real estate at high values through bank cheques that lost their actual value, in order to free their money stuck in their accounts with banks, and that most of these operations were not carried out through real estate agents, who are responsible for a small part of the total real estate transactions and their role is limited to connect the seller and the buyer and collect their commission, without being involved in funds and payments of real estate transactions. The sector is subject to the supervision of the FIU, which its understanding of the risks of the sector aligns with the results of the NRA, which adopts a risk matrix similar to that applicable to the financial sectors. The components of the sector were rated into three categories according to risks (high, medium and low) in order to implement risk-based supervision. The FIU relied on collecting information from the Ministry of Finance regarding capital and the size of geographical reach. Additional information was also obtained through questionnaires and through a meeting with the most active and largest sample of the sector.

## DPMS

589. The FIU has a good understanding of the risks of money laundering and terrorist financing in the DPMS sector, and it is consistent with the NRA results, as the sector was rated at a medium-low exposure level (see IO.1 on the extent to which the sector's risk classification is consistent with the vulnerabilities in the country). Despite taking into account the factors of widespread, dealing in cash, conducting cash transactions at a high value, and maintaining a degree of privacy, the FIU believes that this classification is based on the fact that most of what is imported of gold and precious metals is re-exported after it is forged and a small part remains for local dealings. The sector mostly consists of small companies of modest activity, in which the total value of their transactions does not exceed 30% of the local market, as one transaction mostly ranges between USD 500-2500, and a small number of traders have big activities and control the market in terms of transactions value, as their transactions amount to 70% of the local market.

590. The sector is subject to the supervision of the FIU (the FIU adopts a risk matrix similar to that applied to the financial sectors). The components of the sector were rated into three categories according to risks (high, medium and low) in order to implement risk-based supervision. The FIU relied on collecting information from the Ministry of Finance regarding capital, the size of business and geographical reach. Additional information was also obtained through questionnaires and through a meeting with the most active and largest sample of the sector.

## Casino du Liban

591. The Casino has been rated at a low level of ML risk according to the NRA as a result of its working mechanism that prevents the receipt or transfer of funds electronically by customers or the issuance of cheques to third parties, add to that, online games are not offered. It is subject to FIU's supervision.

### **Risk-based supervision to comply with AML/CFT requirements.**

#### **FIs**

592. The FIU is the body concerned with onsite and offsite monitoring to ensure the effectiveness of anti-money laundering and terrorist financing systems of reporting institutions (except for notaries, lawyers and accountants) and their consistency with the risks of those bodies. The FIU has developed a supervisory plan based on the results of the 2019 NRA and sectoral risk assessments. This plan it is linked to the results of the risks matrix and is updated as a result of updating the risk matrix as needed and with the development of its understanding of the risks of sectors and institutions.

593. The FIU has a team carrying out desk supervision whereby the supervisory approach is carried out through analyzing annual questionnaires, qualitative information and reports that are received by the FIU and entering them into the information system to update the institution's risk rating. The onsite supervisory team relies on information available through the works of offsite supervision regarding each institution for the sake of mapping the onsite visits tasks. This information includes monitoring the activities of institutions and any changes in the financial sector in general, in addition to the type of services, operations and clients of the institution and their level of compliance, including correcting the observations referred to in the previous onsite supervision report.

594. The FIU conducts full-scale inspections with thematic components and targeted inspections, in addition to offsite inspections. When conducting a full-scale inspection, the onsite inspection team focuses on higher risk areas as identified in the bank profile (the inspection team was showed examples), such as risky products and processes and at risk customers. While lower risk areas are also examined but with less focus. Examples of vulnerable clients that the onsite inspection team is focusing on include; PEPs, public procurement firms and government-subsidized sectors where the focus when covering these categories is on risks related to corruption. The focus is also on other high-risk client categories: NPOs, notaries, and cash-based businesses. Examples of risky products and services include: Financial transactions, cross-border transfers, trade-based services, third-party (non-face-to-face) business relationships. Targeted inspections focus on specific areas such as following up on the implementation of the corrective action plan and certain products and services such as the bank's cash operations or the status of internal controls and the operations control system.

595. Inspection teams focus on TF risks when implementing controls on money transfer companies and hawala services in a deeper way compared to other financial sectors. This includes, for example, focusing on sub-agents located near the borders with conflict areas, studying and analyzing hawala transactions as they represent higher TF risks, and reviewing indicators and warnings related to terrorist financing in the samples of transactions that it examines.

596. The number of observers in onsite tasks ranges between one and four observers, and the duration of supervision is from two days to eight weeks, depending on the size of the institution, the level of risk and the scope of the supervisory visit. Onsite supervisory tasks are scheduled on an annual basis, as the

frequency of visiting institutions is determined based on criteria including the level of risk and the size of the institution. Therefore, the most vulnerable institutions are subject to onsite visits within a maximum period of 18 months in high-risk sectors, 24 months in medium-risk sectors, and 30 months in low-risk sectors. Whilst the frequency of onsite visits to medium and low-risk institutions at more distant intervals, according to the risks of the sector to which they belong. The scope of the onsite supervision tasks includes ensuring the effectiveness of the AML/CFT systems applied by the institutions and their consistency with their risks and verifying their compliance with the requirements of the AML/CFT law and bylaws. All onsite supervisory tasks were full-scale inspections with some thematic components between 2017 and 2018, from 2019 to 2021 all site supervision operations became full-scale ones and all contained thematic components, and 13 targeted supervision tasks were completed.

597. During the onsite visit, the AT reviewed the supervisory manual of the compliance unit of the FIU, which includes all procedures used to implement risk-based supervision. Whereas the onsite supervision is based on basic and secondary criteria, and each criterion is assigned a score. The focus is on ensuring that the required procedures are applied to customers, services and processes of importance that would increase the level of the organization's exposure to risks. The applied criteria and case studies of onsite supervision results have been reviewed.

598. After completing the onsite inspection visit, a report of the gaps and violation detected is issued, and the institution is informed, in writing, of the discovered gaps and an action plan is requested for corrective actions, with a time limit for remediation, then the implementation of the action plan is followed up through offsite supervisory works. The AT reviewed examples of onsite tasks models and reports that were prepared based on the identified gaps.

599. The total number of the supervisory team at the FIU is 17 observers, 2 of whom are for offsite supervision. They are highly trained and have long experience in this field. They participated in training sessions in Lebanon and abroad with the US Federal Reserve, the Bank of France, the Australian Federal Police, the United Nations Office on Drugs and Crime, the Union of Arab Banks, the International Monetary Fund and the Middle East Center for Economics and Finance, in addition to visits to FIUs, and they also participated in training workshops for assessors and joint assessments in some countries of the MEANFATF. In addition to ongoing professional education programs. The FIU provided an example of the distribution of resources on the onsite supervision tasks that were completed in 2018, the year in which most number of the supervision visits was conducted, which constitute sufficient resources.

**Table 3.1.13 on the number of onsite supervisory visits of the FIU**

<b>Sector/Risk</b>	<b>2017</b>			<b>2018</b>			<b>2019</b>			<b>2020</b>			<b>2021</b>		
	High	Moderat	Low	High	Moderat	Low	High	Moderat	Low	High	Moderat	Low	High	Moderat	Low
<b>Banks</b>	8	10	10	8	9	5	8	9	15	6	8	5	7	10	7
<b>High</b>															
Exchange	13	10	1	15	4	1	15	15	2	16	9	-	1	1	2

Companies (A) <b>High</b>													4	0	
Money Transfer <b>High</b>	3	1	3	2	-	-	4	3	2	4	3	5	3	1	-
Exchange Companies (B) <b>Moderate</b>	2	12	45	5	44	2 1	1	-	2 2	4	15	-	-	-	-
Non-banking financial institutions <b>Low</b>	10	6	2	6	6	5	6	5	5	-	-	-	3	-	-
Brokerage <b>Low</b>	1	-	-	3	4	1	2	1	4	-	-	-	-	-	-
Insurance <b>Low</b>	2	13	13	5	9	7	-	-	-	-	-	-	5	-	-
Comptoirs <b>Low</b>	5	9	7	-	-	-	5	8	7	-	-	-	-	-	-
DPMS <b>Moderate</b> <b>Low</b>	-	11	3	-	13	5	-	11	14	-	-	-	-	-	-
Real Estate Agents <b>Moderate</b>	8	2	-	4	18	-	6	7	-	-	-	-	-	-	-
Casino <b>Low</b>	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-

### DNFBPs Notaries

600. Notaries are subject to the supervision of the Ministry of Justice, whereby the specialized unit therein entrusted with monitoring compliance with laws and regulations in general, and this includes their compliance with AML/CFT measures. It was found from the discussion with the notaries' supervisory authority that it relies in its work on offsite supervision, hearings (interviews) and onsite visits, and that its supervisory program is linked to the classification of risks according to the geographical reach, the type of activity and the profile of the notary public. It was also found that the scope of the supervisory

visits carried out by the Supervisory Unit at the Ministry of Justice is incomprehensive with regard to verifying the compliance of notaries with the AML/CFT requirements, as the supervisory visits cover a limited number of compliance criteria, last for two to five hours, and end up with the issuance of a statement of violations and a report to be submitted to the Minister of Justice. The Ministry of Justice provided information on the violations that were monitored through the supervisory works, as shown in the following table:

**Table 3.1.14: about the number of violations detected during supervision works 2017-2021**

<b>Number of violations</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Regulatory violations on CDD measures	10	12	15	9	8
Regulatory violations on EDD measures	15	13	10	12	10
Regulatory violations on other obligations	30	25	29	19	7
Total violations	55	50	54	40	25

### **Certified Public Accountants**

601. They are not subject to any supervision by LACPA for the reasons mentioned in the previous core issue.

### **Lawyers**

602. Lawyers are subject to the supervision of Bar Associations in Beirut and Tripoli, and it became clear from the meeting that took place with Beirut Bar Association that its supervisory role is limited to obtaining annual confirmation from law firms on the status of their compliance with the AML/CFT provisions, and asking questions during onsite visits to measure their understanding of those obligations. The supervisory authority cannot view any information in order to verify their compliance due to professional secrecy reasons. No violations related to compliance with AML/CFT obligations have been detected so far.

### **DPMS and Real Estate Dealers and Brokers**

603. The FIU is the body concerned with onsite and offsite supervision to ensure the effectiveness of AML/CFT systems in these two sectors, and their consistency with ML/TF risks associated with their work. The FIU follows the same approach in implementing its supervisory plans in these two sectors as it does in supervising the financial sector, as it sets these supervisory plans based on the NRA results and is linked to the risk matrix's outputs. However, the FIU did not prepare sectoral risk assessments. The supervisory plan is updated as a result of updating the risk matrix when needed and with the development of its understanding of the risks of sectors and institutions. The FIU also follows the same approach applied to financial institutions to implement off-site and onsite supervision tasks, issue reports and inform the institutions of the detected gaps. The supervision works are carried out by the supervision team of the FIU. The AT reviewed reports and correspondence issued about the shortcomings detected during the onsite supervision and requested corrective action plans. including the period required to apply these plans. The FIU also provided an example about resources distribution on the onsite supervision tasks conducted in 2018.



## Corrective Measures, Effective, Proportionate and Dissuasive Sanctions FIs

604. The FIU has the power to impose penalties in the event of a violation of AML/CFT requirements. The powers of the FIU range from sending a warning letter, to referring the financial institution to the “Supreme Banking Authority” to write-off the license or impose financial fines. The assessment team reviewed the standards applied by the FIU to determine the seriousness of the observed violations and to determine the appropriate disciplinary action. A number of factors are taken into account, including the level of non-compliance and its frequency, as violations are divided into 3 levels; Minor non-compliance, significant non-compliance, serious non-compliance. The overall level of compliance of the institution, and the institution's history of compliance with AML/CFT provisions, are also taken into account. The punitive measure is imposed according to the seriousness of the violation that is reached in accordance with those standards.
605. The BCC has powers to take a number of measures in the event that institutions do not comply with the laws and circulars with the aim of correcting the conditions of these institutions and may lead to their referral to the Supreme Banking Authority with recommendations for administrative penalties or write-offs. Two banks and three non-banking financial institutions were referred to the Supreme Banking Authority in the last five years for violating a number of regulations and circulars, including the AML/CFT procedures and regulations, and because of the inclusion on the US sanctions list in one case, where the Supreme Banking Authority decided to write off the bank.
606. The Exchange Department can also submit to the Committee the violations that have been detected through its onsite supervisory work, and they may be referred to the Supreme Banking Authority with recommendations for punishment or write-off. 3 exchange companies were referred between 2017 and 2020 for violating the provisions of the AML Law.
607. The Lebanese authorities submitted a statistic of the punitive measures that have been imposed in the last five years on all kinds of financial sector institutions. Financial fines ranging between USD 90,000 and USD 720,000 were imposed, while the license of one bank, 19 exchange institutions and one financial intermediary institution were written-off, while the number of administrative penalties amounted to 5, and warning letters were 29 during the period between 2017 and 2021. It is clear from this that the FIU has used all the penalties available thereto as per the AML/CFT Law, and these penalties are proportionate and dissuasive.

**Table 3.1.15 on distribution of sanctions as per the financial sector**

<b>Banks</b>						
Sanctions	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Write-offs	0	0	1	0	0	1
Financial fine	0	2	1	3	2	8
Administrative sanctions	2	2	1	0	0	5
Warning letters	14	7	2	3	3	29
<b>Exchange Companies</b>						
Sanctions	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Total</b>
Write-offs	5	10	2	2	0	19
<b>Money Transfer companies</b>						

Sanctions	2017	2018	2019	2020	2021	Total
Financial fine	0	0	1	0	0	1
<b>Financial Brokerage (intermediation) Companies</b>						
Sanctions	2017	2018	2019	2020	2021	Total
Write-offs	0	0	0	0	1	1

608. Examples of case studies that illustrate the appropriateness of disciplinary measures with the type of violations:

**Case 18: (Administrative Sanctions):**

The FIU carried out an onsite supervisory mission on a commercial bank, as a result of which it was found that there are gaps in the implementation of AML/CFT procedures.

The onsite supervisory team was convinced that many of the gaps that were discovered were supposed to be avoided by the compliance unit, especially since it has sufficient human and technical resources to carry out its tasks effectively. Where the team found that the reports of the Compliance Unit submitted to the senior management were not at the required level, and that the Compliance Unit officer did not benefit from the available resources by distributing tasks among its employees effectively, in addition to the poor relationship with many branches of the bank, which was reflected negatively on the effectiveness of its work.

Based on this, the FIU imposed an administrative penalty against the bank by ordering it to appoint a new officer for the Compliance Unit.

**Case 19: (Warning Letters):**

The FIU carried out an onsite supervisory mission on a non-banking financial institution, as a result of which it was found that the institution did not comply with the action plan it had set to address the gaps discovered during the previous supervisory mission. It has addressed some of the gaps while others have been partially completed.

Based on this, taking into account the acceptable level of compliance of the institution, the FIU issued a warning letter to the institution, under penalty of taking more severe sanctions in the future.

**DNFBPs**

609. It was found from the information received from the supervisory authority for notaries that no disciplinary measures were imposed related to the violation of AML/CFT requirements exclusively. As disciplinary measures were imposed resulting from non-compliance with the required laws and procedures in general, including AML/CFT procedures, and no disciplinary measures related to violating AML/CFT requirements were imposed by the regulatory authorities for lawyers, which indicates their inability to identify deficiencies or discover them and thus impose sanctions. Nor did the FIU impose any

penalties on DPMS, real estate agents and Casino du Liban. According to the FIU, the concerned authorities were addressed regarding the detected violations through supervision and follow-up on their implementation of corrective measures, as the FIU did not find any need to impose sanctions or disciplinary measures. The SIC also confirmed that the supervisory missions that were accomplished at the beginning of subjecting these groups to the AML/CFT requirements were mainly aimed at communication and increasing their awareness of their obligations.

### **The impact of the supervisory procedures on compliance FIs**

610. The FIU provided information supporting the impact of the follow-up mechanism adopted to monitor the progress made in addressing the shortcomings identified through the supervisory works, which resulted in an improvement in the level of compliance of the supervised FIs. The AT was briefed on a case study of a bank that was found to have violated a number of AML/CFT obligations, and as a result, significant financial penalties were imposed. In a subsequent onsite visit to follow up the implementation of the corrective plan within months, it was found that the bank addressed a large percentage of the observed violations, and their level of compliance has improved greatly. The AT also reviewed a statistic of the number of observations discovered between 2017 and 2021, including the percentage of addressed observations to date, which support the improvement in their level of compliance. The financial institutions that the AT interviewed confirmed that they have continuous communication with the FIU on issues related to the implementation of the AML/CFT obligations.

#### **Case Study 20: the improvement of the level of compliance as a result of the imposition of a financial penalty**

During 2018, the FIU carried out onsite supervision visit for a bank after it moved to a new basic banking program, and some obstacles occurred during the transfer of customer data and operations. The on-site supervisory team evaluated the effectiveness of the CDD measures, transactions monitoring, and the application of TFS. The team came to the conclusion that there was a decline in the level of the bank's compliance with AML/CFT procedures, and there was a weakness in the internal control procedures, which included CDD measures, updating data, applying the risk-based approach, and its IT systems cease of issuing suspicious indicators for a period of time due to the transfer to the new basic banking program, which affected the effectiveness of monitoring the accounts and banking operations.

Based on these results, significant financial penalties were imposed, and the bank was asked to prepare a comprehensive action plan that includes setting deadlines to address the shortcomings. In order to ensure the bank's compliance to the action plan and to assess the extent to which its level of compliance has evolved, the FIU carried out a new supervisory visit within months, the results of which showed a tangible improvement in the bank's addressing many of the identified shortcomings.

### **DNFBPs**

611. According to the information received from the Ministry of Justice, all the violations for which penalties were imposed on the notary public sector no longer exist. And the Ministry of Justice provided a statistic

showing the development of closing the observed violations during the period 2017-2021, where the Ministry took many procedures.

612. To follow up on the implementation of corrective plans and to ensure that the observed violations are resolved. With the exception of this, no information was available on the improvement in the level of compliance with the rest of the DNFbps, as no penalties were imposed on the lawyers' sector, due to the lack of detecting violations in their application of the AML/CFT obligations. The FIU detected violations related to the implementation of AML/CFT procedures at Casino du Liban, DPMS, and real estate agents during its onsite supervisory visits, these violations did not result in the imposition of penalties on the violating parties. Although this is not consistent with the assessment team's observations regarding the understanding and quality of implementation of AML/CFT obligations by DNFbps as mentioned in the analysis of IO.4

### **Promote a clear understanding of AML/CFT obligations and risks.**

#### **FIs and DNFbps**

613. The FIU raises awareness by issuing and disseminating guidance to assist the reporting institutions to comply with the procedures required thereof, and to educate them about special patterns and indicators. Whereby several guidelines have been issued to cover topics such as the application of TFS, the BOs, indicators of corruption, and indicators of tax evasion, TF Indicators and STRs. The FIU issues an annual report that includes strategic analysis and the latest patterns and indicators. In addition to holding a number of training programs and events mainly for the financial sector's institutions and some categories of DNFbps. Despite the efforts made to enhance the understanding of banks and financial institutions of their obligations through these events and training courses, the DNFbps sector were not adequately covered, as the level of understanding of workers in the sector varied about the risks associated with their work and the AML/CFT requirements. The efforts made by the supervisory authorities have contributed to improving the sector's level of compliance with the requirements of applying TFS and by STRs, as the suspicious reports submitted by some entities in the sectors are still low and non-existent for others.

### **Overall Conclusion on Immediate Outcome 3:**

614. With regard to financial institutions, fit and proper procedures are adequately applied, however there are a number of shortcomings that must be addressed in the licensing and registration procedures, the most important of which is that the procedures for determining the BOs are insufficient, and the status of listing on the UN sanctions lists of persons who are appointed in key positions is not verified, and periodic procedures are not applied to verify the continued absence of criminal record and non-listing.
615. The FIU has a good understanding of the risks of the sectors subject to its supervision and applies a risk-based supervisory approach as this is reflected in the scope, depth and frequency of its supervisory visits. Penalties and measures have been taken against the violating financial institutions in a proportionate and dissuasive manner. The effect of supervision on the financial sector can also be seen in improving the level of compliance of its institutions with the AML/CFT requirements.
322. With regard to DNFbps, the onboarding procedures are applied and the most important shortcomings are represented in the absence of periodic procedures to verify the non-listing status for the notaries and lawyers' sectors on UN lists, and measures to prevent criminal partners from being professionally

accredited in the lawyers and accountants' sectors. Procedures for verifying fit and proper are also absent when registering DPMS and real estate agents with the Commercial Registry. The understanding of risks and the application of supervision work varies with the supervisory authorities on DNFBPs, as it was found that the FIU and the Bar Association have a good understanding for DPMS, real estate agents and lawyers respectively, while the Ministry of Justice has a medium understanding of the risks of the notary sector. The risk-based supervision approach is not applied holistically to the notary public, lawyers and accountants' sectors. The supervisory scope on notaries' sector is limited despite the importance of the sector in the context of country risks. There are obstacles that prevent the application of effective supervision over the lawyers' sector, and therefore no violations were detected and nor penalties were imposed. The risk-based supervisory approach is applied to the DPMS and real estate brokers sectors, and the FIU had previously detected violation, nonetheless, it sought that there was no need to impose sanctions, and this is inconsistent with the AT's observations on the extent of understanding and quality of these entities' implementation of their obligations.

616. Shortcomings related to the measures applied to banks, money transfer companies, exchange companies of category A, notaries, then sectors of lawyers, exchange companies of category B, and DMPS affect the evaluation of effectiveness in this IO.

617. **Therefore, the Level of Effectiveness achieved by Lebanon in IO.3 is Moderate.**

## Chapter 7: Legal persons and Legal arrangements

### Key Findings and Recommended Actions

#### **Key Findings:**

#### **IO. 5:**

- a) Information regarding the establishment of legal persons and arrangements, in its different types, is publicly available. As for the mechanism of making available the information on legal persons that have already been established in the country, it is currently made available to the public through an application submitted to the Commercial Register for a small fee (less than USD 0.5), in light of stopping their availability through the website of the Commercial Registry. As for information on civil companies that were established in the country as well as endowments, they are not available to the public. As for fiduciaries concluded with banks, their information cannot be publicly available due to banking secrecy under the law, being accounts with banks.
- b) ML/TF risks for legal persons were assessed in Lebanon and is considered good. However, one of the weaknesses that this assessment did not deal with is the possibility for any person, under the power of attorney, to deal directly with the commercial registry in establishing companies without obligating him to any AML/CFT requirements. This requires updating the assessment to be more comprehensive to the risks of companies' service providers.
- c) The competent authorities, especially the Commercial Registry, the SIC, reporting entities (especially banks, DPMS, lawyers and notaries) and the Banque du Liban have a good understanding of the risks of misusing legal persons in money laundering and terrorist financing.
- d) The country has taken many measures to prevent the misuse of legal persons and arrangements for ML/TF purposes, but some of these measures have shortcomings related to the fact that the Registry has stopped requesting the criminal records about the founders of the Legal persons since 2018, which means criminals might establish legal persons. In addition to the shortcoming of the Commercial Registry of lacking the information infrastructure. The main measures include requiring all legal persons to open bank accounts and deposit the capital before establishment, and the verification of the Commercial Registry and Tax Administration of the information and checking the establishment documents regarding the basic and beneficial ownership information. Also, the country canceled bearer shares and shares to order and prevented banks to deal with the few companies which failed to align their situation.
- e) Very limited measures are available that could help in preventing the misuse of Waqf in ML/TF purposes, which requires imposing more measures consistent with the Waqf risk level considering to include all sects' Waqf.
- f) The country did not provide information that would enable it to judge the adequacy of human and material resources, including the information infrastructure of the commercial registry, to carry out its assigned tasks.
- g) The Commercial Registry obtains sufficient and accurate information, whether basic or beneficial ownership information, but there are some doubts that such information is up to date. Also, there is no validity of the commercial registry document after its issuance. The tax administration obtains sufficient and accurate information, but not up to date in a timely manner, due to the lengthy time taken to report the amendments made within the annual

declaration. The information obtained by the FIs, especially banks, under CDD measures is considered accurate and updated, and the FIU may obtain this information in timely manner. The Commercial Registry is considered the main and central source of making the information available to the competent authorities in timely manner.

- h) The accurate, updated and sufficient information about beneficial owners of foreign trusts and fiduciaries (being a legal arrangement) is made available through banks to the legally-powered competent authority i.e. the FIU (given the secrecy of this information) in timely manner. There is no beneficial owner of the Waqf.
- i) The country did not provide details about the sanctioned companies or the nature of the violations. Therefore, it is not possible to judge whether the country imposes proportionate, effective and dissuasive sanctions. Only total financial fines against companies that failed to provide a request for registration at the tax administration and identified the beneficial owners in their activities within the specified timeframes were provided.

**Recommended Actions:**

- a) The country should take the necessary measures to reactivating the Commercial Registry website, to make publicly available the information of legal persons established in the country for more facilitation and effectiveness, as well as developing proper mechanism to make publicly available the information related to civil companies.
- b) The country should update the risk assessment of legal persons for ML/TF purposes to be more comprehensive to include the risks of companies' service providers, and to prevent any person to directly deal with the Commercial Registry in establishing companies upon a POA, unless after being obligated with the AML/CFT requirements.
- c) The Commercial Registry should resume applying necessary measures to verify the criminal records of the legal persons' founders in order to prevent criminals from establishing these persons, which contributes to the prohibition of their misuse for criminal purposes.
- d) The country should ensure that the human resources of the competent authorities, especially the Commercial Registry, are sufficient, and enhance the information infrastructure of the Registry to perform its assigned tasks.
- e) The country should apply more measures to prevent the misuse of Waqf for ML/TF purposes, as proportionate to their risks and to ensure their inclusion of the Waqf of all sects in Lebanon.
- f) The Commercial Registry and Tax Administration should ensure that the basic and beneficial ownership information obtained from legal persons are updated in timely manner. The Commercial Registry should assign specified validity for the Registry's documents after issuance.
- g) The country should ensure imposing proportionate, dissuasive and effective penalties on legal persons that fail to provide accurate data either on them or on the BOs thereof or updating it in a timely manner.

618. The IO considered and assessed under this chapter is Immediate Outcome 5. Recommendations Relevant to the Effectiveness Assessments under this chapter are: 24 and 25 and components of R.1, 10, 37 and 40.2.

619. The AT relied on the results reached through the analysis described below on the statistics and documents that were provided by the country, and the interviews that were conducted with the authorities responsible for implementing AML/CFT obligations, as well as the parties involved in the establishment of legal

persons (including companies and Cooperatives) and legal arrangements. Those authorities are; but are not limited to, the FIU, the Ministries of Justice, and Finance, the Commercial Registry, the Bar Association, and other entities. The interviews also included a selected sample of representatives from the private sector.

## **Immediate Outcome 5 (Legal Persons and Arrangements)**

### **Making information related to the establishment of legal persons and legal arrangements of all types available to the public**

620. Different types of legal persons are established in the State of Lebanon (which include companies, partnerships, civil companies, foreign companies, and cooperatives) as stated above in Chapter 1. The information about the establishment and types of legal persons are made available through legal texts (such as the Code of Commerce, the Obligations and Contracts Law, and the Cooperatives Decree) or in decisions or circulars (such as those issued by the Minister of Finance) (for more details please see Recommendation 24), and all of these texts are published on relevant websites, the most important of which is the website of the Lebanese University, the Center for Legal Informatics, which also includes issues of the Official Gazette, and therefore this information is available to the public.
621. This information includes the different legal forms of commercial companies that can be established with the Commercial Registry in Lebanon (joint stock companies, limited liability companies, partnerships limited by shares, general partnerships, simple limited partnerships, etc.). etc.), the necessary procedures and documents required, whether to provide basic or beneficial ownership information (the name of the legal person, the legal form, the address of the company, the data of the managers and the BOs) in addition to the documents required to be submitted to the Commercial Registry for each type of these legal persons and the time frames that must be complied with, whether for creation or modification of data. The Registry is considered an effective source of providing information to competent authorities.
622. As for information related to the establishment of cooperatives is available on the website of the Ministry of Agriculture - Directorate of Cooperatives through the following link: [Access to cooperatives in Lebanon \(agriculture.gov.lb\)](http://agriculture.gov.lb).
623. As for legal arrangements, Lebanon does not have local trust funds or Lebanese trusts operating abroad, as Lebanon is not a party to Hague Agreement for the regulations applicable to trusts. Also, there is no legal provision preventing any Lebanese person from providing trust services abroad and the foreign trusts can open bank accounts in Lebanon and they are subject to CDD measures according to the circulars issued by the Banque Du Liban, but there are other similar legal arrangements, as the Lebanese legislator established a legal arrangement under the name of fiduciaries which are established with banks in their capacity as custodians of the right to manage and dispose of funds, rights (equities), or financial liabilities of the originator, in accordance with Law No. 520 related to the development of the financial market and fiduciary. Thus, information on establishing fiduciary is also available to the public.
624. Although the country considers fiduciaries as bank accounts subject to the texts regulating the operations of banks such as banking secrecy, the assessment team considers that they have many features of the legal arrangement according to Second Article of Hague Agreement for the regulations applicable to trusts. Therefore, the team will deal with them as a legal arrangement considering their special situation in Lebanon.



625. It should be noted that the mechanism of making information about legal persons already established in the country available to the public is currently through an application submitted to the Commercial Register for a small fee (less than USD 0.5), in light of stopping their availability through the website of the Commercial Registry, which is more efficient and convenient. As for civil companies that were established in the country, the information related to them is not available to the public, in addition to the fact that information on endowments does not have a mechanism for making it available to the public. As for fiduciaries conducted with banks, their information cannot be provided because of the banking secrecy under the law, being bank accounts subject to regulations and circulars organizing banks' operation.

### **Identify, evaluate and understanding ML/TF risks and vulnerabilities in Legal Persons**

626. For legal persons in Lebanon, and according to the risk assessment, some features of the legal persons can be misused for ML purposes as stated below.

627. In general, the competent authorities (in particular Commercial Registry, FIU, LEAs and Banque Du Liban) as well as reporting entities (in particular banks, dealers in precious metals and stones, lawyers and notaries) have good understanding of ML/TF risks related to legal persons established in Lebanon.

628. The country's assessment of the ML/TF risks related to legal persons established in Lebanon is considered good, but it was not clear that the same included some vulnerabilities detected during the onsite visit, such as not conducting more comprehensive evaluation for company service providers' risks, where no practicing licenses are issued independently, as lawyers provide these services. Also, there is no impediment for any person to deal with the Commercial Registry to establish and register companies according to POA from the founders without being obligated to adhere to AM L/CFT requirements.

629. The Lebanese authorities have developed a methodology based on several elements to assess and analyze weaknesses related to legal persons. These elements included types of legal persons with a complex ownership structure (for example, those owned by several companies through a chain of ownership, or owned by companies established in tax havens, etc....), and those in which it is easy to transfer or assign shares or stakes, ownership, and those in which the identity of the beneficial owner is difficult to identify through the ownership structure. The authorities also relied on elements related to the type of activity practiced by legal persons to determine the level of risks to which they are exposed, and among these elements is whether the company has contracted with the public sector to implement projects or secure public procurement, and among other elements are the types of companies and activities that appeared more than others in money laundering and terrorist financing cases, and those that accounts/shares for example have been frozen and for which banking secrecy has been lifted.

630. The aforementioned elements allowed the Lebanese authorities to determine the level of risk of legal persons for the purposes of money laundering and terrorist financing. The risk rating of holding companies and offshore companies was high, along with companies whose activity is related to the public sector (government contracts and public procurement) such as joint stock companies and limited liability companies. The rest of the types of joint stock companies (or closed joint stock companies) and limited liability companies came with medium risk. As for the legal persons otherwise, they were classified as low risk (general partnerships, simple limited partnerships, partnerships limited by shares, foreign companies (whether a branch or representative office) and civil companies).

631. As for cooperatives, there are 1,238 cooperatives in Lebanon, a large percentage of which are inactive, and the majority of them work in the agricultural sector, which is small in size and the value of financial investments in it is limited and is represented by international donors and the Ministry of Agriculture. Accordingly, the risk assessment in money laundering and terrorist financing concluded that it is low.

632. The legal arrangements risks (including Waqf and fiduciaries) were assessed as low risks, whether in terms of ML or TF, according to the NRA results.

#### **Measures to prevent abuse of legal persons and legal arrangements.**

633. The establishment procedures have many stages such as the drafting the MOA and AOA by a lawyer, then a notary public attests the signatures of founders. Later, the lawyer submits the MOA and all related documents to the judge supervising the Commercial Registry, who verifies and reviews all data, such as the leasing contract or title deed of the office where the business to be conducted, or a document stating the residence of the legal representative and the statement of the beneficial owner.

634. The Commercial Registry conducts many verification procedures for all companies (including offshores, holding companies, and companies of activities related to public sector), which includes reviewing the MOA and related documents including the statement of the beneficial owner.

635. Upon establishing legal persons (different types of companies, and cooperatives ), it is conditional to open a bank account and deposit the capital in an account in the name of the company followed by phrase “under establishment” with a list of subscribers and paid capital for each. Opening the bank account is a main condition to continue establishment procedures, which means that such procedures require applying all CDD measures towards shareholders and beneficial owners. These measures aim to mitigate the misuse of legal persons for ML/TF purposes.

636. The banks apply the EDD measures towards legal persons according to the risk-based approach, and take many steps to identify the beneficial owners and update this information including the official documents, shares distribution list and list of signatories, as well as the identity of the legal representative, managers and natural persons who own, directly or indirectly, a percentage that allows them to actually control the management of the company. Some banks refuse to establish a business relation with companies of complex ownership structures or offshores, and many banks request their legal persons to provide attested minutes’ copies of the general assemblies, which clarifies any updates to the beneficial owners, and overview the transactions for any beneficial owners other than those disclosed. The banks may resort to independent sources to verify the beneficial ownership information for legal persons, and banks have established internal register for beneficial owners (stated in IO.4).

637. As for the verification procedures applied by the Tax Administration at the Ministry of Finance through onsite and offsite supervision, they are effective and can allow for accurate information through verification of the data, documents and records and review the declaration and business of assignee, based on the sample of chosen documents, including verifying the beneficial ownership information, through searching the ownership structure of the legal persons according to the statement No. 18 (statement of beneficial owner) provided by all companies within the specified timeframes to provide the annual declaration about the business results. Within the specified timeframes, they inform the Tax Administration about any change to the name, address, business address, tradename or type of main

activity, the legal form; as well as any increase/decrease to the capital, any change to the names of shareholders, partners or beneficial owners, or any change to the percentage of their shares. They also inform the Tax Administration in writing about any partner or shareholder who refrains from providing information about the beneficial owners in their activities, with explaining all procedures taken to obtain this information.

638. During the onsite visit, it turned out that one of the prominent shortcoming was the ability of any person acting upon a POA on behalf of the legal persons' founders to deal directly with the Commercial Registry to establish a company, which increases the legal persons' risks in Lebanon, through misusing the service providers. There is nothing in Lebanon that confirms obligating this person to AML/CFT requirements when providing this service.

639. It was clear during the onsite visit that there were shortcomings in combating the misusing of legal persons for ML/TF purposes, such as the stoppage of the Commercial Registry to request security checks (criminal records) about the founders since 2018, to verify the criminal status thereof which might allow criminals to establish companies in Lebanon.

640. Law No. 75 of 2016 was issued to cancel bearer shares and shares to order and according to the circular issued by the Ministry of Finance as a mechanism to implement this law, which was circulated to companies to act accordingly, they must replace bearer shares or warrant shares with nominal ones and amend their articles of association, before the date of 27/10/2016, later, this deadline was extended to January 1, 2025. Before the issuance of the aforementioned law, the number of companies with bearer shares amounted to 110. After the law was issued, this number was decreasing up to 20 companies as of the onsite visit. As for the remaining companies, they cannot open bank accounts or continue a business relationship with banks and financial institutions in Lebanon, according to the instructions issued by the Banque du Liban. Accordingly, the measures taken by the Lebanese authorities represented in preventing the establishment of legal persons with bearer shares as well as establishing or continuing to establish a business relationship with banks and financial institutions operating in Lebanon limit the possibility of exploiting legal persons for the purposes of money laundering and terrorist financing. Cancellation of bearer shares and their replacement with nominal shares enhances transparency in legal persons.

641. At the Commercial Registry, in which 8 executives are in charge of supervising and executing the completion of entries or amending existing ones (two chief clerks for supervision and 6 clerks for implementation), and this group is headed by the registrar (secretary), especially since he [registrar] centrally implements the registration or amendment of all entries for companies in Lebanon. The tax administration of the Ministry of Finance has 216 employees with regard to IO.5 (139 executive tax controllers, 32 chief executive controllers, 16 executive clerk, 15 supervisory department heads, and 14 supervisory division heads), and due to the country's failure to provide information and statistics until the end of the onsite visit about the average number of companies that are established daily or those that apply for amendments to the information held by the commercial registry, and the number of pending applications. Therefore, it is difficult to judge the adequacy of these human resources in implementing the required measures, according to the mandates of the Commercial Registry, given the number of companies registered in Lebanon (referred to in Chapter One).

642. It was found through the onsite visit that the commercial registry suffers from some shortcomings and the lack of an appropriate information infrastructure due to deficiencies in computers, systems and

specialized software for the operation of the registry, which negatively affects the ability of the Commercial Registry to extract statistics indicating the effectiveness in carrying out its required role in AML/CFT field.

643. If a foreign trust fund opens an account in any financial institution or deals with a DNFBP, it is required to apply due diligence measures according to the binding circulars issued by the Banque du Liban and the FIU. Fiduciaries are available exclusively to banks operating in Lebanon that have a small number of accounts. The concerned banks effectively implement due diligence measures to prevent misuse of fiduciaries in money laundering and terrorist financing transactions and identify the persons who occupy the position of the originator and the BOs. There are very limited measures that may help to prevent the misuse of endowments for ML/TF purposes such as establishing a committee to manage the endowment and consists of chairman, vice chairmen, secretary, treasurer, accountant and advisors if needed. A statement of disbursed amounts will be prepared and compared with the documents on a monthly basis, and the committee will approve the way of receipt and payment vouchers and records approved by the committee (See R. 25).
644. The legal persons and arrangements are subject to measures to combat their misuse for ML/TF purposes. However, some of these measures have shortcomings, which largely affect its quality.

#### **The Availability of Sufficient, Accurate and Updated Basic Information, in Timely Manner of Beneficial Owners of Legal Persons**

645. Basic information and information related to the BOs are available to all concerned parties through several channels represented in the commercial registry and the tax department in the Ministry of Finance and through banks and companies, and the mechanisms applied by the concerned authorities (according to the analysis below) ensure the accuracy and sufficiency of this information, but there is related shortcomings to the timeliness of updating this information, especially at the Tax Administration.
646. Before registering any legal person, the Commercial Registry obtains basic and BOs information (the legal person's name, legal form, address and information about managers and beneficial owners according to the statement of the beneficial owners based on the FATF's definition). The Commercial Registry verifies this information and provides documents as per the type of legal person to be registered, which indicates that the information obtained by the Commercial Registry is sufficient and accurate.
647. Companies are required to notify the Commercial Registry of the amendments that occur to their commercial name, subject matter, or place of business, as well as any change in their ownership structure (including the BOs) or management, within a maximum period of one month. Although this period is not long, especially that it is considered the maximum duration to update the information at the Commercial Registry by companies, the fact that the country did not provide statistics evidencing that the companies have not exceeded the timeframe may raise doubts about keeping the basic and BOs information held with the Commercial Registry updated in timely manner. There is no specified validity period for the Commercial Registry document after being issued.
648. The Commercial Registry notifies the Tax Administration on a monthly basis about the registered companies. Also, the legal persons in Lebanon are required to keep a record of information related to the BOs, update it whenever needed, and make the information available to the tax administration annually during the annual declaration. The tax administration follows up the companies' compliance by keeping

updated records of the BOs, and this is done quarterly using offsite inspection conducted by the specialized tax administration through comprehensive review for all documents, records and data provided about the company and beneficial owners for the declaration period, and through onsite inspections conducted by the administration according to the risk-based approach, which indicates that the information at the tax administration is sufficient and accurate. This is largely supported by the tax administration's ability to detect violations committed by companies which fail to report any changes in basic and BOs information according to the Tax Procedures Law and imposing fines against them. However, this information might not be always updated due to the long period of reporting changes (annually).

649. Information obtained by financial institutions, particularly banks, under due diligence measures: The basic and BOs information maintained by banks is considered accurate, appropriate, and sufficient and updated. The AT reached this conclusion because banks apply due diligence measures to a satisfactory degree and have a good understanding of the BOs in the case of legal persons, and that they are subject to continuous monitoring by the FIU, both offsite and onsite. Under the onsite and offsite monitoring works, the FIU shall verify their proper compliance by keeping an updated register of the names of the BOs of the legal persons. The penalties applied to violating institutions, particularly banks, ensure good compliance with this obligation. However, almost all banks don't limit their measures to the above-mentioned but take many measures to ensure that the BOs information is accurate and updated, such as requiring legal persons on annual basis to provide attested minutes' copies of the general assemblies, which clarifies any updates to the beneficial owners, or resorting to independent sources to verify the beneficial ownership information for legal persons or rely on client's declaration. Banks have established internal registers for beneficial owners (see IOs. 3 and 4).
650. Given the banking secrecy for basic and BOs information kept with banks, the legally powered competent authority, namely the SIC, being the FIU and AML/CFT supervisor over FIs including banks, can access this information in timely manner. The FIU plays a key role as a connecting point between the remaining competent authorities in terms of exchanging information.
651. When the tax administration receives a request for assistance from counterpart authorities to obtain basic information about the companies or the BOs, the tax administration provides the required information from the database available to it or from the company itself or by inquiring from other parties such as the FIU. The Ministry of Finance will later compare and verify this information before providing the applicant with the required information.
652. LEAs, the Public Prosecution and the FIU resort to the commercial register to obtain from it basic information about the companies and the BOs. Based on that mechanism, a request is submitted to the commercial register to obtain that information, as per the Code of Commerce. On practical side, it was evident that the Registry responds to the request submitted by these authorities in the same day (as stated in the website of the Commercial Registry), which indicates that making available this information to these authorities is in timely manner.
653. The below table shows that the number of information requests issued by the FIU to the Commercial Registry, which reflects the quantitative cooperation between them, but not details were provided about these requests and their classification as per the requested information (basic or BOs information). The FIU also exchanges this information with foreign counterparts, and no statistics were provided to support

similar cooperation between LEAs and the Commercial Registry.

**Table No. 5.3.1 Requests for information between the FIU and the Commercial Register during 2017 and 2021.**

Year	2017	2018	2019	2020	2021
Number	584	562	647	375	329

654. With regard to cooperatives, they must fill out and send statement M18 (with the owner of the economic right) to the Ministry of Finance, keep records and submit annual declarations and data, especially in the event of any modification or change in the information provided to the Ministry of Agriculture, and this indicates that this information Not up-to-date, and difficult to guarantee access to in a timely manner.

655. The country did not provide statistics on the observed cases regarding inaccurate and not updated information in total for the last 5 years (each year separately) and the action that took place in each of them, and that such basic statistics would have helped in judging the effectiveness of the country's implementation of obligations in terms of the accuracy and update of the basic and BOs information. With regard to the commercial registry document on which the reporting authorities rely to verify the identity of the legal person, it does not have a specific validity period (expiry) from the date of its issuance. It was found through the on-site visit that each financial institution set a time period estimated between one to five years to request an updated copy of that document. This does not guarantee that the information will be updated in a timely manner. Financial institutions excluded banks (see the analysis of IO4) that apply additional procedures regarding the periodicity of updating the data, ranging from one to 5 years, depending on the risks of the customer, which is considered good in terms of updating the BOs information at a faster rate than the period it takes to update the data mentioned above, through the following procedures:

- Many banks annually request documented copies of the minutes of the general assemblies' meetings from their [legal Persons] customers, which would indicate the existence of any amendment about the BOs.
- Continuous monitoring of transactions in the accounts of legal persons to monitor indicators that would indicate the existence of BOs who are not declared to bank.
- Banks apply more periodic procedures for updating data in business relationships related to financing and loans.

656. Based on that, the availability of multiple channels to provide basic and BOs information is considered positive point in Lebanon, especially that the accurate, sufficient and updated information received by the FIU from banks in timely manner and can be exchanged with other local competent authorities. This point becomes more important because the SIC is both the FIU and main supervisor for AML/CFT (over most reporting entities). Also, the information received by the Commercial Registry is sufficient and accurate, but doubtfully might but be not up to date. This information is available to the competent authorities at the proper time. Moreover, the information received by the Tax Administration is sufficient and accurate, but not updated in a timely manner due to the lengthy time taken to report the amendments made within the annual declaration.

**Obtain sufficient, accurate and up-to-date information on the BOs of legal arrangements in timely manner.**

657. Information about the BOs of foreign trust funds or fiduciaries is available exclusively in banks operating in Lebanon in the event that they have accounts therewith (for more details refer to Recommendation 25). Banks apply due diligence measures to a satisfactory degree and ensure the validity and accuracy of the information obtained under these measures, including information that they update periodically within timeframes proportionate with the clients' risks (see IO.4). this information is available to the legally powered competent authority, which is the FIU (given the secrecy of this data) in a timely manner and it can exchange it with other competent authorities, and there is no beneficial owner in the endowment, where the actual control is transferred to the responsible party (according to the concerned denomination) and the originator cannot dispose or recover the endowment.

**Effective, Proportionate and Dissuasive Sanctions**

658. The country did not provide any statistics about imposing penalties against legal persons that don't comply with the requirements of the IO. 5, such as the total number of legal persons that were sentenced to penalties and fines against legal persons which fail to provide accurate and updated data for the Commercial Registry divided as per years . Information about total fines is provided only without any details about the number of fined companies, the amount of fine or the nature of the violations. Therefore, it is not possible to decide whether the country has proportionate, effective and dissuasive sanctions.

659. Financial fines were imposed on companies that did not submit an application for registration with the tax administration and did not specify the BOs in their activity within the legal deadlines, as stipulated in the tax laws, and they are as follows:

**Table No. 5.5.1 Fines imposed on companies that did not submit a registration application with the tax administration during 2017-2021**

Year	2017	2018	2019	2020	2021
<b>LBP</b>	1,185,661,000	1,820,600,000	1,234,900,000	202,200,000	552,000,000
<b>USD</b>	790,441	1,213,733	823,267	134,800	368,000

660. Financial fines were imposed on every company that did not inform the tax administration of any amendment to the information stipulated in the second clause of Article 32 of the Tax Procedures Law (basic information about the company and information related to the BOs) as follows:

**Table No. 5.5.2 Fines imposed on companies that did not report amendments to basic and BOs information in accordance with the Tax Procedures Code during 2017-2021**

Year	2017	2018	2019	2020	2021
<b>LBP</b>	30,200,000	15,150,000	8,250,000	2,000,000	1,100,000
<b>USD</b>	20,133	10,100	5,500	1,333	733

661. Every shareholder or stakeholder in a financial company who refuses to provide correct information about the BOs in his shareholding or stake in the company has been imposed a fine equivalent to 100%

of their share of the tax calculated on the basis of the collection of the value of the commercial profits tax that the company is required to pay, in the year in which the violation was committed, provided that it shall not be less than the minimum limit specified in the Tax Procedures Law according to its legal form.

662. A partner in a partnership, in the event that he refuses to give the company information about the BOs of his partnership, was imposed a fine equivalent to 100% of the value of the tax due on his share, provided that it is not less than the minimum specified in the Tax Procedures code according to its legal form. A lump sum fine has also been imposed on every person who neglects to disclose information related to the BOs when filling out the declarations and data that must be submitted in accordance with the provisions of the Tax Procedures Code and special tax laws, or who refuses to inform the tax administration about the partner or shareholder’s refusal to give him information about the BOs in its activity referred to in Clause “f” of Article 37 of the Tax Procedures Code. Based on the above, fines were imposed as follows:

**Table No. 5.5.3 Fines imposed on partners who abstained from providing information about economic right holders in accordance with the Tax Procedures Code during 2018-2021**

<b>Year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>LBP</b>	453,525,000	236,925,000	178,425,000	41,179,500,000
<b>USD</b>	302,350	157,950	118,950	27,453,000

**Overall Conclusion on Immediate Outcome 5:**

663. Information related to the establishment of legal persons and legal arrangements and their various types is available to the public. However, the availability of the BOs information already established in Lebanon to the public is currently conducted only through submitted a request to the Commercial Registry for small fees (less than USD 0.5), in light of stopping their availability through the website of the Commercial Registry, which is more efficient and convenient. In general, the competent authorities (especially the Commercial Registry, the SIC and Banque du Liban), and the concerned authorities have a good understanding of the risks of misusing legal persons in money laundering and terrorist financing, as the Lebanese authorities have conducted an assessment of abuse of legal persons in money laundering and terrorist financing. There is an effective vulnerability related to the possibility of any person, under a power of attorney on behalf of the founders, to deal with the commercial registry in establishing the company, without being obligated to AML/CFT requirements.

664. The country takes many measures to prevent the exploitation of legal persons and legal arrangements in money laundering and terrorist financing. However, some of these measures have shortcomings related to the fact that the Commercial Registry stopped verifying the criminal status which might allow criminals to establish companies in Lebanon. Moreover, the Commercial Registry has shortcomings of lacking the proper information infrastructure due to deficiencies in computers, systems and specialized software for the operation of the Registry, which negatively affects the ability of the Commercial Registry to extract statistics indicating the effectiveness in carrying out its required tasks. Most of these prominent measures require all legal persons to open bank accounts and deposit the capital before establishment. More measures are taken by the Commercial Registry and Tax Administration such as verifying the information and documents required for establishment regarding the basic and BOs information. The country canceled



the bearer shares and shares to order and prevented banks to deal with the few companies that failed to align their status.

665. It is clear that there are very limited measures that may help in preventing the misuse of Waqf for ML/TF purposes, which requires imposing more measures consistent with the Waqf risk level considering including all sects' Waqf.
666. The Commercial Registry receives sufficient and accurate information, both basic and BOs information. However, there are some doubts about whether this information is up to date and timely, and there is no specific validity for the commercial registry' document after issuance. The Tax Administration also receives sufficient and accurate information, but it is not up to date in a timely manner due to the lengthy time taken to report the amendments made which is within the annual declaration. The information that financial institutions, especially banks, obtain through due diligence measures, whether basic or BOs information is accurate, sufficient, and up to date, as it does not rely solely on the Commercial Registry, but has other independent sources to verify that this information is up to date. The FIU can obtain this information in a timely manner, and the Commercial Registry responds to requests submitted to it by local authorities on the same day, indicating that the information is provided to those authorities in a timely manner.
667. The accurate, updated and sufficient information about beneficial owners of foreign trusts and fiduciaries is made available through banks to the legally powered competent authority i.e. the FIU (given the secrecy of this information) in a timely manner. There is no beneficial owner of the Waqf, where the actual control is transferred to the responsible party (as per the concerned sect). The originator of the Waqf cannot dispose or recover their Waqf.
668. Lebanon imposed some fines against companies in relation to the jurisdiction of Tax Administration only. However, no information or statistics are available to decide whether the country has proportionate, effective and dissuasive penalties.
669. **Therefore, the Level of Effectiveness achieved by Lebanon in IO.5 is Moderate.**

## Chapter 8: International Cooperation

### Key Findings and Recommended Actions

#### **Key Findings:**

- a) Lebanon provides MLA and extradition in most cases, most of which are considered of good quality without proofing that the response time is appropriate. Also, it was found that some authorities (LEAs) were not extending their response to some MLAs in cases that require the same, in addition to the disparity between the competent authorities (such as Ministry of Justice) in prioritizing the incoming requests, in addition to the existence of many conditions that have to be provided by the country requesting the MLA (such as providing some detailed information for natural persons including the mother's name, surname, address, place and date of birth, passport details and profession, as well as detailed information for legal persons such as address of headquarters and branches, date and place of registration, names of board members, main shareholders and beneficial owners and their addresses), which in turn negatively affects the provision of the required assistance in a timely manner and with the desired quality.
- b) Lebanon seeks to request MLA in AML, predicate offenses and TF, but in a manner that is not consistent with the country's risk structure in terms of the number of requests and their relation to the types of risk, in addition to a delay in sending requests for MLA and lack of exerting any additional efforts in overcoming the obstacles facing the execution of those requests, and not sending requesting of recovering assets, in light of not activating the authority responsible for anti-corruption in Lebanon.
- c) The country, through its competent authorities, cooperates informally with counterparts from other countries in a manner that is characterized by quality and speed in the field of combating the financing of terrorism. However, cooperation in ML and predicate offences such as illicit drug trafficking is considered limited and non-proportionate with the risk structure and context, and the lack of informal cooperation in the crime of corruption for the purposes of tracing criminal proceeds transferred or moved abroad and requesting their freezing, confiscation and recovery.
- d) The BCC and CMA cooperate with counterparts in a number of countries with regard to how to implement the basic principles of banking supervision. Tax authorities (Ministry of Finance) also cooperate with regard to exchanging information for tax purposes with counterparts abroad, without extending their informal cooperation to combat money laundering, predicate offenses and terrorist financing.
- e) There is a noticeable discrepancy with regard to the quality and efforts made by the competent authorities in Lebanon for the purposes of identifying and exchanging basic and beneficial ownership data within the framework of international cooperation with regard to legal persons and arrangements.

**Recommended Actions:**

- a) The Cassation Public Prosecution (which is the central authority for executing incoming requests for MLA) should put mechanisms in cooperation with the competent authorities to ensure the execution of the MLA, extradition and assets' recovery requests, in a way that includes:
  - Put in place more effective criteria for prioritization and timeframes to execute requests received from all competent authorities.
  - Review the required conditions to received MLA requests and not overburdening them
  - Use various investigations methods when providing MLA requests in the incoming cases that require the same.
  - Develop a case management system to facilitate the handling of incoming requests.
- b) The Cassation Public Prosecution should develop clear standards through a guideline to urge all competent authorities to make MLA, extradition and assets' recovery requests, in a way consistent with the risks of money laundry, associated predicate offences and financing terrorism.
- c) Enhancing communication and cooperation with foreign counterparts when requesting MLA in timely manner, in line with the risk structure in Lebanon and in a way that enhances the investigations conducted by the competent authorities to combat money laundering, predicate offenses and terrorist financing, through finding liaising officers with those foreign counterparts and/or conducting regular meetings to facilitate the MLA and extradition requests.
- d) All authorities should take advantage of informal channels to cooperate in a more effective and timely manner with the risk structure of the country, in the field of combating money laundering, drug smuggling, smuggling of goods, and combating corruption, in order to track proceeds of crime transferred or moved abroad, and request their freezing, confiscation and recovery.
- e) Address the shortcomings related to the exchange of basic and BOs information of legal persons and arrangements by the competent authorities in Lebanon with their international counterparts, to enhance the quality and exchange speed of such information. See Recommended Actions of IO.5.

670. The IO considered and assessed under this chapter is Immediate Outcome 2. Recommendations Relevant to the Effectiveness Assessments under this chapter are: R36-40.

671. The conclusions reached by the AT are based on the statistics provided by the competent authorities in the country and the case studies, the comments of the countries through the international network, and the discussions that took place with all the competent authorities in international cooperation.

672. International cooperation is important in the context of Lebanon due to its geographical location,

instability in some neighboring countries and regional instability in general, and the fact that most of the crimes that pose a threat to Lebanon are considered to have a cross-border dimension and are represented in corruption crimes, illicit drug trafficking, terrorism, terrorist financing and smuggling of subsidized consumer goods, which implies regular need for incoming and outgoing international cooperation means (official and non-official).

## **Immediate Outcome 2 (International Cooperation):**

### **Providing MLA and extradition in a constructive and timely manner and the extent of its quality**

673. The country considers diplomatic methods the main method for providing MLA and extradition, in accordance with agreements that Lebanon has previously concluded with countries abroad for the purposes of international cooperation or according to the principle of reciprocity.

#### **MLA requests received by the Lebanese authorities from counterparts.**

674. The Ministry of Foreign Affairs and Emigrants receives MLA requests directly from the embassies of other countries in Lebanon and refers them to the Ministry of Justice (Office of International Cooperation), which is the central authority competent to receive such requests for study and provide the required information.

675. Prior to execution, fulfilling a number of conditions is required for the acceptance of the request, including conditions that may be difficult to provide by the requesting country due to their nature, such as the name, title, address, date and place of birth, passport data, and occupation of natural persons. Such required information also includes the necessary details regarding legal persons, such as the address of headquarters and branches, registration date and place, the names of the board members, major shareholders, and their addresses. This, in turn, constitutes an obstacle executing the MLA in a timely and high-quality manner by Lebanon due to these requirements. Regarding these requirements, Lebanon indicated that they may not be a requirement in all cases without specifying the basis for such an exception, while one country, through reviewing responses from the international network on their experience of cooperation with the Lebanese authorities, noted that cooperation with Lebanese authorities is generally satisfactory, but sometimes more difficult in certain files. On the other hand, seven countries expressed that the cooperation provided by Lebanon is good, of quality, and that the information provided was useful and provided in a timely manner.

676. After verifying that the conditions are met, the Ministry of Justice 's Office of International Cooperation refers the request to the Cassation Public Prosecution or civil courts. The country did not provide any case studies during the onsite visit to know the duration of each stage, but Lebanon stated that the time consumed for responding to MLA requests ranges between 3 to 6 months.

677. The Cassation Public Prosecution receives and prioritizes MLA requests from the Ministry of Justice, where high-risk crimes' requests are given priority including corruption, drug trafficking, crimes committed within the framework of transnational organized crime, ML/TF, tax evasion and other high-risk crimes. Priority can be given to urgent requests and those related to risks of evidence existence of waste of assets.

678. In case an MLA request containing financial and banking information is received by the Cassation Public Prosecution, it is referred to the SIC to provide the local authorities with its analysis results, then the Lebanese authorities, after receiving the SIC report, provide the counterpart authorities with the required evidence in response to the request. The SIC received 57 MLA requests during 2017-2021, but the country did not provide detailed statistics or case studies to verify the speed and quality of responses to the information requests.

679. Between 2017-2021, the Republic of Lebanon received (236) requests for mutual legal assistance, including (204) requests related to predicate offenses and money laundering, and (32) requests related to combating terrorism and its financing, as shown in the table below:

**Table 2.1.1: On requests for legal assistance received related to money laundering and terrorist financing.**

First: Received MLA requests related to ML/TF and predicate offences 2017-2021										
Year	2017		2018		2019		2020		2021	
Type of suspicion	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF
Number of sent MLA requests	28	11	38	2	35	6	47	4	56	9
Number of executed requests	27	10	37	1	32	6	40	2	33	6
Number of requests rejected/sent back to its source	0	0	1	1	1	0	2	0	2	1
Number of requests under process	1	1	0	0	2	0	5	2	21	2

680. The table above shows a gradual increase in the number of MLA incoming requests for ML and predicate offences between 2017-2021, starting from 28 in 2017 to 56 in 2021, which indicates the increase of ML and predicate offences risks in Lebanon. Also, it is clear from the above table that (6) requests related to predicate offences and money laundering, and (2) requests related to combating terrorism and its financing, were returned to the source due to the incompleteness of the file, the lack of required documents, the incomplete identity of the name(s), or to request their translation into Arabic. Which confirms that there are some conditions might limit the incoming requests with relation to MLA.

681. As shown in the table above (until the end date of the onsite visit in September 2022), there is a delay in the execution of several MLA requests, especially in 2021, by approximately 37% for ML and organized crime requests and 22% for TF requests (as they took more than 7 months since the beginning of 2022, contrary to what country indicated that the period that Lebanese authorities take to deal with MLA ranges

from 3 to 6 months). Lebanon attributed this to waiting for the completion of case investigations (which included crimes of drug trafficking, corruption, tax evasion, and terrorism financing) or waiting for informing Lebanon of additional information about the issues as well as COVID-19 pandemic. However, the team was not provided with case studies confirming this, which makes it difficult to say that there is a speed in responding to incoming requests, especially in the absence of a case management system specialized in dealing with such requests with suitable timing and quality.

682. It was clear to the assessment team that some other authorities (tax authorities, BCC and CMA) do not send or receive MLA requests as for the aforementioned competent authorities.

### **Stolen Assets Recovery requests received by the Lebanese authorities from counterparts**

683. The competent authorities make good efforts in responding to requests for international cooperation that they receive for the purposes of recovering looted (stolen) assets, which was provided by the country in terms of information and confirmed by some case studies that the AT reviewed during the onsite visit (see IO.8), in addition to the responses of some members of the international network who praised Lebanon's cooperation with those countries, which indicated that Lebanon interacted positively with these requests, which led to achieving a good rate of asset recovery.

684. No detailed statistics about the type of cooperation required from the Lebanese authorities, but upon reviewing some case studies, it appears that the requests received by the Lebanese authorities varied in terms of interrogating a witness, interrogating a suspect, freezing bank accounts (12 requests), seizing a yacht, and confiscating funds. As for requests related to freezing funds and seizing and confiscating assets, it appears that the Lebanese authorities froze bank accounts subject to 12 requests through the FIU, and seized a yacht worth USD 10.5 million and handed it over to a foreign team that came to Lebanon upon the request of the foreign judicial authority, in addition to seizing an amount of approximately USD 28 million that had previously been frozen in a bank account and returned by the Lebanese authorities to the requesting country. There is also an amount of approximately USD 500,000 that was returned and an amount of USD 40.4 million frozen definitively pending return. This in turn indicates the good efforts of the specialized Lebanese authorities in responding to requests for the recovery of stolen assets and executing those requests, without the time element in their implementation being clear. The following is a case study regarding the recovery of stolen assets based on an MLA request:

#### **Case study No. 21 on repatriating funds to a foreign country within MLA framework**

The Lebanese Ministry of Justice has received MLA request from a judiciary in an Arab country to assist in investigations into a case of corruption and misappropriation of public funds by a politician and members of their family. In parallel, the FIU received a request for assistance in the same case from the counterpart FIU.

Bank accounts in Lebanon belonging to the suspects, amounting to about USD 28 million, were identified and frozen, whereby the judiciary and the FIU in the Arab country were notified of such. Later in this case, a judgment of confiscation was issued in the Arab country, and it was given an executive status by the competent Lebanese courts, and accordingly the frozen amount was returned to the Arab country.

**Extradition requests received by the Lebanese authorities from counterpart authorities:**

685. In the event of extradition, the requests are transmitted from the International Cooperation Office at the Ministry of Justice to the competent divisions in the Public Prosecution at the Court of Cassation, to issue an arrest warrant against the person to be extradited after questioning, then the file is referred to the Minister of Justice. Between 2017-2021, the country received (273) extradition requests, including (270) requests related to predicate offences and money laundering, including (3) requests related to terrorist and its financing, and the following is a statistic showing that:

**Table 2.1.2: Extradition requests**

Second: extradition requests										
Year	2017		2018		2019		2020		2021	
Type of suspicion	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF
Number of incoming extradition requests	61	0	83	0	55	1	43	0	28	2
Number of executed requests (Extradition)	8	0	7	0	6	0	4	0	4	0
Number of requests rejected/sent back to its source	5	0	1	0	1	0	0	0	0	0
Number of requests under process (criminals are still wanted)	1	0	6	0	8	0	0	0	0	0
number of requests referred to	35	0	61	0	35	0	28	0	13	0

Lebanese courts										
Number of requests archived due to ceasing pursuit by the requesting authority	12	0	8	0	5	1	11	0	11	2

686. It is clear from the above table that the country has extradited (29) persons in response to requests for extradition of criminals, without clarifying the time period taken for extradition. It is noted that all executed extradition requests are related to predicate offences (most notably the crimes of theft, fraud, embezzlement, and illicit drug trafficking) and money laundering. However, there are requests that are still being discussed and reviewed with the requesting countries, with a total of (15) related requests that are still under process since 2019. As it is still discussed to obtain additional explanatory information from the requesting countries thereabout. In the case of not extraditing its citizens, the Cassation Public Prosecution refers the subject person to the court for prosecution.

687. The following table shows the number of staff in the authorities concerned with the implementation of MLA and extradition requests:

**Table 2.1.3: The number of staff in the authorities concerned with the implementation of MLA and extradition requests:**

Authority	Number	Availability	The existence of special organizational structure
Ministry of Foreign Affairs and Emigrants	4	Not available	Yes
Ministry of Justice	5	Available	Yes
Public Prosecution	6	Not available	No
Security authorities	Number was not provided to the AT	Available	Yes
FIU	7	Not available	No

323. The country indicated that judges and specialists in international cooperation in the Public Prosecution of the court of cassation are subject to training courses and workshops on judicial rogatory and how to formulate requests for cooperation and communicate with counterpart judicial authorities. However, the Public Prosecution of the court of cassation does not have a specialized unit in international cooperation which in turn caused the weakness of outgoing requests and may affect the quality and speed of the implementation of the requests received, in addition to the absence of mechanisms or guidance for their



implementation, and this matter can be seen in the statement of a country through the international cooperation questionnaire about Lebanon.

688. Therefore, although the country indicated the period of time taken by the authorities to respond to requests for legal assistance and extradition, which ranges from 3 to 6 months, the information provided by the country in terms of statistics and case studies did not show this, but some statistics reflected otherwise is in terms of the lack of appropriate deadlines and quality of response. In addition to the absence of a system for managing cases and tracking received requests and the status of their execution, in addition to requiring difficult requirements to provide by the requesting country in cases of requests for legal assistance.

#### **Obtaining Legal Assistance in appropriate time in order to locally prosecute ML/TF and related predicate offences.**

689. The Public Prosecution at the Court of Cassation receives from the various prosecution at the level of the Lebanese Republic memoranda of information in cases related to money laundering, predicate offences and the terrorist financing that are being investigated and that require sending requests for legal assistance or sending extradition requests to foreign countries. The Public Prosecution at the Court of Cassation collects all information, documents, and results of investigations, and ensures that it has obtained all appropriate and sufficient information and evidence, allowing it to prepare a request for legal assistance or prepare a request for extradition.

690. The Public Prosecution of the Court of Cassation prepares issued requests for legal assistance or extradition and sends them to the International Cooperation Office at the Ministry of Justice, which in turn sends them to the competent office in the concerned country through the Ministry of Foreign Affairs and Emigrants after reviewing them and making sure that they meet the required conditions. The average time taken by the Ministry of Justice to review request and send it to the Ministry of Foreign Affairs 5 days. This period is considered satisfactory.

#### **Outgoing extradition requests sent by the Lebanese authorities to counterpart authorities:**

691. Between 2017-2021, the Lebanese authorities sent a total of (43) requests for legal assistance to their counterparts abroad, but the number of those requests is considered modest in light of the country's risks and context. The requests submitted by the LEAs to the Cassation Public Prosecution and from the Cassation Public Prosecution to the counterparts are few, as a result of weak coordination between authorities and not focusing on translational crimes.

692. The out outgoing requests included only one request related to terrorism and its financing, and 42 requests related to ML and predicate offences, of which (9) requests have been executed, and there are still (34) requests under processing, all of which are related to money laundering and a number of predicate offences, mostly fraud, blackmailing, intimidation, tax evasion, illicit drug trafficking and embezzlement. As evidenced by the table below regarding MLA requests from the Lebanese authorities to their counterparts abroad:

**Table No. 2.2.1 MLA requests from Lebanese Authorities to its Counterparts Abroad 2017-2021**

Year	2017		2018		2019		2020		2021	
	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF	ML/PO	T/TF
Number of sent MLA requests	5	0	2	0	3	1	11	0	21	0
Number of executed requests	5	0	1	0	1	1	1	0	0	0
Number of Rejected Requests	0	0	0	0	0	0	0	0	0	0
Number of requests under process	0	0	1	0	2	0	10	0	21	0

693. Despite the large number of court judgments issued related to terrorist and its financing, some of which are related to judgments in absentia against persons who are not residing in Lebanon and linked to organized and international criminal gangs (see IO.9), it is clear from the above table (updated during the onsite visit), that there is one request during 2019 related to terrorism and its financing, and this is not commensurate with the risk structure and context of the country.

694. As for the remaining 42 requests related to money laundering and predicate offences, only 8 of them were executed in the period from 2017 to 2022. This is also inconsistent with the risk structure and context in the country. It is also unclear whether the Lebanese authorities, particularly the Cassation Public Prosecution, have taken any measures to assist in the execution of these requests from other countries, especially those that may have multiple requests for assistance through the signing of MOUs or holding direct meetings to discuss obstacles and ways to address them. The country has not provided details or case studies that clarify to the assessment team the type of MLA outgoing requests, whether they are orders to disclose financial information, interrogate witnesses, search and seize, or other types of requests. Sufficient information has also not been provided about the most prominent countries that have cooperated through outgoing MLA requests.

**Outgoing stolen assets recovery requests by the Lebanese authorities to counterpart authorities:**

695. The competent authorities did not provide any statistical information or case studies for cases of requesting the recovery of stolen assets, which confirmed the absence of efforts by those authorities in sending requests to recover stolen assets and proceeds of crimes transferred abroad, especially the proceeds of corruption crimes, which in turn is not consistent with the risk structure of the country. (See IO.8)

**Outgoing extradition requests by the Lebanese authorities to counterpart authorities:**

696. Between 2017 and 2020, the Lebanese authorities sent requests to their counterparts abroad to extradite criminals, amounting to a total of (119) requests, distributed between requests related to predicate offences and money laundering, with a total of 114 requests, and (5) requests related to terrorism and its financing (not executed to date). Only (2) two requests related to predicate offences and money laundering dating back to 2017, and (83) requests related to predicate offences and money laundering are still under process, as evidenced by the table below regarding requests for extradition from the Lebanese authorities to their foreign counterparts:

**Table No. 2.2.2 regarding extradition requests from the Lebanese authorities to their foreign counterparts 2017 - 2021:**

Year	2017		2018		2019		2020		2021	
	ML/P O	T/T F	ML/P O	T/T F	ML/P O	T/T F	ML/P O	T/T F	ML/P O	T/T F
Number of sent Extradition requests	31	2	30	3	22	0	15	0	16	0
Number of executed requests	2	0	0	0	0	0	0	0	0	0
Number of Rejected Requests	0	0	0	0	0	0	0	0	0	0
Number of requests under process (criminals are still wanted)	14	2	24	3	17	0	11	0	12	0
No longer Requested	15	0	6	0	5	0	4	0	4	0

697. It is clear from the above table that there is a weakness in the implementation of requests issued by Lebanon regarding extradition, and it was not clear to the AT that the Lebanese authorities, especially the Public Prosecution at the Court of Cassation, took any measures that help implement those requests from other countries (except for one case), especially with those that may have multiple requests for assistance therefrom through signing a Mutual MoUs, or holding direct meetings to discuss obstacles and ways to address them.

698. Based on the information provided by the country and the findings of the onsite visit, the assessment team has found that judges working in the Cassation Public Prosecution need to enhance their expertise and training in dealing with MLA requests. They also need to be trained on using unofficial tools for cooperation in parallel with the official methods to save time and achieve timely and effective provision of assistance. Additionally, they need to explore other forms of international cooperation for the purpose of combating money laundering, associated predicate offences and financing terrorism.

### **Providing international cooperation from various competent authorities through other means of international cooperation for the purposes of combating money laundering and terrorist financing and related predicate offences:**

699. Lebanon uses a number of informal international cooperation mechanisms with its foreign counterparts in order to exchange a wide range of financial and intelligence information for AML/CFT purposes and the associated predicate offenses. LEAs varyingly benefit from cooperation with counterparts without having this cooperation adequately covered all other crimes according to the country's risk structure, including ML, predicate offences, illicit drug trafficking, smuggling of goods and smuggling of migrant.

700. Cooperation with regard to combating terrorism and terrorist financing between the competent authorities in Lebanon and their counterparts from foreign authorities (informal cooperation) is considered satisfactory.

701. In the context of combating corruption, the AT found a weakness in the requests related to the crime of corruption for the purposes of tracking proceeds of crime transferred or moved abroad and requesting their freezing, confiscation and recovery. The weakness in the requests issued in corruption cases is not consistent with Lebanon's risk structure, as the crime of corruption is considered the most serious crime at the national level, as it generates proceeds in large amounts that are the subject of money laundering, which requires follow-up at the international level (see IO.7).

### **The Intelligence Directorate of the Lebanese Army and the Ministry of National Defense**

702. The number of requests issued by the Intelligence, is considered satisfactory in general, and is consistent to some extent with Lebanon's risk structure. The total request amounted to a total of 136 requests during 2017-2021. It is noted that the requests sent peaked in 2017 (reaching 41) and began to decline in 2018, 2019 and 2020, reaching 36, 20 and 10 requests, respectively. The requests increased again in 2021 (reaching 29), when the activity of ISIL reappeared. The Intelligence Directorate worked to dismantle several terrorist cells, including the ISIL cell of Aarsal, the Kaftoun cell and the Tabaneh cell. Given that there are cases that are being followed up at the local level and that do not require follow-up at the regional or international level, due to the absence of an external component. However, the number of requests issued is still average compared to the location of the country adjacent to conflict areas, the difficulty of controlling the borders, the large number of illegal movements between the country and conflict areas, and the large number of refugees in the country who do not have records in the official entry systems as well as dismantling of a number of cells during 2021.

703. The requests sent by the Intelligence Directorate were 1912 between 2017-2021. They were 527 in 2017, and decreased gradually in 2018 to 400, in 2019 to 381 and in 2020 to 200. The country attributed this to the regress of terrorism and financing terrorism risks facing neighboring countries and Lebanon. The number increased again in 2021 because ISIL reappeared in neighboring countries and that the issued in that countries were linked to Lebanon.
704. The Intelligence Directorate responded to all requests and totally executed them in proper manner and on the basis of priority and materiality. This was confirmed by a response of a neighboring country<sup>28</sup> within the responses of the international network about international and regional cooperation of Lebanon.
705. The AT believes that the efforts of Intelligence Directorate in terms of combating terrorism and financing terrorism are considered satisfactory regarding incoming requests and largely consistent with risk structure facing foreign countries, especially neighboring countries. The efforts of Intelligence Directorate in terms of outgoing requests needs support and enhancement in a way consistent with TF risks structure in Lebanon.

### General Directorate of Internal Security Forces

706. In cases of terrorism and its financing, the number of requests issued during the years 2017-2021 amounted to a total of 3,895 requests, and all of those requests were responded to by foreign authorities. As for the number of requests received in terrorism and financing cases during the years 2017-2020, it was 3,323 requests, and all of the received requests were responded to. As for the requests received during the year 2021 alone, 495 out of 566 requests were responded to, while the requests that are still pending execution are 71 requests, representing 12% of the total requests received during 2021. Therefore, the assessment team believes that the efforts made by the Directorate in relation to terrorism and its financing are generally satisfactory, although there are still pending requests due to the shortage of information provided by the concerned parties abroad, which requires additional efforts to reduce the number of requests with insufficient information. On the other hand, there were no negative feedback or responses from any country within the network regarding the level of cooperation related to terrorism and its financing.
707. In cases related to money laundering and associated predicate offences, during the years 2017-2021, the Directorate has sent 570 requests. Foreign entities responded to all of these requests, while the Directorate received a total of 5244 requests related to ML predicate offence. The Directorate responded to all of these requests. The crimes subject to the requests varied, with the most prominent being requests related to drug trafficking (40.6%), fraud (22.6%), theft (10.8%), murder (6%), forgery (3.2%), human trafficking (2.7%), and kidnapping (2.5%). The assessment team believes that the efforts made in matters related to money laundering and associated predicate offences are significantly uneven. While a large number of requests are received and responded to, the number of outgoing requests still needs significant improvement, given the absence of specific mechanisms for initiating procedures for outgoing requests abroad, and the challenges of timely access to bank accounts characterized by secrecy. The assessment team believes that the number of outgoing requests does not correspond to the risk structure to which the

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<sup>28</sup> there is joint cooperation, especially in information exchange between security authorities, in terms the movement of terrorist and physical movement of illegal money.

country is exposed. The table below shows the number of requests received for each year separately regarding predicate offences and money laundering:

**Table No. 2.3.1 Statistics on the number of requests received related to predicate offences/money laundering (ISF through the International Liaison Division - Interpol Beirut) 2017 - 2021**

<b>International cooperation - ISF</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Number of received requests related to predicate offences/ML	550	949	1082	1151	1512
. Responded to	550	949	1082	1151	1512
. Rejected	0	0	0	0	0
. Under process	0	0	0	0	0

### Lebanese Customs

708. The Customs Directorate cooperates with foreign authorities by providing them with information on smuggling activities through the Network Enforcement Customs or the Regional International Liaison Offices (RILO) system, which allows it to communicate with the 184 member states for information exchange. The Customs Directorate also cooperates in the area of controlled delivery, with a total of 15 cases during the years 2017-2021. It also collaborates with international entities regarding declaration or disclosure cases, but the Customs did not provide the assessment team with any case studies or detailed statistics in this regard, except for some cases that cannot be used to judge the quality, speed, and suitability of the cooperation provided due to lack of knowledge of the procedures and information involved.

709. Below is a table of statistics for the number of requests sent related to predicate offences/money laundering to the Customs, for each year separately:

**Table No. 2.3.2 Statistics on the number of requests sent related to predicate offences/money laundering (Customs, Anti-Narcotics and Money Laundering Division, 2017-2021)**

<b>International Cooperation - Anti-Drug and AML Division</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Number of sent requests related to predicate offences/ML	38	34	25	34	33
Responded to	38	34	25	34	33
Rejected	0	0	0	0	0
Under process	0	0	0	0	0

710. The assessment team believes that despite the fact that the work of the Customs Directorate helps in detecting and seizing some high-risk predicate offences and the money laundering crimes associated with them, which often requires cooperation between the Customs Directorate and the international counterpart authorities, the number of international cooperation requests issued and the number of

monitored delivery cases are still low, within the context and structure of Lebanon’s risks, which is attributed to the weakness of expertise in detecting those crimes by the Directorate, and this is confirmed by the statistics above. Moreover, the country did not provide the assessment team with case studies that show the extent to which the Customs Directorate execute the international cooperation requests received and related to money laundering and predicate offences to counterpart authorities in an appropriate manner and within suitable timeframes

### FIU - Special Investigation Commission

711. Between 2017-2021, The FIU sent 389 requests to counterpart FIUs abroad. The recent years witnessed a decrease in their numbers due to the economic and financial crisis, COVID-19 and limitations imposed by FIs on transactions in general and money transfer in particular, especially to other countries.

**Table No. 2.3.3 regarding international cooperation requests related to ML/TF and their status (for all competent authorities through the FIU) (2017 - 2021)**

International Cooperation- through the FIU	2017	2018	2019	2020	2021	Total
Total number of sent requests through the FIU	125	108	83	32	41	389
(1) Responded to	123	102	69	31	29	354
(2) Rejected	2	3	0	0	0	5
(3) Under execution	0	3	14	1	12	30

712. Based on the above table, it is clear that approximately 1% of the requests were rejected. The FIU explained that the reason for rejecting the requests is either due to the counterpart authority not having jurisdiction, or not having the authority or ability to collect information, especially when the FIU seeks to obtain financial information that is not included in its database. The table also shows that 7.7% of the requests are still under execution, which requires the FIU to make additional efforts to execute those requests faster than they are now.

713. The following is a table detailing the requests sent by the FIU either on its own initiative (spontaneously) or at the request of local competent authorities (2017 - 2021).

**Table No. 2.3.4 regarding requests sent by the FIU, either on its own initiative (spontaneously) or at the request of local competent authorities (2017 - 2021)**

	2017	2018	2019	2020	2021	Total
Total number of sent requests	125	108	83	32	41	389
Number of sent requests related to ML/predicate offences	122	99	82	29	41	373
Originator: FIU	94	85	68	19	27	293
Originator: Local Authority - ISF	26	12	14	9	4	65
Originator: local authorities - Ministry of Justice	0	1	0	1	10	12
Originator: Local authorities - Customs	0	1	0	0	0	1

Originator: Supervisory authorities	2	0	0	0	0	2
Number of international requests related to terrorism and its financing	3	9	1	3	0	16
Originator: FIU	1	0	1	1	0	3
Originator: Local Authority - ISF	1	7	0	1	0	9
Originator: local authorities - Ministry of Defense	1	2	0	1	0	4

714. The table above shows a variation in the number of international cooperation requests from the competent authorities through the FIU. The FIU has also resorted to its counterparts FIUs regarding international cooperation requests related to predicate offences and money laundering, in a good and proportionate manner to the ML context and risk structure in the country. The total number of cooperation requests initiated by the FIU was (293), while only (3) requests for international cooperation related to terrorist financing were made, which does not correspond with the TF context and risk structure in the country.

715. Between 2017-2021, the FIU received 406 requests for international cooperation from foreign FIUs. It executed the majority of these requests (at a rate of 99.5%) within a suitable timeframe that did not exceed one week for information available through its database and within a timeframe not exceeding one month for information available from other local authorities. There was one request for information that was not processed due to an incomplete file, and another request that is still pending and dates back to late 2021. These two requests represent 0.5% of the total requests received.

716. Upon reviewing the responses of the international network regarding their experience of cooperation between the FIU and foreign counterparts, it became clear that most countries expressed that the information exchanged with the FIU is of high quality and that responses are received within reasonable timeframes ranging from a week to 30 days, with continuous improvement in the quality and response times. However, it appears from the responses of two FIUs that the information provided in some limited cases does not meet all the issues required in the request. Therefore, the assessment team believes that the FIU provides the required cooperation with foreign FIUs and in an appropriate quality.

### **Banking Control Commission:**

717. The BCC cooperates with counterparts in a number of countries with regard to how to implement the basic principles of banking supervision. It also exchanges information related to the results of fit and proper tests towards shareholders and officials in Lebanese bank branches abroad. Therefore, during 2017-2021, the BCC sent 8 requests to several countries to inquire about the conditions of Lebanese bank branches abroad.

718. During the same period, the BCC received 46 requests for information from counterparts abroad in order to obtain supervisory and precautionary information, especially with regard to what is related to the conditions of Lebanese banks that have branches abroad, and about persons participating in foreign financial institutions, and about the risks associated with some Lebanese banks and about the change in the shareholders base of a Lebanese bank that has a presence abroad, and the BCC responded to all the requests it received.



719. It was not clear to the assessment team that the international cooperation requests sent and received by the BCC are related to AML/CFT.

### **Tax authorities**

720. During the years 2017-2021, the Ministry of Finance sent 31 requests for international cooperation to foreign counterparts regarding tax matters, and 7 of them were responded to. The tax authorities did not make additional efforts to overcome the difficulties in not responding to these requests. During the years 2017-2021, the Ministry of Finance received 183 requests for information exchange for tax purposes from its counterparts abroad. Most of these requests were executed with some delays due to the global COVID-19 situation. The requests for information received focused on the following issues: information on shares ownership, shareholder names, beneficial owners, and accounting or banking information.

721. It was not clear to the assessment team that the international cooperation requests sent and received by the tax authorities are related to AML/CFT.

### **Capital Markets Authority (“CMA”):**

722. During the years 2017-2021, the CMA received 30 requests for information from counterpart authorities. The country indicated that all of them were responded to and the CMA did not provide information or data about the international cooperation request or their nature.

723. It was not clear to the assessment team that the international cooperation requests sent and received by the CMA are related to AML/CFT.

### **International exchange of basic and beneficial ownership information regarding legal persons and legal arrangements.**

724. During the years 2017-2021, the Ministry of Finance received a total of 109 requests for information exchange regarding the beneficial owners from its counterparts abroad, and 90 of them were executed. The security authorities and the Cassation Public Prosecution also received requests for basic and BOs information, information about legal persons and arrangements. However, these authorities did not provide detailed statistics (such as the type and number of requests, the nature of the requested information, the requesting party, the requests’ status, and the time taken to respond) in this regard, except for the Ministry of Finance (tax authorities), which provided a general statistics that did not clarify the nature and quality of the basic and beneficial owner information, information about legal persons and arrangements that were exchanged with the counterpart authorities. Nevertheless, the information available to the tax authorities is affected by the shortcomings represented by the lack of up-to-date information (see IO.5).

725. During the years 2017-2021, the FIU received 155 requests for information exchange about beneficial owner and legal persons from their counterparts abroad, all of which were responded to by the FIU in a proper way in terms of quality and timeframe.

726. Therefore, except for the FIU, the assessment team could verify the effectiveness of the competent authorities (Ministry of Finance, Cassation Public Prosecution and Security Authorities) regarding international information exchange for basic and BOs information for legal persons and arrangements, as

these authorities did not provide statistics and detailed information or case studies to the assessment team to evaluate the quality and speed of response and provision of such information.

### Overall Conclusion on Immediate Outcome 2:

727. Based on the foregoing and despite that Lebanon is providing a good level of international cooperation it still needs to do major improvements in its international cooperation means including formal and informal cooperation. While Lebanon provides MLA, extradition and recovery of stolen assets in an uneven manner in terms of quality, it was unclear whether the responses were quick in light of lacking a case management system for these requests to action all in a good quality and timely manner. Also, the many requirements (some may be difficult to be provided) could play an important role in limiting these requests and their effectiveness in a good time. on the other hand, Lebanon seeks to request MLA in ML, predicate offenses and TF, but in a manner that is not consistent with the country's context and risk profile, in addition to a delay in sending some requests for MLA and extradition request and lack of sending requests related to the recovery of stolen assets, in addition to the absence of additional efforts in overcoming the obstacles facing the execution of those requests.
728. LEAs carry out international cooperation with their counterparts to a varying degree, through official and unofficial channels with regard to money laundering and predicate offences and financing terrorism in a manner that is not commensurate with the context and risk structure with regard to money laundering and predicate offences and in a manner better commensurate with TF. Within the framework of international cooperation with regard to identifying and exchanging basic data and data related to the beneficial owner of legal persons and legal arrangements, the competent authorities did not prove their effectiveness (except for the FIU) considering the shortcomings related to the update-ness of this information, especially with the tax authorities (see IO.5).
729. **Therefore, the Level of Effectiveness achieved by Lebanon in IO.2 is Moderate.**

## Technical Compliance Annex

This section provides detailed analysis of the level of compliance with the FATF 40 Recommendations in their numerical order. It does not include descriptive text on the country situation or risks and is limited to the analysis of technical criteria for each Recommendation. It should be read in conjunction with the Mutual Evaluation Report.

### Recommendation 1 - Assessing Risks and applying a risk-based approach

This is a new recommendation and was not assessed within the first round of mutual evaluation for the Lebanese Republic in 2009.

#### Obligations and Decisions for Countries

##### Risk assessment

##### Criterion 1.1:

The Lebanese Republic assessed ML/TF risks in the country. Up to date, they completed 3 national ML/TF risk assessments (2014m 2019 and 2022). The FIU led the three NRA processes, in cooperation and coordination with stakeholders that are members of the National AML and CFT Committees, both established by the Cabinet (see the organizational chart and mandate of both committees in Chapter 1), with the participation of reporting institutions from the private sector.

##### Criterion 1.2:

The SIC (the FIU in Lebanon) undertakes the coordination of the procedures related to the risk assessment whereby it took over the preparation of the NRA, as mandated by the Prime Minister on 5/12/2013.

##### Criterion 1.3:

The State of Lebanon has updated the risk assessment process. The FIU, in its capacity as the local body legally competent to combat money laundering and terrorist financing and associated risks, has updated the NRA in 2022 (the Third NRA). The FIU is mandated to update the NRA in coordination and cooperation with the concerned authorities on regular and as needed basis (according to the Prime Minister's mandate No. 1043/p dated 2/8/2019), and no frequency for the update process was specified. It is worth noting that the authorities concerned with the update process rely on the principle of variables or indicators revealing a change in risks, in order to initiate an update of the assessment.

##### Criterion 1.4:

The State of Lebanon has mechanisms in place to provide all competent authorities, SRBs, FIs and relevant DNFBPs with appropriate information on the results of risk assessments. Lebanon has shared the results of the two NRAs with the relevant authorities and provided NRA-related information related to the competent authorities, particularly the public prosecutors of cassation, LEAs, control and supervision authorities, and SRBs, in addition to the reporting institutions from the financial sector, and DNFBPs; through various mechanisms, including training meetings and workshops, the meetings of the two national AML/CFT committees. The Ministry of Interior and Municipalities issued "Guidelines to Prevent the Abuse of NPOs in TF" on 14 October 2019 as a

result of the 2019's NRA. The Guidance was published on the Ministry of Interior's website; the FIU's circular No. 25 of 2019 addressed to banks and other reporting institutions regarding the results of the NRA of 2019. The circular was published on the FIU's website in addition to its publication in the Official Gazette under Issue No. 45. However, no detailed results and outputs of the NRA were disseminated to the various authorities, such as public and private entities as connected to their competence to ensure that they obtained the respective proper information.

## **Risk Mitigation**

### **Criterion 1.5:**

The State of Lebanon has mechanisms to allocate resources and apply ML/TF precautionary measures and mitigate their risks based on the country's understanding under RBA. The country put in place priorities approved by both of the National AML/CFT Committees. The plan includes legislative, regulatory, and operational measures in the field of supervision and law enforcement, as well as directing resources commensurate to the risks for mitigation. As a result of this plan, the FIU issued the circular No.25 of 18/9/2019, which obligating the concerned authorities, when conducting their own risk assessment (customers, services/products, countries) to adopt a risk-based approach, they should consider that ML/TF offence associated with corruption, tax evasion and illicit drug trafficking and mainly resulting from national predicate offences, in addition to electronic crimes, being high-risk crimes, and they should apply measures and controls commensurate with these risks.

In this regard, the country issued many instructions and directives such as: Instructions from the Prime Minister addressed to the Public Prosecutors of cassation requesting them to take the necessary measures and give the required priority according to the results of the second national ML/TF risk assessment (2019), and to direct the resources of the FIU (as supervisory body) in consistency with the NRA results and to develop the supervisory works that are carried out according to a risk-based approach, especially in terms of focusing on specific topics (thematic) related to the high risks. The FIU was also required to adopt the principle of priorities in dealing with incoming ML/TF cases, in line with the risks identified by the NRA of 2019, to direct the resources of LEAs in line with the results of the NRA of 2019 and to direct the supervisory resources of the Ministry of Interior and Municipalities with respect to NPOs in line with the results of the NRA of 2019, which identified some types of NPOs that were found to be more vulnerable to the risks of abuse for TF.

### **Criterion 1.6:**

The Republic of Lebanon doesn't apply exceptions that prevent the FIs and DNFBPs to apply any of FATF's recommendations.

### **Criterion 1.7:**

In light of identifying ML/TF risks, the county requires FIs and DNFBPs to take enhances measures to manage and mitigate risks (such as BDL Basic Decision 7818 and its amendments – Article 9 – Clause Second, and Basic Decision No. 12837 and its amendments – Article 9 – Clause 2, and Basic Decision No. 7933 and its amendments - Article (15) item “Second” - Clause (9), Basic Decision No. 7548 and its amendments - Article (9 bis) - Clause “Second” clause (11), and Basic Decision No. 12174 and its amendments - Article (12 bis) - Clause “Ninth” Clause (2). And FIU's Circular/Notice No. 26 (item 1)), in addition to what was included in FIU's Circular No. 25 in 2019 about the results of the NRA.

**Criterion 1.8:**

The Lebanese Republic doesn't allow for the application of simplified measures for some of the FATF recommendations.

**Criterion 1.9:**

Under Articles 4 and 5 of the Law No. 44/2015, the supervisory authorities and SRBs in Lebanon must verify that FIs and DNFBPs apply their obligations, under this law based on risk-based approach (see R. 26 and R. 27) and under a supervision over DNFBPs (see R. 28). All FIs and DNFBPs are, with the exception of lawyers, certified accountants (auditors) and notaries, subject to the supervision of the FIU based on the provisions of Article 6 Clause 2 of the same law, which requires verifying that the persons referred to under the two articles Fourth and Fifth to comply with the obligations stipulated for under this law and the bylaws issued based thereon (while Article 17 of the same law stipulates that the commissioners of the supervision of banks and FIs and the rest of other companies and institutions stipulated for under Article 4 of this law must verify that all these companies and institutions comply with the provisions this law and the regulatory texts issued in reference thereto).

**Obligations and Decisions for Financial Institutions and DNFBPs****Risk assessment****Criterion 1.10:**

FIs and DNFBPs in Lebanon are required to take appropriate steps to identify, assess and understand their money laundering and terrorist financing risks (customers risks, countries or geographical areas, products, services, processes (transactions) and service delivery channels), (BDL Basic Decision No. 7818 and its amendments - Article (9) - Clause "First", Basic Decision No. 12837 and its amendments - Article (9) - Clause (1), Basic Decision No. 7933 and its amendments - Article (15) - Clause "Second" - Clause (8), Basic Decision No. 7548 And its amendments - Article (9 bis) - Clause "Second" Clause (10), Basic Decision No. 12174 and its amendments - Article (12 bis) - Clause "Ninth" Clause (1), and the FIU's circular No. 26 and its amendments - Clause 14)

**Criterion 1.10 (a):** Documenting the results of the NRA (Central Bank of Lebanon Basic Decision No. 7818 and its amendments - Article (9) - Clause "Sixth", Basic Decision No. 12837 and its amendments - Article (9) - Clause (6), and Basic Decision No. 7933 and its amendments - Article (15) - Clause "Second" - Clause (13), Basic Decision No. 7548 and its amendments - Article (9 bis) - Clause "Second" Clause (11) - tenth point, Basic Decision No. 12174 and its amendments - Article (12 bis) - Clause "Ninth" Item (6), and FIU's circular No. 26 and its amendments - Item 3, second point) however, the texts related to FIs (excluding banks) included that this documentation must be "when necessary" which means that the compliance with this criterion is not fully met with regards to this type of non-banking FIs.

**Criterion 1.10 (b):** the FIs and DNFBPs are required to take into consideration all relevant risk factors before determining the overall level of risk, the appropriate level of risk mitigation measures to be applied, and the type of such measures. Whereas FIs and DNFBPs are obligated to

take appropriate steps to identify, assess and understand their money laundering and terrorist financing risks (customers' risks, countries or geographical areas, products, services, transactions and service delivery channels) and implement procedures to manage and mitigate risks. A number of procedures were stipulated, including those consistent with examples provided for in international standards (BDL Decision No. 7818 and its amendments - Article (9) Items "First" to "Fifth", Basic Decision No. 12837 and its amendments - Article (9) Items 1 to 5, and Basic Decision No. 7933 and its amendments - Article (15) - Clause "Second" Clauses 8 to 12, Basic Decision No. 7548 and its amendments, Article "ninth bis" clause "Second", items 10 & 11, Basic Decision 12174 and its amendments, Article 12 bis, Clause "ninth" Clauses 1 to 5, and FIU's circular No. 26 and its amendments - Clauses 1 and 3 - point 2 and 14)

**Criterion 1.10 (c):** Banks and DNFBPs are required, each, to update the assessment when necessary (BDL Decision No. 7818 and its amendments - article 9 - clause 6; FIU's circular 26 and its amendments - clause 3 - second point). Therefore, there are no texts obligating the rest of FIs (other than banks) to update the risk assessment on a regular basis.

**Criterion 1-10 (d):** FIs and DNFBPs are committed to maintain the results of the assessment to provide it to the competent authorities and self-regulatory bodies (Bank of Lebanon Basic Decision No. 7818 and its amendments - Article (9) - Clause VI, Basic Decision No. 12837 and its amendments - Article (9) - Item (6), Basic Decision No. 7933 and its amendments - Article (15) - Item "Second" - Item (13), Basic Decision No. 7548 and its amendments - Article (9 bis) - Item "Second" Article (11) - the para. 10, and Basic Decision No. 12174 and its amendments - Article (12 bis) - Clause "Ninth" Clause (6), and FIU's circular No. 26 and its amendments - Clause 3 (second point).

### **Risk Mitigation**

**Criterion 1.11:** FIs and DNFBPs in Lebanon are:

**Sub-criterion 1.11 (a):** required to put in place controls and measures, as approved by the senior management that would enable them from managing the identified risks and mitigating them (Bank of Lebanon Basic Decision No. 7818 and its amendments - Article (9) - Clause "Four", Basic Decision No. 12837 and its amendments - Article (9) - Clause (5), Basic Decision No. 7933 and its amendments - Article (15) - Item "Second" - Item (12), Basic Decision No. 7548 and its amendments - Article (9 bis) - Item "Second" - Item (11) - Point nine, Basic Decision No. 12174 and its amendments - Article (12 bis) - Item "Ninth" - Item ( 5) and the FIU's circular No. 26 and its amendments - Item 3 - para. one).

**Criterion 1.11 (b):** the Bank of Lebanon Basic Decision No. 7818 and its amendments - Article (9) - Clause "Four", Basic Decision No. 12837 and its amendments - Article (9) - Clause (4), Basic Decision No. 7933 and its amendments - Article (15) - Item "Second" - Item (11), Basic Decision No. 7548 and its amendments - Article (9 bis) - Item "Second" - Item (11) - Point eight, Basic Decision No. 12174 and its amendments - Article (12 bis) - Item "Ninth" - Item ( 4) and the FIU's circular No. 26 and its amendments - Item 3 - Point Two stipulate that supervising the application and strengthening of the controls over FIs and DNFBPs if needed.

**Criterion 1.11 (c):** taking enhanced measures to manage and mitigate risks when high risks are identified, as a number of binding requirements have been stipulated (Basic Decision No. 7818

and its amendments - Article 9 - Item (Second), and Basic Decision No. 12837 and its amendments - Article No. 9 - Clause (2), Basic Decision No. 7933 and its amendments - Article No. 15 - Clause (Second - 9), Basic Decision No. 12174 and its amendments - Article 12 bis - Clause (ninth 2), Basic Decision No. 7548 and its amendments - and Article No. 9 bis item "Second - Clause (11), and FIU's circular No. 26 - Clause (1)).

**Criterion 1.12:** Lebanon did not allow FIs and DNFBPs to take simplified risk management measures.

### **Weighing and Conclusion:**

Lebanon has met most of the requirements of the recommendation, as there are some shortcomings about not providing the relevant FIs and DNFBPs with detailed reports about the outcomes of the NRA process in a way that contains information related to their mandates and not obligating FIs (other than banks) to document the risk assessment and not updating it on a regular basis and not obligating banks to provide the rest of the competent authorities (other than the supervisory authorities) according to the definition of the FATF with results of the ML/TF Risk Assessment that it carries out.

**Recommendation 1 is rated LC.**

### **Recommendation 2 - National Cooperation and Coordination**

During the first round of mutual evaluation process in 2009, Lebanon obtained a (LC) rating in the recommendation (previously 31) due to the lack of certainty that there is sufficient cooperation between the concerned authorities in the field of CFT. The most prominent thing observed was the lack of certainty of the existence of sufficient cooperation between the concerned authorities in the field of CFT.

#### **Criterion 2.1:**

The National Coordination Committee for Anti-Money Laundering ("NCCAML"), formed pursuant to Lebanese Cabinet Decision No. 2 dated 24 October 2002, and the National Committee for Combating the Financing of Terrorism ("NCCFT"), formed pursuant to Cabinet Decision No. 106 dated 12/9/2007, are specialized in developing a national AML/CFT policy, to consider the results of the NRA and the strategic plan emanating therefrom. The Lebanese national policy is based on six (6) basic pillars (implementation of the FATF recommendations, internal cooperation, reporting entities, regulation and supervision, training and raising awareness and external cooperation). The tasks of both Committees include "to follow up, develop and regularly review the policies and strategies emerging from the national assessment for ML/TF risks, in order to mitigate risks and activate the AML/CFT system. However, the timeframe or the frequency at which they are being periodically reviewed is not clear.

#### **Criterion 2.2:**

The FIU is considered the central body responsible for the national AML/CFT policies and it is mandated, among other things, to review the NRA results and the measures required to mitigate the risks and to adopt a strategic action plan to mitigate risks at the national level. In an attempt to

support the FIU in performing its functions, The NCCAML was formed pursuant to Lebanese Cabinet Decision No. 2 dated October 2002, which is mandated to find ways to activate and develop mechanisms of cooperation, coordination and information exchange between the eleven (11) members of the Committee at the operational level in AML, in addition to the formation of the NCCFT pursuant to Cabinet Decision No. 106 dated 12/9/2007 to support the FIU works in combating terrorist financing. This Committee is led by the Internal Security Forces for the purpose of finding ways to activate and develop mechanisms of cooperation, coordination and exchange of information between its nine (9) members at the operational level to combat terrorist financing.

**Criterion 2.3:**

The two national committees, the NCCAML and the NCCFT, have developed a number of mechanisms such as (TFS, and a national strategic action plan for AML/CFT aimed at mitigating risks), and these mechanisms enabled the relevant authorities, such as the FIU, LEAs, supervisory authorities and other competent authorities, from cooperating and coordinating at the local level through direct communication channels among all these competent authorities and by virtue of mutual MOUs between the FIU and a number of LEAs and supervisory authorities, developing and implementing AML/CFT policies and activities, both at policy-making and operational level. Moreover, there are coordination mechanisms issued by the Public Prosecution of cassation regarding financial investigations and parallel financial investigations that are in a specific field and with specific bodies through direct communication channels between the Cassation Public Prosecution and LEAs.

**Criterion 2.4:**

The Ministry of Foreign Affairs and Emigrants is the agency entrusted with coordination and cooperation between all concerned Lebanese authorities in the implementation of UNSCRs, including those related to proliferation under the internal regulations of the Ministry. The FIU informs the United Nations Sanctions Committee, through the Ministry of Foreign Affairs and Emigrants, and the Public Prosecutors of cassation, of the actions taken against listed names, especially in terms of preventing the disposal of their movable or immovable funds pursuant to UNSCRs 1718/2006 and 2231/2015 and the successor resolutions, in case it exists. Also, Lebanon established “the National Committee for Implementing Lebanon Obligations towards International CBRN Conventions and Manage and Combat the Risks of Weapons of Mass Destruction” under the Cabinet Decision No. 179 of 2013, but the ways of coordination among these entities and the mechanisms of exchanging information are not clear, in the absence of any written measures to combat proliferation.

**Criterion 2.5:**

Data protection, privacy and individual liberty are guaranteed under the preamble of the Lebanese Constitution. The FIU cooperates with relevant authorities and LEAs to ensure that AML/CFT requirements comply with data protection and privacy rules and other similar provisions (Article 6 of the Law No. 44/2015). Also, there are some general texts for some concerned parties regarding personal data protection, with respect to electronic transactions and personal data (Chapter 5 of Law No. 81).



## **Weighing and Conclusion**

The FIU is the central authority responsible for the national AML/CFT policies, alongside the two national committees, “the national committees for AML and CFT” which put in place several mechanisms (such as two mechanisms for targeted financial sanctions and other AML/CFT mechanisms aimed at mitigating the risks. However, the timeframe and the frequency at which these mechanisms are being periodically updated were not clear. The ways of coordination among relevant authorities and mechanisms of exchanging information to combat proliferation are not clear.

**Recommendation 2 is rated LC.**

## **Recommendation 3 Money Laundering Offence**

The Lebanese Republic was evaluated in the first round of 2009, where it obtained a rating of (PC) in Recommendation 1 related to the criminalization of ML. The shortcomings were the absence of a definition of property and the inability of the authorities in practice to prove that there is no need for conviction in the predicate offence to prove that the funds are illegal. The other shortcoming was predicate offences not including all the twenty crimes according to the methodology, the failure to criminalize attempted ML, and the small number of verdicts in relation to the received cases, which affects the effectiveness assessment.

### **Criterion 3.1:**

In accordance with the provisions of Articles 1, 2 and 3 of the AML/CFT Law No. 44 of 2015, the Lebanese laws meet part of the requirements for criminalizing ML on the basis of the Vienna and Palermo Conventions in terms of concealing or disguising the illicit origin of the funds, and to transfer, move, replace or use those funds for purchasing movable or immovable properties, to conduct financial transactions in order to hide or conceal their illegal source, or to helping any persons involved in committing any of the crimes stated in the Article 1 of the Law to flee the prosecution, with knowing that the funds used in the act are illegal.

On the other hand, not all types of criminalization stipulated for under Article 1/6/b/2 of the Vienna Convention were met, in terms of concealing the location of illegal funds, concealing their disposition, movement, ownership or rights related thereto as well as the types of ML stipulated under Article 1/6/b/2 of the Palermo Convention with regard to association with or conspiracy to commit an offense or counselling the commission thereon.

### **Criterion 3.2:**

Article 2 of AML/CFT Law No. 44 of 2015 covered most crimes contained under the specific categories of predicate offences except the illicit trafficking in stolen and other goods and causing grievous bodily injuries.

### **Criterion 3.3:**

The Lebanese legislator chose the list approach by adopting most of the specific categories of predicate offences for ML, except for the illicit trafficking in stolen goods and other goods and causing grievous bodily injuries.

**Criterion 3.4:**

Article 1 of AML/CFT Law No. 44 of 2015 met the scope of ML offense to include any type of funds, regardless of its value, but did not cover whether the funds represent directly or indirectly the proceeds of a crime.

**Criterion 3.5:**

The provisions of Article 2 of Law No. 44/2015 stipulate that ML offence is an independent offence and does not require conviction for a predicate offence. Therefore, the Lebanese law has covered what this criterion stipulates, that a person does not have to be convicted of a predicate offence when it is proved that the property is the proceeds of a crime.

**Criterion 3.6:**

Under the text of Article (1) of Law No. 44/2015, the definition of the predicate offence of ML extends to the crime committed in another country, which constitutes a crime in that country, and which could constitute a predicate offence if committed locally.

**Criterion 3.7:**

Article (2) of Law No. 44/2015 covers “self-laundering,” as it states that convicting the perpetrator of the predicate offense does not preclude being prosecuted for ML, and accordingly, persons can be prosecuted for ML, even if they are convicted for predicate offence.

**Criterion 3.8:**

Article 179 of the Lebanese Code of Criminal Procedure stipulates that it is possible to prove the alleged crimes by all means of proof unless there is a text stating otherwise. The Judge shall have the sole power to estimate (assess) the evidence for the purpose of satisfying themselves based on firm conviction. Thus, the element of intention can be generally inferred through physical factual circumstance from each case, through which evidence and inferences can be deduced therefrom to reveal the material element of the offence.

**Criterion 3.9:**

Article 3 of Law No. 44/2015 states that anyone who commits, attempts, incites, facilitates, interferes or participates in money laundering operations shall be punished by imprisonment from 3-7 years and a fine not exceeding twice the amount subject of the laundering operation. However, these stipulated penalties do not amount to criminal penalties, but rather misdemeanor penalties. Therefore, while Lebanon considers ML crime as misdemeanor one, it violates the provisions of Article 6 of Palermo Convention, in terms of considering the crime of laundering proceeds of crimes as criminal offence, in which the penalty is more dissuasive under the Article 44 of the Lebanese Penal Code, which states that if the Law doesn't have specified text, the minimum sentence should be temporary servitude, detention, house arrest, and deprivation of civil rights from 3 to 15 years.

The maximum limit for both life imprisonment and temporary detention is 20 years. On the other hand, there are other legal considerations that arise from whether the crime is classified as a felony or a misdemeanor, such as the statute of limitations for public prosecution, and the period of restitution, which is longer in felonies than in misdemeanors, as well as recurrence (re-offending). Suspension of the punishment is also allowed by the Lebanese Penal Code in misdemeanors, but

not in felonies.

Moreover, the Lebanese Penal Code imposes more dissuasive criminal penalties for committing other financial crimes in case of conviction for theft. If the theft is committed against funds or assets of a government institution, any official center or office, public body, or if the theft is committed against funds or assets of a bank, jewelry shop, or exchange company, the offender shall be punished with servitude for a period ranging from three to ten years.

Additionally, the Penal Code imposes criminal penalties for other financial predicate offences such as embezzlement and office abuse (Article 360), bribery (Article 352), theft (Articles 638, 639, 640 and 641), forced signature and intimidation (Article 649), currency forgery (Article 440), and criminal forgery (Article 456). Moreover, it is unimaginable that the predicate offence is criminal and the ML crime is a misdemeanor. Based on the above, these penalties prescribed are not criminal penalties, but rather misdemeanor penalties that are not proportionate or dissuasive against natural persons in the event of conviction of a ML offence.

**Criterion 3.10:**

Legal persons are subject to criminal liability and proportionate and dissuasive penalties in accordance with Article 3 of Law No. 44/2015, where it is stated that whoever commits money laundering offence shall be punished with a fine not exceeding twice the amount subject of the laundering. (Article 210 of the Lebanese Penal Code) whereby these measures shall be applied without prejudice to the criminal liability of natural persons. The Penal Code also allows (under Article 108) to suspend a legal person in the event that one of its employees commits a premeditated felony or misdemeanor punishable by at least two years in prison. Also, it allows to dissolve the legal person (Article 109) if the purpose of its establishment is violating regulations or intended to do so.

**Criterion 3.11:**

The Article 2019 of the Penal Code and Article 3 of Law No. 44/2015, covered the ancillary offenses of money laundering, including most of the forms of participation, attempt, incitement, facilitation, assistance and direction to commit them, but it did not cover association or conspiracy.

**Weighing and Conclusion:**

Law No. 44 of 2015 did not cover all the requirements for criminalizing money laundering on the basis of the Vienna and Palermo Conventions (Criterion 3.1), and Article 2 thereof did not cover some specific categories of predicate offences, such as illegal trafficking in stolen goods and other goods and causing serious bodily injuries (Criterion 3.2). Also, at the level of criminalization, it did not set a condition whether the funds represent, directly or indirectly, proceeds of crime. As for the penalties stipulated for the offense of money laundering, they do not amount, according to the provisions of Article (3) of the law, to being a criminal penalty, but rather a misdemeanor penalty, making it disproportionate and non-dissuasive to natural persons in the event of conviction of a money laundering offense (Criterion 3.9). As for determining the appropriate ancillary offences for the money laundering crime, it did not include association or conspiracy (Criterion 3.11).

**Recommendation 3 is rated PC.**

## Recommendation 4 - Confiscation and Provisional Measures

The Lebanese Republic was evaluated in the first round in 2009, where it obtained a rating of (LC) regarding Recommendation 3 previously, due to the inability of the authorities to prove the effectiveness of the confiscation system, especially in the absence of statistics.

### Criterion 4.1:

**Sub-criterion 4.1 (a):** Article 14 of Law No. 44/11/2015 stipulates that “movable and immovable funds that are proven by a final ruling to be related to a money laundering or terrorist financing crime or proceeds therefrom, its outcome shall be confiscated for the benefit of the state, unless their owners prove, in court, their legitimate rights in this regard.” It is clear from the above text that it came in general, whereas it is related to confiscated funds at the possession of the person, therefore, the legislative measures allow for confiscating funds whether at the possession of the accused or third party.

**Criterion 4.1 (b):** Article 69 of the penal code states that the criminal instrumentalities used or intended to be used to commit the crime were confiscated and stipulates that while preserving the rights of bona fide third parties, all things that resulted from an intentional felony or misdemeanor, or that were used or intended to be committed, can be confiscated.

**Criterion 4.1 (c):** The AML/CFT Law stipulates the confiscation of property that is the proceeds of TF in accordance with Article 14 of Law 44, but this article did not include the confiscation of property that is the proceeds of terrorist acts or terrorist organizations, and with regard to what is used in the commission of the crime or that intended to be used in financing these acts or terrorist organizations is limited only to the financing of terrorism as stated in Article 14 and does not apply to terrorist acts or terrorist organizations. Therefore, there is no obligation that allows the confiscation of properties that was intended to be used in financing terrorist persons or groups.

**Criterion 4.1 (d):** Article 69 of the Penal Code stated the confiscation of properties of equivalent value (... if the things under confiscation order was not seized; the accused person shall be given a certain period of time to deliver those things under the penalty of paying its value, at the discretion of the judge.) Also, article 98 stated the collection of the value of the things to be confiscated in case it was not seized, under the penalty of paying twice its value, similar to paying fines.

### Criterion 4-2

**Criterion 4-2 (a):** Article 14 of the Criminal Procedures Code stipulates that identifying and tracing property is entrusted to the Public Prosecution (of cassation) in the context of any investigation it conducts at the request of the Minister of Justice, according to which the Lebanese legislator can identify and track property.

As for estimating the properties subject to confiscation, it is done as stated by Article 98 of the Penal Code which states: "... The court may, when necessary, seek the assistance of an expert to estimate the value to be paid, and the estimated value shall be collected by the method used for collecting fines. Whereby Article 3 of Law No. 214 dated 8/4/2021, which provides for the possibility of resorting to international cooperation when necessary, in order to determine the nature and type of these funds, assess their value, the destination and method of transferring their ownership between the concerned legal and natural persons, as the case may be, whether in

Lebanon or outside, from the moment the funds were generated from those crimes until it reached its last destination.”

**Criterion 4.2 (b):** Clause (B) under the provisions of Article 6 of the AML/CFT Law No. 44/2015 stated that the FIU may request the public prosecutor of the court of Cassation to take temporary measures such as freezing and seizure, including the power to attach an encumbrance on the records and books, pertaining to movable and immovable funds stating that these funds are the subject of an investigation by the FIU and this encumbrance remains attached until the reasons for suspicion are gone or a final decision is issued in their regard, also empowering the FIU to request the public prosecutor to take precautionary measures to restrict the disposal of movable and immovable funds that have no restrictions thereon until the issuance of a final decision thereof, in the event that these funds are suspected of being related to ML or money smuggling.

**Criterion 4.2 (c) (Not Met):** The Lebanese authorities stated that there is no requirement to prevent or invalidate procedures that affect the state's ability to freeze, seize, or recover property subject to confiscation, but this was not clarified with a clear legal basis.

**Criterion 4.2 (d):** The Lebanese authorities use appropriate investigative measures to conduct ML/TF and the associated predicate offences-related investigations, and among these measures, when there is sufficient evidence that the crime has occurred. The public prosecution of the court of Cassation in Lebanon in accordance with Article 14 of the Code of Criminal Procedure, has access to all documents in case institutions are not subject to secrecy laws (i.e., kept by financial institutions, DNFBPs, and natural or legal persons). But if the institutions are subject to the Banking Secrecy Law, then the Public Prosecution of cassation resorts to the FIU based on Article 6 of Law No. 44/2015, which determines the seriousness of the evidence and presumptions of committing these crimes or one of them and takes the appropriate decision in this regard. The Lebanese authorities concerned with the matter directly review the accounts, records and documents in the possession of third parties. In accordance with Article (25) of the Code of Criminal Procedure, and Article No. (17) related to the organization of the internal security forces, the legislator empowered the Public Prosecution and LEAs to carry out undercover operations when investigating ML/TF and the associated predicate offences, and it may order access to the contents of computer and IT means, identifying, tracking and seizing funds, travel bans and other measures that help in detecting crime and its perpetrators without prejudice to the legislation in force in the country.

**Criterion 4.3:**

The provisions of Article 69 of the Penal Code refer to the possibility of preserving the rights of bona fide third parties when confiscating all things that resulted from an intentional felony or misdemeanor, or that were used or intended to be committed. Article 14 of the AML/CFT Law provides as a measure to protect bona fide third parties whose movable or immovable property is subject to confiscation by allowing them to judicially prove their legitimate rights in this regard. In this context, the general rules of proof provided by the laws in force are applied to prove those rights.

**Criterion 4.4:**

According to Law No. 214 of 2014, the Lebanese legislator created a national fund for the management and investment of funds under recovery or recovered to manage and dispose of properties that have been frozen, seized or confiscated resulting from corruption and ML crimes resulting therefrom. Decree No. 8625 of 1947 obligated the confiscated criminal materials to be

stored in containers created by the courts of first instance. Article 5 of the same decree permits the judicial authority in charge of the case (Public Prosecution, Investigation Department, or Court) to sell the seized goods if they are of the things that are perishable or whose preservation requires expenditures that take their value, and their price is kept in the money box (treasury).

**Conclusion and weighing:**

Lebanon covered most of the requirements of recommendation 4. However, there is no requirement to allow confiscation of property intended to be used to finance a terrorist person or terrorist group, or legal requirements that prevent or invalidate measures that affect the state's ability to freeze, seize, or recover property subject to confiscation.

**Recommendation 4 is rated LC.**

**Recommendation 5 - Terrorist Financing Offence**

During the first round of mutual evaluations in 2009, the second special recommendation (criminalizing terrorist financing) was evaluated as (PC), as the evaluation report revealed five shortcomings; (1) The lack of clarity regarding the inclusion of the act of financing in the form of providing or collecting funds, (2) the limitation of the scope of the crime of financing terrorism, terrorist acts or terrorist organizations, (3) the absence of a definition of funds, with a limitation of the possibility of being from a licit or illicit source, (4) Non-implementation of the crime of financing terrorism in the event that terrorism, a terrorist act, or a terrorist organization was financed outside Lebanon, (5) the difficulty of estimating effectiveness in the absence of statistics. Since then, the Lebanese Republic has worked on a number of system-related improvements, which have positively affected the criminalization of terrorist financing.

**Criterion 5.1:**

The terrorist financing has been criminalized in a manner that includes all forms of terrorist financing provided for under Article (2) of the International Convention for the Suppression of the Financing of Terrorism, in accordance with Article 316-bis of the Lebanese Penal Code, and Law No. 53 dated 24 November 2015 which authorized Lebanon to join the International Convention for the Suppression of the Financing of Terrorism Pursuant to Article 2 of the Code of Civil Procedure, the international agreements ratified by Lebanon take precedence over the internal law of the country. However, the Lebanese Republic has partial reservation<sup>29</sup> about the definition of terrorism contained in Paragraph (b) of Clause 1 of Article 2 of the Convention, and it sent a notification of its partial reservation to its definition of terrorism, in particular the reservation to include actions related to armed struggle within the aforementioned definition, and that reservation was received by the United Nations. Lebanon did not make any amendments to reflect this reservation and exception to its legal framework, and the country also adopted the definition of terrorism contained in Articles 1 and 2 of the Arab Convention on Combating Terrorism signed in Cairo on 22/4/1998.

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<sup>29</sup> By reviewing the reservation recorded on the above mentioned convention, it was clearly shown that it does not actually affect the local legal provisions related to the requirements of recommendation 5.

**Criterion 5.2:**

Article 316-bis of the Lebanese Penal Code criminalizes anyone who intentionally, directs or participates in any way, directly or indirectly, in whole or in part, or contributes to the financing of terrorism or terrorist acts, or the financing of a terrorist person or terrorist organizations or the activities associated therewith, including providing, making available or collecting movable or immovable funds, from legal or illegal sources, in Lebanon or abroad, whether the funds are used or not, and whether or not the terrorist act took place in Lebanon or abroad.

**Criterion 5.2-bis:**

In criminalizing the financing of terrorism, Lebanese law includes the act of financing travel and attempting to travel with the intention of committing terrorist acts, even if it is not related to a specific terrorist act, as Article 316 bis of the Penal Code stipulates that the crime of financing terrorism includes travel, attempted travel, recruitment, planning, preparation, organization facilitating, participating, providing or receiving training, and any other act connected therewith with the intention of carrying out terrorist acts and without such acts being related to a specific terrorist act.

**Criterion 5.3:**

The criminalization of terrorist financing in Article 316 bis of the Penal Code includes providing, making available, or collecting movable or immovable funds from legitimate or illegitimate sources.

**Criterion 5.4:**

The criminalization of terrorist financing in Article 316 bis of the Penal Code did not require the actual use of funds or other assets to carry out or attempt to carry out a terrorist act, nor did it require the association of such funds or assets with a specific terrorist act.

**Criterion 5.5:**

The Lebanese legislator in the Criminal Procedures Code (Article 179) indicated the possibility that the alleged crimes can be proven by all means of proof unless there is a contrary text. The judges can only base their judgment on the evidence that they have, provided that it has been put under public discussion during the trial. The judge evaluates the evidence in order to establish their personal conviction.

**Criterion 5.6:**

According to Article 316-bis, financiers of terrorism shall be punished with temporary hard labor for a period of no less than three years and not exceeding seven years and a fine of no less than the same amount paid and not more than three folds, and this does not preclude the application of the penalties implicitly stipulated for under Articles 212 up to 222 of the Penal Code. Therefore, this sanction imposed for the TF offense is considered effective, proportionate and dissuasive.

**Criterion 5.7:**

The Lebanese legislator imposed penalties for terrorism financiers in accordance with Article 316-bis with the possibility of the application, and this does not preclude the implicit application of the penalties stipulated for under Articles (212) to (222) of the Penal Code. The legal persons are subjected to the criminal liability and to proportionate and dissuasive sanctions under Article 3 of the Law No. 44/2015, where it is stated that the legal entities are criminally responsible for the

actions of their managers, members of their management, representatives and employees when they perform these actions in the name of the mentioned legal person or by one of its means. It can only be sentenced to a fine, confiscation and publication of the judgment (Article 210 of the Lebanese Penal Code). Such measures are applied without prejudice to the criminal liability of the natural persons. Moreover, the Article 108 of the Penal Code allows for suspending the legal person if any of its employees committed a deliberate felony or misdemeanor that is penalized for at least two years, or to dissolve the legal person (Article 109) if the purpose of its establishment was against legislations or if the legal person aimed for such intent.

**Criterion 5.8:**

According to Article (316) bis of the Lebanese Penal Code, the following has been done: Criminalizing the attempt to commit terrorist financing crimes, criminalizing participation in the commission of terrorist financing crimes, criminalizing directing others to commit terrorist financing crimes, and criminalizing participation in the commission of a terrorist financing crime or an attempt to commit it by a group of persons working for a common goal.

**Criterion 5.9:**

The crime of financing terrorism is considered one of the predicate crimes of the crime of money laundering, in accordance with the provisions of Article 1 of Law 44/2015.

**Criterion 5.10:**

According to Article (316) bis of the Lebanese Penal Code, the financing of terrorism has been criminalized, whether the terrorist person or terrorist organization is in Lebanon or in another country where the terrorist or terrorist organization is present, and whether the terrorist act took place in Lebanon or abroad.

**Weighing and Conclusion**

There are minor shortcomings represented in reserving the definition of terrorism stated in Item B of Article 2 of the Convention.

**Recommendation 5 is rated LC.**

**Recommendation 6 - targeted financial sanctions related to terrorism and terrorist financing.**

The Lebanese Republic was evaluated in the 1st round of the mutual evaluation process in 2009, with "PC" rating in the special recommendation 3. The shortcomings were: Absence of a legal system governing procedures for freezing funds and property of persons designated pursuant to Security Council Resolution 1267. Absence of a declared procedure for considering de-listing requests and unfreezing of funds or other assets of persons or entities whose names have been removed at the time. Absence of an appropriate mechanism that establishes procedures for licensing using funds or other assets that have been frozen under Security Council Resolution 1267 and that such use is determined to be necessary to meet basic expenses, or to pay certain types of fees, or unusual expenses and service charges, and the lack of effective laws to freeze funds or other terrorist assets of designated persons pursuant to Resolution 1373.



## ***Identification and Designation***

### **Criterion 6.1:**

**Sub-criterion 6.1 (a):** Lebanon determined a competent authority that carries out designations within this framework. On 10 December 2015, the National Coordination Committee for Combating the Financing of Terrorism<sup>30</sup> adopted a mechanism to implement targeted financial sanctions related to terrorism and its financing, issued pursuant to United Nations Security Council Resolution 1267 (1999) and successor resolutions<sup>31</sup>. Section 5 of this mechanism assigned the Public Prosecutor at the Court of Cassation the responsibility of proposing the listing of persons or entities on the lists relevant to Security Council resolutions.

**Criterion 6.1 (b):** Based on Clause 5 of the Circular of the Public Prosecution of the Court of Cassation for the application of the “Targeted Financial Sanctions Implementation Mechanism” issued pursuant to UNSCR 1267 (1999) and subsequent resolutions, the Public Prosecutor of the Court of Cassation, when identifying the persons or entities targeted for designation, relies on the designation criteria stipulated for in the relevant Security Council resolutions. As soon as an indictment or conviction decision is issued by the Lebanese courts against persons or entities associated with “Al-Qaeda”, “the Taliban” or “the Islamic State in Iraq and the Levant”, the competent Public Prosecutor shall refer a list of the names of the accused or convicts and the crimes attributed to them by the indictment or conviction decision, together with the aforementioned decision, to the Public Prosecutor at the Court of Cassation, who reviews and takes a decision on these decisions and designation criteria and refers them to the Ministry of Foreign Affairs and Expatriates , which, on its part, provides the relevant sanctions committees (the committee established pursuant to resolutions 1267/1989/2253 and the committee established pursuant to resolution 1988) with the names of the persons and entities concerned , accompanied by all supporting data - for the designation received from the concerned national authorities, without prior notification to the person or entity concerned.

**Criterion 6.1 (c):** According to the last paragraph of Clause 5 of the Mechanism, the decision of the Public Prosecutor at the Court of Cassation to submit a proposal for designation does not require the filing of any criminal case or the issuance of a final judgment of conviction against persons and entities targeted for designation, as the designation is proposed whenever there are sufficient evidentiary standard of proof or reasonable grounds to do so.

on the other hand, the Lebanese Penal Code did not include any definition of the term “Entity” or “Organized Terrorist Group”, as Article 315 of the Penal Code was limited to referring to the term “unlawful Association<sup>32</sup>” as it was defined at the level of Articles 335 and 336 of the same law. In

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<sup>30</sup> Established by Cabinet Decision No. 106 issued on 12/09/2007.

<sup>31</sup> This mechanism was amended prior the onsite visit.

<sup>32</sup> The wording of the articles related to the Unlawful Associations:

**Article 335:**

If two or more persons establish an association or enter into a written or oral agreement to commit felonies against persons or property, or to undermine the authority of the State, its prestige or its civil, military, financial or economic institutions, they shall be punishable by fixed-term hard labour. The term of this penalty shall be not less than 10 years if the offenders' acts were directed against the lives of other persons or those of employees of public institutions and administrations.

Article 336:

this regard, the country stated that the term “entity” was resorted to in order to avoid using terms already defined by Lebanese law which has rights and obligations thereto, such as “legal person”. This is in line, from the country’s point of view, with the international trend not to legitimize terrorist entities or groups, in parallel with legal persons. Accordingly, the use of the term entities, adding it in the provisions defining Unlawful Associations in the Penal Code confirmed the illegal nature of terrorist groups and fulfilled Lebanon's international obligations in a manner that did not confer any kind of legal recognition thereon.

**Criterion 6.1 (d):** The Public Prosecutor at the Court of Cassation relies on the procedures in place by the competent sanction committees when deciding the reasons for proposing the designation and taking a decision thereon. It also uses the standard forms of the United Nations for the purpose of referral to the Ministry of Foreign Affairs and Expatriates, so that latter carry out the tasks before the relevant sanctions’ committees. In this regard, this Ministry issued on 08/12/2021 Circular No. 5025/5, which obligated it (based on Paragraph 2 of Clause 2) to verify the extent to which the designation proposals received from the Public Prosecution at the Court of Cassation observe the formal requirements related to the use of standard forms<sup>33</sup>.

**Criterion 6.1 (e):** The circular of the Public Prosecutor of Cassation in the section on the procedures followed by the Public Prosecution at the Court of Cassation when proposing designations, stated that it is obligatory to provide the latter with as much information as possible (such as accurate identification data to identify natural or legal persons, groups, establishments, and entities, as well as the information needed by the INTERPOL to issue a special notice), as well as a supporting statement of case for listing, publishable on request, containing as much detail as possible about the basis for the listing, including specific information supporting that the person or entity meets the appropriate criteria for designation, the nature of that information; any information or supporting documents that can be submitted, in addition to the details of any contact between the proposed person or entity and any person or entity currently on the UN list, provided that the Ministry of Foreign Affairs and Expatriates verifies its comprehensiveness and formal observance of UN requirements, and coordinates with the concerned authorities in the country to complete the profile or the forms if any missing information is found, and determines whether or not it is possible to disclose that Lebanon is the applicant for the name on the list, if it comes to suggesting names to the committee established pursuant to resolutions 1267/1989/2253. That information is commensurate with the different factors contained under footnotes 18, 19 and 20 of this sub-criteria.

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Members of a group of three or more persons operating on public highways and in rural areas as an armed band with a view to robbing passers-by, attacking persons or property, or committing any other act of robbery, shall be liable to fixed-term hard labour for a minimum term of seven years. They shall be sentenced to hard labour for life if they committed one of the above-mentioned acts. The death penalty shall be imposed on any member who, in executing a felony, kills or attempts to kill the victims or subjects them to torture or acts of barbarity.

<sup>33</sup> Lebanon reported, on 06/08/2019, that it submitted to the Sanctions Committee regarding “ISIL” and “Al-Qaeda” and its associated individuals, groups, institutions and entities, with a request to designate 15 people on the sanctions lists, using the applicable standard forms. On 10/8/2020, the actual designation of one name on the sanctions list was issued pursuant to Resolutions No. 1267/1989/2253.

## **Criterion 6.2:**

**Sub-criterion 6.2 (a):** The National Coordination Committee for Combating the Financing of Terrorism referred to in C.6-1 (a) above, on 10/12/2015, adopted a mechanism for implementing UNSCRs 1373 (2001) and successor resolutions. In accordance with Paragraph 1 of Clause 3 of this Mechanism, and as soon as the Lebanese courts issue an indictment or conviction decision against natural or legal persons for the crime of terrorism or terrorist financing, or when foreign judicial decisions are issued accusing or convicting a Lebanese or a resident of Lebanon of one of these crimes, it shall be reported to the Ministry of Foreign Affairs and Expatriates. The competent Public Prosecutor, in relation to judicial decisions issued by Lebanese courts, shall refer a list of the names of the accused or convicts and the crimes attributed to them by the indictment or conviction decision, along with a copy of the aforementioned decision to the Public Prosecutor at the Court of Cassation. The Ministry of Foreign Affairs and Expatriates<sup>34</sup> also refers, through the Ministry of Justice, in relation to the aforementioned foreign decisions, a list of the names of the accused or convicts and the crimes attributed to them by the accusation or conviction decision, along with a copy of the aforementioned decision to the Public Prosecutor at the Court of Cassation.

In both cases, the public prosecutor at the court of cassation shall:

- Review judicial orders (decisions) issued by Lebanese and foreign courts, and classify them as per the designation criteria:
- Referring these decisions, if the target meets the listing criteria, to the General Directorate of Internal Security Forces, which is responsible for, as per Clause 5 of the mechanism, issuing and maintaining the national (local) list, updating it, and publishing it on its website.

This mechanism also authorizes the Public Prosecutor at the Court of Cassation to provide the General Directorate of Internal Security Forces with the names of natural or legal persons or entities upon the availability of data from the FIU or any other official body on the possibility of committing or attempting to commit the crime of terrorism or terrorist financing with the aim of being designated on the local list, without the existence of criminal prosecutions against them or the issuance of a final judgment of conviction acquiring *res judicata*.

**Criterion 6.2 (b):** Paragraph 2 of Clause 3 of the Mechanism sets out the same designation criteria as Security Council Resolution 1373. The legislator has delegated broad legal powers to the Public Prosecutor at the Court of Cassation under Article 6 of the Code of Criminal Procedure<sup>35</sup>, which authorizes them to search for evidence of crimes and apprehend their perpetrators in accordance with the principle of “freedom of proof in criminal matters.” The completed research and investigation records were able to support the stage of classifying judicial decisions according to the designation criteria stipulated for under the United Nations Security Council 1373 and making a decision regarding whether or not to refer them to the ISF in order to list them on the Local list.

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<sup>34</sup> In accordance with Paragraph 2 of Clause 1 of Circular No. 5025/5, the Ministry of Foreign Affairs and Emigrants takes the decision it deems appropriate with the utmost speed in terms of referring foreign decisions or not referring them to the Public Prosecution of Cassation. In this context, it reviews the submitted application in terms of form to ensure that it includes adequate and complete information about the natural or legal person or entity concerned that authorizes the Lebanese authorities to identify and verify them conclusively and accurately, in addition to a statement of case containing as many details as possible about the reasonable grounds for the listing request on the local list.

<sup>35</sup> With the assistance of the judicial police who follow their [prosecutor] orders and work under their supervision, they are generally entrusted with the tasks of investigating unwitnessed crimes, gathering information about them, conducting investigations aimed at uncovering their perpetrators and contributors, and collecting evidence.

**Criterion 6.2 (c):** With regard to how to decide on the outcome of requests received from foreign official authorities that the Ministry of Foreign Affairs and Expatriates receives, Paragraph 2 of Clause 1 of Circular No. 5205/5 stipulates that this Ministry take the decision it deems appropriate with “maximum speed” (referring these requests to the public prosecutor at the court of cassation whether its implementation is appropriate in accordance with national principles, or not, when it is found that it does not meet the applicable formal or substantive requirements, including the extent to which it applies to the designation criteria contained in UNSCR 1373). It should be noted that the mechanism does not require that the request be accompanied by the issuance of a foreign court ruling. However, the applicable requirements do not allow determining the total time taken by the rest of those involved in this procedure from the Ministry of Justice, the Public Prosecutor at the Court of Cassation, and the ISF to complete this procedure. The Lebanese authorities commented that these involved, in turn, react with the utmost speed to the aforementioned measures, in line with the results of the NRA that have made terrorism and terrorist financing and the strategies emanating therefrom a priority.

**Criterion 6.2 (d):** The mechanism and the circulars issued for its implementation, for the validity of designation on the Local list, did not require the existence of a criminal case or the issuance of a final judgment of conviction. Rather, it qualifies the public prosecutor at the Court of Cassation to take a decision to refer the names of natural or legal persons or entities to the ISF, if sufficient data is provided from the SIC/FIU or any other official body, whether national or foreign, indicating the possibility of them committing or attempting to commit the crime of terrorism or financing terrorism.

**Criterion 6.2 (e):** Paragraph 4 of Item 5 of the Mechanism on implementing UNSCR 1373 obligated the attachment of as much specific information as possible to the applications/requests submitted by the Lebanese authorities (together with the Ministry of Foreign Affairs and Expatriates) to foreign countries, as well as documents supporting the designation. This is the same information that Lebanon requires for the validity of the designation requests on its local list. The Ministry of Foreign Affairs and Expatriates, based on Paragraph 1 of Clause 1 of Circular No. 5205/5, as soon as the names of natural or legal persons or entities are listed on the Local list, informs the concerned countries, especially neighboring countries, with this procedure, providing, at the same time, all the relevant information, and to request from these countries to circulate the list on the competent stakeholders to take the necessary action in accordance with the mechanisms approved thereby.

### **Criterion 6.3**

**Criterion 6.3 (a):** The Public Prosecutor at the Court of Cassation, in accordance with Articles (6 and 18) of the Code of Criminal Procedure, has absolute powers to initiate and follow the progress of criminal investigations and search (please review sub-criterion 30-1), which implicitly enables it to investigate the extent to which suspects and defendants meet the UN designation criteria.<sup>36</sup> In this regard, it may direct its orders and instructions to the Public Prosecution and the Judicial Police

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<sup>36</sup> In all cases and whichever mechanism being implemented (1267/1989/2253 or 1988 or 1373), the designation proposal by the GP, as per the texts in force, must include much details on the basis of which the name is being proposed, the documents and information to allow for an accurate and proper identification of persons and entities.

to collect and request all the evidentiary information and forensic evidence that would assist in determining whether the indicators support the identification of reasonable grounds as stated in sub-criterion 6-1 (c). Professional secrecy cannot constitute an obstacle to carrying out the tasks delegated thereto. The Public Prosecutor at the Court of Cassation can also collect information outside the scope of a criminal case, pursuant to his powers to investigate information outside the case of a flagrant (witnessed) crime, based on the text of Article 47 of the Code of Criminal Procedure, which regulates the investigation of (unwitnessed) crimes and the collection of information about them and the conduct of the necessary investigations by Judicial police personnel. Under Article 50, the public prosecutor is entitled to make the appropriate decision based on those inquiries, including working on a proposal for a designation pursuant to the 1267 or 1373 mechanism. In addition to all of the foregoing, the Public Prosecutor may use any information of a security nature or information derived from the FIU, including those provided by counterpart FIUs.

**Criterion 6.3 (b):** Clause 5 of the mechanism for implementing UNSCRs 1267/1989/2253 and Clause 3 of the mechanism related to UNSCR 1373 authorize the competent Lebanese authorities to take ex parte action to prevent any disposition of movable or immovable funds, without prior warning, against any natural or legal person or entity identified, and is being proposed for designation. The same principle is adopted with regard to requests received from foreign official authorities.

### *Freezing*

#### **Criterion 6.4**

Pursuant to Clause 10 of Article 6 of Law No. 44/2015 on the FIU's Operating Rules in order to implement TFS, pursuant to Law No. 44/2015 and the two mechanisms that were approved by the National Committee for Combating the Financing of Terrorism (“NCCFT”), the FIU immediately requests official persons and entities and private stakeholders take the necessary measures to prevent the disposal of movable or immovable funds belonging to the names mentioned in the local list issued by the competent Lebanese authorities or any other lists that are circulated on the subject of terrorism and terrorist financing and related actions, including the circulated lists related to Security Council Resolutions 1267 (1999), and 1988 (2011), 1989 (2011) and 2253 (2015) and successor resolutions - whereby the FIU “immediately and without delay” issues a decision<sup>37</sup> directed to the concerned official persons and private entities to take, in an “spontaneous manner and without prior notice (tipping-off), the necessary measures for the administrative freeze and the prevention of Provision of any movable or immovable property belonging, directly or indirectly, alone or jointly with third parties, or services to natural and legal persons and entities contained in the international list s issued by the specialized sanction committees (the committee established pursuant to Resolutions 1267/1989/2253 and the committee established pursuant to Resolution 1988) and the local lists emanating from Resolution 1373 alike, or under their control. The authorities concerned with implementation must respond to this decision without any delay immediately upon its publication, at pain of penalties stipulated for under Article 13 of Law No. 44/2015. To this end, persons and official and private concerned authorities should spontaneously review any update on the Security Council website regarding updates to the sanctions committees

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<sup>37</sup> In accordance with Clause 5 of Article 6 of Law No. 44/2015 relating to AML/CFT, and to the two mechanisms approved by the National AML/CFT Coordination Committee.

lists, on a daily basis or before conducting any financial transaction or entering into any commercial relationship.

In addition to the foregoing and in accordance with paragraphs 3 and 4 of Item 5 of the mechanism related to the implementation of UNSCR 1373, adopted pursuant to the national coordination committee for CFT, the ISF shall take, without delay, all necessary measures to circulate the Local list to the Ministry of Foreign Affairs and Expatriates , and the Ministry of Interior and Municipalities (The General Directorate of Political Affairs and Refugees and the Vehicles Registration Authority), the Ministry of Justice, the Ministry of Finance (General Directorate of Real Estate Affairs), in addition to the Banque du Liban, the Lebanese Capital Markets Authority, and the FIU in order to implement them by the national official authorities at the sectoral level. The country has indicated that the mechanism adopted with regard to the UN lists and their updating, each concerned party separately constantly reviews any update that takes place on the UNSC Website and implements the immediate freeze as it is the fastest method.

### **Criterion 6.5**

**Criterion 6.5 (a):** Lebanon has established the following obligations on all natural and legal persons within the borders of the country: (a) To prevent the spontaneous disposal without prior notice, of movable or immovable funds owned (or controlled) wholly or jointly by third parties, directly or indirectly, to natural and legal persons and entities designated on the UN lists issued by the relevant sanctions committees (the committee established pursuant to resolutions 1267/1989/2253 and the Committee established pursuant to resolution 1988) and the Local list established pursuant to UNSCR 1373, or to any person acting on behalf of or acting at the direction or control of any listed person or entity, directly or indirectly; (B) Freezing the funds, accounts, transactions or other assets belonging to these individuals immediately upon their listing, if any, spontaneously, immediately and without prior notice. While the mechanism did not refer to the arrangement of legal consequences in the event that a natural or legal person, who is not subject to any supervision, makes available funds or services or economic resources for the benefit of the designated persons or entities. According to Article 316 bis of the Lebanese Penal Code: Anyone who intentionally, directs or participates in any way, directly or indirectly, in whole or in part, or contributes to the financing of terrorism or terrorist acts, or the financing of a terrorist person or terrorist organizations or the activities associated therewith, including providing, making available or collecting movable or immovable funds, from legal or illegal sources, in Lebanon or abroad, whether the funds are used or not, and whether or not the terrorist act took place in Lebanon or abroad. whether used or not, and whether or not the terrorist act was carried out in Lebanon or abroad, the perpetrators of the above-mentioned acts shall be punished with temporary hard labor for a period of no less than three years and shall not exceeding seven years and a fine of not less than the amount paid and not more than three times the amount paid. -

**Criterion 6.5 (b):** Law No. 214/2021 defined funds as follows: All types of material or immaterial assets, tangible or intangible, movable or immovable, however acquired, and legal documents or records of any form, including electronic or digital, evidencing title to or interest in such assets. This includes, not limited to, economic resources, financial assets and all types of property. Clause 2 of Section 4 of the FIU procedures<sup>38</sup> further elaborates on the scope of “Prohibition of disposition

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<sup>38</sup> Issued pursuant to Clause 10 of Article 6 of Law No. 44/2015.

of movable or immovable property” in line with international standards: (a) All funds or other assets owned or controlled by the designated person or entity and not only those whose use may be restricted to a specific act of terrorism, conspiracy or threat; and (b) those funds or other assets that are owned or controlled, directly or indirectly, by the designated persons or entities, wholly or jointly with others; and (c) funds or other assets acquired from or arising from funds or other assets that are directly or indirectly owned or controlled by the designated persons or entities; and (d) funds or other assets of persons and entities acting on behalf of or acting at the direction of the designated persons or entities. With the exception of Clause 5 of Article 6 of Law No. 44/2015 whose general wording suggests that “to prevent the use” applies in a uniform manner, regardless of the UN resolution.

On the other hand, Lebanon has singled out some concepts such as "freeze", "immediately" and "without delay" by defining at the level of the Guideline for the Application of Targeted Financial Sanctions related to terrorism and terrorist financing in order to define the scope of these terms. The provisions of Articles 34 and 51 of the Central Bank of Lebanon Circular No. 625 (dated 5/27/2022) and the provisions of items 5 and 8 of the FIU’s circular No. 27 (dated 5/19/2022) have also been amended accordingly. It is worth noting that the ISF website<sup>39</sup> referred to the terminology document<sup>40</sup> approved by the Al-Qaeda Sanctions Committee to define the “Funds and other financial assets and other economic resources.” However, these definitions are not legally established, therefore, do not force an obligation.

**Criterion 6.5 (c):** With reference to Law No. 44/2015 (particularly Article 6 of it) and its bylaws, it is prohibited for all official persons and private stakeholders to provide any movable or immovable funds, directly or indirectly, individually or jointly with others, or economic resources for the benefit of: (a) natural or legal persons or designated entities; and (b) entities owned or controlled directly or indirectly by them; and (c) persons and entities acting on their behalf or acting at their direction, unless there is an authorization to do so in accordance with relevant Security Council resolutions. However, this prohibition does not extend, from a legal point of view, to financial services or other related services, except for what has been published on the ISF website, which includes a warning (alert) directed to the public<sup>41</sup>: However, this warning (alert) is not acceptable in isolation of a binding legal effect.

**Criterion 6.5 (d):** In accordance with Clause 3 of the Mechanism for the Implementation of UN Resolutions 1267/1989/2253, the resolutions issued by the United Nations Security Council and the sanctions lists associated with them take on a binding nature as soon as they are published on the websites of the United Nations sanctions committees and the Executive Office.<sup>42</sup> The national mechanism obliges all financial institutions and DNFBPs to review these websites

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<sup>39</sup> Via the following link: <http://www.isf.gov.lb/ar/article/9110015>

<sup>40</sup>

[https://www.un.org/securitycouncil/sites/www.un.org.securitycouncil/files/SC\\_document\\_files/1518654a\\_asset\\_freez.pdf](https://www.un.org/securitycouncil/sites/www.un.org.securitycouncil/files/SC_document_files/1518654a_asset_freez.pdf)

<sup>41</sup> The warning came as follows: It is prohibited for any person, natural or legal, to provide any funds, assets, financial services, economic resources or other related services, directly or indirectly, individually or jointly with others, for the benefit of any of those listed on the national list or the lists related to UNSCRs 1267, 1988, 1989, 2253 and successor resolutions, under pain of legal prosecution/pursuit.

<sup>42</sup> The FIU calls for subscribing to the "UN Security Council RSS feeds" service, through which notifications are sent to subscribers of the service about any change or update that occurs to the lists (deletion, addition, modification of information related to a listed name), with a reference that the UNSC lists are constantly updated, and there is no specific timetable for such.

spontaneously on a daily basis or before conducting any financial transaction or entering into a business relationship to search for new designations and take freezing measures within hours of the issuance of the listing decision, and to inform the FIU of that. If any match is detected.<sup>43</sup>

In addition to this obligation, the FIU receives updates, related to listing, from the Ministry of Foreign Affairs and Emigrants (to give it an official administrative status) to circulate it to all financial institutions, DNFBPs, and the rest of the national authorities concerned with implementation through the electronic system "SEEDs" to take the necessary actions, which is good to prevent the disposal of movable or immovable funds belonging directly or indirectly, individually or jointly with others to the natural or legal persons or entities designated on these lists or under their control, and to provide them with proof of that within 48 hours. And by looking at a set of correspondence forms issued by the FIU on the subject, it became clear that the circular is carried out through the "SEEDs" system in all cases on that day. The duplication of this procedure and the time difference may be an obstacle to fulfilling the promptness requirement.

As for the changes defined by the Local lists, they are available to the public through the ISF's website. The FIU also circulates this list to the financial sector and to DNFBPs in accordance with Paragraph 4 of Clause 5 of the UNSCR 1373 implementation mechanism.

In both cases, the FIU has published on its website<sup>44</sup> detailed guidance in order to explain the obligations of the financial and non-financial sectors and facilitate their implementation. It also passes them on to the supervisory authorities in order to circulate them to the entities subject to their supervision without delay.

**Criterion 6.5 (e):** Based on paragraph 6 of Clause 3 of the mechanism for implementing UN Resolutions 1267/1989/2253, and paragraph 4 of Clause 5 of the mechanism for implementing UNSCR 1373, and Basic Banque du Liban Circular No. 136, and the circular of the FIU 19, that financial institutions and DNFBPs (referred to in Articles 4 and 5 of Law No. 44/2015) are obligated to inform the FIU, within a period not exceeding 48 hours, of movable or immovable funds, accounts, operations (transactions) or other assets that have been frozen and prevented from being disposed of (used) and any other actions taken to comply with the requirements of the ban (for example, in connection with the subsequent transactions that are being attempted) according to the above references, and provide them with all relevant information. The same procedure is also applied if any similarity in names is detected.

**Criterion 6.5 (F):** Based on the circular issued by the Public Prosecutor at the Court of Cassation for the application of the two mechanisms for the implementation of UNSCRs 1267/1989/2253 and UNSCRs 1988 and 1373, and taking into account articles 69 and 316 bis of the Penal Code, which place the element of "intention[al]" as an essential element of the crime, the rights of bona fide third parties must be taken into account when implementing the consequences of publishing

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<sup>43</sup> As for banking and financial institutions, the Basic Banque du Liban Circular No. 136 dated 22 December 2015 obligated them to freeze, automatically, immediately and without prior warning, the funds, accounts, transactions or other assets belonging to these names immediately upon their listing, if any, provided that submitting the FIU, within a maximum period of 48 hours, with evidence of its actions and all the information available thereto. The FIU is informed even if there are similar names. It is the responsibility of insurance companies, casinos, real estate dealers and brokers, dealers of high-value goods (ornaments, precious stones, gold, antiques, antiquities), certified accountants, notaries, and lawyers (referred to in Article 5 of Law No. 44 /2015 aforementioned), in addition to financial brokerage companies and collective investment bodies, the same duties pursuant to circular No. 19 issued by the FIU on 22 December 2015 and its decision taken on 3 December 2015.

<sup>44</sup> Via the following link: <https://sic.gov.lb/en/publications/11>



the decisions of listing on the UN lists or the Local list (freeze, prohibition of disposition etc.). By all subject authorities/bodies. The concerned persons, who bear the same name or names similar to any of the designated names and who were inadvertently affected by one of the targeted financial sanctions mechanisms, may submit their grievances to the Ministry of Foreign Affairs and Expatriates or the public prosecutor at the Court of Cassation, as appropriate, with supporting documents.

### *De-listing, lifting and use of frozen funds or other assets*

#### **Criterion 6.6**

**Sub-criterion 6.6 (a):** Referring to Item 6 of the mechanism on implementing UN Resolutions 1267/1989/2253 and Resolution 1988, any of the listed Lebanese natural or legal persons or residing in Lebanon may submit to the Ministry of Foreign Affairs and Expatriates a request to delete their name from these lists, with the documents supporting<sup>45</sup> the request attached. This ministry studies the submitted request and takes the necessary measures therein (by providing the relevant United Nations sanctions committees, through the permanent representative of Lebanon to the United Nations in New York, with the request submitted by the person or entity concerned, together with all supporting documents and information for perusal.

The Public Prosecutor at the Court of Cassation may also, upon the issuance of decisions by the competent judicial authorities acquitting any natural or legal person or entity whose name is listed on the lists of the United Nations sanctions committees - at the request of the Lebanese authorities, submit to the Ministry of Foreign Affairs and Expatriates a request to de-list their name from these lists. In this case, the Ministry shall provide the United Nations sanctions committees with such.

In all cases, the request can be submitted directly by contacting the Ombudsman's office<sup>46</sup> in accordance with the procedures available to the public on the website of the ISF<sup>47</sup>.

**Criterion 6.6 (b):** Clause 6 of the mechanism for implementing UNSCR 1373 framed the de-listing measures from the Local list and put it in the hands of the Public Prosecutor at the Court of Cassation, whereby the ISF and the FIU are notified of the final rulings issued by Lebanese or foreign courts that acquit or nullify the prosecutions of persons (natural or legal persons) or entities whose names are listed on the Local list if the legal conditions are met, provided that the names of those listed are to be crossed out of the list after their acquittal by means of cleaning their criminal descriptions (records) or aborting pursuit/prosecution. If the designation on the Local list was directed by a foreign country, the de-listing request is directed to the Ministry of Foreign Affairs and Expatriates, which provides the concerned country for information and response. These procedures have been made publicly available on the ISF website as described in Criterion 6-6 (a) above.

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<sup>45</sup> Especially with regard to explaining why the listing does not or no longer meet the listing criteria by objecting to the reasons for listing as stated in the listing entry for that person or entity.

<sup>46</sup> Via the following email: [ombudsperson@un.org](mailto:ombudsperson@un.org)

<sup>47</sup> Via the following link: <http://www.isf.gov.lb/ar/article/9110015>

**Criterion 6.6 (c):** Those concerned have the right to submit petition against the decision issued regarding listing on the Local list before the Public Prosecutor at the Court of Cassation<sup>48</sup>.

**Criterion 6.6 (d):** The national mechanism for implementing UNSCRs 1267/1989/2253 extends to Resolution 1988 relating to the organization of "Taliban" (based on Paragraph 1 of Clause 1 of this mechanism). Accordingly, all the arrangements referred to in Criterion 6.6 (a) shall also apply to guarantee the rights of those affected by the listing prepared by the Sanctions Committee emanating from Resolution 1988 (de-listing based on justification or a request to obtain approval for the use of frozen funds, or parts thereof to pay basic or exceptional expenses).

**Criterion 6.6 (e):** The FIU's guidance published on its website details the possibility for stakeholders to go directly to the Ombudsman Office under Resolutions 1904, 1989 and 2083 to submit requests for de-listing. This information was also made available to the public through the ISF website.

**Criterion 6.6 (f):** The two national mechanisms for implementing UNSCRs<sup>49</sup> and clauses 6 and 7 of Section 4 of the FIU's operating rules provide legal procedures, publicly known, on the FIU's withdrawing a decision to freeze funds, accounts, operations, or other assets of natural or legal persons or entities of the same or those holding similar names to the names of listed persons or entities inadvertently affected by a designation mechanism (i.e. False Positives)<sup>50</sup> when verifying that the person or entity in question is not a listed person or entity. In accordance with these requirements, the FIU informs all official (public) and private persons and stakeholders are duly notified, including FIs and DNFBPs referred to under Articles 4 and 5 of Law No. 44/2015.

**Criterion 6.6 (g):** Clause 6 of Article 8 of Law No. 44/2015 states, however, that in the event that a decision is issued to nullify the prosecution or acquittal against the holders of frozen accounts and the prohibited funds, the accounts and funds will be automatically released. A copy of the judgment or decision issued to the FIU shall be notified by the Public Prosecutor at the Court of Cassation, and the FIU shall report the judgment or decision to the banks and other concerned authorities in this regard in order to set the legal consequences through freezing and releasing funds and economic resources. Paragraph 7 of the mechanism for the implementation of UNSCRs 1267/1989/2253 also states that in the event the relevant sanctions committees decide to de-list or allow the disposal of the frozen funds or part thereof, the Ministry of Foreign Affairs and Expatriates shall inform the Public Prosecution at the court of cassation and the FIU of the decision to take appropriate measures. The FIU shall take a decision to withdraw the prohibition of disposing of movable or immovable funds, or a decision authorizing the disposal of frozen funds or part thereof, and shall inform the concerned persons, public and private bodies, including the bodies referred to in Articles 4 and 5 of Law No. 44/2015. The obligation is made immediately

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<sup>48</sup> The request, accompanied by a memorandum of submission, is referred to the military court to reconsider the designation decision, to ascertain the availability of the legal conditions for that, and to refer the opinion to the public prosecutor at the Court of Cassation to take the appropriate decision. The current legislation in force did not specify any legal time frames to practice such petition. Accordingly, the person listed on the national list can, at any time, submit a request to have their de-listed therefrom before the Public Prosecutor at the Court of Cassation, who is duly following up the matter, whenever evidence supporting such is available thereto. This serves to strengthen the right to submit petition for open deadlines/time frames.

<sup>49</sup> Concerning items 6 and 8 of the mechanism for implementing UNSCR 1373 and item 7 of the mechanism for implementing UNSCRs 1267/1989/2253.

<sup>50</sup> False positive.

upon receiving the updates and without delay through the release of the funds and/or economic resources involved.

With regard to de-listing from the Local list, when a decision is issued by the Public Prosecutor at the Court of Cassation to de-list a name from the list, the FIU shall take the appropriate decisions in terms of withdrawing the decision to prevent the disposal of movable or immovable funds belonging to the person or entity concerned and informing them to the one who has the authority to implement them to release the funds and/or economic resources involved. However, if the de-listing from the Local list comes at the call of a foreign country, the aforementioned measures are taken by the Ministry of Foreign Affairs and Expatriates, which informs the Public Prosecution at the court of Cassation and the FIU about this. The FIU has published on its website a guideline regarding the obligations of FIs and DNFBPs that have funds, accounts, operations or other assets in their possession, regarding taking measures to de-list names from the list or unfreeze. However, in all cases, the nature of the adopted reporting mechanism was not explained (portal, e-mail or correspondence etc.)

#### **Criterion 6.7:**

Pursuant to item 6 of the mechanism for implementing UNSCRs 1267/1989/2253, the Ministry of Foreign Affairs and Expatriates communicates with the United Nations sanctions committees, through Lebanon's permanent representative to the United Nations in New York, regarding requests submitted by natural or legal persons or entities to dispose of the frozen funds or part thereof for information and response.

With regard to national designations, paragraph 4 of Clause 5 of the mechanism related to the implementation of UNSCR 1373 permits any of those listed to submit a written request to the FIU to obtain approval to dispose of the frozen funds or part thereof. The FIU may grant this approval for the following purposes, after the Public Prosecutor at the Court of Cassation is notified: (a) The reimbursement of (to pay) basic expenses including payments relating to food, rent, mortgage, medication, medical treatment, taxes, insurance premiums, utility charges, or expenses associated with the payment of reasonable professional fees and expenses associated with the provision of legal services; or fees for services related to the custody or maintenance of frozen funds; (b) Any exceptional expenses other than basic expenses (The FIU has determined the nature of these expenses in accordance with Resolution 1373 and the technical guide for the implementation of this resolution). The FIU informs the applicant of its decision as to whether or not to accept their application. If the request is accepted, it may, whenever it deems necessary, withdraw its decision in the event that facts emerge indicating that unfreezing funds may be used to finance terrorism. In all cases, as soon as the decision is issued regarding expenses request, it will be circulated to the persons, public and private concerned parties of the decision in accordance with the rules, including those concerned with the implementation referred to under Articles 4 and 5 of Law No. 44/2015 to move forward with the exemption. However, on the other hand, there is a lack of clarity on the nature of the approved mechanism for circulars to the official national authorities and the extent of its speed.

**Weighing and Conclusion:** Lebanon has put in place a mechanism that addresses most of the requirements of Recommendation 6. However, there are still some shortcomings, mainly the following: (a) The requirement of "promptness" was not fulfilled in the context of the official interaction between the Permanent Mission of Lebanon to the United Nations in New York and

the FIU; (c) not include “financial and other related services” within the scope of the availability of funds; (d) Not arrange legal consequences in the event that a natural or legal person, who is not subject to any supervision, makes funds or services or economic resources available for the benefit of the designated persons or entities; (e) Failure to define some basic terms such as “refraining from making funds available”, “preventing disposition”, and “entity”.

## **Recommendation 6 is rated LC**

### **Recommendation 7 - Targeted Financial Sanctions related to Proliferation.**

This recommendation was added to the international standards in 2012, and therefore the Lebanese Republic's compliance to it was not previously assessed.

#### **Criterion 7.1**

in general Lebanon applies TFS without delay The FIU has adopted a mechanism to implement targeted financial sanctions related to UNSCRs 1718 (on North Korea) and 2231 (on Iran) and related successor resolutions<sup>51</sup>, and has published a guide in this regard on its website, where the FIU receives list updates (listing/delisting) from the Ministry of Foreign Affairs and Expatriates , after receiving it from Lebanon’s permanent representative to the United Nations in New York. The FIU immediately and without delay issues a decision directed to the official authorities, FIs and DNFBPs referred to in Articles 4 and 5 of Law No. 44/2015, which states to prevent the disposition of, automatically, Immediately, without delay and without prior notice, movable or immovable property belonging to the listed. This interaction between the Permanent Mission of Lebanon to the United Nations in New York and the FIU may constitute an obstacle to meeting the requirement of promptness, given the time difference. The mechanism also did not address how to circulate updates to the lists during weekends or public holidays. Parallel to this official circular, the current applicable mechanism imposes, on both the financial and non-financial sectors, direct access to the websites of the relevant sanctions committees. Which relatively mitigates the impact of the foregoing comments.

The concept of “immediately and without delay” has also been defined as follows: “Within hours of the issuance of the listing decision or amending the Sanctions Committee’s lists” (the amended mechanism to implement the requirements of Recommendation 7, and Article 35 of Banque du Liban Circular No. 625 (dated 5/27/2022), and item 6 of the FIU’s circular No. 27 (dated 5/19/2022). It is worth noting that the FIU is tasked with coordinating the mechanism and ensuring its implementation, not based on any explicit legal basis, as Law No. 44/2015 and the FIU’s Operating Rules did not contain any mandate to establish this mechanism and put it into force. Which may expose its decisions - in this matter - to being appealed/challenged.

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<sup>51</sup> This mechanism was amended prior the onsite visit.

## Criterion 7.2

**Criterion 7.2 (a):** The decision referred to under C.7.1 of the FIU is of a general (public) nature<sup>52</sup>. Under Article 7 of the mechanism for implementing the requirements of Recommendation 7, it is prohibited for any person, natural or legal, to provide the listed names by the United Nations Sanctions Committee on the UNSC Website any funds or other assets or economic resources, directly or indirectly, individually or jointly with others, and they shall spontaneously and immediately without delay and without prior notice freeze any funds, economic resources and other related assets.”

It is also worth noting that the mechanism (Articles 7, 8 and 14) sometimes requires the implementation of “freezing” and at other times the implementation of “refusing to make funds available” or “preventing disposition of” without clarifying the specifics of these procedures in terms of the legal effects they produce. The mechanism's lack of explicit definition for such terminology might create confusion in terms of the concerned authorities’ implementing their obligations since they are relevant to some item in the mechanism itself.

**Criterion 7.2 (b):** The freeze, as per the requirements of the national mechanism with relation to recommendation 7, include: (A) all funds or other assets that are owned or controlled by the designated person or entity, and not just those that can be tied to a particular act, plot or threat of proliferation; (B) those funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; and (C) the funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly by designated persons or entities, as well as (D) funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities. The definitions of these categories were in full accordance with the procedures of the UN Executive Office (point 1 of Section VIII).

**Criterion 7.2 (c):** In accordance with the provisions of Article 8 of the National Mechanism, all natural or legal persons, must refrain from making available, directly or indirectly, movable or immovable funds or economic resources for the benefit of the designated persons or entities, directly and wholly or jointly with third parties, unless otherwise issued by the Ministry of Foreign Affairs and Expatriates, in accordance with relevant Security Council resolutions. However, this article did not cover those acting on behalf of the listed persons and entities. Despite the lack of requirements in the mechanism stating explicitly the effect (consequences) or penalty for a natural or legal person not subject to the supervision of any of the supervisory authorities’ violation of what was stated under Clause 8 regarding refraining from making funds available for the benefit of the designated persons or entities.

**Criterion 7.2 (d):** The mechanism did not specify an official body to circulate updates of the lists. Rather, it made the authorities concerned with implementation responsible for the continuous

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<sup>52</sup> Where the following shall be notified: (a) Official (Public) Authorities: Ministry of Interior and Municipalities (Directorate General for Political Affairs and Refugees; Vehicles Registration Authority); Ministry of Justice (Commercial Registry); Ministry of Finance (Land Registry); Lebanon bank; Lebanese Financial Markets Authority; (B) The entities listed under Articles 4 and 5 of Law No. 44/2015 (banks and FIs; financial leasing companies; institutions that issue debit or credit cards; institutions that engage in financial intermediation; collective investment bodies; and any institutions subject to a license or supervision of the Banque du Liban; Institutions not subject to bank secrecy law, especially insurance companies; casinos; real estate dealers and brokers; high-value commodity dealers [jewelry, precious stones, gold, antiques, and artifacts]; chartered accountants; notaries; and lawyers).

review of any update made on the website of the relevant sanctions committees<sup>53</sup>, especially through the use of available information or subscriptions to private databases. As for the obligations of FIs and DNFBPs regarding freezing, they are, clearly, explained in the mechanism (implementing the requirements of R.7 from the FATF methodology) as well as in the guideline prepared by the FIU, which specified the scope of this procedure in a precise and comprehensive manner. Once again, the question is raised about the discrepancy between the requirement to freeze on the one hand, and the rest of the measures (preventing disposition and refraining from making funds available) on the other hand, which contains some legal loopholes (please review the note raised in Criterion 7-2(c)).

**Criterion 7.2 (e):** Clause 3 of the mechanism, as well as Banque du Liban circulars (2, 3, 69 and 83) and the FIU's circular No. 26 of 24 November 2021, dealt with the obligation on FIs and DNFBPs to inform the FIU, within a maximum period of 48 hours of any funds frozen or actions taken pursuant to restriction requirements established by relevant Security Council resolutions, including attempted transactions.

**Criterion 7.2 (f):** Referring to Article 15 of the Mechanism, the rights of bona fide third parties acting in good faith in implementing obligations under Security Council Resolutions 1718 and 2231 must be taken into account. Those concerned may submit their petitions to the Ministry of Foreign Affairs and Expatriates or go directly to the relevant UN Focal Point pursuant to Resolution No. 1730.

### **Criterion 7.3:**

In accordance with the provisions of Clause 6 of the Mechanism, the competent supervisory authorities shall verify the compliance of FIs and DNFBPs referred to under Articles 4 and 5 of Law No. 44/2015 to implement targeted financial sanctions against the designated persons and entities. The criminal sanctions stipulated under Article 13 of Law No. 44/2015 and the disciplinary sanctions stipulated for under the supervisory controls shall be applied in case of non-compliance or in the event of deliberately providing false information.

### **Criterion 7.4:**

**Sub-criterion 7.4 (a):** Clause 5 of the mechanism provided the opportunity for Lebanese natural or legal persons or residing in Lebanon who have been designated to the relevant Security Council lists to submit to the Ministry of Foreign Affairs and Expatriates a request to de-list their names therefrom, whilst submitting all supporting documents and information. The Ministry of Foreign Affairs and Expatriates then provides the United Nations Sanctions Committee, through the permanent representative of Lebanon to the United Nations in New York, with the request submitted for information and response purposes. This ministry shall provide the applicant with the response of the competent body in the Security Council as soon as it is received. The request may also be submitted directly to the Focal Point for Sanctions List 1718 and 2231. The FIU

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<sup>53</sup> The FIU calls for subscribing to the "UN Security Council RSS feeds" service, through which notifications are sent to subscribers of the service about any change or update that occurs to the lists (deletion, addition, modification of information related to a listed name), with a reference that the UNSC lists are constantly updated, and there is no specific timetable for such.

website contains more details about these procedures, such as contact details with the Focal Point and the information to be included in the application.

**Criterion 7.4 (b):** In accordance with the provisions of Article 9 of the mechanism, any of the Lebanese natural or legal persons or residing in Lebanon may, when it is believed that they were subject to the provisions of the freeze because of bearing the same name or a name similar to the designated person on the sanctions lists, or that they are a bona fide third party who was inadvertently affected by the freezing mechanism (i.e. false positive results), submitting a request to the Ministry of Foreign Affairs and Expatriates to correct the error, alongside all supporting documents and information. The Ministry of Foreign Affairs and Expatriates then provides the United Nations Sanctions Committee, through the permanent representative of Lebanon to the United Nations in New York, with the request submitted for information and response purposes. This ministry shall provide the applicant with the response of the competent body in the Security Council as soon as it is received. If approved, the request is referred to the FIU for necessary action. The right to go directly to the relevant UN focal point pursuant to Resolution 1730 is also guaranteed. These procedures are publicly available on the FIU's website.

**Criterion 7.4 (c):** Clause 11 of the Mechanism provides for access to the frozen funds, or part thereof, under the terms (conditions) of the exemption, for the parties listed on the sanctions list, pursuant to UN procedures, including reporting and obtaining a no-objection response from the relevant Sanctions Committee. In the event of an exemption, the Ministry of Foreign Affairs and Expatriates coordinates with the FIU to take practical measures to activate the decision against the public and private concerned persons and authorities, including FIs and DNFBPs referred to under Articles 4 and 5 of Law No. 44/2015.

**Criterion 7.4 (d):** The Ministry of Foreign Affairs and Expatriates has been assigned to receive such requests from those concerned, and to send them to the competent authorities of the United Nations to obtain their opinion and benefit therefrom<sup>54</sup>. As soon as the competent body of the United Nations issues its decisions regarding requests to de-list names from the list or disburse the expenses, they are circulated by the FIU to those concerned with implementation. Those concerned with implementation shall carry out the unfreezing of funds or other assets owned by de-listed person or entity without delay. - the FIU circulates decisions to all local authorities and the reporting institutions through safe platform (Seeds) once those decisions are made.

#### **Criterion 7.5:**

**Sub-criterion 7.5 (a):** Clause 10 of the Mechanism permits the addition of interest or any other proceeds due to accounts that have been frozen under Resolution 1718 or 2231 or any payments due under agreed contracts, agreements or obligations prior to the date those accounts were subject to freezing, provided that any interest, proceeds and other payments are still subject to such measure and inform both the Ministry of Foreign Affairs and Expatriates and the SIC. .

**Criterion 7.5 (b):** Pursuant to Article 12 of the Mechanism, the implementation of the 1737 freezing order, continued under UNSCR 2231, or by virtue of the latter Resolution itself, shall not preclude the entitlement of any payment under a contract entered into prior to the listing, provided that: (a) The contract is not related to any of the prohibited items, materials, equipment, goods,

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<sup>54</sup> Clause 13 of the mechanism deals with how to manage requests to amend the scope of the frozen funds or to dispose of them or part of them in return for the disbursement of basic or exceptional expenses.

technology, assistance, training, financial assistance, investment, brokerage or services referred to under Resolution 2231 and any successor decisions; (b) Payment shall not be received, directly or indirectly, by any designated person or entity pursuant to the procedures set forth under Paragraph 6 of Annex B of UNSCR 2231; (C) The Ministry of Foreign Affairs and Expatriates give advance notice to the Security Council of its intention to make or receive such payments, or, if necessary, permit the unfreezing of funds for this purpose, within 10 working days prior to the issuance of this authorization. In practice, the Ministry of Foreign Affairs and Expatriates addresses the concerned body at the United Nations to seek its views regarding allowing FIs or DNFBPs, as the case may be, to make such payments.

**Weighing and Conclusion:** Lebanon has put in place a mechanism that addresses most of the requirements of Recommendation 7. However, this mechanism was not without some shortcomings, mainly: (a) The lack of explicit legal mandate for the FIU as a focal point for the application of TFS related to the suppression proliferation; (b) The failure to meet the requirement of “immediateness” in the context of the official interaction between Lebanon’s permanent mission to the United Nations in New York and the FIU; (c) The failure to define some basic definition such as refraining from making funds available, prohibiting disposition and not specifying the legal implications of these procedures at the text level of the mechanism.

**Recommendation 7 is rated LC.**

## **Recommendation 8 - Non-profit organizations**

The Republic of Lebanon was evaluated in the first round of the mutual evaluation process in 2009 with the former Special Recommendation 8, with a rating of (NC). The shortcomings were: Lack of effective supervision by the supervisory authorities, lack of dissuasive sanctions commensurate with the size of the violation committed by NPOs, lack of awareness of NPOs and their employees and supervisory authorities, during courses and seminars, of the risks of abuse of such NPOs in TF operations, and lack of finding a mechanism for the immediate exchange of information between all the competent authorities in the country, and not reviewing the appropriateness of laws related to NPOs.

### **Taking a Risk-Based Approach**

#### **Criterion 8.1**

**Criterion 8.1 (a):** The legal texts regulating NPOs do not imposed (the NPOs Law of 1909 as amended and supplemented by Decision No. 3295 of 29 August 1925, Law of 26 May 1928, Legislative Decree No. 41 of 28 September 1932, and Legislative Decree No. 10830 of 10/9/1962) any explicit obligations towards the Ministry of Interior and Municipalities, since they are jurisdictional authority over the sector<sup>55</sup>, to identify and study the characteristics and types of NPOs that are likely to be vulnerable to abuse with the aim of financing terrorism by virtue of their

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<sup>55</sup> In the absence of an explicit legal basis, it was not clear whether the sector was under the tutelage of other regulatory bodies (responsible for humanitarian, charitable, social, cultural, etc.), other than the Ministry of Interior and Municipalities, which is usually concerned with covering different types of NPOs according to the nature of activities, including monitoring compliance with the law, assessing risks, and applying enforcement actions.



activities or characteristics, which fall within the scope of the FATF's definition<sup>56</sup>. Despite this, this ministry worked during 2019, to cover this criteria's requirement, taking into account the national context to identify the most exposed categories to risk and the gaps.

The 10 criteria for this evaluation included: The type and size of NPOs, the nature of the activities they undertake, the geographical scope of the implementation of the activities, the source, size and nature of financial flows (in-kind aid, cash, internal or foreign transfers, etc.), the donors and recipients, and the nature of the services provided by these NPOs. The general directorate of political affairs and refugees at the Ministry of Interior for this purpose relied on quantitative and qualitative information, such as: (a) the field outcome of the completion of administrative files relating to automatic or on-demand reports and requests for assistance; (b) The merits of current and adjudicated criminal cases; (c) intelligence reports; (d) sectoral reports by official bodies and published studies; etc.

This evaluation concluded by classifying the following categories as being more vulnerable than others to the possibility of being abused to finance terrorism, provided that its results are reviewed periodically and as necessary: (a) newly established NPOs (after 2012) that have limited experience in program management or funding; (b) NPOs concerned with refugee and displaced issues; (c) NPOs that adopt names to indicate that their subject matter i.e. religious, while their purpose is, in practice, not religious; and (d) NPOs that operate in border areas adjacent to areas of armed conflict and hotbeds of tension. The results of this evaluation were discussed during the meeting of the National Committee on suppressing TF, which was held on 12/07/2019. While the executive summary of the NRA (which was circulated) did not provide any statistical data on the total number of licensed NPOs, and the share of NPOs that represent a high risk ratio. Rather, these precise quantitative and qualitative data regarding the NPOs sector were included within the study prepared by the Ministry of Interior and Municipalities as a basis for the analysis contained in the level of the aforementioned executive summary.

This assessment was updated during 2022, without any significant change in the structure and characteristics of the risks associated with this sector, despite the increase in foreign assistance to NPOs after the explosion of the Port of Beirut in 2020 as well as the fragile security situation in neighboring countries, the nature of Lebanese borders overlapping with other countries borders. - The size of unlicensed NPOs due to their large number and presence on the border strip adjacent to hotbeds of tension in neighboring countries. Therefore, the category of NPOs that represent a high risk actually exceeds 4 percent, amounting to only 225 NPOs.

**Criterion 8.1 (b):** The Ministry of Interior and Municipalities has identified the nature of threats from terrorist entities to NPOs at risk, and the ways in which terrorists can abuse them, noting that the inherent terrorist financing risks are mainly related to the following: (a) The demographics of the country in which refugee communities are concentrated in different areas that extremists and some partisan entities can penetrate; (b) The diversity of funding sources between aid from well-off people, external donors including governments, as well as from the Lebanese government, and personal donations that include religious duties; (c) activity in areas bordering on the conflict taking place in neighboring countries, in particular by NPOs engaged in the collection or distribution of funds for charitable, religious, educational, cultural, social or fraternal purposes;

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<sup>56</sup> "A legal person or arrangement or organization that primarily engages in raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of "good works".

(D) Exploitation of some programs that provide in-kind assistance (supplies and foodstuffs) to refugees, which have been diverted from their main destination to terrorists stationed in mountainous areas on the Lebanese-Syrian border; (e) Geographical spread; (f) abuse of the name of the NPOs in collecting cash donations and misusing funds in operations that may be related to the financing of terrorism.

**Criterion 8.1 (c):** The results of the NRA, which determined the nature of the threats posed by terrorist entities to NPOs at risk, and how terrorists abuse those organizations, resulted in a review of the legislation in force for its convenience. Among the objectives of this review are: (a) Enhanced framing of licensing procedures; (b) strike-off of inactive NPOs; (c) Tightening control over NPOs classified as high-risk, developing a manual for offsite and onsite supervision, and directing supervisory resources in proportion to the risks; (D) Increasing awareness among the founders and the administration bodies, as the Ministry of Interior and Municipalities (the General Directorate of Political Affairs and Refugees), in two phases, held a number of meetings to clarify the internal controls that are supposed to be followed by NPOs to combat the financing of terrorism. It also issued detailed instructions.

**Criterion 8.1 (d):** According to the Prime Minister's decision<sup>57</sup> regarding updating the NRA "on a regular basis and as necessary", the General Directorate of Political Affairs and Refugees received a ministerial letter<sup>58</sup> stating that it must regularly update the sectoral study that it prepared, in light of the updated information about potential loopholes that may be abused to support terrorist financing. For this purpose, NPOs are obligated annually, starting from 2020, to fill out a special form to study the sector<sup>59</sup>.

## **Sustained outreach concerning terrorist financing issues**

### **Criterion 8.2**

**Criterion 8.2 (a):** Article 7 of the NPOs Law of 1909, as amended, and Article 1 of Circular No. 10/M/2006 dated 19 May 2006<sup>60</sup>, regulate some measures aimed at enhancing publicly make known, disclosure, accountability, integrity and public confidence in the administrative bodies of NPOs. This mainly consists of: (a) Verify the criminal records of the founders, members and the administrative body through individual civil register from the personal status departments and a criminal record that has not been more than 3 months old (not having been convicted of a felony or deprivation of civil rights); (B) Publication of the "statement of notification" in the Official Gazette attached to the Articles of Association; (C) Submit an annual list of the NPOs' members, a copy of its budget, and of its previous peremptory account, to the Ministry of Interior; (d) Keeping a special book of the financial statements of the NPOs' revenues, items, expenditures, type and amount, supported by approved documents, to be reviewed beforehand; (E) To prevent anyone from maintaining an NPO that has been dissolved for committing crimes against the security of the state or by assisting it in carrying out any activity. Since Article 2 of the NPOs Law does not require the validity of the formation of any NPOs to obtain a license in the first place, all of these measures will not be activated until later. In all cases, it is sufficient for the competent

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<sup>57</sup> Letter No. 1043 /S

<sup>58</sup> Letter No. 23220 dated 10/14/2019.

<sup>59</sup> Upon submitting its financial statements.

<sup>60</sup> This circular approved a new mechanism in the Ministry of Interior and Municipalities' knowledge of the establishment of NPOs in Lebanon.

government departments to take note of this after incorporation through a “statement of notification”.

In addition, the guidelines published on the website of the Ministry of Interior and Municipalities, which were prepared with a participatory approach, dealt with internal controls that include: (a) Develop and maintain records of program budgets that take into account all related expenditures. These budgets must indicate the forms of cooperation concluded, the identity of the beneficiaries, and how the funds will be used; (b) ensure that all funds are accounted for and how they are spent in a manner proportionate to the purpose and objectives of the activities of the NPOs; (c) to issue annual financial statements containing detailed information about income and expenditures; (d) keeping funds in bank accounts and using formal financial channels to transfer funds, as the use of cash or informal channels of transfers should be a last resort for funding programs (e) documentation and retention of information regarding the stated goals and activities of the NPOs and purpose and the identity of the employees and their current and previous participation in other NPOs and business establishments, and the identity of the person or persons who own, control or manage the activities of the NPO, including senior officials, members of the governing body and trustees; (f) maintain, for a period of no less than five years, records containing adequately detailed domestic and international transactions, in order to prove that the funds received were spent in accordance with the purpose and objectives of the NPO or association. Anyone who violates this guidance, as they are of the nature of an “administrative system” issued in accordance with the law, shall be subject to the penalties prescribed by law.

**Criterion 8.2 (b):** In practice<sup>61</sup>, the General Directorate of Political Affairs and Refugees is specialized in tracking and studying best practices in addressing the concern of terrorist financing by abusing NPOs and working on their dissemination and issuing thematic guides available to the public on the website of the Ministry of Interior and Municipalities, which mainly include the following: Defining the crime of financing terrorism, the obligations of NPOs (transparency/accountability/integrity/due diligence), how the NPOs are penetrated by extremists and terrorist entities and the consequences of their abuse for criminal purposes, the nature of the risks associated with the sector and how to mitigate them. -

**Criterion 8.2 (c):** The Ministry of Interior and Municipalities (Directorate of Political Affairs and Refugees and Directorate of Public Security) held extensive meetings with the various NPOs in order to discuss vulnerabilities and raise awareness about the nature of risks related to the sector and ways to mitigate them. The country has indicated that these sessions are held starting from January of each year, when NPOs come to present their financial statements, and during these meetings they are provided with a copy of the "Preventing abuse of NPOs in TF Guidance". - The Ministry holds annual meetings with NPOs upon their submission to obtain an annual statement, the aim of which is to spread more awareness about the risks that this sector may be exposed to in the field of terrorist financing, where threats, weaknesses and ways of mitigation are discussed. The Ministry also provides these NPOs with a paper copy of the Guidance originally published on the Ministry's website.

**Criterion 8.2 (d):** Neither the legislation in force, nor the circular No. AM/2006 referred to in sub-criterion 8-2 (a) did not stipulate any obligation for NPOs to: (a) Opening an account with a bank

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<sup>61</sup> Decree No. 4082 of 10/14/2000 on the organization (regulation) of the Ministry of the Interior and Municipalities did not make any reference to such a mandate. No reference was made by the country to other referential texts, whether legislative or regulatory, in this regard.

approved by the Central Bank; (B) Not to receive any funds or conduct financial transactions except through these accounts and not others. However, the guideline (directives) directed to the NPOs explicitly referred to such obligations. Again, the issue is that these Guidelines lack any binding legal force. The legal texts also did not specify the conditions for seeking the status of public benefit or frame the process of collecting donations and requesting public charity.

### ***Targeted Risk-Based Supervision or Monitoring of NPOs:***

#### **Criterion 8.3:**

Under Ministerial Book No. 23220 referred to in sub-criterion 8-1 (d), the General Directorate of Political Affairs and Refugees received instructions to adopt a risk-based supervision approach, targeting in particular NPOs that pose high risk. Accordingly, the offsite review mechanism (issued on 9/11/2018) was revised by including the following: (a) Ensuring NPOs complies with the objectives for which it was established; (B) Ensuring that its members do not commit crimes related to the security of the state that are associated with final verdicts (if any member of the NPO, or whoever manages the NPO, or whoever controls it directly or indirectly by their representative or authorized to sign therefor and has the authority to move an account in its name with any of the banks and financial institutions operating in Lebanon or abroad is the subject of suspicion of terrorist financing); (c) Investigating NPOs when their budget is questioned or there are inaccuracies in their accounts between their budget and their final account; (D) Investigating NPOs when there are disputes, complaints or investigations (by the General Security, the Internal Security Forces, or other security agencies or religious authorities, or by the FIU) against one of them; (E) Preparing periodic reports and minutes as a result of the office supervision, to be presented, when needed, to the security and administrative bodies.

The directorate chooses a random sample of 5% of the files of the active NPOs, provided that the selection of this sample takes into account the NPOs distributed over all Lebanese regions, and their different types, affiliations and sects. The competent directorate has the right to seek the assistance of whomever it deems appropriate from experts in financial affairs to carry out this work in cooperation with the Ministry of Finance.

The Ministry of Interior and Municipalities revised the criteria for programming onsite visits in order of priority as follows: (a) The size of the NPO in terms of comparison between the size of the NPOs' assets or revenues and the size of the sector as a whole; (b) the presence of offshore tributaries or external activity; (c) the geographical location of the NPO; (d) the nature of the activity; (e) programs and sources of funding; The nature of the financing channels (formal or not); (f) Recording financial resources, income or expenditures, exceeding 50 million Lebanese pounds. However, it was not inferred from the submissions any official practical evidence for the onsite inspection or internal procedures related to such.

#### **Criterion 8.4:**

**Sub-criterion 8.4 (a):** The Minister of Interior and Municipalities, in his capacity as the one with jurisdiction over NPOs, by virtue of an internal letter “administrative-organizational decision” delegated the affiliated General Directorate of Political Affairs and Refugees to monitor the activities of the NPOs on a large scale, taking into account the identified risks, using a mechanism for offsite and onsite inspection, according to a risk based approach.

**Criterion 8.4 (b):** The legislation in force did not impose any penalties in the event that NPOs or the persons acting on their behalf committed violations of the obligations stipulated for by the Ministry of Interior and Municipalities. This is mainly due to the absence of legal requirements relating to the obligations of NPOs in AML/CFT matters, as most of Recommendation 8 is implemented through guidelines that lack mandatory force, not to mention the progression of the general legislation applicable thereto and its subsequent amendments.

However, there are criminal penalties under Article 38 of the Lebanese Penal Code in relation to the formation of an NPO without a license, in which every secret (shell) NPO is dissolved and its funds confiscated, as well as under Article 1 of Legislative Decree No. 10830 referred to in sub-criterion 8-1 (a) towards whoever maintains an NPO that has been dissolved - because it or one of its members - has committed crimes related to state security, or assists it in carrying out an activity. In addition, if a member of a secret society (association) commits a crime in implementation of the purpose of such society, the member who attended the meeting where the crime was decided is considered an instigator, and shall be punished as per Article 218 of the Penal Code, and the member present at the place of crime, upon commission, shall be considered involved and thus shall be punished as per Article 220 of the Penal Code. If the offense is related to TF or related acts, the penalties stipulated in Article 316 bis and Articles 212 to 222 implicitly of the Penal Code shall be applied.

#### **Criterion 8.5:**

**Sub-criterion 8.5 (a):** The General Directorate of Political Affairs and Refugees maintains a comprehensive database, which contains all information related to NPOs, including administrative and financial information, and there is no legal restriction to share it with official authorities (security services, the public prosecution of cassation, the judiciary, and the FIU; as an example). Particularly in the context of search, investigations and criminal claims based on Article 14 of the Criminal Procedures Code, and Clause 2 of Article 6 coupled with (based on) Article 10 of Law No. 44/2015. LEAs obtain information about NPOs through what the Ministry of Interior maintains about such NPOs, or through investigations or inquiries conducted by LEAs based on Article 47 of the Code of Criminal Procedure, which is a general and comprehensive article<sup>62</sup>.

**Criterion 8.5 (b):** The General Directorate of Political Affairs and Refugees has sufficient knowledge of the structural and constructional peculiarities of the local NPOs, which it obtained

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<sup>62</sup> This Article states the following: Local officers, in their capacity as assistants of the Public Prosecution, undertake the tasks assigned to them by the Public Prosecution to investigate unwitnessed crimes, gather information about them, carry out investigations aimed at uncovering their perpetrators and contributors, and collect evidence against them, including the seizure of criminal materials, conducting onsite checks on the locations of crimes and carry out scientific and technical studies ”.

through a comprehensive evaluation of its various aspects. Whereas the efforts exerted were based on the good framing of the establishment procedures in order to preempt any breach of the NPOs by terrorist persons and entities. i.e., from the first stages of declaring their activities (which provide a large amount of information to the investigation authorities). The results of the offsite and onsite inspections highlight the vulnerabilities of the sector in order to correct them through individual (ad-hoc) or general programs whenever it becomes clear that the gaps are common. The periodic analysis of financial statements in the light of the merits of programs and developments in the national and regional arena has greatly contributed to refining the investigation skills of terrorist financing crimes in the Directorate. In this regard, Lebanon also relies on public expertise and the powers of LEAs and the investigations they conduct.

The investigation and prosecution authorities communicate directly to obtain information from all financial institutions such as exchange institutions, money transfer companies, financial intermediation companies, insurance companies, credit counters, as well as non-financial ones without the need to go through the FIU. However, when investigation authorities need to obtain banking information, they require the immediate approval of the Public Prosecution at the court of Cassation to send a request to the FIU directly through the encrypted electronic system FIU SEEDs. The FIU obtains the required information and sends it directly to the party requesting the information via SEEDs along with a copy of it in parallel to the Public Prosecution Office at the Court of Cassation in accordance with the applicable procedures stipulated in Paragraph "B" Item 2 of the instructions of the Public Prosecutor at the Court of Cassation on activating cooperation and coordination in investigations related to financing Terrorism and parallel financial investigations in terrorism cases. There is also a hotline exclusively with the authorities concerned with terrorism and terrorist financing issues for cooperation.

**Criterion 8.5 (c):** The onsite inspection mechanism authorizes the officers of the General Directorate of Political Affairs and Refugees to enter the headquarters of any NPOs or its branches, after being notified, to follow up on its activities, review its records and examine its work in terms of administrative, financial and technical terms. This directorate also has the capacity to provide technical assistance to address identified issues through follow-up, investigation and improvement of compliance with relevant requirements. However, if the entry of representatives (officers) of the administrative authority is based on an official complaint, these officers have the right to enter without prior notice, relying on the powers legally entrusted to LEAs and the investigations they conduct.

**Criterion 8.5 (d):** in exception to what is stipulated in Law No. 44/2015 regarding the operational powers of the FIU (receiving and processing reports and requests for assistance and conducting operational analysis), no mechanism has been found to ensure the immediate exchange of information with the competent authorities for the purposes of taking preventive measures or investigative measures when it is suspected that the NPO is: (a) Involved in fundraising on behalf of a terrorist organization; (b) Being used as a channel to finance terrorism or to provide another form of terrorist support; (c) Disguise or conceal the flow of funds dedicated for legitimate purposes to be redirected to the benefit of terrorists or terrorist groups. However, Lebanon confirms, based on the onsite works, the ability of the General Directorate of Political Affairs and Refugees to cooperate with all official national authorities in the event of a request or sending inquiries.

### *Effective ability to respond to international requests for information on questionable NPOs.*

#### **Criterion 8.6:**

The Ministry of Interior and Municipalities, as the supervisor of NPOs, receives international requests for information regarding NPOs that are suspected of being involved in terrorist financing crimes or that are being abused for the purposes of terrorist financing or any other form of terrorism support through several official channels: (a) The FIU in connection with requests from counterpart FIUs through the EGMONT group<sup>63</sup>, be it a valid reference and official center; (b) The Ministry of Justice within the framework of judicial cooperation and legal assistance; (c) INTERPOL, especially that the International Liaison Division is also affiliated with the General Directorate of Internal Security Forces. Despite this, no detailed procedures or instructions have been specified for providing cooperation in CFT, the aim of which is to identify the appropriate points of contact, as well as the formal and objective conditions necessary to respond to these requests.

**Weighing and Conclusion:** Lebanon has taken a set of measures to ensure technical compliance with the criteria of Recommendation 8. The remaining shortcomings are as follows: (a) The absence of binding legal requirements for NPOs to comply with the best practices provided by the Ministry of Interior and Municipalities and to activate them at a practical level to mitigate gaps related to the financing of terrorism; (b) the absence of any legal obligation for NPOs to open an account with an approved bank to receive funds and conduct financial transactions; (c) The absence of a mechanism to ensure the prompt exchange of information with the relevant authorities when the NPO is suspected of being involved; (d) The absence of detailed procedures for providing international cooperation; (e) Absence of penalties in case NPOs breach their legal obligations. However, this does not affect the rating of this recommendation in view of the fact that the rest of the criteria were (Met) or (Mostly Met), which is considered substantial in view of its materiality.

**Recommendation 8 is rated LC.**

### **Recommendation 9 - Financial Institution Secrecy laws**

In the MER within the first round, the Republic of Lebanon received a (LC) rating in this recommendation. The shortcomings were that the exchange of information accompanying local transfers was subject to the conditions of customer approval, which limits the obligation of financial institutions to provide information to local banks.

#### **Criterion 9.1:**

**Access to Information by competent authorities:** The provisions of the Banking Secrecy Law issued in 1956 establish banking secrecy in Lebanon. However, the said provisions of the Banking Secrecy Law do not impede the application of AML/CFT measures, as Article 6 (Article 8) of Law

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<sup>63</sup> In accordance with Clause 5 of Section I of the FIU's bylaws, all information accessible or obtained, directly or indirectly, shall be exchanged with foreign counterparts in a rapid and is treated as if it were local.

No. 44 (2015) – AML/CFT, excludes the delegated General Secretary of the FIU (being the financial intelligence unit and the supervisory authority over financial sector institutions for AML/CFT matters), all employees of the FIU and persons assigned for a specific mission from the provisions of the Banking Secrecy Law. Article 10 of the law obligates all FIs subjected to the provisions of the Law to provide the FIU with documents and information to perform its tasks as requested. However, the banking secrecy laws apply to the Banking Control Commission which is responsible for precautionary supervision over banks.<sup>64</sup> The AML/CFT compliance verification remain one of many components included under its supervision, and there are no data protection legislations that prevent sharing information between authorities and FIs.

**Exchange of information between the competent authorities:** The FIU, being an independent body of judicial nature under the AML/CFT Law, may decide to lift the banking secrecy for the competent judicial authorities and the Higher Banking Commission under the Item 3 of the Article 6 of the Law 44/2015, the LEAs may request investigation-related information directly from the FIU after obtaining the written approval of the Cassation Public Prosecution, according to the requesting mechanism of the security authorities for information related to ML investigations, parallel financial investigations, terrorism and TF. However, the Lebanese legislations did not include an explicit requirement for lifting banking secrecy by the FIU when the LEAs request investigation-related information. However, the FIU operational model requires to provide the Cassation Public Prosecution or any of the local authorities with the available information about the ML, associated predicate offences and TC crimes when receiving request to that end. The FIU has never rejected any requests received from those authorities for lifting banking secrecy. As for the institution not subjected to banking secrecy law, the Cassation Public Prosecution in Lebanon can access to all documents under Article 14 of the Criminal Procedure Code. The Banking Control Committee, which is the body concerned with licensing banks, can request the necessary information to study fitness and properness from the FIU within the framework of the information exchange mechanism between the two parties, and the Capital Market Authority applies a similar mechanism to request information from the FIU within the framework of a memorandum of understanding between the two parties.

**Exchange of Information with foreign authorities:** The provisions of banking secrecy law don't prevent the FIU from providing information to the foreign counterparts, where the FIU collects and maintains information received from all subject entities, information received from Lebanese or foreign official authorities, and any other information collected and exchanged with its counterparts. Once the banking secrecy is lifted, the decision is sent to the Cassation Public Prosecutor and the concerned authority whether local or foreigner (Item 2 of Article 6 and Item 4 of Article 8). The second section of the FIU Operating Rules explain the scope of exchanging information with foreign counterparts, which is done to a maximum and under the Fundamental

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<sup>64</sup> In November 2022, after the on-site visit, the Banking Secrecy Law was amended. The amendment allows the judicial authorities from the Public Prosecutions and investigation judges to acquire any information requested from the banks without referring to the SIC, and that is when investigating in crimes mentioned in AML/CFT law 44/2015.



Principles of International Financial Supervision, including the information kept with the FIs such as due diligence measures and samples of accounts and operations (see R. 40). As for LEAs, this depends on the FIU's resolution to lift the banking secrecy for the requested information.

**Exchange of information between financial institutions:** There is no provision in AML/CFT Law No. 44/2015 regarding the exchange of information between FIs, but the circulars issued by the supervisors under the Law include special provisions to regulate the correspondent banking and CDD measures with using third parties as well as the bank transfer rules, where the information can be exchanged between financial institutions when required in accordance with recommendations 13, 16 and 17 under a number of circulars issued by supervisors Article 19 bis Circular 69 (Basic Decision No. 7548 as amended, regarding the inclusion of the requester and beneficiary information into the wire transfers under recommendation 16), Article 2 Circular 83 (Basic Decision No. 7818 as amended) and Article 11 Circular 1 (Basic Decision No. 12837 as amended, regarding the provision of CDD information of correspondent banking under recommendation 13), Article 12 Circular 83 (Basic Decision No. 7818 as amended), Article 14 Circular 1, Article 9 bis Circular 69 (Basic Decision No. 7548 as amended), Article 12 bis Section 13 Circular 2 (Basic Decision No. 12174 as amended), Article 15 Circular 3 (Basic Decision No. 7933 as amended), Clause 5 circular 26 regarding the provision of CDD information when dealing with third parties (R. 17).

**Weighing and Conclusion:** The FIU has the legal powers to obtain information to perform its functions, which includes requesting information from local and foreign financial institutions. However, the Banking Control Commission is subject to banking secrecy laws and there are no impediments for the FIU to exchange information with most competent local and foreigner authorities, although there is no explicit requirement in the legislations for the FIU to lift banking secrecy as requested by the LEAs for the investigation-related information. In terms of exchanging information between financial institutions, there is nothing to impede the same in accordance with recommendations 13, 16 and 17.

**Recommendation 9 is rated LC.**

### **Recommendation 10 - Customer Due Diligence**

Lebanon was evaluated (PC) in recommendation 5 in 2009, and the shortcomings were: The absence of a text that obliges banks to provide the records of accounts to the person responsible for monitoring compliance in a systematic manner without subjecting them to procedures that may limit their access to these records. The absence of primary or secondary legislation requiring compliance with CDD with regard to occasional wire transfers as required by the methodology. A high-level threshold for CDD on life insurance premium-related operations. Ambiguity as to whether or not to carry out CDD to verify the identity of customers with transactions amounting to over USD10,000 (institutions not subject to banking secrecy). No obligation under primary or secondary legislation for Finance Brokerage Firms, Financial Leasing, Insurance and Exchange Companies.

**Criterion 10.1:**

The FIs in Lebanon (licensed to open accounts) are explicitly prohibited from keeping anonymous accounts or accounts in obviously fictitious names (Clause 2 of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Clause 2 of Article 3 and Article 2 of Bank of Lebanon Decision No. 12837 as amended, Article 12-bis and Clause “Second” of Bank of Lebanon Decision No. 12174 as amended, and Clause 1 of the FIU Circular No. 26).

**Criterion 10.2:** FIs in Lebanon should undertake CDD measures when:

**Sub-criterion 10.2 (a):** Establishing business relations (Clause 2 of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Article 2 of Bank of Lebanon Decision No. 12837 as amended, Clause “Second” of Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Clauses 1 and “Second” of the Article 15 of Bank of Lebanon Decision No. 7933, and Clause 1 and “Second” of the Article 9-bis of Bank of Lebanon Decision No. 7548 and Clause 1 of the FIU Circular No. 26).

**Criterion 10.2 (b):** Carrying out occasional transactions regardless of their value when executing a transaction that exceed USD 10,000 or their equivalent in other currencies including situations where the transaction is carried out in a single operation or in several operations that appear to be linked (Clauses 2 and 3 of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Article 2 of Bank of Lebanon Decision No. 12837 as amended, Clause “Second” of Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Clauses 1 and “Second” of the Article 15 of Bank of Lebanon Decision No. 7933, and Clause 1 and “Second” of the Article 9-bis of Bank of Lebanon Decision No. 7548 and Clause 1 of the FIU Circular No. 26)

**Criterion 10.2 (c):** Carrying out wire transfers regardless of their amounts for the FIs licensed to transfer funds in Lebanon (Clause 2 of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Article 2 of Bank of Lebanon Decision No. 12837 as amended, Clauses 1 and “Second” of the Article 15 of Bank of Lebanon Decision No. 7933, and Clause 1 and “Second” of the Article 9-bis of Bank of Lebanon Decision No. 7548)

**Criterion 10.2 (d):** There is a suspicion of ML/TF, regardless of any exemptions or thresholds that are referred to elsewhere under the FATF Recommendations (Clause 6 of Article 4 of the AML/CFT Law No. 44/2015).

**Criterion 10.2 (e):** The financial institution has doubts about the veracity or adequacy of previously obtained customer identification data (Clause 6 of Article 4 of the AML/CFT Law No. 44/2015).

**Criterion 10.3:** FIs in Lebanon are required to identify the identities of customers (permanent or occasional, whether they are natural persons, legal persons or legal arrangements) and verify those identities using documents, data or information from reliable and independent sources (Decision No. 7818 and its amendments - Article 3 - Clause 4) Decision No. 12837 and its amendments - Article 4, Decision No. 12174 and its amendments - Article 12 bis - Clause "Four", Decision No. 7933 and its amendments - Article 15 - Clause "Second" - Clause 3, Decision No. 7548 and its amendments - Article 9 bis - Clause “Second” - Clause 3, and FIU’s Circular No. 26 - Clause 2).

**Criterion 10.4:** Financial institutions should identify and verify the client and beneficial owner before establishing business relations or executing casual transaction. Lebanon does not allow any FI to conduct the verification after establishing the business relation. (Clause (c) of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Clause (c) of Article 4 of Bank of Lebanon Decision No. 12837 as amended, Clause “Fourth” of Clause 3 of Article 12-bis of Bank of Lebanon Decision No. 12174, Clauses (c) of Clause 3 and Clause “Second” of the Article 15 of Bank of Lebanon Decision No. 7933, Clauses 6 of “Second” of the Article 9-bis of Bank of Lebanon Decision No. 7548, and Article 4 of the FIU Circular No. 26).

**Criterion 10.5:** Financial institutions in Lebanon should identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner, using the relevant information or data obtained from a reliable source (Clause 3 of Article 4 of the AML/CFT Law No. 44/2015).

**Criterion 10.6:** Financial institutions should understand and, as appropriate, obtain information on, the purpose and intended nature of the business relationship (Clause 2 of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Article 2 of Bank of Lebanon Decision No. 12174 as amended, Clause “Second” of Clause 1 of the Article 15 of Bank of Lebanon Decision No. 7933, Clause “Second” of Clause 1 of the Article 9-bis of Bank of Lebanon Decision No. 7548, and Article 4 of the FIU Circular No. 26 and Clause two of Clause 4 of the FIU Circular No. 26).

**Criterion 10.7:**

**Criterion 10.7 (a, b):** Financial institutions in Lebanon should conduct ongoing due diligence on the business relationship, including scrutinizing transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the financial institution’s knowledge of the customer, their business and risk profile, including where necessary, the source of funds; and ensuring that documents, data or information collected under the CDD process is kept up-to-date and relevant, by undertaking reviews of existing records, particularly for higher risk categories of customers. (Decision No. 7818 and its amendments Article 11 - Clause 2 - Items “P”, “F”, Decision No. 12837 and its amendments - Article 10 - Clauses (2) and (3), and Decision No. 7933 and its amendments - Article 15 - Clause” Secondly - Clause 7 Clause “C” - Third and fourth points, Decision No. 12174 and its amendments - Article 12 bis Clause “Tenth” - Clauses 2 and 3, Decision 7548 and its amendments - Article 9 bis - Clause “Second” Clause “9” - Clause “B” Items 8 and 9, and the FIU’s Circular No. 26 and its amendments - Clause 4 - first and second paragraphs).

**Criterion 10.8:** The FIs in Lebanon should understand the nature of the customer’s business and its ownership and control structure for legal persons and arrangements (Clause 2 of Article 3 of Bank of Lebanon Decision No. 7818 as amended, Article 2 of Bank of Lebanon Decision No. 12837 as amended, Clause “Second” of Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Clauses "1 and “Second” of the Article 15 of Bank of Lebanon Decision No. 7933, and Clause "1 and “Second” of the Article 9-bis of Bank of Lebanon Decision No. 7548 and Article 4 of the FIU Circular No. 24).

**Criterion 10.9:**

**Criterion 10.9 (a, b, c):** The financial institution in Lebanon should identify the customer and verify its identity through the information of name, legal form and proof of existence; the powers that regulate and bind the legal person or arrangement, as well as the names of the relevant persons having a senior management position in the legal person or arrangement; and the address of the registered office and, if different, a principal place of business (Clauses (4-b) and 5 “Second”, Article 3, of Bank of Lebanon Decision No. 7818 as amended, Clauses b, Article 4 and 5 of Bank of Lebanon Decision No. 12837 as amended, Clauses (6), (b-3), “Second”, Article 15 of the Article 15 of Bank of Lebanon Decision No. 7933, Clauses 7, (b-3), “Second” of Article-bis of Bank of Lebanon Decision No. 7548, Clauses 2 “Fourth, and 5, of the Article 12-bis of Bank of Lebanon Decision No. 12174, and Clause 2 of the FIU Circular No. 26).

**Criterion 10.10:**

For customers that are legal persons, the financial institution should identify and take reasonable measures to verify the identity of beneficial owners through the information of (1) the identity of the natural person(s) (if any) who ultimately has a controlling ownership interest in a legal person; (2) to the extent that there is doubt under (a) as to whether the person(s) with the controlling ownership interest is the beneficial owner(s) or where no natural person exerts control through ownership interests, the identity of the natural person(s) (if any) exercising control of the legal person or arrangement through other means and (c) where no natural person is identified under (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official, Pursuant to the provisions of (Clauses First, Article-bis, of Bank of Lebanon Decision No. 7818 as amended, Clause First, Article 3 of Bank of Lebanon Decision No. 12837 as amended, Article 16 of the Article 15 of Bank of Lebanon Decision No. 7933, Clauses Third-1, Article 12-bis of Bank of Lebanon Decision No. 12174, Article 5 - Clause (8) and Article 9-bis, Clause “Second” Clause 22, of Bank of Lebanon Decision No. 7548, and Article 2 of the FIU Circular No. 24)

**Criterion 10.11:**

For customers that are legal arrangements, the financial institution should identify and take reasonable measures to verify the identity of beneficial owners through the information of (a) for trusts, the identity of the settlor, the trustee(s), the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership); and (b) for other types of legal arrangements, the identity of persons in equivalent or similar positions. (Clause Second, Article 9-bis of Bank of Lebanon Decision No. 7818 as amended, Clause Second, Article 3 of Bank of Lebanon Decision No. 12837 as amended, Clause (Third 2), Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Article 16 of Bank of Lebanon Decision No. 7933 as amended, and Clause 8, Article 5 of Bank of Lebanon Decision No. 7548 as amended, and Article 3 of the FIU Circular No. 24).

**Criterion 10.12:**

**Criterion 10.12 (a, b, c):** In addition to the CDD measures required for the customer and the beneficial owner, financial institutions should conduct the following CDD measures on the beneficiary of life insurance and other investment related insurance policies, as soon as the beneficiary is identified or designated: (a) for a beneficiary that is identified as specifically named natural or legal persons or legal arrangements – taking the name of the person; (b) for a beneficiary

that is designated by characteristics or by class or by other means – obtaining sufficient information concerning the beneficiary to satisfy the financial institution that it will be able to establish the identity of the beneficiary at the time of the payout; (c) for both the above cases – the verification of the identity of the beneficiary should occur at the time of the payout. (Clause 8 of the FIU Circular No. 26-Insurance Companies)

**Criterion 10.13:**

Financial institutions should include the beneficiary of a life insurance policy as a relevant risk factor in determining whether enhanced CDD measures are applicable. If the financial institution determines that a beneficiary who is a legal person or a legal arrangement presents a higher risk, it should take enhanced measures which should include reasonable measures to identify and verify the identity of the beneficial owner of the beneficiary, at the time of payout. (Clause 8 of the FIU Circular No. 26-Insurance Companies)

**Criterion 10.14:**

The Republic of Lebanon does not allow any financial institution to complete the verification process after establishing the business relationship.

**Criterion 10.15:**

With reference to the above mentioned in the criterion 10-14, the country does not allow any financial institution to benefit from the business relationship before completing the verification process,

**Criterion 10.16:**

Financial institutions in Lebanon should apply CDD requirements to existing customers on the basis of materiality and risk, and to conduct due diligence on such existing relationships at appropriate times, considering whether and when CDD measures have previously been undertaken and the adequacy of data obtained. (Article 6 of Bank of Lebanon Decision No. 7818 as amended, Clause 4, Article 10 of Bank of Lebanon Decision No. 12837 as amended, Clause (4-Tenth), Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Clause 2-Second, Article 15 of Bank of Lebanon Decision No. 7933 as amended, Clause 2-Second, Article 9-bis of Bank of Lebanon Decision No. 7548 as amended, First Paragraph, Clause 4 of the FIU Circular No. 26).

**Criterion 10.17:**

Financial institutions in Lebanon should perform enhanced due diligence where the ML/TF risks are higher. (Clause Second, Article 9 of Bank of Lebanon Decision No. 7818 as amended, Clause 2, Article 9 of Bank of Lebanon Decision No. 12837 as amended, Clause (9-Second), 15 of Bank of Lebanon Decision No. 7933 as amended, Clause 2-Second, Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Clause 11, Article 9-bis of Bank of Lebanon Decision No. 7548 as amended, and Clause 1 of the FIU Circular No. 26).

**Criterion 10.18:**

The Lebanese Republic does not allow the application of simplified due diligence measures.

**Criterion 10.19:**

Where a financial institution is unable to comply with relevant CDD measures, the financial institution should:

- (a) be required not to open the account, commence business relations, or perform the transaction; or should terminate the business relationship; and
- (b) it should consider making a suspicious transaction report (STR) in relation to the customer. (Clause 6, Article 3 of Bank of Lebanon Decision No. 7818 as amended, Clause 6 of Bank of Lebanon Decision No. 12837 as amended, Clause (Sixth), Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, Clause 4-Second, Article 15 of Bank of Lebanon Decision No. 7933 as amended, Clause 4, Clause Second, Article 9-bis of Bank of Lebanon Decision No. 7548 as amended, and Clause 1 of the FIU Circular No. 26).

**Criterion 10.20:**

The financial institutions in Lebanon, in cases where they form a suspicion of money laundering or terrorist financing, and they reasonably have and believe that performing the CDD process will tip-off the customer, they should cease this process provided that they should file an STR immediately. (Clause Fourth, Article 5 of Bank of Lebanon Decision No. 7818 as amended, Clause 2, Article 8 of Bank of Lebanon Decision No. 12837 as amended, Clause (16-Second), Article 15 of Bank of Lebanon Decision No. 7933 as amended, Clause (8-Second), Article 9-bis of Bank of Lebanon Decision No. 7548 as amended, Clause (2-Eighth), Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, and Clause 10 of the FIU Circular No. 26).

**Weighing and Conclusion:**

Lebanon met all the requirements of this recommendation.

**Recommendation 10 is rated C.**

**Recommendation 11 - Record Keeping**

Within the framework of the first round of the mutual evaluation process in 2009, the Republic of Lebanon obtained a (C) rating in Recommendation 10 in 2009.

**Criterion 11.1:**

Financial institutions in Lebanon should maintain all necessary records on transactions, both domestic and international, for at least five years following completion of the transaction or the end of the business relation, whichever is longer. (Clause 4, Article 4 of the AML/CFT Law No. 44/2015).

**Criterion 11.2:**

Financial institutions in Lebanon should keep all records obtained through CDD measures, account files and business correspondence, and results of any analysis undertaken, for at least five years following the termination of the business relationship or after the date of the occasional transaction. (Decision No. 7818 and its amendments - Article 3 - Clause (5), Decision No. 12837 and its amendments - Article V, Decision No. 7933 and its amendments - Article 15 - Item (Second) -

Clause (6), and Decision No. 7548 and its amendments - Article (9 bis) - Clause (Second) - Clause (7), Decision No. 12174 and its amendments - Article (12 bis) - Clause (Fifth), and the FIU's Circular No. 26 and its amendments - Clause 2 (last paragraph).

**Criterion 11.3:**

The FIs in Lebanon should make the transaction records sufficient to permit reconstruction of individual transactions so as to provide, if necessary, evidence for prosecution of criminal activity. (All texts referred to in the analysis of Criterion 11-2).

**Criterion 11.4:**

Financial institutions should ensure that all CDD information and transaction records are available swiftly to the FIU upon request within a maximum of 3 working days (Clause First, Clause 14 of Article 12 of Bank of Lebanon Decision No. 7818 as amended, Clause 10 of Article 14 of Bank of Lebanon Decision No. 12837 as amended, Clauses 25 and Second of the Article 15 of Bank of Lebanon Decision No. 7548, Clause 11, Clause Second of the Article 9-bis of Bank of Lebanon Decision No. 12174, and Clause 12 of the FIU Circular No. 26). However, such provisions do not include the requirement of ensuring that all CDD information and transaction records are available swiftly to domestic competent authorities identified by FATF (such as LEAs, investigation and prosecution authorities and the rest of supervisors).

**Weighing and Conclusion:**

The Lebanese Republic meets most of the requirements of this recommendation, as it did not include all texts directed to financial institutions requiring them to ensure that due diligence information and transaction records are swiftly made available to the rest of the competent local authorities, according to the FATF definition, such as LEAs, investigation and prosecution authorities, and other supervisory authorities (other than the FIU).

**Recommendation 11 is rated LC.**

**Recommendation 12 - PEPs**

Within the framework of the first round of the mutual evaluation process in 2009, Lebanon obtained in Recommendation 6 previously a (NC) rating due to the absence of an obligation to put in place appropriate risk management systems to determine whether the future customers or beneficial owner is a PEP.

**Criterion 12.1:**

In relation to foreign or domestic PEPs, in addition to performing the CDD measures, financial institutions in Lebanon should: (a) put in place risk management systems to determine whether a customer or the beneficial owner is a PEP; (b) obtain senior management approval before establishing (or continuing, for existing customers) such business relationships; (c) take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as PEPs; and (d) conduct enhanced ongoing monitoring on that relationship. (Clause Second, Article 9 of Bank of Lebanon Decision No. 7818 as amended, Clause 2, Article 9 of Bank of Lebanon Decision No. 12837 as amended, Clauses Second and 9 of Article 15 of Bank of Lebanon Decision No. 7933 as amended, Clauses 11 and Second of Article 9-bis of Bank

of Lebanon Decision No. 7548 as amended, Clauses 2 and Ninth of Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, and Clause 1 of the FIU Circular No. 26 as amended).

**Criterion 12.2:**

The provisions mentioned in the analysis of Criterion 12.1 do not differentiate between domestic and international PEPs or persons who have been entrusted with a prominent function by an international organization. Therefore, such definition applies to all domestic and international PEPs or persons who have been entrusted with a prominent function by an international organization.

**Criterion 12.3:**

Financial institutions in Lebanon should apply the relevant requirements of criteria 12.1 and 12.2 to family members or close associates of all types of PEP. The provisions mentioned in the analysis of Criterion 12.1 state that the relevant requirements apply to family members or close associates of all types of PEP.

**Criterion 12.4:**

In relation to life insurance policies, financial institutions should take reasonable measures to determine whether the beneficiaries and/or, where required, the beneficial owner of the beneficiary, are PEPs. This should occur, at the latest, at the time of the payout. Where higher risks are identified, financial institutions should inform senior management before the payout of the policy proceeds, to conduct enhanced scrutiny on the whole business relationship with the policyholder, and to consider making a suspicious transaction report. Clause 8 of the FIU Circular No. 26).

**Weighing and Conclusion:**

The regulatory texts issued by the Lebanese authorities meet the requirements of this recommendation.

**Recommendation 12 is rated C.**

**Recommendation 13 - Correspondent Banking Relationships**

In the first round, the Lebanese Republic was rated (NC) with recommendation 7, due to the absence of commitments related to the procedures for cross-border correspondent banking relationships.

**Criterion 13.1:**

In relation to cross-border correspondent banking and other similar relationships, financial institutions in Lebanon should: (a) gather sufficient information about a respondent institution to understand fully the nature of the respondent's business, and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to a ML/TF investigation or regulatory action.

(b) assess the respondent institution's AML/CFT controls.

(c) obtain the approval of the senior management before establishing new correspondent banking relation.



(d) understand the obligations of each institution in AML/CFT.  
(Article 2 of Bank of Lebanon Decision No. 7818 as amended and Article 11 of Bank of Lebanon Decision No. 12837 as amended)

**Criterion 13.2:**

With respect to “payable-through accounts”, financial institutions in Lebanon should satisfy themselves that the respondent bank:

(a) has performed CDD obligations on its customers that have direct access to the accounts of the correspondent bank; and

(b) is able to provide relevant CDD information upon request to the correspondent bank.

(Article 2 of Bank of Lebanon Decision No. 7818 as amended and Article 11 of Bank of Lebanon Decision No. 12837 as amended)

**Criterion 13.3:**

Financial institutions in Lebanon are prohibited from entering into, or continuing, correspondent banking relationships with shell banks. They should satisfy themselves that respondent financial institutions do not permit their accounts to be used by shell banks. (Article 2 of Bank of Lebanon Decision No. 7818 as amended and Article 11 of Bank of Lebanon Decision No. 12837 as amended)

**Weighing and Conclusion:**

Lebanon met all the requirements of this recommendation.

**Recommendation 13 is rated C.**

**Recommendation 14 - Money Value or Transfer Services “MVTS”**

Lebanon obtained in the Mutual Evaluation within the first round a rating of (PC) in this recommendation (previously the sixth special recommendation). The shortcomings were the absence of measures that would increase the compliance of Category A exchange companies and electronic transfer companies to the relevant FATF recommendations (4 to 11, 13 to 15, 22,23 and Special Recommendation 7 at the time). Lebanon has worked to address the shortcomings as mentioned in subsequent FURs.

**Criterion 14.1:**

Money transfer activity in Lebanon is provided by electronic (online) cash transfer institutions and Class A exchange companies. (Carrying out cash transfers only through Hawala “transfer”) The term electronic cash transfer institutions include institutions that deal with electronic (online) transfers (Article 1 Circular 69). Article 2 of Basic Circular 69 identified the cases in which the provision of such services is permitted, in accordance with Lebanese law. It is also allowed to provide electronic financial and banking operations to banks and institutions registered with the Banque du Liban, provided that the bank is informed 30 days before the start of the activity or its promotion (Article 2, item 1).

Exchange companies registered with the BDL must obtain a prior license to provide electronic financial operations (Article 2 item 2). Article (1) of Law No. 347 of Regulating the Money Exchange Profession, dated 6/8/2001, requires institutions wishing to practice the money exchange

profession to obtain a prior license from BDL. Article 3 clarifies that transfer activity falls under class A licensed activity. As per Lebanese law, any Lebanese or foreign institution must apply for pre-registration form to register their activities (Article 2, items 3 and 4) of circular 69.

Natural persons are not allowed to practice money transfer activity in Lebanon, as the provisions of Articles 5, 6, and 7 of Basic Bank of Lebanon Circular No. 69 identified the conditions for institutions to obtain a license to practice money transfer activity, and do not include natural persons among the cases permitted to practice the activity.

**Criterion 14.2:**

A mechanism has been set up to identify institutions that carry out money exchange activities and money transfer without a license, based on the decision of the National Coordination Committee for the Suppression of Terrorist Financing on 17/5/2017, whereby a number of government agencies participated in the implementation of the mechanism. Therefore, identification of unlicensed companies and persons the violators were referred to the public prosecution of the court of Cassation to take legal measures in accordance with the provisions of Article 195 of the Code of Money and Credit, where the violator is punished according to Article 655 of the Penal Code with imprisonment from 6 months to 3 years and a fine of one hundred thousand (LBP 100,000) to LBP one million. The imposed financial fines are considered low. The Public Prosecution of the court of Cassation also ordered the shutdown of violators' work places. As a means of alerting the public, a list of licensed exchange companies and companies for money electronic transfers is published on Banque du Liban's website.

**Criterion 14.3:**

Institutions that conduct electronic cash transfers and exchange companies of class (A) are subject to the provisions of Law No. 44 of 2015 – AML/CFT (Article 4), and the FIU supervises their compliance with the obligations stipulated for under the Law and its bylaws issued by the Banque du Liban for the purposes of implementing its provisions (Article 6).

**Criterion 14.4:**

All non-banking institutions that carry out electronic cash transfers and foreign electronic cash transfers inside Lebanon must inform the Legal Affairs Directorate, the Banking Directorate of the Banque du Liban and the Banking Control Commission about opening any branch therefor, and the number, addresses of the transfer service sites/points operating inside the branches or through secondary agents or through any contracting institution and any amendment to this information as soon as it occurs. (Article 2 and 5, Clause 11, and Article 6, Clause 4 of Circular No. 69).

**Criterion 14.5:**

Institutions that carry out electronic cash transfers must engage secondary agents in AML/CFT programs and train secondary agents on a regular basis on combating money laundering and

terrorist financing programs and methods, , and to prepare periodic reports on monitoring operations based on risks and the extent to which secondary agents comply with procedures and regulations (Article 9 bis Item 9b of Circular 69).

**Weighing and Conclusion:**

The shortcomings are that the value of the fines imposed on those who engage in money transfer activity without a license are low, and therefore, non-dissuasive.

**Recommendation 14 is rated LC.**

**Recommendation 15: New technologies**

In the Mutual Evaluation Report within the first round, Lebanon obtained (PC) in this recommendation (previously Recommendation 8). The shortcomings were the absence of an obligation to set policies to prevent misuse of technological developments in ML/TF. The 2012 FATF recommendations and subsequent amendments set new requirements beyond the scope of the previous Recommendation 8.

VAs are prohibited to be issued and dealt with as per Article 25 of Banque du Liban Circular 625 addressed to banks, financial institutions, and institutions specified under Article 4 of Law 44/2015, states that it is prohibited to issue electronic money from anyone and to deal with it in any form except in accordance with the provisions of the decisions issued and to be issued by the Banque du Liban. The aforementioned article clarifies that electronic money is a digital representation of the value that can be traded or transferred digitally and can be used for payment or investment purposes. The CMA had previously issued Circular No. 30 on 12 February 2018, which includes a ban on licensed institutions from issuing electronic money, marketing and trading in electronic currencies for their own account or the account of their clients, including those traded in regulated financial markets. The mentioned prohibitions are not inclusive since its directed to FIs and do not include natural and legal persons, except for those subject to the obligation to report under Article 4 of the law. Therefore, all the criteria under Recommendation 15 apply to Lebanon.

**Criterion 15.1:**

**On the country's level:**

Lebanon evaluated the risks of products and services related to developing new products and professional practices and new technologies to provide services such as e-banking, modern payment methods and mobile banking, through the sectoral assessment conducted by the FIU in 2019. As a result, it came to the conclusion that the risks of these technologies are considered weak and without significant impact, as a result of the restrictions imposed on them and the limited type and size of their operations, as electronic services at banks are limited to transfers between internal accounts and to accounts with other banks within low ceilings. As for the rest of the financial institutions, their electronic services are limited to reviewing balances and statements of operations, whereby exchange companies and MVTs do not provide any financial services using modern technologies.

### **On the level of FIs:**

Financial institutions must identify and assess ML/TF risks that may arise from the development of new products and new business practices, including new means of providing services, and those arising from the use of new or developing technologies in relation to both new and pre-existing products. Article 12 Clause 9 of Circular 83 for banks and financial institutions (credit), leasing companies and institutions that issue and promote credit and debit cards), (Article 14 Clause 7 of Circular No. 1 - for financial intermediation institutions), (Article 15 Clause 15 of Circular No. 3 exchange companies), (Article 9 bis item 13 of Circular No. 69 - for electronic cash transfer institutions), (Article 12 bis section 13 paragraph 6 of Circular No. 2 for comptoirs), (Item 3 paragraph 2 of the FIU's circular No. 26 -Insurance companies).

### **Criterion 15.2:**

**Criterion 15.2 (a and b)** Financial institutions must assess risks before launching or using new products or technologies, and take appropriate measures to manage and mitigate those risks, as covered under (Article 12 Clause 9 of Circular 83 for banks, financial institutions (credit), finance leasing companies and institutions that issue and promote credit cards and credit), (Article 14, Clause 7 of Circular No. 1 - for financial intermediation institutions), (Article 15, Clause 15 of Circular No. 3, exchange companies), (Article 9 bis Clause 13 of Circular No. 69 - for electronic cash transfer institutions), ( Article 12 bis, section 13, paragraph 6 of Circular No. 2 for comptoirs), and (item 3, paragraph 2 of the FIU's circular No. 26 - insurance companies).

### **Criterion 15.3**

#### **Criterion 15.3 (a):**

The NRA of 2019 and its update in 2022 concluded that VAs or VASPs activities are insignificant in view of the existing prohibitions and measures taken to prevent the banking and financial sector from dealing in VAs and the procedures followed by LEAs. The AT reviewed the results of an analytical study of the risks associated with VAs and VASPs activity in Lebanon, the extent of their activity, and the possibility of their exploitation in ML/TF. Whereas data was collected and analyzed by the divisions of the ISF in cooperation with the concerned authorities in the country, and this included a field study and technical analysis that resulted in monitoring the types of activities provided, the entities that provide them and the scope of their provision, and the analysis concluded that these activities are limited due to the difficulty of monetizing VAs, especially in light of the imposed prohibition thereon.

#### **Criterion 15.3 (b):**

In light of the results of the aforementioned study, a number of actions were taken:

- Determining the legal nature of those activities, as VASPs were considered financial intermediation activities and mining operations were considered industrial activities,
- Taking legal action against those who carry out these unlicensed activities by referring them to the Public Prosecution of the Court of Cassation.

- It was also suggested to continue the alternative measures to prevent the development and use of these activities, pending the issuance of legislation that stipulates these activities and the necessary licenses.

Consequently, Lebanon has taken a number of measures based on its understanding of the risks of VAs and VASPs activities, but they are insufficient to ensure the prevention or mitigation of ML/TF risks. The decision was taken to ban the VAs and VASPs activities as part of those measures, but it is an incomplete ban, since it applies to FIs subject to reporting under Article 4 of the Law, but does not include other natural and legal persons.

**Criterion 15.3 (c):**

The prohibitions issued regarding dealing in VAs are not inclusive, as they are directed to the reporting entities and do not include natural and legal persons except for those subject to the reporting requirement under Article 4 of the law. Therefore, the requirements of this sub-criterion apply to Lebanon and no measures were taken to meet it.

**Criterion 15.4:**

No actions were taken to meet the requirements of this criterion.

**Criterion 15.5:**

The authorities indicated that it had taken number of actions whereby the supervisory authorities ensure that financial institutions comply with the ban on dealing with virtual assets and VASPs, during onsite inspections. Supervisory authorities also monitor any indications of transactions in virtual assets through information available through public sources. As a financial intelligence unit, the FIU monitors indicators through information contained in STRs and through requests for assistance it receives from internal or external bodies. Through the mechanism applied by the ISF as a result of the risk analysis mentioned under criterion 15-3, a number of persons and institutions that provide VASPs activities were monitored, and referred to the Cassation Public Prosecution, and records against them were prepared, and their undertakings were taken not to engage in these activities as well as close the webpages marketing these activities. Penalties can be imposed against them in accordance with the provisions of Article 24 of Law No. 234 of Regulating the Financial Intermediation Profession, which is a penalty of imprisonment from 6 months to 3 years and a fine of a maximum of ten times the annual minimum wage, or either of the two penalties. However, it was not clear whether any sentences were issued against these persons under the said Article.

**Criterion 15.6 to 15.10:**

No actions were taken to meet the requirements of this criterion

**Criterion 15.11:**

The analysis of recommendations 37-40 applies. The competent authorities (there is no supervisory authority on VASPs according to the laws that prevent dealing with them), can provide relevant information in the framework of international cooperation on virtual assets in accordance with national legislation related to international cooperation. There is no legal text preventing the competent authorities from exchanging information indirectly with non-counterparts. The shortcomings identified in the analysis of Recommendations 37-40 apply here.

**Weighing and Conclusion:** The Banque du Liban issued a ban on issuing and dealing with electronic money, but it is a ban directed at banks and financial institutions and does not include natural and legal persons, and therefore all the criteria of this recommendation are considered applicable to Lebanon. An assessment of VAs and VASPs risks was conducted and a number of procedures were applied to monitor VASPs, and legal measures were taken. However, it was not clear what sentences were issued in these cases. No actions have been taken to meet the requirements of C.15.4 and 15.6 to 15-10.

**Recommendation 15 is rated PC.**

**Recommendation 16 - Wire Transfers**

In the first round of mutual evaluations in 2009, the Lebanese Republic was rated (LC) in the Special Recommendation 7, and the shortcomings were that the exchange of information accompanying local transfers to conditions that would limit compliance with Special Recommendation 7, the absence of explicit provisions Intermediate financial institutions in the payment chain are obliged to keep information related to transfers for a period of five years in the cases specified in C.7-4-1 of the Recommendation, and the absence of category A exchange procedures specifying the basis for controlling incoming transfers.

**Criterion 16.1:****Criterion 16.1 (a):**

The Article (19-bis-First) of the Circular 69 addressed to the institutions registered with the Banque du Liban which conduct money transfers through electronic means (domestic or international) requires that the transfer order and all related messages, regardless of the value of the transfer, should include the accurate identity and address of the transferor as well as a special reference number.

**Criterion 16.1 (b):**

The Article (19-bis-First) of the Circular 69 requires that the transfer order and all related messages, regardless of the value of the transfer, should include the accurate identity and address of the transferor as well as a special reference number.

**Criterion 16.2:**

Financial institutions in Lebanon are required (when several cross-border wire transfers issued by one originator are bundled in a batch file for transmission to beneficiaries) that the transfer file contain the required and accurate information about the originator of the transfer, and complete information about the beneficiary, in a way that this information can be traced entirely in the beneficiary country. The financial institution is required to include a special reference number for the transaction (special reference number to be referred to in the future) (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “First”, second paragraph).

**Criterion 16.3:**

There is no minimum for implementing the requirements of this recommendation and these requirements apply to all transfers, regardless of their value.

**Criterion 16.4:**

As mentioned in C.16.3, there is no specific threshold, and the concerned financial institutions must verify the information related to their customers within the implementation of due diligence measures in all cases if there is a suspicion of money laundering or terrorist financing. (AML/CFT Law No. 44 of 2015, article 4 - Clause 6)

**Criterion 16.5:**

Regarding local wire transfers, the same procedures for cross-border transfers of the concerned financial institutions shall be applied in accordance with what was previously explained in C.16-1

**Criterion 16.6:**

The Lebanese texts represented in legislations and circulars regulating the electronic transfers do not allow the possibility of providing data related to electronic transfer through other means.

**Criterion 16.7:**

Financial institutions issuing the transfer in Lebanon are required to retain all collected information on the originator and beneficiary of the transfer, consistent with Recommendation 11. (AML/CFT Law No. 44 of 2015, article 4 - Clause 4)

**Criterion 16.8:**

Issuing Financial institutions in Lebanon are not allowed to carry out wire transfers unless they comply with the requirements specified above in C.16.1 to 16.7. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “First”, first paragraph).

**Criterion 16.9:**

Intermediate financial institutions in Lebanon are required (with regard to cross-border wire transfers) to ensure that all information about the originator and beneficiary are accompanied with the wire transfer. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “Third”, Clause (1)).

**Criterion 16.10 :**

The intermediary financial institutions in Lebanon in the event of technical constraints that prevent the information about the originator and beneficiary of the cross-border wire transfer to be with the relevant domestic wire transfer, are required to keep a record of the information received from the financial institution issuing the transfer or from another intermediary financial institution for at least five years. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “Third”, Last paragraph).

**Criterion 16.11:**

Intermediate financial institutions in Lebanon are required to take reasonable measures, consistent with the straight-through processing, to identify cross-border wire transfers that lack the required information about the originator of the transfer or the beneficiary. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “Third”, Clause (2)).

**Criterion 16.12:**

Intermediate financial institutions in Lebanon are required to establish risk-based policies and procedures to identify: (i) when wire transfers lacking the required originator or beneficiary information are executed, rejected or suspended, and (ii) appropriate follow-up actions. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “Third”, Clause (3)).

**Criterion 16.13:**

Beneficiary financial institutions in Lebanon are required to take reasonable measures in order to identify cross-border wire transfers that lack the required originator or beneficiary information, which may include post-event monitoring real-time actions at the time of execution where feasible. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “Second”).

**Criterion 16.14:**

Beneficiary financial institutions in Lebanon are required (regardless of the transfer amount) to verify the identity of the beneficiary, if it has not been previously verified, and to retain this information in accordance with Recommendation 11. (Basic Decision No. 7548 and its amendments - Article 19 bis - item “Second”), noting that these institutions are obligated to keep this information in accordance with what was previously referred to in the analysis of C.16-7.

**Criterion 16.15:**

Beneficiary financial institutions in Lebanon are required to establish risk-based policies and procedures to identify: (i) when wire transfers lacking the required originator or beneficiary information are executed, rejected or suspended, and (ii) appropriate follow-up actions. (Basic Decision No. 7548 and its amendments - Article 19 bis - Item “Second”).

**Criterion 16.16:**

MVTS in Lebanon are required to comply with all relevant requirements in Recommendation 16, directly and through their agents. (Basic Decision No. 7548 and its amendments - Article 19 bis).

**Criterion 16.17:**

MVTS in Lebanon are required, in the event that they control the two parties of the transfer (the ordering and the beneficiary), to: (a) take into account all information issued by the ordering of



the transfer and the beneficiary thereof in order to determine the need to inform the FIU; and (b) to submit STRs, and to submit all information related to the transaction to the FIU (Basic Resolution No. 7548 and its amendments - Article (9 bis) - Item (Second) - Clause (17)).

### **Criterion 16.18**

Financial institutions in Lebanon (including those authorized to carry out wire transfers) are required to take freezing measures, in accordance with the obligations stipulated in United Nations Security Council resolutions related to the prevention and suppression of terrorism and its financing, such as Resolutions 1267 and 1373 and their successors. Basic Decision of the Banque du Liban No. 12174 and its amendments - Article 12 bis Clause 12 Clause 1, Basic Decision No. 7548 and its amendments - Article (9 bis) - Clause (Second) - Clause 18 - Paragraph One, the mechanism for implementing the requirements of Decision 1267 - Clause “Third” Clause 6).

### **Weighing and Conclusion:**

Lebanon met all the requirements of this recommendation.

**Recommendation 16 is rated C.**

## **Recommendation 17 - Reliance on third parties**

The Lebanese Republic was rated (PC) in Recommendation 17 (previously Recommendation 9) within the first round of the mutual evaluation process in 2009 due to the absence of provisions specifying the conditions that must be met by third parties abroad that can be adopted to carry out CDD measures in verifying the identity of non-resident customers. The absence of explicit provisions requiring banks and credit institutions to take the necessary measures to obtain upon request the necessary information related to the CDD measures and copies of identity documents from third parties. The absence of explicit provisions stipulating that banks and credit institutions that rely on a third party to verify the identity of customers are responsible for this verification, and the absence of a system to alert institutions from countries that have not adopted the FATF recommendations.

### **Criterion 17.1:**

Financial institutions in Lebanon that are permitted to rely on third party financial institutions and DNFBPs to perform items (a)-(c) of the due diligence measures in Recommendation 10 (identifying the customer, identifying the beneficial owner and understanding the nature of the business), or to introduce the business, the ultimate responsibility for customer due diligence measures, is required to:

Obtain immediately the necessary information relating to elements (a) to (c) of the customer due diligence measures set out in Recommendation 10.

take steps to satisfy itself that copies of customer identification data and other documents related to customer due diligence requirements will be made available by the third party upon request and without delay.

Satisfy that the third party is subject to regulation, monitoring or supervision, and has measures in place to comply with customer due diligence and record-keeping requirements in line with Recommendations 10 and 11.

(Basic Decision No. 7818 and its amendments - Article 12 - Clause (First) - Clause (7), Basic Decision No. 12837 and its amendments - Article 14 - Clause (6), Basic Decision No. 7933 and its amendments - Article 15 - Clause 14, and Basic Decision No. 7548 and its amendments - Article 9 bis - Clause (Second) - Clause (12), Basic Decision No. 12174 and its amendments - Article (12 bis) - Clause 13 - Clause (5), and FIU notification No. 26 - Clause (5).

**Criterion 17.2:**

When identifying the countries where the complying third parties exist, the financial institutions in Lebanon that are allowed to rely on third parties are required to consider the information available on the level of risk in those countries. (Same texts mentioned under the analysis of Criterion 17.1)

**Criterion 17.3:**

The regulations for all financial brokerage institutions, exchange companies, electronic transfer companies, comptoirs and insurance companies do not differentiate between relying on third parties when they are part of the same financial group or not.

As for banks and other financial institutions subject to the provisions of Basic Decision No. 83, Clause (7) in Article (12) of this Decision stipulates that when seeking assistance from a third party that is part of the same financial group, the following must be done:

- Ensure that the third party implements the requirements of the group related to CDD measures for customers and PEPs, as well as record keeping, compliance with internal controls and that the group is subject to control in this regard.
- Reduce any high risks associated with countries, especially those that do not implement the Recommendations of FATF or apply them insufficiently, through the group manual of procedures and internal controls related to AML/CFT.

**Weighing and Conclusion:**

The regulatory texts issued by the Lebanese authorities meet the requirements of this recommendation.

**Recommendation 17 is rated C.**

**Recommendation 18 - Internal controls and foreign branches and subsidiaries**

In the first round of the 2009 mutual evaluation process, the Republic of Lebanon was rated (PC) in each of the previous two recommendations 15 on internal controls, compliance and review and recommendation 22 on branches and subsidiaries abroad. The shortcomings with regard to internal controls were: Not obligating all financial institutions subject to the law to do so (except for banks and credit institutions, setting internal policies, procedures and controls for combating money laundering and terrorist financing, establishing appropriate arrangements for compliance management and ensuring the application of control standards, establishing an independent audit function to test compliance, appointing an official for compliance with AML/CFT (at a minimum) have the right to timely access to customer identity data and other CDD information, transaction records and other relevant information, to provide an ongoing training program for employees in AML/CFT, and to impose high standards of probity and integrity (fit and proper) when hiring

employees. With regard to the shortcomings related to branches and subsidiaries abroad, they were represented in: Not all financial institutions subject to the law are required to: Obligate its branches and subsidiaries abroad to implement AML/CFT measures, paying special attention to institutions that have branches abroad in countries that do not implement the FATF recommendations or insufficiently implementing them, adopting the highest standard in the AML standards whenever these standards differ in that country of domicile of institutions that have branches outside Lebanon, and that financial institutions subject to the law are not obligated to inform the FIU when the branch or subsidiary company is unable to implement the control measures.

**Criterion 18.1:** Financial institutions should implement programs against ML/TF, which have regard to the ML/TF risks and the size of the business, and which include the following internal policies, procedures, and controls:

**Criterion 18.1 (a):** Compliance management arrangements (including the appointment of a compliance officer at the management level) (Clause 1, Article 10 of Bank of Lebanon Decision No. 7818 as amended, First Paragraph of Article 10 of Bank of Lebanon Decision No. 12837 as amended, Clauses 7 (C) of the Article 15 of Bank of Lebanon Decision No. 7933, First Paragraph, the Article 12-bis, clause 10 of Bank of Lebanon Decision No. 12174, Clause b-9, of Article 9-bis of Bank of Lebanon Decision No. 7548 and First Paragraph, Clause 4 of the FIU Circular No. 26).

**Criterion 18.1(b):** Screening procedures to ensure high standards of competency and honesty when hiring employees (Clause 5, Article 12 of Bank of Lebanon Decision No. 7818 as amended, Clause 2, Article 14 of Bank of Lebanon Decision No. 12837 as amended, Clauses 7 (b) of the Article 15 of Bank of Lebanon Decision No. 7933, Clause 1, Clause 13, the Article 12-bis of Bank of Lebanon Decision No. 12174, Clause 15, Article 5 of Bank of Lebanon Decision No. 7548, FIU's Circular No. 26 and its amendments, clause 13).

**Criterion 18.1(c):** An ongoing employee training program including in AML/CFT field (Clause 2-E of Article 11 of Bank of Lebanon Decision No. 7818 as amended, Clauses 2 of Article 14 of Bank of Lebanon Decision No. 12837 as amended, Clauses 2, 13 of the Article 12-bis of Bank of Lebanon Decision No. 12174, First Point, Clauses 9-b of the Article 9-bis of Bank of Lebanon Decision No. 7548, and Point Three of Clause 3 of the FIU Circular No. 26 and its amendments, clause 3, para. 3)

The provisions of Clause 3, Paragraph 3 of the FIU's Circular No. 26 obligate insurance companies to implement AML/CFT programs, provided that they include setting up a program to continuously train all concerned on AML/CFT procedures.

**Criterion 18.1(d):** An independent audit function to test the system (Clauses 2 in both Article 10 and 11 of Bank of Lebanon Decision No. 7818 as amended, Article 4 of Bank of Lebanon Decision No. 7737, Clauses 2 and 5 of the Article 10 of Bank of Lebanon Decision No. 12837 as amended, Paragraphs 3205, 3208, 3209 and 3211, Chapter C of the Governance, Systems and Controls Regulation issued by the Capital Markets Authority, Point Three, Clause 7-C and First Para. Of Clause 7 of Article 15 of Bank of Lebanon Decision No. 7933 as amended, Clauses 1, 2 and 5, Clause 10 of Article 12-bis of Bank of Lebanon Decision No. 12174 as amended, and Clauses 5,

7 and 10 of Article 5 of Bank of Lebanon Decision No. 7548 as amended, and FIU's Circular No. 26 and its amendments, clause 3, introductory para.)

**Criterion 18.2:** Financial groups in Lebanon should implement group-wide programs against ML/TF, which should be applicable, and appropriate to, all branches and majority-owned subsidiaries of the financial group.

**Criterion 18.2 (a):** Policies and procedures for exchanging information related to customer due diligence and ML/TF risks (Bank of Lebanon Basic Decision No. 7818 and its amendments, article 12, clause 5, point 2, Basic Decision No. 12837 and its amendments, Article 14, Clause 11, second point, and Basic Decision No. 7933 and its amendments, Article No. 15, Clause “Second” Clause 26 - second point, and Basic Decision No. 12174 and its amendments, Article 12 bis, Clause “15,” the second point, and Basic Decision No. 7548. And its amendments, Article 9 bis item “Second,” Clause 16, second point, and FIU’s Circular No. 26 and its amendments, clause 3 (first and fourth paragraphs).

**Criterion 18.2 (b):** The provision, at group-level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches and subsidiaries when necessary for AML/CFT purposes. This should include information and analysis of transactions or activities which appear unusual. Similarly branches and subsidiaries should receive such information from the Auditing Unit / Compliance Officer when relevant and appropriate to risk management, information analysis and unusual transactions. (Third Point, Clause 5, Clause 2 of Article 12 of Bank of Lebanon Decision No. 7818 as amended, Clause 11, Article 14, point 3, of Bank of Lebanon Decision No. 12837 as amended, Basic Decision No. 7933 and its amendments, Article No. 15, clause “Second,” Clause 26, third point, Basic Decision No. 12174 and its amendments, Article 12 bis, clause “15,” the third point, and Basic Decision No. 7548 and its amendments, Article 9 bis, Clause “Second” Clause 16, third point. FIU’s Circular No. 26 and its amendments, clause 3, fourth point).

**Criterion 18.2 (c):** The provision of adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off. (Bank of Lebanon Basic Decision No. 7818 and its amendments Article 12 Clause “Fifth” - Fourth point, Basic Decision No. 12837 and its amendments Article 14 Clause 11, fourth point, Basic Decision No. 7933 and its amendments Article No. 15, Clause “Second” Clause 26, fourth point, and Basic Decision No. 7933 and its amendments 12174 and its amendments Article 12 bis item “15” the fourth point, and Basic Decision No. 7548 and its amendments, article 9bis, clause 2, clause 16, point 4; and FIU’s Circular No. 26, clause 3, point 4).

Regarding the requirement of financial institutions to apply C.18-1 at the group level, the mandatory texts in Lebanon do not require financial institutions to implement the requirements of sub-criterion 18-1-b, and each of sub-criteria 18-1-c, and 18-1-d for financial institutions other than insurance companies.

**Criterion 18.3:** Financial institutions in Lebanon should ensure that their foreign branches and majority-owned subsidiaries apply AML/CFT measures consistent with the Lebanon requirements, where the minimum AML/CFT requirements of the host country are less strict than

those of Lebanon, to the extent that host country laws and regulations permit. In the event that this is not possible due to its conflict with the provisions of the binding laws and regulations in force in the location of the branch or subsidiary company, the institution shall implement additional appropriate measures to manage ML/TF risks and inform the FIU of this (Bank of Lebanon Basic Decision No. 7818 and its amendments - Article 12 - Clause “Second”, Basic Decision No. 12837 and its amendments Article 14 - Clause 5, Basic Decision No. 7933 and its amendments Article No. 15 “Second” Clause 18, Basic Decision No. 12174 and its amendments Article 12 bis Clause “13” Clause 4, and Basic Decision No. 7548 and its amendments - Article 9 bis item “Second” Clause 15, and the FIU’s Circular No. 26 and its amendments Clause 3 (point 5).

### **Weighing and Conclusion:**

The Lebanese Republic has met most of the requirements of this recommendation, as there is a single shortcoming related to requiring financial institutions to apply some of the requirements of C.18-1 at the group level, as indicated at the end of the analysis of C.18-2.

**Recommendation 18 is rated LC.**

### **Recommendation 19 - Higher-risk countries**

The Lebanese Republic was rated (NC) in Recommendation 19 (formerly 21), and the shortcomings were: Failure to obligate financial institutions to take the necessary measures regarding business relations and operations with persons in or from countries that do not or insufficiently apply the FATF recommendations, and other requirements of the recommendation.

#### **Criterion 19.1:**

The provisions of Clause (13) in Article (12) of Circular No. 83 obligate the financial institutions in Lebanon should apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF, provided that to regularly review its website for this purpose, especially after each preliminary meeting. The provisions of Article (10) of Circular No. 1 also obligate financial brokerage institutions to apply EDD measure, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF, provided that to regularly review its website for this purpose, especially after each preliminary meeting. Similar circulars were issued for exchange companies, cash transfer companies, comptoirs and insurance companies included the same provisions referred to above.

#### **Criterion 19.2:**

**Criterion 19.1 (a, b):** Lebanon is able to apply countermeasures proportionate to the risks (a) when called upon to do so by the FATF; and (b) independently of any call by the FATF to do so, by requiring all financial institutions to take countermeasures whether when called upon to do so by the FATF or as proportionate to the risks independently identified by each financial institution (Paragraph “Fourth”, Article 12 of Bank of Lebanon Decision No.7818 as amended, Clause 9, Article 14 of Bank of Lebanon Decision No.12837 as amended, Clause 24, Second, Article 15 of

Bank of Lebanon Decision No.7933 as amended, Clause (Second-21), Article 9-bis of Bank of Lebanon Decision No.7548 as amended, Clause (9-Thirteen), Article 12-bis of Bank of Lebanon Decision No.12174 as amended, and Clause 11 of the FIU Circular No. 26).

**Criterion 19.3:**

Lebanon has measures in place to ensure that financial institutions are advised of concerns about weaknesses in the AML/CFT systems of other countries. All financial institutions should regularly review the FATF website after any Plenary Meeting (under the same texts mentioned in Criterion 19-1). Moreover, the Special Investigation Commission, through the system links it with financial institutions, circulates the regulations issued by FATF, and such financial institutions should confirm receipt of the same. Also, the Commission assigned a hyperlink on its website to the FATF announcements about higher risk countries.

**Weighing and Conclusion:**

The Republic of Lebanon met all the requirements of this recommendation.

**Recommendation 19 is rated C.**

**Recommendation 20 - Reporting of Suspicious Transactions “STRs”**

The Lebanese Republic obtained (PC) in this recommendation (previously 13) due to the fact that the definition of illicit funds did not include the proceeds of all the 20 predicate offences stipulated for under the recommendations, and the lack of an explicit provision in the law to report in suspicions that the funds for which there are reasonable grounds to suspect that it will be used for the purposes of terrorism or terrorist acts or by terrorist organizations or terrorist financiers, the absence of an obligation to report attempts to conduct suspicious transactions, regardless of the amount of the transaction, and the concentration of reporting in the banking sector, which indicates the ineffectiveness of the system.

**Criterion 20.1:**

Article (7) of the Lebanese AML/CFT Law No. 44 of 2015 and its bylaws for financial institutions<sup>65</sup> requires immediately informing the Chairman of the “FIU” of the details of the executed or attempted operations that they suspect are related to ML/TF or the associated predicate offences, terrorist acts or terrorist organizations. However, there are minor shortcomings, such as: the law does not cover all the categories of predicate offenses specified in R.3.

**Criterion 20.2:**

Article (7) of the Lebanese AML/CFT Law No. 44 of 2015 and same bylaws articles mentioned in criterion (20.1) addressed to financial institutions stipulates that FIs are obligated to immediately inform the Chairman of the FIU of the details of the executed or attempted transactions that they

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<sup>65</sup> Article 5 of Circular No. 83 of the Banque du Liban to Financial Institutions, Clause 2 of Article 8 of Financial Intermediation Institutions Circular No. 1, Clause 2 of Section VIII of Article 12 bis of Comptoirs Circular No. 2, Clause 8 of Article 9 bis of the Circular No. 69, Clause 16 of Article 15 of Exchange Institutions Circular No. 1, Paragraph 7 of FIU’s Circular No. (27) issued on 19 May 2022.

suspect are related to ML/TF.

**Weighing and Conclusion:**

The legal and regulatory framework of the State of Lebanon requires financial institutions and DNFBPs to immediately report details of the executed or attempted operations that they suspect are related to ML/TF or the associated predicate offences. However, there are minor shortcomings in terms of the law not covering all categories of predicate offenses specified in Recommendation 3.

**Recommendation 20 is rated LC.**

**Recommendation 21 – Tipping-off and confidentiality**

In the first round, the Lebanese Republic obtained (LC) in recommendation 21 (previously 14), due to the fact that legal protection from criminal and civil liability does not include all institutions subject to Law No. 318 related to AML in Lebanon in the event of disclosing information or reporting its suspicions of the FIU.

**Criterion 21.1:**

Article No. (12) of the AML/CFT Law No. (44) of 2015 granted the concerned persons referred to in Articles 4 and 5 (FIs and DNFBPs) the immunity when carrying out their obligations under this law or the FIU's decisions, especially when they inform the FIU in good faith of the details of operations they suspect are related to ML/TF, so that they are not prosecuted for any civil or criminal liability related to the commission of their duties.

**Criterion 21.2:**

Article No. (11) of the AML/CFT Law prohibits the reporting entities and members of their board of directors, officials and employees to report or imply to anyone about submitting or intending to submit an STR or related information to the FIU, or about the FIU's inquiring about customers or reviewing their transactions or accounts.

**Weighing and Conclusion:**

**Compliance rating with R.21 is C.**

**Recommendation 22 - DNFBPs - Customer Due Diligence**

Within the first round, Lebanon obtained (NC) in this recommendation (previously Recommendation 12). The shortcomings were that all DNFBPs covered by the law were not subject to AML/CFT obligations, and the absence of an administrative authority with the power to direct administrative and disciplinary fines against violators, and because lawyers, accountants and casinos are not subject to the provisions of the AML/CFT Law. In the context of the FURs, the Lebanese Republic addressed the shortcomings of this recommendation (7<sup>th</sup> and 8<sup>th</sup> FURs).

**Criterion 22.1:**

The AML/CFT Law No. 44/2015 (Article 5) includes casinos, real estate dealers and brokers, high-value commodities dealers, certified accountants, notaries, and lawyers. The provisions of Article 4 of the AML/CFT Law No. 44 stipulates 2015 on the obligations of DNFBPs with regard to CDD obligations, record keeping, ongoing monitoring of business relations, updating data, and reporting obligations, in addition to the FIU's circular addressed to the entities and persons referred to in Article 5 of this law - Circular (No. 21, 24, 26) as follows:

**A. Casinos:**

Casino du Liban is subject to due diligence requirements in accordance with Article 4 of Law 44/2015. Casino du Liban must implement the required due diligence measures, especially when customers carry out financial transactions worth or more than USD 3,000 or its equivalent, as per FATF's Recommendation 22, and be able to link customer due diligence information to their transactions. (Article 9 Circular No. 26), It is also obligatory to refrain from opening anonymous accounts or with fictitious names (Article 1 circular No. 26).

**B. Real Estate Agents:**

Real Estate Agents are subject to due diligence requirements in accordance with Article 4 of Law 44/2015. Real estate dealers and brokers (agents) must apply due diligence measures to all customers and BOs before or when conducting a transaction, as well as when executing multiple operations or transactions related to each other, totaling or exceeding USD 10,000. FIU Circular No. 26 (Article 1). The legal text does not identify that obligations should be applied to real estate buyers and sellers alike, but real estate agents have confirmed the application of procedures to both parties to the transaction.

**C. DPMS:**

Those are subject to due diligence requirements in accordance with Article 4 of Law 44/2015. DPMS must apply due diligence measures to all customers and BOs before or when conducting a transaction, as well as when executing multiple operations or transactions related to each other, totaling or exceeding USD 10,000 - FIU Circular No. 26 (Article 1).

**D. Lawyers, notaries and other legal professionals and independent accountants:**

Certified accountants, notaries and lawyers are required to apply the AML/CFT obligations when preparing or executing, the following services, for their customers (Article 5 of Law 44 of 2015):

- Sale and Purchase of Real Estate.
- Managing movable and immovable customer's funds, especially fund formation (creation) and joint (collective) investment transactions
- Management of bank accounts and securities accounts.
- Organizing contributions for the establishment or management of companies.
- Establishing or managing legal persons or any private legal structure, and buying and selling sole proprietorships or commercial companies.

The services mentioned partially comply with those specified in Recommendation 22 (Article 5 of Law 44/2015) but do not include the operation of companies, legal persons or legal arrangements and saving accounts management). Lawyers also practice CSPs activities, but Law 44/2015 did



not identify CSPs activities that they must comply with AML/CFT obligations when providing them.

#### **E. Trust and Companies Service Providers:**

The AML/CFT Law does not cover Trusts or TCSPs, and there are no companies service providers in Lebanon independently from lawyers, but the Law doesn't cover all activities included in this Criterion, for which they should adhere to under AML/CFT requirements when providing these services. Also, there is no legal text that prevents the provision of these services by persons other than lawyers. Moreover, there is no concept of a trust in Lebanon, and foreign trusts are not recognized. as for the Waqf, it is a legal arrangement in which the Sharia Judiciary undertakes the role of trustee and therefore the requirements of this Criterion do not apply to them.

The above-mentioned DNFBPs are obligated to identify their clients' identities (permanent or occasional, whether they are natural persons, legal persons or legal arrangements) and verify those identities using documents, data or information from reliable and independent sources (Article 4, Clause 1 of Law 44/2015 and Clause 2 of Circular 26 and Clause First of Circular 28). It also obligates the DNFBPs to carry out ongoing monitoring and review of business relationships. (Article 4 Clause 5 of Law 44/2015) and to implement programs to ensure, during the relationship, the consistency of the executed operations with information about customers, their activity pattern and the risks they represent, and to obtain information related to the source of funds. Ensuring that documents, data and/or information obtained under the due diligence procedures are constantly updated and appropriate by reviewing existing records, particularly for high-risk categories of customers. (Item 4, FIU Circular No. 27). The Lebanese authorities stated that it does not allow any subject entities to complete the verification process after establishing the business relationship, nor to benefit from the business relationship before the verification process is completed. Enhanced due diligence measures must be applied to operations and to both high-risk customers and BOs. (Article 1 of Circular No. 27).

#### **Criterion 22.2:**

In the cases provided for in C.22.1, DNFBPs are required to keep documents relating to all operations, including business correspondence, and the results of any analysis conducted for at least five years after the completion of the operations (Article 4 of the law and Clause 2 of Circular No. 27) so that the content of these records, when necessary, can constitute evidence for prosecution in the event of any criminal activity. The records should be sufficient to reconstruct individual transactions. International transactions are not specified in the obligation, but it can be concluded that they are included, as (all transactions) are mentioned. It is also obligated to keep information about the customer and the BOs, including those related to the applicable due diligence measures, copies of all documents approved to verify the foregoing and account files for at least five years after closing the account, termination of the business relationship, dissolution or termination of the legal person (item 2 of Circular No. 27) Article 4 of Law 44/2015 requires that information, data, or copies of documents related to the identity of dealers be retained for at least five years after the completion of operations or the termination of the business relationship, whichever is longer.

DNFBPs must provide the FIU with all documents and information necessary to carry out its tasks within a reasonable time (Article 10 of law 44/2015). It is required in accordance with Clause 11 of Circular 27 (amendment to Circular 26), that DNFBPs make available due diligence information and transaction records to supervisory authorities swiftly upon request and within a period not

exceeding 3 days. The text does not include an obligation to make the due diligence information and transaction records available swiftly to other competent local authorities. The non-inclusion of all activities, as mentioned in 22.1 analysis above affects the compliance to this Criterion.

**Criterion 22.3:**

DNFBPs are required to apply enhanced due diligence measures to PEPs as defined by FATF, their family members and persons closely related to them, to be identified, whether they are clients or BOs in accordance with the risk management system, including EDD measures include obtaining the approval of the senior management to carry out the transaction or continue carrying out the transaction. It is necessary to carry out on-going monitoring to enhance the business relationship, and to identify the source of wealth. The obligation to determine the source of funds applies to all customers according to Article 4 of Circular No. 24. DNFBPs are also obligated to apply the same procedures that apply to PEPs, members of their families, and persons closely related to them. (Article 1 of Circular No. 27 amending Circular 26). The non-inclusion of all activities, as mentioned in 22.1 analysis above affects the compliance to this Criterion.

**Criterion 22.4:**

DNFBPs must identify and assess ML/TF risks that may arise from the development of new products and new business practices, including new means of providing services, and those arising from the use of new or under development technologies in relation to both new and existing products. (Paragraph 2 Clause 3 of Circular No. 26 and its amendments by virtue of Circular 28) DNFBPs must assess risks before launching or using products or technologies and take appropriate measures to manage and mitigate those risks. The non-inclusion of all activities, as mentioned in 22.1 analysis above affects the compliance to this Criterion.

**Criterion 22.5:**

DNFBPs are obligated to ensure when dealing with a third party that it is subject to regulation and supervision by official authorities and meets the FATF criteria on due diligence procedures and record keeping, as well as obtaining, swiftly, and without delay, identification information about the client and the beneficial owners as well as the nature of the relationship, noting that the entity dealing with the third party bears the ultimate responsibility for the due diligence measures, whether the third party is inside or outside Lebanon, and to ensure that copies of customer data and documents related to the due diligence procedures can be obtained immediately and without delay. (Item 5 of Circular 28 amending Item 5 of Circular 26) There are obligations for DNFBPs when dealing with a third party to take into account the available information on the level of risks in those countries.

Weighing and Conclusion: Failure to cover all the activities mentioned in Criterion 22-1 affects meeting all requirements of this recommendation addition to the minor shortcomings with regard to the requirements for making information available to the rest of the competent authorities without delay,

**Recommendation 22 is rated LC.**

**Recommendation 23 - DNFBPs - Other measures**

**Criterion 23.1:**

**Criterion 23.1 (a) and (b):** The analysis of Recommendation 20 above applies, whereby casinos, lawyers, accountants, notaries, real estate agents, and DPMS, like all other subject entities, are required to immediately report details of operations carried out or attempted to be carried out that they suspect are related to ML/TF. However, there are minor shortcomings in the fact that the law does not cover all the categories of predicate offenses specified in the R.3 (see analysis of C.20-1 and 20-2). Lawyers are obligated to report according to a mechanism set by the Bar Association, where the lawyer must, when there is a suspicion about the existence of a ML/TF transaction, report immediately to the head of the Bar to which they belong and refrain from providing the required legal service. The Bar president makes his decision within a period of two weeks (Guide to Lawyers' Obligations for AML/CFT - Appendix C), whereby this period affects the achieving the immediate reporting requirement, and the failure to cover all activities as mentioned in Analysis 22.1 affects the meeting this criterion.

**Criterion 23.1 (c):** As mentioned in the analysis of Recommendation 22, TCSPs activities are not covered in the AML/CFT Law in accordance with C.22.1e.

**Criterion 23.2:**

DNFBPs are subject to requirements related to internal controls, branches, and subsidiaries abroad, such as those to which insurance companies are subject, so the analysis of Recommendation 18 above applies here.

**Criterion 23.3:**

DNFBPs are subject to requirements related to high-risk countries, such as those to which insurance companies are subject, so the analysis of Recommendation 19 above applies. The non-inclusion of all activities has some effects as stated in R.22 analysis.

**Criterion 23.4:**

DNFBPs are subject to requirements related to the confidentiality of reporting and tipping-off, as are all reporting entities. Therefore, the analysis of Recommendation 21 above applies here. The non-inclusion of all activities has some effects as stated in R.22 analysis.

**Weighing and Conclusion:** The shortcomings in meeting the requirements of this recommendation are those related to the requirements of Recommendation 20 in terms of the law not covering all the specific categories of predicate offences, and the delay in reporting by lawyers as a result of the reporting mechanism through the Bar ("LACPA?"). Minor shortcomings were also found in the requirements of internal controls not covering all activities also affects the requirements of this recommendation.

**Recommendation 23 is rated LC.**

## Recommendation 24: Transparency and Beneficial Owners of Legal Persons

The Lebanese Republic was evaluated within the 1st round and rated “PC” in the previous Recommendation 33. The shortcomings were as follows: Not finding a central commercial registry that contains all data and information related to companies or linking information between commercial registries in other regions outside the capital until there is a comprehensive central registry. Lack of controls and measures that limit non-exploitation of bearer shares in money laundering, and the inability to obtain information on the BOs and the controlling shares in the legal persons whose shares are issued to the bearer.

### Criterion 24.1:

**Sub-criterion 24.1 (a):** Lebanon has mechanisms for identifying and describing the different types of legal persons, their forms, and basic features of legal persons in Lebanon, which are: Companies (joint stock companies, limited liability companies, holding companies, offshore companies, partnerships limited by shares, simple limited partnership, foreign companies whether a branch or representative office and civil companies) and Cooperatives. (Articles 46, 77-79 and 226-233 of the Code of Commerce issued by Decree-Law No. 304 of 24 December 1942 as amended, Articles 1-6 of both Decree-Laws No. 34 and 35, Articles 1-5 of the Decree-Law No. 45, Articles 1-3 of the Decree-Law No. 46, Article 8 of Chapter 2 and Article 1 of Chapter 1 of the Supreme Decree No. 96, Articles 844-855 of Code of Obligations and Contracts as amended, and Articles 1 to 8-bis 2 of the Cooperatives Law No. 17199).

**Criterion 24.1 (b):** The legislations in Lebanon include mechanisms for identifying and describing the operations of establishing companies, and cooperatives as well as obtaining and registering basic and BOs information (Articles 22, 26, 29, 34, 49 and 50, 79-102 and 234 of the Code of Commerce, Articles 2-11 of Decree-Law No. 35, Article 5 of the Decree-Law No. 45, Articles 2-4 of the Decree-Law No. 46, Article 1-6 of the Decree-Law No. 34, Articles 848-852 of the Code of Obligations and Contracts as amended, Chapter 1 of the Supreme Decree No. 96, Articles 5 and 9-11 of the Cooperatives Law No. 17199. As for the existence of mechanisms to identify and describe obtaining and registering basic information related to the BOs, Lebanon has mechanisms to obtain the required information for the companies and cooperatives (Code of Commerce- Article 26, Tax Procedures Code No. 44 - Article 32, and Minister of Finance Decision No. 1472 of 2018 regarding the mechanism for determining the owner of the economic right, and circular of the Minister of Finance No. 3045 of 2019 related to Statement No. M18, the statement of the owner of the economic right).

Since all these texts are in laws, decisions, and circulars published on various websites, including the website of the Lebanese University<sup>66</sup> (Legal Informatics Center), which also includes issues of the Official Gazette, the information it contains is available to the public.

### Criterion 24.2:

Lebanon has assessed the risks of money laundering and terrorist financing associated with various types of legal persons established in the country as part of the NRA process. Whereby the risks of holding companies and offshore companies were assessed as high risks in addition to the

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<sup>66</sup> <http://www.legiliban.ul.edu.lb>

companies whose activity is related to the public sector (government contracts and public procurement) from joint-stock companies and limited liability companies, the rest of the types of joint-stock companies and limited liability companies were of medium risk, while legal persons otherwise were considered to be of low risk. The risks of cooperatives were also assessed as low given that the size of the sector is small, and the value of financial investments therein is limited and comes mainly from international donors and the Ministry of Agriculture, in addition to the absence of reports, requests for assistance, and money laundering or terrorist financing cases related to cooperatives.

However, this assessment has a shortcoming, which is represented in not conducting a more comprehensive assessment of the risks of CSPs, as licenses are not issued to practice this activity independently. Lawyers provide these services in the absence of anything that prevents anyone from dealing with the commercial registry to establish and register companies - under a power of attorney from the founders - without requiring them to comply with AML/CFT obligations.

### **Basic Information**

#### **Criterion 24.3:**

All companies established in the country are required to be registered in the Companies Register (Commercial Registry) concerned with the region of their headquarters, in which the following information should be recorded: (company name, evidence of incorporation, legal form and status, registered office address, basic organizing powers, and list of directors). This information is publicly available against a fee (small fee as evidenced by the website of the Commercial Registry). Code of Commerce Articles 22, 26, 27, 29 and 44), and for foreign joint stock companies and foreign partnerships limited by shares, they must In accordance with the Lebanese system, before starting any activity, submit a permit to the Commercial Property Department at the Ministry of Economy and Trade to obtain statement of notification, and then register in the Commercial Register and submit documents indicating (the company's name, head office, capital, and the original deed of the memorandum of association or a copy thereof). and the decision to appoint one or more representatives of the company in Lebanon before the courts and third parties) and these documents must be translated and certified. As for civil companies, they are registered in a special register with the Registry of chamber of first instance. Which means that this information is not publicly available.

#### **Criterion 24.4:**

Companies in Lebanon are required to maintain a register of their shareholders or members, containing the number of shares held by each shareholder and categories of shares (including the nature of the associated voting rights). (Code of Commerce Articles No. 100 and 182, Tax Procedure Code Articles No. 29, 30 and 37, Minister of Finance Decision No. 453/1 of 2009 Articles 27 to 37) However, these texts did not clearly include the requirement to keep this information inside the country in a place that is known to the companies' register.

#### **Criterion 24.5:**

Although the Lebanese legislator referred to what is required regarding the accuracy and updating of the information referred to in C.24-3 and 24-4 according to the following texts (Code of Commerce- Articles 26, 27, 50 and 80, Tax Procedures Code No. 44 Article 32 - Clause 2),

Lebanon has not submitted texts indicating the existence of mechanisms to ensure that the information on the classes of shares owned by each shareholder is accurate and up-to-date.

## **Beneficial Owner Information**

### **Criterion 24.6 (a,b,c):**

Companies obtain the beneficial owner information which is accessed by the Tax Directorate in a timely manner, upon each offsite inspection that is carried out quarterly and onsite visit. The company also update this information on a daily basis (as per the Tax Procedure Code (Articles No. 29 clause 10), and the mechanism on identifying the BOs (article 7). Moreover, all companies that have a main headquarters in Lebanon are registered in the commercial register concerned with the region of their headquarters and its information are updated in the registry within one month following any change (Code of Commerce Articles 26, 27, 29, 31) in addition to using the information obtained by financial institutions, lawyers and notaries according to what was previously explained under recommendations 10 and 22. However, no provisions were found to cover civil companies with the requirements of this criterion.

### **Criterion 24.7:**

Legislations in force in Lebanon stipulate that any change should be registered in the Commercial Register, including the beneficial owner information within one month of the change, which indicates that the information is up to date (Article 26-27-29-31 of the Code of Commerce). Also, each resident legal person registered with the Tax Authority has to inform them annually within the grace period, which is one month-of any change to the names of shareholders, partners or beneficial owners and any change to their shares or participation (Clause 2 of Article 32 of the Tax Procedure Code No. 44). As well as Article 29, the Circular of the Minister of Finance No. 3045 of 2019. However, no provisions were found to cover civil companies with the requirements of this criterion.

### **Criterion 24.8 (c):**

Lebanon took other similar measures according to the requirements of Criterion 24.8.C, as they have legal texts (Code of Commerce– Articles 22 and 26) that oblige all companies to submit the details and information of the beneficial owners to the commercial registry, through which any person or competent authority can obtain this information, which is provided on the same day. There are also other legal texts (Tax Procedures Code, Articles 32 and 37) that obligate the companies to submit the BO information to the Tax Directorate and inform them in writing when the partner or shareholder refuses to give information about the beneficial owners.

Banks and non-banking financial institutions maintain an updated record of the beneficial owner (Article 12, First - Clause 8 of Central Bank of Lebanon Circular No. 83). This information is made available to the FIU swiftly upon its request within a period not exceeding 3 days (Article 12 First-14 of Central Bank of Lebanon Circular No. 83). The FIU can make this information available to the competent authorities if requested in a timely manner (the FIU's Operating Rules issued under the Law on AML/CFT - Section One).

**Criterion 24.9:**

All the legal persons in Lebanon should maintain the information and records referred to for at least five years after the date on which the company is dissolved or otherwise ceases to exist, or five years after the date on which the company ceases to be a customer of the professional intermediary or the financial institution. Also, Lebanon keeps all records after the dissolve of the company or end of its relation for 10 years (Article 19 of the Code of Commerce). After the dissolve of the company, the liquidator submits the books and accounts to the court or to any other secure location determined by the court, unless the majority of partners assign a person to receive the books, which should be kept in the same place for 15 years after submission (Article 939, First Section, Second Chapter, General Provisions for both Commercial and Civil Companies of the Code of Obligations and Contracts, and Clause 10 of the Article 29 of the Tax Procedure Code No. 44 of 2008, And Minister of Finance Decision No. 1472 of 2018 (Article 4).). However, these texts bind legal persons only (companies) and do not extend to the rest of the persons, bodies and entities mentioned in the criterion (Commercial Registry and Tax Directorate).

**Other Requirements:****Criterion 24.10:**

LEAs, the Public Prosecution and the FIU resort to the commercial register to obtain from it basic information about the companies and the BOs. Based on that mechanism, a request is submitted to the commercial register to obtain that information, and there is no binding text specifying the time period taken to complete the request, which does not guarantee obtaining information in a timely manner. However, in practice, response is carried out within the same day. The texts in Lebanon include that the head of the FIU or whomever he delegates directly requests from the concerned parties referred to in Articles 4 and 5 (the parties obligated to report) to provide the FIU and the supervisory authorities with all documents and information necessary to carry out their tasks, and they must respond to this request within a reasonable period (no exceed 3 working days) (AML/CFT Law No. 44/2015 - Article 10, FIU's Circular No. 625 in May 2022 Article 33, and Article 12 of the FIU's Circular No. 26 and its amendments Article 12, Code of Criminal Procedure Articles 25 and 47).

With regard to the basic information and those related to the BOs kept by banks, the FIU, which is the authority authorized by law - in its capacity as the financial intelligence unit and at the same time the supervisory authority over banks in the field of AML/CFT - can access this information in a timely manner, and the FIU plays a pivotal role as a point of contact with the rest of the competent local authorities in exchanging this information therewith.

**Criterion 24.11 (a, b, c, d and e):**

Lebanon has issued a law that prohibits the bearer shares (Law No. 75 issued on 27/10/2016- Clause 1) and requests the companies which have this type of shares before the date of this Law to replace the same with nominal shares within a grace period of one year, this period was extended twice, the last of which until the end of 2025. The Ministry of Finance issued Decision No. 1001 of 2019 to deal with the bearer shares and shares to order that are not replaced and convert them to shares in the name of Lebanese Republic (Public Treasury). All companies are required to replace bearer shares and shares to order nominal shares and amend their information with the Tax Directorate. Cancelling the bearer shares and replacing them with nominal shares enhance the transparency within legal persons, but there are no mechanisms to ensure that the bearer shares are

not misused for ML/TF purposes during the period of transition and there are no legislations in Lebanon that enable legal persons to issue bearer shares.

The measures taken by the country to urge companies that have bearer shares to comply with the aforementioned law include the circular issued by the Banque Du Liban No. 81, amended by Decision No. 12194 of 2016, which prohibits banks and financial institutions from engaging in any banking or financial transactions or otherwise, with companies or joint trusts whose shares or stakes, wholly or partially, are bearer shares, or owned directly or indirectly by companies or joint trusts whose shares or stakes, wholly or partially, are bearer shares (Article 1, Clause 7).

**Criterion 24.12 (a, b, and c):**

There are no legislations in Lebanon that allow for the existence of nominee shares and nominee directors.

**Criterion 24.13:**

Lebanon has a scale of sanctions against any natural or legal person that fails to comply with the requirements, which include:

- A fine of LBP 100,000 (USD 65.00) annually against the company regarding each document not duly registered (Code of Commerce, Article 102).
- Fine of LBP 250 to 5,000 (USD 0.162 to 3.24) and imprisonment of 6 months for any false statement provided in bad faith for the registration in the Commercial Register or any of both penalties (Article 38 of the Code of Commerce).
- Fine of LBP 300,000 to 2,000,000 (USD 194 to 1298) for failing to submit registration request to the Tax Authority within the legal grace period or not providing the beneficial owner (Article 107 of the Tax Procedure Code No. 44).
- Fine of LBP 50,000 to 200,000 (USD 32 to 129) against any person fails to notify the Tax Authority about any change to the information as stated by the Law (Article 107 of the Tax Procedure Code No. 44).
- Fine of LBP 500,000 to 1,000,000 (USD 324 to 649) for failing to submit and register with the Commercial Register Secretariat within the month following the creation (Article 98 of the Code of Commerce).
- Fine equals a 100% of the share of each shareholder in any MSB, each partner in any partnership and the owner of the sole establishment or professional license, provided that such fine is not less than the minimum assigned by this Law according to the legal form, in order to encourage them to provide the correct information about the beneficial owner in their shareholding, share or partnership (Article 117-bis of the Tax Procedure Code No. 44).
- Fine of LBP 500,000 to 2,000,000 (USD 324 to 1298) against any person who neglects to disclose any information about the beneficial owner upon filling the licenses a providing data under the provisions of this Law and other special tax regulations or refrains from notifying the Tax Authority that the partner or shareholder refuses to provide him/her with the beneficial owner information (Article 117-bis of the Tax Procedure Code No. 44).

However, these penalties are not considered sufficiently proportionate and are not dissuasive, and no texts have been found that include penalties in the event of cooperatives' failure to comply with the requirements in accordance with this criterion.



**Criterion 24.14:**

Lebanon has to rapidly provide international co-operation in relation to basic and beneficial ownership information, which includes:

**Criterion 24.14 (a):** Lebanon does not sufficiently facilitate access by foreign competent authorities to basic information in company registries, since this information is available only upon a request submitted to Commercial Registry (Code of Commerce Article 34). Also, the Clause 4 of the Circular issued by the Cassation Public Prosecution No. 85/S/2022 allows the LEAs and investigation authorities to exchange the locally-available information with the foreign competent authorities. Moreover, the legal procedures applicable by the Ministry of Justice on 29 July 2021 in the Clause First-4 state that the both criminal and civil procedures laws allow the appearance of the foreign authorities by their respective representatives before the Lebanese courts to execute many procedures such as requesting information and related documents and records, including government, banking, financial documents as well as records of commercial companies and establishments or true copies thereof. Neither the aforementioned texts nor applicable procedures identify the timeframe within which the information exchange should take place, and this duration may take a period of time that make the condition of speed required by the Criterion unavailable or difficult to apply for foreign competent authorities.

The FIU may swiftly and confidentially exchange all available information obtained directly or indirectly with foreign counterparts (FIU's Operating Rules - Part One, Article 5, Paragraph 2, and AML/CFT Law No. 44/2015, Article 6, Paragraph 2).

The Tax Directorate may also exchange information obtained during the course of its duties, including basic information about companies, with foreign tax administrations in accordance with international treaties (Tax Procedures Code, Article 25, Paragraph G). However, this does not guarantee that the exchange of information will be swift, and there are no provisions guaranteeing the exchange of information on shareholders with foreign counterparts in other regulatory authorities in a rapid manner.

**Criterion 24.14 (b):** Lebanon exchanges information about shareholders, and law enforcement and investigation authorities can do this with counterparts for the purposes of investigations related to money laundering, associated predicate offences and terrorist financing, and identifying and tracing proceeds and criminal instrumentalities. It can exchange local information which includes information about shareholders and can make inquiries on behalf of these parties when necessary (Circular issued by the Public Prosecutor at the Court of Cassation No. 85/2022 - Paragraph 4) This mechanism does not guarantee that the exchange of information is swift as required by the Criterion.

The FIU may swiftly and confidentially exchange all available information obtained directly or indirectly with foreign counterparts (FIU's Operating Rules - Part One, Article 5, Paragraph 2, and AML/CFT Law No. 44/2015, Article 6, Paragraph 2).

There are no provisions guaranteeing the exchange of information on shareholders with foreign counterparts in other regulatory authorities in a rapid manner.

**Criterion 24.14 (c):**The competent authorities in Lebanon may exchange available information with counterparts and make inquiries on behalf of them when needed for investigations or inquiries

about ML crimes, associated predicate offences and TF crimes (Circular issued by the Cassation Public Prosecutor No. 85/S/2022 - Paragraph 4). The Public Prosecution or courts may access the information available to the tax administration about the BO information when pursuing a person committed financial violations (Tax Procedures Code, Article 25-B). However, these texts and their implementation mechanisms do not guarantee the fulfilment of the condition stated in the Criterion about the swiftness of the information exchange.

The FIU may swiftly exchange with counter FIUs all directly or indirectly available or accessible information including the BO information (FIU's Operating Rules - Part One, Article 5, Paragraph 2, and AML/CFT Law No. 44/2015, Article 6, Paragraph 2).

#### **Criterion 24.15:**

Lebanon does not have an obligation on the competent authorities to monitor the quality of assistance they receive from other countries in response to requests for basic and beneficial ownership information or requests for assistance in locating beneficial owners residing abroad. Except for the FIU, whereas it submits feedback, including assessment of the quality of information it receives from counterparts, in timely manner. (Clause 5, First Section of the FIU's Operating Rules).

#### **Weighing and Conclusion:**

Lebanon has met most of the requirements of Recommendation 24, but it still has a number of shortcomings, which include the failure to conduct a more comprehensive assessment of the risks of CSPs, in light of the absence of anything to prevent any person under a power of attorney from the founders from dealing with the commercial registry to establish and register companies without be it required to comply with AML/CFT obligations, and information on civil companies established in Lebanon is not available to the public. .

There are no provisions indicating the existence of mechanisms that ensure that the information pertaining to the categories of shares owned by each shareholder is accurate and up to date. The requirement to retain information and records for a period of at least 5 years from the date on which the company is dissolved or, in other cases, when the company ceases to exist in the commercial registry and the tax administration, does not extend to this type of information.

Lebanon has a range of penalties against any legal or natural person in the event they fail to comply with the requirements. However, these penalties are not considered dissuasive, nor proportionate. Also, no texts were found that include penalties in the case of the failure of co-operatives. As for the swift provision of international cooperation with regard to basic and beneficial ownership information, there are no provisions for some competent regulatory authorities.

**Recommendation 24 is rated LC.**

#### **Recommendation 25: Transparency and BOs of Legal Arrangements**

The Lebanese Republic was evaluated within the 1st round and rated "PC" in the previous Recommendation 34. The shortcomings were as follows: Failure to ensure that the competent authorities are able to obtain sufficient, accurate and up-to-date information about the beneficial owners and control shares in the Fiduciary in a timely manner.

## **Criterion 25.1**

### **Criterion 25.1 (a):**

Express Trust Funds do not exist in Lebanese laws, and Lebanon is not a party to Hague Agreement on Trust Funds. As for other similar legal arrangements, the Lebanese legislator established a legal arrangement under the name of Fiduciaries in which the role of the trustee was limited to banks or other financial institutions licensed and registered by the Banque du Liban (Law No. 520 for the Development of the Financial Market and Fiduciaries No. 520 of 6/6/1996 Article 2). Foreign trust funds are not recognized in Lebanon, but these trust funds are allowed to own bank accounts in Lebanon, and thus they are subject to AML/CFT requirements.

With regard to Fiduciaries, the bank (the trustee) must keep complete, accurate and up-to-date information about the customer (the settlor) and the holder of the economic right (Beneficial Owner). The bank also obtains adequate information about the beneficiary of the Fiduciary (Bank of Lebanon Basic Decision No. 7818 and its amendments - Article 3 - Clauses 4 and 5, and Basic Banque du Liban Decision No. 6349 and its amendments (Article 3), as for the Waqf, there are no texts indicating meeting of the requirements of this Criterion.

25.1 (b) (not met) There are no provisions in Lebanon that oblige banks and financial institutions in their capacity as trustees in relation to fiduciaries to retain basic information about other regulated agents, including investment advisors or managers, accountants and tax advisors, and the same provisions also do not exist with regard to the bodies responsible for endowments according to each concerned cult, considering fiduciaries and endowments as legal arrangements with a structure or function similar to trust funds that can be established directly in Lebanon.

25.1 (c) (N/A): The role of the trustee in Lebanon has been limited to banks and other financial institutions, and specific conditions have been set for acquiring the status of a trustee. In addition to setting penalties for anyone who performs the task of a trustee without meeting the specified conditions. Therefore, there are no professional trustees for fiduciaries or endowments in Lebanon (as legal arrangements with a structure or function similar to trust funds that can be established directly in Lebanon) (Bank of Lebanon Decision No. 6349 and its amendments - Article 1, and the Financial Market Development and Fiduciary Law No. 520, Article 2, 17).

### **Criterion 25.2:**

As for fiduciaries in Lebanon, the role of the trustee is limited to the bank, and therefore they are subject to the obligations imposed on customers by banks, and all mandatory provisions related to keeping information apply thereto as well as to keep them constantly updated (Bank of Lebanon Basic Decision No. 7818 and its amendments Article 3, items 2 and 4, and Article 11 Clause 2 Clause “Q”), but these texts do not include information about the beneficiary of the fiduciary, as for Waqf, there are no texts indicating meeting the requirements of this criterion, except for general texts about keeping Waqf information and related rights without any indication to the requirement of keeping this information accurate and up to date, although some articles require to provide this information to the concerned authorities on annual basis but this does not necessarily mean that this provision is happening regularly.

**Criterion 25.3:**

Lebanese legislation obliges the Trustee, i.e. the bank, must declare this capacity to every third person he contracts with regarding any element of the trust without disclosing the name of the originator. (Law No. 520, Article 4) However, Lebanon, according to the aforementioned Law No. 520, has no provision for the existence of measures to ensure disclosure when carrying out an occasional transaction that exceed the threshold set by the trustees, and the country does not have procedures to ensure that trustees of foreign trust funds disclose their status to financial institutions and DNFBPs when they establish business relations with them or carry out occasional transactions that exceed the specified threshold. As for Waqf, there are no texts indicating meeting the requirements of this Criterion, except a provision in Article 15 of the By-Law of the Waqf Administration Committee for a Lebanese sect.

**Criterion 25.4:**

There is no legal impediment in the State of Lebanon that prevents the trustees of any legal arrangement from providing information to the competent authorities upon request, according to Law No. 520/6/6/1996 and the First Article of the Basic Decision issued by Banque du Liban No. 29/1996, and Circular issued by the Banque du Liban No. 83/2001, Article 9-bis, in addition to the FIU's Circular No. 24/2018 addressed to those addressed by Article 5 of Law 44/2015, Clause 3.

**Criterion 25.5:**

The competent authorities in Lebanon, can access information held by trustees and other parties, about the beneficial owners and controllers of the trust, including: (a) the beneficial owner; (b) the place of residence of the trustee; and (c) assets held or managed by the financial institution or DNFBP in connection with any trustees with whom they have a business relationship or are acting on their behalf as an occasional transaction. through the FIU that has the right to access information held by trustees (banks), which includes the information referred to in accordance with the requirements of the criterion (according to Law No. 44/2015, Articles 9 and 10). Foreign trust funds are available exclusively in banks operating in Lebanon in the event that they have accounts therewith, as well as with regard to fiduciaries, as this information is available exclusively to banks and can only be obtained through the FIU, which is the competent authority authorized by law to do so (given the confidentiality of this data). As for the Waqf, there is no BOs, as the actual control over it is transferred to the authority responsible therefor (according to the concerned sect), and the originator of the endowment cannot dispose of or recover it.

**Criterion 25.6:**

**Criterion 25.6 (a):** The FIU shall exchange, with its foreign counterparts, rapidly, all the information that is available to be accessed or obtained directly or indirectly, including information about the BOs (the FIU's Operating Rules, Section One, Clause 5), as the Lebanese laws permit according to Article 4, Clause 1, according to the text of the procedures issued by the Ministry of Justice 14/4/2016, amending 29/7/2021, and as stated in the Code of Civil and Criminal Procedures, the appearance of foreign bodies through their legal representative before the Lebanese courts to implement a number of procedures, including a request to obtain information, documents and records related to companies. The FIU also makes inquiries on behalf of the counterpart foreign regulators, as appropriate, and authorizes those authorities to inquire themselves. However, it was not clear to the AT what indicates that the rest of the competent

authorities have the same powers. As for Waqf, there are no requirements indicating meeting the requirements of this criterion.

**Criterion 25.6 (b):** As for exchanging local information available about trust funds and other legal arrangements, the FIU in Lebanon has the authority to exchange information with its counterparts, as well as the judicial police agencies (LEAs and investigative agencies) (Law 44/2015, Article 6, item 2, paragraph 3, and the Public Prosecution of the court of cassation's circular addressed to the judicial police agencies regarding International Cooperation No. 85 of 2022 Clause 4). However, it is not inferred from the texts that have been provided that there are powers for the competent authorities to exchange information available locally regarding other legal arrangements. As for Waqf, there are no requirements indicating meeting the requirements of this criterion.

**Criterion 25.6 (c):** The investigative powers should be used by the competent authorities, in accordance with domestic law, to obtain information on beneficial owners on behalf of foreign counterparts. The FIU shall make inquiries on behalf of the counterpart foreign supervisors, as appropriate, and such authorities shall be authorized or facilitated to conduct inquiries themselves, with the aim of facilitating effective group-wide supervisions. (Clause 5, second Section of the FIU's Operating Rules). And requiring the judicial police agencies to use the powers available legally thereto, including making inquiries and obtaining information on behalf of the foreign counterpart, and cooperating - with the locally available information - with counterparts for the purposes of investigations related to ML, the associated predicate offences, TF, and identifying and tracing criminal proceeds and instrumentalities as well as making inquiries on behalf of these parties when necessary. (Circular of the Public Prosecution of Cassation No. 85 of 2022, paragraph 3-4).

**Criterion 25.7 (a and b)** The Trustees (banks, according to the aforementioned) in Lebanon are subject to legal liability in the event of failure to carry out the tasks related to the meeting their obligations, and penalties ranging from two months to one year are imposed on them and a fine of a maximum of one hundred million pounds or one of these two penalties (the equivalent of USD 64,935). AML/CFT Law No. 44/2015 - Article 13), however, these penalties are not considered sufficiently proportionate and are not dissuasive, as for Waqf, there are no requirements indicating meeting the requirements of this criterion.

**Criterion 25.8:**

Upon failure to provide the relevant authorities with timely access to the information relating to the Trust referred to in C.25-1. The law in Lebanon stipulates a penalty of imprisonment from two months to one year and a fine of a maximum of 100 million Lebanese pounds (USD 64,935) or one of these two penalties (AML/CFT Law No. 44/2015 - Article 13). However, it was not clear that there were penalties in case of failure in granting the rest of the competent authorities in Lebanon timely access to the required information, as for Waqf, there are no requirements indicating meeting the requirements of this criterion.

## **Weighing and Conclusion:**

With regard to fiduciary in Lebanon, the role of the trustee is limited to the bank, and therefore they are subject to the obligations imposed on customers by banks, which include obtaining and maintaining adequate, accurate, and updated information about the identity of the settlor, the beneficiary, and the BOs, but they do not have texts for banks (in their capacity as trustees in relation to fiduciaries). To retain basic information about other regulated agents including investment advisors or managers, accountants and tax advisors, and there are no similar provisions in either case for the endowment, and the provisions related to retaining information and keeping it updated in ongoing basis do not include the beneficiary of the fiduciary, and the endowment texts do not meet the same requirements nor is there any provision for measures to ensure disclosure when executing an occasional transaction that exceeds the threshold set by the trustees, nor does the country have procedures for ensuring that trustees of foreign trust funds disclose their status to financial institutions and DNFBPs when establishing business relationships with them or executing occasional transactions exceeding the specified threshold.

The competent authorities in Lebanon have timely access to information kept by trustees and other parties, about the BOs, through the FIU, which alone can obtain this information from banks due to the banking secrecy that surrounds them, and it is not clear that there are penalties in the event of failure in granting the rest of the competent authorities' timely access to the required information.

The FIU makes inquiries on behalf of the counterpart foreign supervisory authorities, as appropriate, and authorizes those authorities to inquire themselves, but it is not clear that the rest of the competent authorities have the same powers, and it is not inferred from the texts provided that there are powers for other competent authorities to exchange locally available information on other legal arrangements. There are no texts regarding that with relation to waqf.

Trustees are subject, in case of failure to carry out the tasks related to meeting their obligations, to legal liability and imposition of penalties, but these penalties are not considered sufficiently proportionate nor dissuasive. The competent authorities also have timely access to information on the trust fund, but it is not clear that there are penalties for failure. There are no texts regarding that with relation to waqf.

There is no BOs in the waqf, as the actual control over it is transferred to the party responsible therefor (according to the concerned sect), and the originator of the waqf cannot dispose of or recover it.

As for Waqf, there are no requirements indicating meeting the requirements of this criterion.

**Recommendation 25 is rated PC.**

## **Recommendation 26 - Regulation and supervision of FIs**

In the MER within the framework of the first round, Lebanon obtained a “largely compliant” with the previous recommendation 23 related to the regulation and supervision of financial institutions. Whereas the shortcomings were represented in not subjecting FIs to regulation with regards to CFT. Also, there is no legal basis for supervising the same in this field, in addition to the lack of actual supervision of insurance brokers to ensure their compliance in AML/CFT.

### **Criterion 26.1:**

The FIU acts as a supervisory authority over the financial institutions mentioned in Article 4 of Law 44/2015 as it supervises insurance companies mentioned in the Article 5 of the same Law, as it is with the authority to ensure that these institutions comply with the obligations stipulated in the law and the bylaws issued in reference thereto (Article 6 and 4 of Law 44/2015).

### **Criterion 26.2:**

#### **Financial Institutions Subject to the Core Principles**

Licensing requirements apply to all financial institutions subject to the Core Principles. Banks are subject to licensing by the Central Council of the Banque du Liban and must be registered in the Banks Regulations Articles (128 and 137) of the Code of Money and Credit. The legislative framework for licensing banks in Lebanon prohibits the establishment and operation of shell banks, through the licensing requirements imposed by the Banque du Liban, such as the obligation to establish the bank as a joint stock company, defining the administrative structure and the basis for organizing the internal control and auditing to be adopted, and the material and moral efficiency of the founders, capital subscribers and persons to be assigned with senior administrative tasks. Article 126 of the Code of Money and Credit and Article 4 of Lebanon's Basic Circular No. 79. Financial institutions (credit institutions) are also subject to the license of the Central Council of the Banque du Liban and must be registered on the list of financial institutions, Articles (179 and 181) of the Code of Money and Credit and Article (1) of Basic Circular No. 2 addressed to financial institutions.

Financial leasing companies are subject to the license of the Central Council of the Banque du Liban. Article (1) of Basic Circular No. 1 directed at financial leasing companies. Financial intermediation institutions are subject to the licensing of the Board of the CMA, and this includes licensing institutions whose subject matter is the management and operation of stock exchanges, institutions that engage in financial intermediation and investment of funds, agencies that deal in collective investment in movable values and other financial instruments, agencies that deal in investment with securitization operations, Islamic investment and securitization agencies, financial advisory and services institutions, financial evaluation companies (Article 11-Third of Law 161). Institutions that carry out business in financial instruments are subject to a license from the CMA. Article 2102 of the system of licensing and registration in the financial markets. Insurance companies and insurance brokers are subject to the license of the Ministry of Economy and Commerce. Article (1, 2, 39) of the Law Regulating Security (Daman) Bodies of 1968.

Insurance companies and brokers are subject to licensing by the Ministry of Economy and Commerce in accordance with the Law Regulating Insurance Bodies of 1968, whereby the license to insurance companies is granted, amended, rejected or withdrawn by a decision of the Minister of Economy and Commerce after consulting the National Insurance Council. It is also prohibited

to practice various types of insurance in Lebanon except by authorized bodies (Article Two of the Law).

### **Other Financial Institutions**

Electronic money transfer institutions and institutions that issue and promote debit or credit cards are subject to the license of the Banque du Liban. (Article 1 of Law 133 and Articles 1 and 2 of Circular 69).

Exchange companies are subject to the license of the Central Council of the Banque du Liban and must be registered on the exchange companies list. (Articles 1 and 5 of Law No. 347) Regulating the Money Exchange Profession.

Comptoirs are classified among the persons subject to the provisions of Article 183, that is, natural or legal persons who practice one or some of the operations stipulated in Article 178 and who do not meet the conditions for registration as financial institutions. Therefore, comptoirs are subject to the registration obligations of the BDL as per BDL's basic law No. 12174, whereby Article 11 prohibits comptoirs from carrying out their business before obtaining knowledge and information from BDL and publishing it in the Official Gazette.

### **Criterion 26.3:**

Banks, financial institutions and exchange companies are subject to controls that prevent criminals from establishing, managing or working for them (Article 127, 179 of the Code of Money and Credit) (Article 11 of 347 to regulate the exchange profession). The requirements identify those cases under the same article, including the criminalization of less than ten years of theft, fraud, bad credit, issuance of bounced cheques in bad faith, or violating the provisions of the Banking Secrecy Law, and if they declare their bankruptcy ten years ago without exoneration, and includes rulings issued abroad after verification of their validity. There are also other requirements that apply when requesting a license for banks, financial institutions, financial leasing institutions and exchange companies, including: Submit identity documents, financial receivables assessment, a recent summary (statement of good conduct) from the judicial register of founders and BOs, persons who contribute by subscription and capital release, persons expected to be assigned to higher administrative tasks, and a copy of the legal person's registration file with the Commercial Registry. It also includes the capital and in-kind efficiency, especially in terms of not having criminal records for any of them or their partners in Lebanon or outside Lebanon, or in terms of their listing on the local or international sanctions lists. (Article 2 Decision 7739 Circular 79) (Article 37 and 36 of Banque du Liban Circular No. 625 (Article 1 Decision 7136 and Articles 38 and 39 of Circular 625) (Article 1 Decision 7540 and Articles 40 and 41 of Circular 625) (Article 2 Decision 7933 and Articles 42 and 43 of Circular 625) Similar obligations are applied to electronic cash transfer institutions (Article 12, Decision 7548, Basic Circular 69, and Articles 44 and 45 of Circular 625) and comptoirs (Article 5 of Basic Decision 12174, Articles 46-49 of BDL Circular No. 625). There are also articles that obligate institutions to inform the licensing body of the assignment of shares in excess of a certain percentage (Article 4 of Law 308, Banks) (Article 5 Circular 69 Money Transfer Companies and Institutions) (Article 8 Basic Circular No. 2 decision 12174, Comptoirs) (Article 9 decision 7136, Financial Institutions) (Article decision 7933 Exchange Companies). There are no obligations to apply periodic procedures to ensure the continued integrity of their criminal record and the status of their inclusion (listed) on UN lists.



In the case of licensing foreign institutions, the Banking Control Commission can exchange information with foreign supervisory authorities in the field of granting licenses (Internal Memorandum 1/2022). The authorities mentioned that no foreign institutions were licensed since more than 10 years.

### **Financial Brokerage (intermediation) Companies**

When submitting an application for a license, the applicant must indicate to the CMA their competence and eligibility to engage in licensing-related business, and that the managers, members of management, employees and agents have the necessary integrity to carry out such business. It also requires that the FIU ensures the fitness and properness of partners and that their businesses and financial status, also, that their shareholders, BOs and members of senior management and managers are not designated in the local and international sanctions lists (Article 2205 of the Financial Market Licensing and Registration System). Identity documents, information on the financial situation and an accurate assessment of their solvency and financial ability must be submitted. And a recent copy of the criminal record of the founding members, the persons participating in the capital subscription, the BOs, and the persons occupying positions in the board of directors and the senior executive management of the company (it may include a certificate of registration in the commercial register in the case of a legal person) (Annex 2 of the licensing system). There are no obligations to apply periodic procedures to ensure the continued integrity of their criminal record and the status of their inclusion on UN lists.

The assignment of shares in the capital of financial intermediation institutions is subject to a prior authorization (licensing) from the FIU if the percentage exceeds 10% of the total shares of the institution, or if the assignee or the assigned to is one of the current or elected board members.

### **Insurance Companies**

There are general requirements that prohibit the establishment, management, or representation of insurance companies by persons convicted of crimes including forgery, theft, breach of trust or fraud, issuing a bounced cheques in bad faith, concealing things obtained through these crimes, participating in these crimes, or attempting to committing one thereof, or they were sentenced to imprisonment for six months or more, for whatever reasons. As well as those convicted of bankruptcy unless they have been exonerated (Article 40 of the Law of Security (Daman) Institutions). It is also required that the general manager or the assistant general manager be of good conduct and a university degree holder with experience in insurance work of not less than ten years (Article 3). Whereby any amendment to the capital of the company must be subject to the approval of the Minister of Economy, and the Ministry shall be informed of any change in the composition of the board of directors or the general manager (Article 5). The listing status on local terrorist lists is checked according to the mechanism of implementing the UNISCR 1373 (Clause 5, Para. 3) and AML Law (Article 6, Clause 5). There are obligations in place to ascertain the background of the actual and controlling beneficiaries in indirect ways, and to scan names against UN lists.

### **Criterion 26.4:**

**Criterion 26.4 (a):** Article 6 of Law No. 44 of 2015 specifies the responsibility for verifying that the subject entities, including the institutions subject to the Basic Principles, comply with the provisions of the law and the regulatory texts issued in implementation thereof. The Compliance

Unit of the FIU is the entity entrusted with the task of conducting on-site and off-site oversight operations based on a risk-based approach on financial institutions subject to the core principles with the aim of evaluating their compliance with AML/CFT procedures, including on the group level (FIU's Operating Rules). The supervision is carried out in accordance with the annual risk-based supervision plan prepared by the Compliance Unit. The plan includes the combined supervision at the group level, and the mechanism used in the inspections, which is included in the supervision manual for the verification unit, includes those related to group-level-supervision. The Compliance Unit issues reports containing the results of the supervisory tasks, the corrective measures required from the financial institution, and the disciplinary measures taken thereagainst. It also falls within the FIU's responsibilities to collect and safeguard information from subject entities and local and foreign authorities, exchange it with their counterparts, and issue regulatory texts related to the application of the law. Article 12 provides immunity to the FIU's employees within the scope of their work. The BCC practices precautionary supervision over financial sector institutions licensed by the Banque Du Liban, and the AML/CFT compliance verification remains one of many components included under its supervision. As for the CMA and the ICC, their role is limited to licensing, and they do not have a supervisory role in the field of AML/CFT.

**Criterion 26.4 (b):** The FIU carries out the same tasks as mentioned in (A) above with regards to verifying the compliance of other FIs with the requirements of AML/CFT, and the FIU carries whereby the Compliance Unit is entrusted with the task of supervision over other financial institutions, as these institutions are subject to onsite and offsite supervision based on the risk-based approach, including at the group level (the FIU's bylaws), and this is done in accordance with the annual supervisory plan prepared by the "Procedures Verification Unit." Which is risk-based.

**Criterion 26.5:**

The tasks of the Compliance Unit have been defined within the scope of the FIU's Operating Rules, including carrying out onsite and offsite supervisory tasks, to verify the compliance of banks and FIs, including, on the level of the group, as per AML/CFT requirements, provided that the frequency and intensity of this supervision is determined on the basis of ML/TF risks and the internal policies, controls and procedures associated with the entities subject to supervision, in accordance with a specific assessment of the risk structure of the subject entity, taking into account the NRA results. The supervision manual mentions additional factors on the basis of which the frequency and intensity of supervision is determined. These include the characteristics of the sector in terms of the diversity and number of institutions and the degree of freedom granted to them in light of the risk-based approach, features and risk structure of financial institutions or groups. The supervision manual also mentions that the application of supervision at the group level includes a study and evaluation of internal policies and controls and reports on AML/CFT for branches and subsidiaries abroad. The Compliance Unit at the FIU carried out two sectoral assessments in 2016 and 2019 based on quantitative and qualitative information collected from several sources, including data from the FIU related to patterns, strategic analysis and suspicious reports, in addition to information from the financial sector collected through questionnaires, annual reports and information derived from the experience of the supervisory authority with the sector and mainly from the results of the supervisory visits (tasks). The analysis was conducted at two

independent levels, namely identifying vulnerabilities and their impact on each sector, then assessing ML/TF risks across each sector based on a number of variables such as the nature of activity, services and products, business volume, delivery channels, customer categories, and country risks.

**Criterion 26.6:**

It falls within the tasks of the FIU to review the assessment of the structure of money laundering and terrorist financing risks for the entities subject to supervision, including risks of non-compliance) on a regular basis and when there are important events or developments in these entities (the FIU's bylaws). whereby the supervisory manual (reference E,T/25-9-19) mentions the risk structure of financial groups as part of the elements of risk-based supervision, as the group's risk structure is evaluated on the basis of inherent and residual criteria and is renewed periodically in response to significant events or developments. A case study example illustrates how a major incident of non-compliance by a bank modified the risk profile and periodicity of the bank's supervision. The AT also reviewed the risk classification matrix applied by the supervisor to arrive at the risk classification at the individual level for each financial institution, where compliance status is one of the many factors used in the matrix, and other factors include reporting suspicious transactions (size and adequacy), status and type of financial institution, and size in terms of deposits and clients, geographic reach, high-risk clients, PEPs, non-resident clients in high-risk countries, governance, and qualitative factors. The risk classification matrix is reviewed annually in response to events or developments, and the annual inspection plan is based on the result of that matrix.

**Weighing and Conclusion:**

The shortcomings are represented in the absence of measures to apply periodic procedures to ensure the continuous clearance of the criminal record and the status of listing on the UN lists of the owners, the BOs and those who occupy senior positions in financial institutions. General procedures are applied to ascertain fitness, properness and integrity when licensing insurance companies, but they do not include checking the background of the actual and controlling beneficiaries through indirect ways and scanning the names against the UN lists.

**Recommendation 26 is rated LC.**

## **Recommendation 27 - Powers of Supervisors**

Lebanon was rated in the first round of the mutual evaluation process as (LC) in the previous recommendation 29 and the shortcomings were represented in the lack of powers to impose administrative sanctions on institutions that violating the AML/CFT law.

### **Criterion 27.1:**

The FIU has the power to monitor and follow up the compliance of financial institutions with the AML/CFT requirements and to ensure their compliance therewith, in accordance with the provisions of the second item in Article 6 of Law No. 44/2015. The aforementioned clause states that one of the tasks of the FIU is to (verify that the persons referred to in Articles 4 and 5 comply with the obligations stipulated in this law and the bylaws issued in reference thereto).

### **Criterion 27.2:**

The FIU's Operating Rules clarifies the responsibilities of the Compliance Unit and includes, based on a risk-based approach, the work of on-site and off-site supervision to periodically and continuously verify that financial institutions implement the requirements of the AML/CFT Law No. 44/2015 and the circulars and notices issued in this matter.

### **Criterion 27.3:**

Financial institutions are required to provide the FIU with the documents and information necessary to carry out its tasks within a reasonable time, and a court order (judicial order) is not required. The FIU has the right to request regular reports from the violating authorities on the measures it has taken to correct their situation. (Articles 10 and 13 of the AML/CFT Law No. 44/2015).

### **Criterion 27.4:**

Anyone who violates the provisions of Articles 4, 5, 7, 10 and 11 (obligations related to due diligence, reporting, tipping-off and record-keeping) of the AML/CFT Law shall be punished by imprisonment from two months to one year and a fine of up to one hundred million Lebanese pounds (equals to USD 64,935), or one of these two fines. Article 13 of Law No. 44/2015 Since Article 13 imposes fines on anyone who violates the aforementioned obligations, it can be concluded that the fines include institutions, their directors and their senior management. The FIU may send a warning to those who violate the bylaws issued in implementation of the law. It can refer these bodies to the Higher Banking Commission with regard to those concerned parties under Article 4 (i.e., banks and financial institutions except insurance companies), and the HBC can impose a fine on those referred to it, provided that it does not exceed 200 folds the official minimum wage. There are also fines available in accordance with Article 208 of the Code of Money and Credit and are applied to banks, and FIs subject to regulation by the BDL, and these fines include the prohibition of performing some operations or imposing any other limitations in the practice of the business, the appointment of a supervisor or a temporary manager by the Banque du Liban, and strike-off. Fines may be imposed on violating exchange companies in accordance with the provisions of Article 18 of Law No. 347/2001 regulating the exchange business in Lebanon and include warning, prohibition from carrying out some operations or imposing another

restriction in the practice of the profession, preventing the owner of the institution or any of the partners from practicing the profession permanently or temporarily, strike-off from the list of exchange institutions.

As for insurance companies, the FIU has the right to send a warning to violators of the bylaws issued in implementation of the law. It can also write to the Ministry of Economy, as it is the guardianship or supervision authority regarding the violating insurance companies. (Article 13) The Ministry of Economy can withdraw the license granted to the insurance company or one of its branches if it is proven to the Ministry that it does not comply with the provisions of the Lebanese laws in force. It can be concluded that this includes the AML/CFT Law. (Article (7) Clause (1) Paragraph (B) of the Law on Regulating Security (Daman) Bodies. The Lebanese authorities have made it clear that the value of the administrative fine of 200 times the official minimum wage is for one violation, and therefore higher financial fines have been imposed. It is also evident from the statistics provided by the state that it has imposed fines ranging from USD 90,000 to USD 720,000, and warnings, strike-offs and administrative fines have been applied in a number of cases.

### **Weighing and Conclusion:**

The FIU has the powers to follow up on the compliance of financial institutions with the requirements of the AML/CFT Law and its Bylaws, and it has the powers to carry out inspections and compel the subject institutions to provide information. There are also financial, administrative, and criminal fines against all violators of the AML/CFT requirements.

**Recommendation 27 is rated C.**

### **Recommendation 28 - Regulation and supervision of DNFBPs**

Within the MER, in the first round, the Lebanese Republic received a “non-compliant” rating in the recommendation (previously 24) due to the lack of the FIU’s legal powers to supervise the casino’s compliance with AML/CFT obligations, and the lack of clarity in the FIU’s role as a competent authority for AML regulation and supervision in relation to Lawyers, accountants, notaries and Casino du Liban, and the absence of the power to impose fines on law-bound institutions for non-compliance, and the absence of measures to prevent criminals or their accomplices from acquiring large or controlling shares, becoming the beneficial owners or assuming a management function in any casino (gambling clubs).

#### **Criterion 28.1:**

**Criterion 28.1 (a):** The only Casino in Lebanon was established under law of 1954, whereby the Casino du Liban Company was licensed to invest for a term ending in 1985. The license was renewed under Law 320 of 1994. The exclusive right of Casino du Liban to invest in gambling games was clarified under Law No. 417 of 1995.

**Criterion 28.1 (b):** The Lebanese company "Intra" owns (52%) of the shares of Casino du Liban, and the Banque du Liban owns the main share in this company. There are no measures for fit and proper to prevent criminals and their associates from acquiring controlling shares, becoming beneficial owners, or assuming management or operating functions of the Casino. The listing status on local terrorist lists is checked according to the mechanism of implementing the UNISCR 1373

(Clause 5, Para. 3). There are no measures in place to ascertain the status of their listing on and international terrorist lists.

There are general provisions of the Code of Commerce apply to both companies, where Article 79 and 148 imposes controls preventing any person from participating in the establishment of a joint-stock company or hold a board of directors position therein if they have declared bankruptcy and has not been exonerated for at least ten years, or if they have been convicted in Lebanon or abroad for less than ten years for committing or attempting to commit a felony or misdemeanor to which the fines of fraud shall apply, or embezzlement of money or values, or issuing bounced cheques in bad faith, defamation of the financial standing of the state, or concealing things obtained through these crimes. The same conditions apply to representatives of legal persons who participate in the establishment of the company and their representative in the board of directors therein. There are no controls in place to ascertain the background of the legal persons, ultimate and controlling beneficiaries in indirect ways.

**Criterion 28.1 (c):** The Casino is subject to the provisions of the AML/CFT Law, whereby the FIU is entrusted with the task of verifying the casino's compliance with the procedures stipulated under the AML/CFT Law and its bylaws. (Article 5 and 6 of law 44/2015)

**Criterion 28.2 and 28.3:**

Real estate dealers and brokers, dealers of high-value commodities (ornaments, precious stones, gold, antiquities, antiques), certified accountants, notaries, and lawyers are subject to the provisions of the AML/CFT Law (Article 5 of Law 44/2015). The FIU is tasked with verifying that real estate dealers and brokers, and dealers of high-value commodities, comply with the obligations stipulated in the law and its bylaws (Article 6) As for the certified accountants, the Association of Certified Public Accountants is entrusted with the task of verifying their compliance with the procedures stipulated in the law and its bylaws (17 of Law 44/2015). The Ministry of Justice undertakes the task of verifying that notaries comply with the obligations stipulated in the law and its bylaws (Article 17 of Law 44/2015). The Bar Associations in Beirut and Tripoli are entrusted with the task of verifying that lawyers comply with the procedures stipulated in the law and its bylaws (Article 17 of Law 44/2015).

This includes the aforementioned supervisory authorities verifying the compliance of those concerned with the obligations mentioned in Article 4 of the law, such as applying due diligence measures, record-keeping, carrying out continuous monitoring, in addition to the obligation to report suspicious transactions in accordance with Article 7. Failure to cover all activities (refer to C.22.1) affects meeting the requirements of this criterion.

**Criterion 28.4:**

**Criterion 28.4 (a): Powers of competent authorities or self-regulatory bodies:**

**Notaries:** The Ministry of Justice has the necessary powers to perform its duties, including following up on the compliance of notaries under the provisions of the AML/CFT Law and its bylaws on the basis of Article (17) of Law No. 44/2015. This is done through administrative and financial inspections of the notaries (Article 12 of the Notaries Public Law No. 337/1994). Section 8 of the Notary Public Obligations Guide explains that monitoring compliance with the obligations

stipulated in Law 44/2015 falls within the tasks of administrative and financial inspection carried out by judges delegated from a ministry, and they also organize minutes in this regard.

**Certified Accountants:** Whereas LACPA has the power to verify the compliance of certified accountants with the procedures stipulated in the AML/CFT Law and its bylaws in accordance with the provisions of Article 17 of the law, it therefore, has established the Compliance Committee for AML/CFT according to LACPA's Council (board) Decision No. 13/ 2016 Its tasks include adopting a risk-based approach to verifying the compliance of certified accountants with the requirements of the law and the bylaws issued by the FIU. It also falls within the Committee's duties to prepare reports on the results of the supervisory work and refer these reports to LACPA's Council to take the appropriate decision.

**Lawyers:** The Bar Associations in Beirut and Tripoli have the power to verify that lawyers comply with the obligations stipulated in the AML/CFT Law and the related bylaws (Article 17 of the Law). Guide to Lawyers' Obligations for AML/CFT (Section Six) clarifies the supervision procedures, including adopting a risk-based approach to verify their knowledge of the requirements of the law and the extent of their compliance with these obligations, and issuing reports that include the results of supervision works and referring them to the President to take the appropriate decisions.

Failure to cover all activities (as mentioned in the Analysis of C.22.1) affects compliance with the requirements of this criterion.

**Real Estate Agents and DPMS:** The FIU has the power to verify the compliance of real estate dealers and brokers and DPMS with AML/CFT measures (Article 6 of Law 44/2015). This includes carrying out inspections that fall within the tasks of the FIU's Procedures Verification Unit. The Operating Rules of the FIU clarifies the responsibilities of the Procedures Verification Unit and includes, based on a risk-based approach, onsite and offsite supervisory work to periodically and continuously verify that the institutions subject to supervision implement the AML/CFT requirements under Law No. 44/2015 and the circulars and notices issued in this matter.

#### **Criterion 28.4 (b): Access measures**

Apply to all professionally recognized notaries, certified accountants, and lawyers. The non-inclusion of all the activities of notaries, certified accountants, and lawyers as well as companies and trust service providers affect the compliance to this Criterion.

**Notaries:** There are specific conditions that must be met by the candidate notaries. Article (5) of Law No. 337/1994 specified those conditions, which include that the candidate must hold a Lebanese certificate in law, enjoys civil rights, and has not been convicted of a felony or attempted felony of any kind, or a misdemeanor or attempted misdemeanor. The crimes of theft, fraud, breach of trust, issuing a bounced cheque, embezzlement, bribery, forgery, use of forged things, false testimony, and crimes against morals stipulated in Chapter Seven of the Penal Code and drug crimes are considered abominable offence. Nomination applications are examined by a panel of judges, including a personal interview with each candidate (Article 6). The listing status on local

terrorist lists is checked according to the mechanism of implementing the UNISCR 1373 (Clause 5, Para. 3) and AML Law (Article 6, Clause 5). The prosecution of notaries is subject to the consent of the Minister of Justice (Article 16-Notaries Profession Organization) which allows the Ministry of Justice to be fully aware of the legal status of the notary. There is no obligation to verify inclusion on the UN lists, or to prevent accomplices of criminals from being professionally certified.

**Certified Accountants:** Anyone wishing to practice the profession of a certified public accountant must be registered on the general list of LACPA. Article 1 of law 364/1994 There are specific conditions that must be met, including enjoying all civil rights, has not been convicted of a felony or abominable misdemeanor, and that they have not been dismissed from a public sector job for a reason that violates the honor or dignity of the job (Article 8 of Law 364/1994). The listing status on local terrorist lists is checked according to the mechanism of implementing the UNISCR 1373 (Clause 5, Para. 3) and AML Law (Article 6, Clause 5). However, the conditions do not include ensuring the listing status on terrorists' lists. No obligations are in place to prevent accomplices of criminals from being professionally certified.

The Certified Public Accountant loses their membership in LACPA and is prohibited from practicing the business in the event that one of the conditions specified in the said article is missing, or a final judgment is issued by the Disciplinary Board for prohibiting them from practicing their work. (Article 11 of law 364/1994). The registration of foreign experts in the Bar's list is carried out according to specific conditions, including the above-mentioned conditions for the registration of Lebanese experts (Article 18 of Law 364). Certified experts may establish among themselves professional civil companies, and companies with specialists in financial, economic and administrative matters. ((Articles 16 and 20 of the Law regulating the profession of Certified Accountants 364/1994). The fit and proper tests do not apply to BOs who are not partners in these professional companies. The meeting of the Bar's Council approved procedures to update the information of the members of the Bar every 5 years with a request for a criminal record, and to ensure the integrity and legal status of the experts wishing to move to the practitioners table (list) as well as to ensure the integrity and all actions of the unaffiliated partners (Bar Council's Minute Decision No. 1107, which was held on 29 December 2021).

**Lawyers:** Anyone wishing to practice the legal profession must be registered with the Bar Association (LACPA). There are specific conditions for fit and proper that must be met for the registration application, including that the applicant be Lebanese, holds the required certificates, enjoys a good conduct, has not been convicted of a criminal or disciplinary offense for an act that violates honor or dignity, and has not been dismissed from a public job or a previous profession for a reason that violates honor and dignity (Article 5 of Law Regulating the Legal Profession No. 70-8). The listing status on local terrorist lists is checked according to the mechanism of implementing the UNISCR 1373 (Clause 5, Para. 3) and AML Law (Article 6, Clause 5). The procedures do not include checking the inclusion status on UN terrorist lists. Article 79 of Law



Regulating the Legal Profession stipulates notifying the President of the Bar before interrogating any lawyer (except in case of caught in the act). Therefore, the Bar is constantly aware of the legal status of its lawyers. No obligations are in place to prevent accomplices of criminals from being professionally certified. It is possible to establish professional civil companies that include lawyers as partners, and the subject of these companies is to practice the legal profession (Article 83 of the Law Regulating the Legal Profession).

**Real Estate Agents and DPMS:** There are no fit and proper tests measures to prevent criminals and their accomplices from practicing these professions. The listing status on local terrorist lists is checked according to the mechanism of implementing the UNISCR 1373 (Clause 5, Para. 3). There are no measures to ensure the status of their listing on UN terrorist lists.

However, there are general provisions in the Code of Commerce that apply to the founders of joint-stock companies and members of their board of directors, as mentioned in the analysis of criterion 28-1b. These procedures apply when real estate agents and DPMS practice those professions as joint-stock companies only. There are no controls in place to ascertain the background of the ultimate and controlling beneficiaries in indirect ways. There are no measures to prevent criminals and their accomplices from occupying management positions in these companies, or those who are entrusted with the right of authorized signatories.

#### **Criterion 28.4 (c): Sanctions**

Fines for violating the AML/CFT Law are available, with imprisonment from two months to one year and a fine of up to one hundred million Lebanese pounds, or one of these two fines. Article 13 of Law No. 44/2015, and the failure to cover all the activities of accountants, notaries, lawyers and companies and trusts service providers affects the possibility of applying these fines in all cases. In addition, the supervisory authorities have fines available in case of violating the rules of the profession in accordance with the regulations and laws related to the practice of the profession as follows:

**Notaries:** In general, warning, censure or suspension from practicing the profession or transferring to the Disciplinary Council are available, where the Council can impose fines such as detention for a period ranging from one to three years or a final prohibition from practicing the business. Articles 14 and 15 of Notaries Public Law No. 337 of 1994. Imprisonment and fine fines are available under Article 16 for breaching the rules of the job and it is unclear if they can be applied in AML/CFT-related offenses. Whereby the country confirmed that, to date, fines under this article have not been applied exclusively to such violations.

**Certified Accountants:** Administrative fines are available in accordance with the provisions of Law No. 364/1994 and are applied when LACPA's members violate the duties of their profession or perform acts that affect the honor and dignity of the profession (Article 43). It includes one of the following fines: Warning, censure, or suspension from work for a period not exceeding one

year, or suspension from work permanently. This does not expressly include violations of compliance with AML/CFT requirements.

**Lawyers:** Fines are available in accordance with the provisions of Article 99 of the Law Regulating the Legal Profession, which are fines imposed on every lawyer who violates the rules of their profession specified in this law, and range from warning, censure, prohibition from practicing the profession and strike-off. This does not expressly include violations of compliance with AML/CFT requirements.

**Real Estate Agents and DPMS** Financial fines and criminal fines are available for all violators of the provisions of the AML/CFT Law. Warning fines are also available for violators of the bylaws issued in implementation of the provisions of the AML/CFT Law (Article 13 of the law).

**Criterion 28.5 (a and b):**

Casinos Real Estate Agents and DPMS The FIU performs the task of verifying that Casinos, real estate dealers and brokers, and DPMS comply with the obligations stipulated in the law and its bylaws. The tasks of the Procedures Verification Unit were identified within the FIU's Operating Rules which include on-site and off-site supervision (monitoring), provided that the periodicity and intensity of this supervision is determined on the basis of ML/TF risks and the internal policies, controls and procedures associated with the entities subject to supervision, according to a specific assessment of the risk structure of the subject entity, provided that ML/TF risk in the country is taken into consideration. However, the manual of the Procedures Verification Unit for supervision has identified, according to the risk-based approach, the distinguishing features of DNFBPs that must be taken into account when assessing risks and determining the periodicity and intensity of supervision in terms of their diversity, number and degree of discretion (freedom) granted thereto. In light of the risk-based approach, the manual also specified the mechanism for calculating the risk levels for each entity separately and how to determine the supervision plan on the basis of those risks.

**Lawyers, Notaries and Certified Accountants:** There are no regulatory texts to meet this criterion.

**Weighing and Conclusion:** The biggest shortcomings in meeting the requirements of this Recommendation are the lack of measures to check and regularly verify the inclusion of notaries, lawyers and certified accountants on the UN lists of terrorism, and to prevent the professional accreditation of accomplices of criminals. There are no fit and proper tests, or preventive measures for criminals and their associates from practicing the professions of DPMS, real estate agents to verify their designation on UN terrorist lists. When registering them as companies, there are no controls to check the backgrounds of the indirect beneficial owners and controllers, or to prevent criminals or their associates to hold managements offices in such companies or being among the persons entrusted to authorize signatories. There are no fit and proper measures to prevent criminals and their associates to hold controlling shares, become beneficial owners or held senior positions or operate the Casino. Also, there are no specific procedures for supervising notaries,

lawyers and professional accountants to take into account the elements required by this recommendation when evaluating risks and determining the periodicity and intensity of control. Failure to cover all activities (as mentioned in the Analysis of R.22) affects compliance with the requirements of this recommendation.

**Lebanon's compliance rating with R.28 is PC.**

### **Recommendation 29 - FIU**

In the first round, the Lebanese Republic was rated (LC) in the recommendation (26 previously) due to the legally limited jurisdiction of the FIU in ML areas without the financing of terrorism.

#### **Criterion 29.1:**

FIU, the FIU in Lebanon, was established on 20 April 2001 as an independent body of a judicial nature with Banque du Liban under Law No. 318 to combat money laundering, which was amended to become Law No. 44 for Anti-Money Laundering and Combating Terrorist Financing of 24 November 2015. Article 6 of this law stipulates that the FIU has a legal personality and that it is not subject, in the exercise of its business, to the authority of the BDL. While the second clause of the same article states that the FIU is competent to receive STRs and requests for assistance, conduct investigations into operations suspected of being related to money laundering or terrorist financing offenses, determine the seriousness of the evidence and presumptions of committing these crimes or one of them, and take the appropriate decision in their regards. The FIU, according to its Operating Rules prepared in accordance with Article VI, Clause 10 of the AML/CFT Law No. 44/2015, in Section I: When receiving STRs by the authorities specified under Articles Four and Five of Law No. 44 of 2015 AML/CFT (which are banks, financial institutions, and DNFBPs), to analyze the incoming STRs according to priority and conducting the necessary investigation thereon, and when there are sufficient reasons to suspect that they are related to ML, associated offences, terrorism and terrorist financing, to take a decision to refer the information related to STRs and the results of analysis and other relevant information to the Public Prosecutor of the Cassation to take the necessary measures in this regard. The authorities indicated that the FIU subsequently provided the concerned reporting authorities with feedback.

#### **Criterion 29.2:**

**Criterion 29.2 (a):** Article (7) of the AML/CFT Law - No. 44 of 2015 obligates the parties referred to in Article 4 and 5 (financial and non-financial institutions, and DNFBPs) to report to the chairman of the FIU - immediately about the details of the executed or attempted transactions that they suspect are related to ML/TF. However, the obligation of reporting entities under Law No. 44/2015 does not cover all categories of serious crimes contained in the glossary issued by the FATF (see R.3 C.2).

**Criterion 29.2 (b):** Clause 6 of Article 11 of Banque du Liban Basic Circular No. 83 addressed to banks and financial institutions states that cashiers must require customers, with the exception of those who have been exempted, to fill out and sign the Cash Transactions Slip (CTS) by the customer, provided that it includes, in addition to the transaction value, information on the object of transaction, the source of funds and on the owner of the economic right, in case of cash deposits totaling or exceeding each USD 10,000 or its equivalent, or in case of multiple cash deposits involving lower amounts but whose aggregate amount totals or exceeds USD 10,000 or its equivalent, filing it into a template (form) and keeping it in order to make it available upon the request of supervisory authorities. Article 4 of Law No. 42 of 2015 regarding the authorization of cross-border transfer of funds states that “the FIU has the authority to directly access the declarations, disclosures, minutes, documents and records that are the subject of Article 3 of the same law”.

**Criterion 29.3:**

**Criterion 29.3 (a):** as per the Operating Rules of the FIU prepared as per Article 6, Clause 10 of the AML/CFT law No. 44/2015 “The Chairman of the FIU or any person delegated by the Chairman may directly request from the parties referred to in Articles 4 and 5 to provide the FIU with all the documents and information needed to perform its duties. Such parties must respond to this request within a reasonable period of time”. The Operating Rules of the FIU in Section VI, the tasks of the Analysis and Investigation Unit issued under Clause Ten of Article Six of Law No. 44 of 2015, authorizes it when preparing reports on the results of analysis work and investigation, with regards to incoming requests for assistance, to request additional information, when necessary, from the reporting institutions, LEAs, and government departments, in addition to obtaining information from counterpart FIUs.

**Criterion 29.3 (b):** The Operating Rules issued under the tenth article of Article 6 of Law No. 44 of 2015 on AML/CFT gives the FIU the right to obtain financial and administrative information from LEAs that it requests to carry out its functions in an appropriate manner, and authorizes it when preparing reports on the results of analysis and investigation work and on requests for assistance received, to use, to the maximum extent possible, the evidence, financial and administrative information and data of the relevant authorities (including information from open or public sources, as well as any relevant information collected and/or maintained by other relevant authorities, and, where appropriate, commercially held data).

Also, Article 9 of Law No. 44 of 2015 empowers the chairman of the FIU or his delegate, the authority to directly contact all Lebanese and foreign authorities (judicial - administrative - financial and security) in order to request information or see the details of the investigations that it has conducted on related matters or associated with investigations conducted by the FIU. The concerned Lebanese authorities must promptly respond to this information request, and shall not be subject to any confidentiality obligation.

**Criterion 29.4:**

The FIU's mission under Article 6, Paragraph 2 of the AML/CFT Law No. 44/2015 includes Receiving STRs and requests for assistance, conducting investigations into operations suspected to constitute money laundering crimes or terrorist financing, determining the seriousness of evidence and presumptions of committing these crimes or one of them, and taking the appropriate decision in this regard.

According to Article 6, Clause 10 of Law No. 44/2015, FIU's Operating Rules states under Section VI that one of the missions of the Database Administrative Unit is to cooperate with the "Analysis and Investigation Unit" to conduct strategic analysis through the use of available information that can be obtained. in order to identify trends and patterns of money laundering and terrorist financing crimes. Some of the results of the strategic analysis have been published in the annual reports issued by the FIU.

**Criterion 29.5:**

The FIU's Operating Rules, prepared in accordance with Article VI, Clause 10 of the AML/CFT Law No. 44/2015, stipulates in the first section that one of the missions of the Commission as a financial intelligence unit is to take decisions regarding referring the information related to the reports and the results of their analysis (dissemination) and other relevant information to the Public Prosecutor at the Court of Cassation to take the necessary measures in this regard. FIU, with regards to reports, must provide the reporting entities with feedback.

The FIU adopts dedicated, secure and protected channels when referring (disseminating) information and/or results of analysis, either spontaneously or upon request.

**Criterion 29.6:**

The FIU's Operating Rules prepared in accordance with Article Six, Clause 10 of the AML/CFT Law No. 44/2015, Section Five regarding confidentiality, protection and information security procedures, and Section Six, Clause (4), stipulated the following:

Rules and procedures are established and adopted to ensure the security and confidentiality of documents and information including for case handling, storage, referral, and protection of information as well as for how to and rights to access it. The procedures include disconnecting servers from the Internet and adopting encryption for electronic communications with third parties. The FIU also observes the Egmont Group Charter and Principles for the Exchange of Information, when exchanging information with counterpart FIUs abroad or when receiving or sending requests for international assistance.

The status of any employee nominated for a job is investigated and inquired, as they [nominated employees] must not have criminal precedents, enjoying civil rights, and not subject to prohibitions as stipulated for under Article 127 of the Code of Money and Credit. All FIU employees are subject to the obligation to maintain confidentiality according to Article 6 of Law No. 44/2015. In this regard, the oath is taken before the chairman of the FIU, and an undertaking to maintain confidentiality document is signed thereby. Employees are required to maintain high professional

standards, including those relating to confidentiality, to be of a high degree of integrity and to have appropriate skills. Employees are informed of the applicable security and protection procedures, and ensure that they understand them, especially when dealing with and/or referring sensitive and confidential information.

Rules and procedures for protecting the workplace and offices and the rights of access thereto are set and approved, and rules are established for the eligibility of access to information, documents and information software according to the need and the eligibility (accessibility) granted. The procedures include the use of cameras, recording calls, and the development of electronic control systems to determine the validity of the movement of entry and exit from the headquarters and offices and their preservation. Section VI, Clause (4), states that one of the IT and Security Unit's missions is to adopt rules and procedures for protection of the workplace and offices and the right to access them. It also set and approve rules and procedures to ensure the security and confidentiality of information, stored documents and programs, and apply rules for the eligibility of access to them according to the need and the eligibility granted.

**Criterion 29.7:**

Article 6 of the AML/CFT Law No. 44/2015 - provides for the establishment of an independent authority at the Banque du Liban, of a judicial nature, enjoying a legal personality, and not subject in the exercise of its work to the authority of the bank and called the Special Investigation Commission (FIU) as stipulated in the Operating Rules of the FIU based on Article VI, Clause 10 of the AML/CFT Law No. 44/2015, in the first section that one of the missions of the FIU as a financial intelligence unit is the following:

When the FIU receives STRs from the authorities specified under Articles 4 and 5 of Law No. 44/2015, the incoming reports are analyzed according to priority and the necessary investigation is conducted in respect thereto, and when sufficient reasons are available to suspect that they are related to money laundering crimes, associated predicate offenses, terrorism and the financing of terrorism, a decision is taken to refer the information related to the reports and the results of their analysis (dissemination) and other relevant information to the Public Prosecutor at the Court of Cassation to take the necessary measures in this regard. The FIU provides the reporting bodies with feedback.

Article 9 of Law 44/2015 states the following: FIU Chairman, or whoever they delegate, has the power to communicate directly with all Lebanese or foreign authorities (judicial, administrative, financial and security) in order to request information or see details of investigations it has conducted on matters related to or linked to investigations conducted by FIU. The concerned Lebanese authorities must promptly respond to this information request and shall not be subject to any confidentiality obligation. Article 6 of Law No. 44/2015 indicated that the FIU may exchange information with its counterparts as the valid reference and official center to do so.

Article 6 of the AML/CFT Law No. 44/2015 stipulates that: An independent, legal entity with judicial status shall be established at Banque du Liban, referred to as “the Special Investigation Commission” or “the Commission”, which shall discharge its functions without being subject to

Banque du Liban's authority. As clear from Article 6 of Law No. 44 of 2015, the competences of the FIU differs from those of the BDL's.

In accordance with the provisions of Clause 11 of Article 6 of the Anti-Money Laundering and Terrorist Financing Law No. 44/2015, which stipulates that "The expenses of "the FIU" and its ancillary bodies shall be borne by Banque du Liban as part of the budget prepared by "the Commission", provided the budget is approved by the Central Council of Banque du Liban."

**Criterion 29.8:**

The FIU joined the Egmont Group in July 2003.

**Weighing and Conclusion:**

Lebanon has made remarkable progress in meeting the technical requirements related to this recommendation; However, Obligations of Law No. 44/2015 regarding reporting does not cover all categories of serious crimes contained in the glossary issued by FATF (See Rec.3 C.2)

**Recommendation 29 is rated LC.**

**Recommendation 30 - Responsibilities of Law Enforcement and Investigative Authorities**

During the first round of the mutual evaluation process in 2009, Recommendation (27) - LEAs was evaluated (LC), as the evaluation report showed a shortcoming in the lack of a specific authority responsible for ensuring investigation procedures in terrorist financing crimes In addition to introducing technology to the authorities responsible for collecting evidence in combating the crime of money laundering and terrorist financing, and increasing qualitative training for all agencies concerned with combating money laundering and terrorist financing, while providing the Anti-Narcotics and Money Laundering Division in the General Administration of Customs with adequate human and technical resources.

**Criterion 30.1:**

The country has a wide range of authorities responsible for investigating ML/TF and the associated predicate offences. The Ministry of Interior is responsible for investigating ML and the predicate offences, and the Intelligence directorate at the Ministry of Defense and the Information Division at the Ministry of Interior is responsible for investigating TF, whereby the Customs and Taxes Directorate is responsible for tax crimes as per their competence in customs and tax crimes. However, they do not investigate ML crimes, but secure coordination and information exchange through the liaising officer, who undertakes notifying the FIU and all related authorities about the persons who commit or suspected to commit crimes included in the Law No. 44/2015 and any transactions suspected to conceal ML activity, through a division specialized in AML (which is established within the General Directorate of Customs to combat money laundry) affiliated to the Department of Audit and Search about smuggling, which is directly reporting to the General Director of Customs.

It is worth to mention that the Article 103 of the Decree No. 1802/79 considers the officers and non-commissioned officers, except for corporals, as judicial officers assisting the Public Prosecution in their respective authorities. Article 361 of Customs Law is about authorized employees and their right to investigate the customs crimes, and to communicate with public prosecutions (appeal, financial, etc.) and the FIU according to their respective authorities and deposit the investigations or suspicion information.

However, it remains unclear the proportionality of the procedures adopted in opening investigations into the predicate offences related to banking crimes resulting from violating the Code of money and credit, tax evasion and other violations related to customs, through which the prosecution was restricted in initiating case and conduct the necessary investigations in accordance with the provisions of Article (20) of the Code of Criminal Procedure, except after submitting a written request from the Governor of the Banque du Liban and the Director of the Customs Administration.

**Criterion 30.2:**

The judicial police charged with investigating predicate offences is granted the right to conduct a parallel financial investigation in ML/TF and the associated predicate offences. They can also, in accordance with the provisions of Paragraph (3) of Circular issued by the Public Prosecution at the Court of Cassation No. 85/R dated 6/2/2022 AD when necessary, form Joint investigation teams to conduct cooperative investigations in relation to international cooperation on ML/TF and the associated predicate offences.

**Criterion 30.3:**

The Cassation Public Prosecution is concerned with identifying and tracking properties, and in the context of any investigation it conducts under Article 14 of the Code of Criminal Procedure, the Cassation Public Prosecution can resort to: the real estate registry to determine the properties registered in the real estate law and immovable rights system, and the commercial register to determine the registered property in the Code of Commerce as amended, and the Traffic and Vehicles Authority stipulated in Article 53 of Chapter 6 of the Law organizing the Ministry of Interior and Municipalities to determine property such as cars and vehicles of all kinds (Article 55, Chapter 6, Law organizing the Ministry of Interior and Municipalities), and customs to determine property stipulated in the Customs Law of imported or exported goods.

And according to Article (14) of the Code of Criminal Procedure, the judicial police in charge of investigating ML/TF and associated predicate offences as well as identifying, tracking and seizing movable property that is or may be subject to confiscation or that is suspected to be proceeds of a crime. The law also granted the FIU the right to seize funds, including movable and immovable property, which are or may be subject to confiscation, or which are suspected to be proceeds of a crime, through attaching an encumbrance on entries and records relating to movable or immovable property.

With regard to the freezing of funds that are or may be subject to confiscation or that are suspected to be proceeds from a crime, the AML/CFT Law No. 44 of 2015 set forth the exclusive powers of the FIU in accordance with Paragraph (2) of Article VI, which requires a temporary precautionary freezing of accounts and/or for suspected transactions.



With regard to confiscation, it is carried out pursuant to judicial or administrative rulings by the Customs Administration in accordance with the Customs Law issued by Decree No. (4461) of 2000.

**Criterion 30.4:**

In addition to the authorities authorized to conduct investigations into the crimes described in C.30-1, the Lebanese legislator has granted the FIU the authority to conduct investigations into transactions suspected of involving ML/TF and the associated predicate offences in accordance with paragraph (2) of Article 6 of Law No. (44) on AML/CFT, and granting the National Anti-Corruption agency (which was established by Law 175/2020 and did not carry out its tasks until the end of the onsite visit) to follow up on financial investigations into predicate offences under Articles (18,19 and 20). ) of Law No. (175) of 2020 on combating corruption in the public sector and establishing the National Anti-Corruption Agency.

**Criterion 30.5:**

The National Anti-Corruption agency is the competent authority to investigate and follow up corruption crimes under Articles (19,20) of Law No. (175) of 2020, and it has access to many financial information through the FIU to lift banking secrecy, and other related records, consistent with criterion (30-3). Under the Article 20 of the same Law, the FIU has the power and authority to request the judge of urgent matters to seize the funds of the suspected persons, prevent their disposal, and attach an encumbrance the immovable or movable funds subject to registration by a reasoned decision and for a period of three months based on the request of the FIU for one time in the event that there are serious reasons justifying this. The FIU, as stipulated in Law No. 44/2015 dated 11/24/2015 (AML/CFT Law) is requested to take the available precautionary measures, including freezing the bank account(s) belonging to the complainant and all other suspected persons in accordance with legal principles in this regard.

**Weighing and Conclusion:** It is not clear the proportionality of the procedures adopted in opening investigations into the predicate offences with relation to banking crimes resulting from violating the Code of Money and credit, tax evasion and other violations related to customs duties, through which the Public Prosecution was restricted in initiating the case and conducting the necessary investigations in accordance with the provisions of Article (20) of the Code of Criminal Procedure, except after submitting a written request from the Governor of the Banque du Liban and the Director of the Customs Administration.

**Recommendation 30 is rated LC.**

**Recommendation 31 - Powers of law enforcement and investigative authorities**

During the first round of mutual evaluations in 2009, recommendation (28) related to the powers of law enforcement and investigation bodies was evaluated (C), and there were no substantial comments at the time.

### **Criterion 31.1:**

**Criterion 31.1 (a):** Under Article 14 of the Code of Criminal Procedure, the Public Prosecution of the Cassation in Lebanon has access to all documents if the institutions are not subject to confidentiality (that is, held by financial institutions, DNFBPs, and natural or legal persons). But if the institutions are subject to the Banking Secrecy Law, then the Public Prosecution of cassation resorts to the FIU based on Article 6 of Law No. 44/2015, which determines the seriousness of the evidence and presumptions of committing these crimes or one of them and takes the appropriate decision in this regard.

**Criterion 31.1 (b):** In accordance with Chapter Two (Prosecution procedures with regards to in flagrante delicto cases), specifically Article (33) of the Code of Criminal Procedure, the Public Prosecutor, in a flagrante delicto, has the right to enter the suspect's home for inspection, as stipulated in Instructions No. 374 of 12/12/2001 (Instructions Implementation for carrying out the judicial police in the security forces) in Chapter Four (Fourth and Fifth) procedures for house searches and searches of suspected persons.

**Criterion 31.1 (c):** In accordance with Chapter Three (On Witnesses Hearings) of the Code of Criminal Procedure, the mechanism for dealing with witnesses by the investigative judge has been defined from Article (85) to Article (97). Also, Article (47) clarifies the possibility for judicial police personnel to testify and the mechanism used for hearing witnesses' testimonies.

**Criterion 31.1 (d):** In accordance with Chapter Four (On Moving, Searching and Seizing Evidence) of the Code of Criminal Procedure, the procedures for seizure and obtaining evidence have been clarified from Article (98) to Article (105).

### **Criterion 31.2**

**Criterion 31.2 (a):** In accordance with Article (25) of the Code of Criminal Procedure, and Article No. (17) relating to the organization of the internal security forces, the legislator empowered the Public Prosecution and LEAs under a general text to carry out undercover operations when investigating ML/TF and the associated predicate offences.

**Criterion 31.2 (b):** LEAs has general text that enables it to use communications interception when investigating ML, associated predicate offences and TF.

**Criterion 31.2 (c):** LEAs has general text that enables it to access computers when investigating ML, associated predicate offences and TF.

**Criterion 31.2 (d):** According to Article (366) of the Customs Law, the Customs Administration has the authority of controlled delivery after taking the written direction of the Public Prosecutor for court of cassation. LEAs also have a general text that enables it to use controlled delivery when investigating ML/TF and the associated predicate offences.

### **Criterion 31.3**

**Criterion 31.3 (a):** LEAs have procedures (not mechanisms, as per time lines) that enable them to determine whether there are natural or legal persons who have accounts or control them, and

some such requests are made indirectly (bank accounts), and in a non-compulsory way (the FIU has the right to evaluate the evidence and take the appropriate decision therein).

**Criterion 31.3 (b):** all competent authorities have procedures (not mechanisms) that enable them from identifying assets without tipping-off the owners.

**Criterion 31.4:**

There are general texts that give the competent authorities the ability to conduct investigations into money laundering and associated predicate offences and terrorist financing and to request all the necessary information available to the FIU. It was also not clear that there was a text that obliges the FIU (according to recommendation (29)) to provide all the necessary and existing information to the competent authorities conducting investigations regarding money laundering, associated predicate crimes and terrorist financing. Rather, it left the decision to the FIU to take an appropriate decision about requests received from those authorities.

**Weighing and Conclusion:**

The AT considers it appropriate to have a legal text or the availability of working mechanisms that obligate the FIU to respond to all requests received from the competent authorities, including requests related to natural or legal persons who have accounts, in a timely manner, as Article 6 of Law No. 44/2015 The FIU was given the power to receive requests for assistance, determine the seriousness of the evidence and presumptions of committing these crimes or one of them, and take the appropriate decision in this regard.

**Recommendation 31 is rated C.**

### Recommendation 32 - Cash Couriers

During the first round of the mutual evaluation process in 2009, the special recommendation (9) related to cross-border disclosure or declarations was evaluated (NC), because the Lebanese Republic did not implement the declaration or disclosure system at the time.

**Criterion 32.1:**

The country applies the declaration system for arrivals and disclosure for departures , for the cross-borders transportation of currencies and BNIs (Article 2 of the Law No. 42 of cross-borders declaration issued on 11/24/2015 and decision no. 125 of year 2016 issued by customs for implementation of the law). The declaration is applied by Lebanon to all forms of physical cross-border transportation, whether by travelers or by mail or freight. The declaration is made about the currencies and BNIs for arrivals, whether they possess them, or begin to transport them physically across the borders (this includes all ports of entry and exit from Lebanon by land, sea and air). The law specified an amount of USD 15,000 or its equivalent in other currencies as a threshold for declaration of currencies that are carried personally, by baggage, or by any other means, or by shipping them by a container, or by any other means of shipping, or by sending them by mail. The Customs authorities apply the disclosure system (Clause 2 of Article 2 of the Law No. 42 issued on 24/11/2015) for travelers departing from Lebanon and when value equals or exceeds USD 15,000.

**Criterion 32.2:**

In accordance with Article Two of Law No. (42) issued on 24 November 2015 regarding the declaration of cross-border fund transportation, all persons who carry out cross-border physical transportation of currency or BNIs of not exceeding the maximum specified threshold (USD 15,000/or its equivalent in other currencies), required to provide declaration to the designated competent authorities in a written form as per the declaration system for all travelers (option (A) in accordance with C.32-2)).

**Criterion 32.3:**

The Article 1 of the Law No. 42 of 24/11/2015 requires departing travelers to disclose and provide an answer to the request of the Customs through providing detailed information about the possession of all transported negotiable instruments as well as who is transporting them , the recipient party, their value, type, origin and intended use , in addition to other information about the method of and mode of transportation.

**Criterion 32.4:**

In accordance with Article 3 of Law No. (42) issued on 24 November 2015 regarding the declaration of cross-border movement of funds, the customs authorities have the right upon verification or suspicion of a false declaration or disclosure, or in the event of refusing to declare or disclose, or in the event of suspicion that the funds being transported are illegal funds, the authority to request additional information about the funds being transported , and it also has the authority to search people and inspect their luggage and means of transport referred to in Article Two to verify the accuracy of the information declared or disclosed.

**Criterion 32.5:**

In accordance with Article 5 of Law No. (42) issued on 24 November 2015 regarding the declaration of cross-border movement of funds, the customs authorities shall impose on each person who made a false declaration or disclosure or refrained from such declaration or disclosure - a fine not exceeding ten million Lebanese pounds (That is, the maximum threshold does not exceed USD 662<sup>67</sup>), provided such fine doesn't prevent criminal prosecution. Despite this, the AT considers that the table of fines specified in the mechanism for implementing Law No. (42) on declaring the transportation of funds across borders is insufficient, un-proportionate and non-dissuasive to violators of the declaration system.

**Criterion 32.6:**

In accordance with articles (third and fourth) of Law No. (42) issued on 24 November 2015 regarding the declaration of cross-border transfer of funds, the FIU has direct access with regard to the database held by customs and related to the transfer of funds, and in cases of seizure the FIU will be notified immediately.

**Criterion 32.7:**

In accordance with Law No. (42) issued on 24 November 2015 regarding the declaration of the transportation of funds across borders, and the mechanism issued in implementation of the law, there are access to customs declaration databases by the FIU, there is also cooperation mechanism

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<sup>67</sup> According to the exchange rate of the Lebanese Pound in early February 2022.

between the customs and all the authorities concerned in implementing the requirements related to controlling the cross-border transportation of cash in accordance with the laws in force in the Republic of Lebanon.

**Criterion 32.8 (a and b):**

In accordance with the text of Article 3 of Law No. 42 issued on 24 November 2015 regarding the declaration of cross-border transportation of funds , and the mechanism issued in implementation of the law, the customs has powers when (a) there is suspicion of money laundering, terrorism financing or predicate offences; or (b) the existence of a false disclosure of the seizure of funds (currency or BNIs) and the preparation of a report of such after informing the Public Prosecution of Cassation, which, within a maximum period of two days, has the discretion to decide upon the matter to take the appropriate decision in light of the data available thereto in terms of continuing to seize or release the funds, and inform the FIU of the decision taken. It was not clear that there are similar powers to the other security authorities at the ports.

**Criterion 32.9 (a, b, and c):**

The Lebanese Republic is a member of the World Customs Organization, and in accordance with Law No. (42) issued on 24 November 2015 regarding the declaration of cross-border transfer of funds, and the mechanism issued in implementation of the law, there are powers to obtain sufficient data, and the forms prepared in the mechanism as a minimum to register is sufficient, as Article 4 of Law No. 42 (regarding cross-borders funds transportation) states that customs authorities should establish a secure and confidential electronic database that include the declarations, disclosures, reports and documents in a way that clearly differentiates between declarations and disclosures stated in Article 2 of the same Law and those mentioned in Article 3. The FIU has a direct access to the declarations, disclosures, reports and documents stated in Article 3. The FIU takes proper measures about including such declarations and disclosures in its databases. Article 6 of Item 2 of Law No. 44/2015 states that the FIU is tasked to collect and maintain the information received from the concerned parties mentioned in Articles 4 and 5, as well as information received from Lebanese (including Customs) or foreign official authorities and any other collected information and exchange them with its counterparts, being the proper reference and official body to do so.

Moreover, Article 18 of Chapter 4 of Law No. 214 dated 08/04/2021 states that: “the Ministry of Justice puts in place detailed systems and procedures allowing to receive, send and execute MLA requests as quickly as possible, to the largest extent and after prioritizing such MLA requests, taking into account the principle of reciprocity and dual criminality regarding all investigations related to corruption and crimes mentioned in AML Law No. 318/2001 as amended, especially Law No. 44/2015, in a manner that does not contradict with the international conventions concluded by Lebanon. However, the AT needs to know what data is recorded in the database, including at least the information related to the value of disclosed, declared or discovered currency or BNIs as well as the identity of holder(s).

**Criterion 32.10:**

There are no impediments in the declaration system that may restrict: (i) interstate commercial payments for goods and services; or (2) the free movement of capital, in any form. However, it was not clear to the assessment team that there are strict safeguards to ensure the correct use of the

information or data collected and in accordance with Law No. (42) issued on 24 November 2015 regarding the declaration of cross-border transportation of funds, and the mechanism issued in implementation of the law.

**Criterion 32.11:**

**Criterion 32.11 (a):** Law No. 44/2015 included the penalties that are applied to the acts committed and related to one of the predicate offences of the ML crime, so that the penalty, according to the provisions of Article 3, can be up to imprisonment for a maximum period of seven years, and a fine that does not exceed double the amount that is the subject of the ML transaction. In the event that persons who carry out the physical cross-borders transportation of currency or BNIs are linked to TF crime, Articles 316-bis of the Penal Code, which provides for punishment by temporary servitude for a maximum period of seven years, and Articles 212 to 222 of the Penal Code, shall apply. The penalty may reach up to death. However, these stipulated penalties are not proportionate or dissuasive for natural persons in the event of conviction of ML crime.

**Criterion 32.11 (b):** Law No. (44)/2015 referred in Article 14 to provisions related to confiscation, as it stipulates that “The movable or immovable assets that are proved, by a final Court ruling, to be related to, or derived from, a money-laundering or terrorist financing offence, shall be confiscated to the benefit of the State, unless the owners of the said assets prove in a Court of Law their legal rights thereupon”. It should be noted that the Lebanese legislator has established a general provision regarding confiscation and transferring the burden of proof to the accused person. As soon as a final judgment is issued in any of the predicate offences, the funds and proceeds are confiscated, and the accused must prove the legitimacy of the funds. Despite these measures, they do not include all measures according to recommendation (4), which would enable the confiscation of these funds or BNIs (such as confiscation of property of equal value).

**Weighing and Conclusion:**

The table of fines specified in the mechanism for implementing Law No. (42) on declaring the transfer of funds across borders is insufficient, un-proportionate and non-dissuasive to violators of the declaration system. It was not clear the extent to which international cooperation and assistance are considered comprehensive with regards to LEAs in line with R.36-40.

**Recommendation 32 is rated LC.**

**Recommendation 33 – Statistics**

In the first round of the mutual evaluation process in 2009, the Republic of Lebanon was rated (PC) in Recommendation 33 (previously 32). The shortcomings were: Failure to provide statistics regarding Reports submitted on the cross-border movement of currency and BNIs under Special Recommendation 9. Investigations, prosecutions, and convictions for terrorist financing. Number of cases and values of frozen, seized, and confiscated property related to criminal proceeds. All MLA and extradition requests (including requests relating to freezing, seizure and confiscation) made or received for money laundering, predicate offenses, and terrorist financing, including the nature of the request, whether each request was executed or rejected, and the time it took to respond, except for the number of requests for legal assistance in money laundering. Details of requests for official assistance submitted or received by supervisory authorities, which are related

to or include AML/CFT, including whether each request has been executed or rejected.

**Criterion 33.1:**

**Criterion 33.1 (a):** The FIU maintains statistics on the number of STRs received and disseminated. There are also statistics on the number of received and disseminated requests for incoming as well as intelligence reports referrals by FIU to the competent authorities.

**Criterion 33.1 (b):** Lebanon has general statistics of investigations and prosecutions in -ML/TF without being classified according to predicate offences,

**Criterion 33.1 (c):** The Republic of Lebanon – has statistics on frozen and seized property, including real estate, motor vehicles and confiscated property.

**Criterion 33.1 (d):**

The Lebanese Ministry of Justice maintains statistics on MLA and extradition. However, these statistics only cover requests that are made or received and do not include those that involve direct contact between jurisdictions. -

Regarding other forms of requests for international cooperation, statistics on mutual police assistance were submitted to the INTERPOL Beirut office in the General Directorate of the Internal Security Forces, which is tasked with compiling statistics with regards to exchanging information with foreign counterparts. Statistics on international customs cooperation are maintained by the Customs Administration, which it collected from its counterparts abroad.

**Weighing and Conclusion:** Statistics related to investigations and prosecutions of money laundering, terrorist financing, frozen and confiscated property are not categorized according to predicate offences. There are minor shortcomings in the statistical recordkeeping system where statistics only cover requests sent or received but do not include the direct contact between judicial authorities.

**Recommendation 33 is rated LC.**

### **Recommendation 34 - Guidance and Feedback**

In the first round of the mutual evaluation process in 2009, the Republic of Lebanon was rated (LC) in recommendation (previously 25). The shortcomings were: Failure to circulate guidelines to all legally obligated financial institutions in implementing applicable anti-money laundering and terrorist financing requirements. Failure to circulate guidelines that would assist DNFBPs in implementing applicable anti-money laundering and terrorist financing requirements.

**Criterion 34.1:**

Article 6 of Law No. 44/2015 entrusts the FIU with the task of (a) developing “Guidelines” that would assist financial institutions and DNFBPs to effectively implement AML/CFT measures and (b) Issuing recommendations to all concerned parties to help implement the required obligations. In accordance with this legal reference, and Clause 2 of Section 3 of the FIU’s Operating Rules, the latter has issued a number of qualitative guidelines for financial institutions and DNFBPs

referred to in Articles 4 and 5 of Law No. 44/2015, in order to assist them in: (a) detecting and reporting suspicious transactions; (b) familiarize them with some serious criminal indicators from the NRA's perspective, such as cybercrime, tax evasion, drug trafficking, corruption, terrorism and its financing, and TBML; (c) proper enforcement of TFS; (d) comply with confidentiality and tipping off requirements; etc.

Based on the same provisions, the FIU issues recommendations to all concerned authorities, where the FIU issued Circulars to all DNFBPs that included guidance about identifying the beneficial owners for legal persons and arrangements, and the methods of applying targeted financial sanctions and combating financial e-crimes in Lebanon, and others.

In addition to the regular workshops, the FIU relies on the SEEDs program to inform reporting entities of the results of analyzing STRs that they submitted and how to improve their quality. The FIU also publishes detailed statistical data in its annual reports on reporting entities, the geographic distribution of reports, the type of incoming reports and their breakdown according to the predicate offense, the details of processing, the source of requests for assistance from abroad, and other data. The Banque DU Liban has also issued regulatory circulars over the years that include many interpretive guidelines addressed to the supervised financial institutions, except for the insurance sector, which the FIU has issued a particular guidance on ML/TF indicators with respect to life insurance policies, which are among the most risk services in the sector. Offsite and onsite inspections have always included intensive auditing of financial institutions' compliance with the AML/CFT program, ended with a final meeting with senior management and an official letter detailing the results, necessary measures to raise compliance and effectiveness, including adopting an action plan with specific dates to address gaps identified during the audit.

Regarding DNFBPs, the FIU issues regulatory texts for all such businesses and professions in accordance with Article (6) of the aforementioned law, as well as recommendations to all concerned entities. Accordingly, the FIU has issued disseminations to all DNFBPs, containing guiding principles that can help in the implementation of national AML/CFT measures (such as identifying the beneficial owner of legal persons and arrangements, applying targeted financial sanctions, combating financial cybercrime in Lebanon, etc.). The FIU also regularly publishes on its website the latest guidance issued by the FATF, particularly those related to the risk-based approach and best practices in identifying the beneficial owner.

In terms of training, the FIU conducts many regular workshops, training courses and events for financial sector institutions and DNFBPs. Despite the efforts exerted by the FIU to enhance the understanding of such sectors to their AML/CFT requirements through events and trainings, however, it is clear that the DNFBPs did not receive sufficient interest, where the level of understanding of workers in the sector of the risks associated with their work and the AML/CFT requirements varies (see Recommendation 29).

On the other hand, the Ministry of Justice, LACPA, and the Bar Association<sup>68</sup>, each with its own jurisdiction, have issued procedural guidelines for notaries, certified accountants, and lawyers in the field of combating money laundering and terrorist financing. These supervisory bodies also inform the DNFBPs of the results of the field inspections through a meeting held with the management - at the end of every inspection.

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<sup>68</sup> Based on Article 17 [Final Provisions] of Law No. 44/2015.



In relation to feedback, the FIU analysis STRs received from entities specified in Articles 4 and 5 of Law No. 44/2015, and when sufficient grounds for suspected ML, associated predicate offence and terrorist and TF crimes, a decision is taken to refer the results of the analysis and other information to the Cassation Public Prosecution to take required procedures. The FIU provides the concerned reporting entity with the feedback.

In the same context, the FIU provide specialized and publicly available guidance on its website and through its annual reports, which include useful information about ML methods and types, derived from the operational and strategic analysis, along with linking the suspicion indicators of predicate offences, as well as the latest guidelines issued by the FATF, especially those related to applying risk-based approach and best practices to identify the beneficial owners.

**Weighing and Conclusion:** Lebanon issued guidance, recommendations, and circulars to assist the financial and non-financial sectors, alike, in correct implementation of national AML/CFT measures. Moreover, the FIU provide proper feedback to all sectors in many ways, but the DNFBPs have not received enough interest in terms of training, where the level of understanding of workers in the sector of the risks associated with their work and the AML/CFT requirements varies.

**Recommendation 34 is rated LC.**

### **Recommendation 35 - Sanctions**

In the first round of the mutual evaluation process in 2009, the Lebanese Republic was rated (PC) in recommendation (17 previously) due to the lack of provisions for administrative fines in case of violation of Law No. 318.

#### **Criterion 35.1:**

- a- With regards to R.6:** In accordance with Clause 8 of the Mechanism on Implementing UNSCRs 1267/1989/2253 and Clause 7 of the Mechanism on Implementing UNSCR 1373, the fines stipulated for under Article 13 of Law No. 44/2015<sup>69</sup> shall be applied against FIs and DNFBPs referred to in Articles 4 and 5 of the same law if it does not comply with the obligations established by these two mechanisms, or if it intentionally provides false or misleading information. These fines consist of imprisonment from two months to a year, and a fine of up to 100 million Lebanese pounds (equivalent to approximately USD 6,609,300) or one of these two fines. It is worth noting that the fines are cumulative. The legislator also mentioned, in the wording of Article 13, administrative fines that consider the principle of gradualism and are imposed by order of the FIU. The foregoing does not preclude the

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<sup>69</sup> This is only an exception to the general legal rule, which does not raise a slightest confusion about the text in application.

application of the most severe administrative fines stipulated for under special legislation<sup>70</sup>, which may amount to the withdrawal of the license or accreditation and strike-off accordingly. On the other hand, and without prejudice to the liability of natural persons, the Lebanese legislator has adopted a general formulation of the criminalization texts, in a manner that guarantees the establishment of criminal responsibility against the legal person, taking into account its formal specificity that excludes freedom-depriving punishment. It is only valid to sentence with a fine, confiscation of in-kind, prohibition from practicing one or more of the activities, or a final dissolution. If the law provides for a predicate penalty other than a fine, the fine shall be replaced by the said penalty. The provisions of Article 210/2 of the Penal Code support this proposition (penalty), as it states that “legal bodies are criminally liable for the actions of their director, members of their management, representative and workers, when they perform these actions in the name of the aforementioned bodies or through one of their means.”

- b- NPOs (Recommendation 8):** No fines of any kind have been inferred from the applicable legislation in the event that NPOs (or persons acting on their behalf) commit violations of their legal obligations in the field of combating terrorist financing. This is mainly due to the absence of legal requirements that guard NPOs from being abused in TF, as most of Recommendation 8 is implemented through guidelines that lack mandatory force, not to mention the progression of the general legislation applicable thereto and its subsequent amendments. However, there are criminal fines under Article 38 of the Lebanese Penal Code in relation to the formation of an NPO without a license, in which every secret (shell) NPO<sup>71</sup> is dissolved and its funds confiscated, as well as under Article 1 of Legislative Decree No. 10830 referred to in sub-criterion 8-1 (a) towards whoever maintains an NPO that has been dissolved - because it or one of its members has committed crimes related to state security, or assists it in carrying out an activity.
- c- Recommendations 9.23:** Lebanon has a set of dissuasive and proportionate criminal, civil and administrative fines, available to deal with financial institutions and DNFBPs referred to in Articles 4 and 5 of Law No. 44/2015 in the event of non-compliance with preventive measures, reporting of suspicious transactions and record keeping. However, the penalties applied against institutions conducting exchange and money transfer works according to the

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<sup>70</sup> This is related to the penalties stipulated for under Article 208 of the Money and Credit Law for financial institutions referred to in Article 4 of Law No. 4/2015, with the exception of insurance companies (the Ministry of Economy is the supervisory authority thereof), and any other penalties stipulated in other laws or regulations related to DNFBPs referred to in Article 5 of the same law. For notaries, in accordance with the provisions of Article 14 of Law 337/1994, the Minister of Justice decides, depending on the nature of the violation, either to impose a penalty of warning, censure, or suspension from work for a period not exceeding 6 months stipulated in Article 15 of this law, or refer the notary public to the disciplinary board for employees. In this case, the Board may decide to suspend work for a period ranging between one and three years, or permanently ban them from practicing the profession. Article 16 of the same law also allows for prosecuting notaries before the competent courts. With regard to certified accountants, LACPA shall refer the offending member to the Disciplinary Board in accordance with the provisions of Article 45 of Law 367/1994, after conducting an investigation into the violations attributed thereto, which is initiated by the president [of LACPA] jointly with a member of LACPA’s Board. As for lawyers, the president [of LACPA] shall refer the offending member to the Disciplinary Board after being heard in accordance with Article 103 of Law No. 70/8. In both cases, the disciplinary board takes administrative penalties up to the suspension of the activity.

<sup>71</sup> According to Article 337 of the Lebanese Penal Code, the secrecy of every NPOs or group is in fact considered to have the status of an NPOs if its purpose is contrary to the law and it carries out its work or some thereof in secret. Also, the secrecy of the same NPOs and groups whose purpose has been proven to be contrary to the law and the [supervisory] authority, after being requested to do so, was not informed of their statutes, the names and functions of their members, the subject of their meetings, their properties and the source of their resources, or gave false or incomplete information about these matters.

Article 655 of Penal Code (imprisonment of 6 months to 3 years and a fine from LBP 100,000 to 1,000,000) are not proportionate or dissuasive, as the imposed fine is considered low (see Recommendation 14).

### **Criterion 35.2:**

Without prejudice to the criminal liability of legal persons, the laws in force are devoid of explicit requirements that allow for the possibility of criminal accountability against the conduct of the manager(s) of legal person as soon as their personal liability is established for the legal person's violation of the requirements of Law No. 44/2015 or its bylaws. Rather, corporate bodies are criminally liable for the actions of their managers, members of their management, representatives and employees when they commit these actions in the name of the aforementioned bodies or by one of their means. They can only be sentenced to a fine, confiscation and publication of the ruling (Article 210 of the Penal Code). Lebanon indicated that there is nothing preventing such accountability at the legislative level. And in the fines imposed on the senior management of financial institutions and their managers to confirm this trend adopted by and approved by jurisprudence. The country clarified that Article 13 of Law No. 44/2015 provides for "imprisonment for a period of two months to one year and a maximum fine of one hundred million Lebanese pounds, or either of these penalties, for anyone who violates the provisions of Articles 4, 5, 7, 10 and 11 of this Law", which deal with measures of due diligence, reporting suspicious transactions, confidentiality of reporting, and other AML/CFT requirements.

The wording of this article is broad in its use of the term "anyone who violates the provisions of Articles," thus including penalties for directors, executives and senior management of the reporting entities. In addition, the same Article empowers the FIU to refer any violator to the Higher Banking Authority, which can impose administrative penalties such as changing directors and appointing a monitor or interim director by the Banque Du Liban under Article 208 of the Code of money and Credit. It should be noted that the case studies and statistics mentioned in the context of the analysis of Immediate Outcome 3 confirm the imposition of administrative penalties on directors and board members of financial institutions.

**Weighing and Conclusion:** Lebanon issued various types of criminal and administrative proportionate and dissuasive fines. However, there are still some shortcomings, mainly the absence of penalties in case NPOs (or their representatives) committed violations of the requirements of Law No. 44/2015 or its bylaws.

**Recommendation 35 is rated LC.**

### **Recommendation 36 - International Instruments**

During the first round of the mutual evaluation process in 2009, the previous recommendation (35) related to the agreements was rated (LC), for not acceding (joining) to and ratifying the Convention for the Suppression of the Financing of Terrorism on 9/12/1999, and the special recommendation 1 related to the application of the tools of the United Nations was also rated (PC), due to the same reason, where the Convention was signed in a later stage. Also, Lebanon did not provide any laws,

regulations or measures necessary to cover the requirements contained in Security Council resolutions regarding the prevention and suppression of financing of terrorism.

**Criterion 36.1:**

Lebanon has joined - both: The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988 (Vienna Convention) in 2015 (AML/CFT), and the United Nations Convention against Transnational Organized Crime (Palermo Convention) in 2005, and the United Nations Convention against Corruption (Merida Convention) in 2008 and the Convention for the Suppression of the Financing of Terrorism dated 12/9/1999 in 2015.

**Criterion 36.2:**

Based on the provisions of Article (2) of the Code of Civil Procedure, the international treaties to which Lebanon is party are prevailing in terms of application over the provisions of domestic law, and are considered to be of the same rank as the Constitution. Except for the reservation contained in the Convention for the Suppression of the Financing of Terrorism dated 9/12/1999 on the definition of terrorism contained in Paragraph (B) of the first item of Article Two of the Convention, which is considered one of the requirements that are recommended to be complied with. (See Recommendation 5).

**Weighing and Conclusion:**

The Lebanese Republic has reserved the definition of terrorism contained in paragraph (b) of the first item of Article Two of the Convention.

**Recommendation 36 is rated LC.**

**Recommendation 37 Mutual Legal Assistance**

In the first round of the mutual evaluation process in 2009, the Republic of Lebanon was rated (LC) in recommendation (36) previously, and (PC) in special recommendation 5. Regarding the MLA Recommendation (formerly 36), the shortcomings were the lack of appropriate laws and procedures to respond rapidly and effectively to requests for MLA.

With regard to special recommendation 5, the shortcomings were: The lack of appropriate laws and procedures to respond rapidly and effectively to MLA requests and the confusion regarding the necessity of dual criminality in requests for assistance, lack of clear arrangements for coordinating seizure and confiscation procedures with other countries, sharing of confiscated assets, and the issues related to their management and the effect of the insufficient criminalization of the act of terrorist financing as well as other matters related to effectiveness.

**Criterion 37.1:**

Lebanon has legal basis to swiftly provide as much as possible of MLA in a manner that does not conflict with the international agreements concluded by Lebanon, taking into account the principle of reciprocity and dual criminality (Article 18 of the Law No. 14 dated 08/04/2021) in relation to all investigations related to corruption, terrorist financing and crimes stated in the AML Law No.

318/2001 in a manner that does not conflict with the international agreements concluded by Lebanon. As for providing MLA for prosecution and related procedures, the Lebanese authorities rely on multilateral agreements such as The Arab Convention on Combating Terrorism of 1998, the United Nations Convention against Transnational Organized Crime (UNTOC) of 2000, the United Nations Convention against Corruption (UNCAC) of 2003, and the International Convention for the Suppression of the Financing of Terrorism of 1999. Also, Lebanon relies on mutual agreements signed with a number of countries.

However, there are some minor shortcomings in R. 3, where the MLA cannot be provided in predicate offence related to causing severe body injuries and illicit trafficking of stolen and other goods, especially that these crimes are not classified among high-risk crimes in the context of Lebanon.

**Criterion 37.2:**

The Lebanese legislator has identified the Ministry of Justice as an official body and a central authority to receive, send and implement requests for assistance, and adopt procedures to arrange MLA requests in order of priority and implement them in a timely manner and to adopt the procedures and system to manage cases and prioritize MLA requests and execute them in timely manner, in accordance with Article 18 of Chapter IV of Law 214 / dated 8/4/2021.

However, it was not clear to the assessment team whether the Ministry of Justice has put in place detailed systems and procedures that allow sending and receiving MLA requests in timely manner.

**Criterion 37.3:**

The procedures followed by the Ministry of Justice about receiving and sending international mutual legal assistance requests issued on 14/4/2016 and amended on 29/7/2021 stipulate the following, under item II - 3 “The Ministry of Justice is keen that the provision of MLA or the execution of extradition requests shall not be prevented from execution or shall not be subjected to unreasonable or unduly restrictive conditions”. Also, agreements signed between Lebanon and other countries do not include restrictive conditions or conditions subject to unreasonable conditions that prevent the implementation of assistance requests.

**Criterion 37.4:**

**Criterion 37.4 (a and b):** The legal procedures followed by the Ministry of Justice issued on 04/14/2016 and amended on 7/29/2021 in item II-4 state that The Ministry of Justice does not reject any MLA request on the grounds that:

- a. the crime also includes tax issues, or
- b. the crime also includes tax issues, or on the grounds of confidentiality and privacy requirements imposed on financial institutions or DNFBPs.

**Criterion 37.5:**

The legal procedures followed by the Ministry of Justice issued on 4/14/2016 and amended on 7/29/2021 in Item II-5 stated that “The Ministry of Justice and the concerned authorities are keen to preserve the privacy (secrecy) of MLA requests received and the information they contain in accordance with Article 53 of the Code of Criminal Procedure, which states that the investigation remains confidential unless the case is referred to the court, with the exception of what is related

to the indictment. Anyone who discloses the confidentiality of the investigation shall be prosecuted before the Judge, within their jurisdictions, and shall be imprisoned from one month to one year and a fine of one hundred thousand to one million Lebanese pounds, or one of these two penalties.

**Criterion 37.6:**

The third clause of the legal procedures issued by the Ministry of Justice on 14/4/2016 and amended on 29/7/2021 does not require dual criminality in MLA requests, whether in requests that include forcible matters or otherwise. The Lebanese authorities stated that the referred instructions do not exceed the provisions of the Law No. 214 about the consideration of dual criminality, and that the essence of this Article requires to provide as much as possible of MLA and to widest scope. As since the principle of consideration doesn't mean requirement, then the legal basis meets this Criterion.

**Criterion 37.7:**

Dual criminality is not a condition for providing MLA, according to the Third Clause of the legal procedures issued by the Ministry of Justice on 14/4/2016 and amended on 29/7/2021.

**Criterion 37.8:**

**Criterion 37.8 (a):** Lebanese law covered this criterion by relying on the powers and verification methods mentioned in Recommendation 31 in C.31-1.

**Criterion 37.8 (b):** The Lebanese legislator covered the investigation methods, including undercover operations, communication interception, computer system entry, controlled delivery, and other methods through multiple and specialized bodies according to C.31-2 and C.31-3.

**Weighing and Conclusion:** There are some minor shortcomings in R. 3, where the MLA cannot be provided in predicate offence related to causing severe body injuries and illicit trafficking of stolen and other goods.

**Recommendation 37 is rated LC.**

### **Recommendation 38 MLA Freezing and Confiscation**

As for the previous recommendation (38), the Lebanese Republic was rated (LC). The shortcomings were: Lack of clear arrangements for coordinating seizure and confiscation procedures between Lebanon and other countries. Failure to consider the possibility of establishing a confiscated asset fund in which all or part of the confiscated property will be deposited with the intention of using it for law enforcement, health care, education or other appropriate purposes. Allowing the sharing of confiscated property between Lebanon and other countries in the event that the confiscation resulted directly or indirectly from coordinated measures in law enforcement areas has not been considered, since property and proceeds of crime are confiscated for the benefit of the treasury, and the insufficient criminalization of the act of money laundering would affect the rating of compliance.

**Criterion 38.1:**

In accordance with Article 3 of the Legal Procedures issued by the Ministry of Justice on 14/4/2016 and amended on 29/7/2021, the Republic of Lebanon is keen to “respond rapidly and effectively to MLA requests submitted by foreign countries related to the identification, freezing, seizure or confiscation of laundered property or intended to be laundered, the proceeds of money laundering, the assets used or intended to be used in the financing of terrorism, as well as the instrumentalities used to commit these crimes and the confiscation of property of equivalent value” (see Recommendation 30.3)”.

Thus, this article covers most of this criterion’ requirements which are the identification, freezing or seizure or confiscation (a) the laundered property, (b) the proceeds therefrom, (c) the instrumentalities used, and (d) the instrumentalities intended to be used in terrorist financing, but it doesn’t cover all predicate offences, considering the shortcoming in R. 3, and (e) property of equivalent value of the predicate offence proceeds.

**Criterion 38.2:**

Lebanon has legal ground for providing assistance to requests for cooperation in confiscation procedures regarding the related temporary measures, without relying on a conviction. The third clause of the legal procedures followed by the Ministry of Justice issued on 14/4/2016, amended on 7/29/2021 with regard to requests for MLA stipulated freezing and confiscation on: The Republic of Lebanon is keen to provide assistance to requests for cooperation on the basis of non-conviction-based confiscation procedures and the relevant provisional measures, at least in cases where the offender is not present due to their death, escape, absence, or in case they are not known, unless such assistance is inconsistent with the basic principles to domestic law.

**Criterion 38.3:**

**Criterion 38.3 (a):** The third item of the legal procedures followed by the Ministry of Justice issued on 14/4/2016, amended on 29/7/2021 states that Lebanon is keen to adopt clear arrangements to coordinate the procedures of seizure and confiscation. However, Lebanon did not provide for any arrangement taken upon coordinating the procedures of seizure and confiscation with foreign countries, until confirming a communication framework with other countries.

**Criterion 38.3 (b):** Lebanon has legal framework to manage frozen, seized or confiscated properties and dispose them when needed (Article 12 of Law No. 214 dated 8/4/2021. However, there are no applicable systems or mechanisms, as this Law is not yet activated.

**Criterion 38.4:**

Lebanese law covered this criterion through the possibility of sharing the confiscated funds with other countries when the confiscation resulted directly from investigations or coordinated cooperation carried out between the concerned Lebanese authorities and the concerned foreign party(ies).

Whereas Article 14 of Law No. 44/2015 stipulates that “movable and immovable funds that are proven by a final ruling to be related to a money laundering or terrorist financing crime or proceeds therefrom, its outcome shall be confiscated for the benefit of the state, unless their owners prove, in court, their legitimate rights in this regard.” Funds confiscated can be shared with other countries

when the confiscation resulted directly from investigations or coordinated cooperation carried out between the concerned Lebanese authorities and the concerned foreign party(ies).

**Weighing and Conclusion:** there are no measures to respond to foreign countries' requests about identifying, freezing, seizing or confiscating instrumentalities intended to be used in all predicate offences (see R.3) and the properties of equivalent value. Also, there are no practically-taken arrangements to coordinate the procedures of seizure and confiscation with foreign countries or active mechanisms about managing frozen, seized or confiscated properties and dispose them when needed.

**Recommendation 38 is rated PC.**



## Recommendation 39 Extradition

Regarding Recommendation 39, the Republic of Lebanon was rated (LC) in the first round of the mutual evaluation process in 2009, due to the insufficient criminalization of the act of money laundering that would affect the rating of compliance.

### **Criterion 39.1:**

**Criterion 39.1 (a):** The provisions of the Penal Code (Articles 30-36), and the Narcotics, Psychotropic Substances Law 673/1998 (Articles 223 - 230) require the execution of extradition requests related to predicate offences and money laundering crimes. However, it was not clear the availability of legal texts covering the extradition requirement with regard to TF.

**Criterion 39.1 (b):** The Ministry of Justice receives MLA requests and requests for extradition of criminals through the Ministry of Foreign Affairs and Emigrants and arranges them in order of priority before referring them to the competent bodies, whether the Public Prosecution of Cassation or the civil courts under the second clause of the legal procedures followed by the Ministry of Justice issued on 14/4/2016 and amended on 29 /7/ 2021. Priority is given, for example, according to the circumstances of the case, the specific importance according to the mentioned procedures followed by the Ministry of Justice. The Cassation Public Prosecution has no system to manage cases related to extradition requests.

**Criterion 39.1 (c):** There are no unreasonable or unjustified conditions in laws such as the Penal Code, the Code of Criminal Procedure, or the legal procedures followed by the Ministry of Justice (the third clause of the legal procedures followed by the Ministry of Justice issued on 14/4/2016 and amended on 29/7/2021) to carry out extradition requests.

### **Criterion 39.2:**

**Criterion 39.2 (a and b):** Criminals of Lebanese nationality shall not be extradited according to Article 30 of the Penal Code, which stipulates that no one shall be extradited to a foreign country, except for the cases stipulated by the provisions of this law, unless this is in implementation of a treaty that has the force of law.

According to Articles 35 and 228 of the Penal Code, the extradition request is referred to the Public Prosecutor at the Court of Cassation, who investigates whether or not the legal conditions are met and the extent to which the accusation is proven. Then the file is referred to the Minister of Justice, together with his report, and then the extradition request is decided upon by a decree taken on the proposal of the Minister of Justice. "If the request is related to the implementation of a ruled out sentence and the Public prosecutor of the court of cassation rejects it on the pretext that the convict is Lebanese, and the requesting state asks it to undertake the implementation of the penalty or the remaining part thereof, the Lebanese public prosecutor of the court of cassation shall refer the request to the Minister of Justice, who verifies that they meet the necessary conditions and agrees with the Lebanese law and takes the appropriate decision regarding them. If the sentence imposed is more severe in nature or duration than the punishment stipulated by Lebanese law for the same acts, the competent court shall decide, at the request of the convicted person or the Public Prosecution, to replace the sentenced penalty with a penalty more compatible with Lebanese law.

**Criterion 39.3:**

The dual criminality is not a condition for criminals to be extradited according to the Lebanese Penal Code (Articles 30-36) and the Narcotics, Psychotropic Substances Law (Articles 223-230). It is not necessary to name the criminalized act by the same name as long as the material and moral elements of the crime are applied thereto.

**Criterion 39.4:**

Article 229 of the narcotics Law stated the temporary imprisonment by the competent court, in the event of urgency, and if the circumstances so justify, order the provisional detention of a foreign person whose extradition is sought, based on a request addressed directly thereto by any means, provided that there is a written bond or material evidence equivalent thereto, provided that the requesting country has a judicial decision ordering the detention of the person concerned or includes a judgment against them for committing a crime stipulated in this law that fulfills the conditions for recovery, and this person may be released if the government does not receive within twenty days from the date of persons' arrest a request to extradite them that meets the legal requirements. Also, Article 230 of The Narcotics, Psychotropic Substances and Precursors Law stipulates that: The Lebanese government may agree to extradition after perusal of the provisional detention request only if the person whose extradition is requested explicitly expressed their consent before the judicial authority to be extradited immediately.

**Weighing and Conclusion:**

Considering the risk context, there is no legal basis that covers the requirements of extradition regarding TF crime. Also, the Cassation Public Prosecution has no system to manage cases related to extradition requests.

**Recommendation 39 is rated PC.**

**Recommendation 40 - Other Forms of International Cooperation**

Regarding Recommendation 40 previously, the Republic of Lebanon was rated (LC) due to the failure to activate the agreements and memoranda of understanding concluded by the General Administration of Customs regarding the exchange of information and joint coordination among them.

**Criterion 40.1:**

Paragraph 2 of Circular No. 85/r/2022 issued by the Public Prosecution of the court of Cassation on 2/6/2022 addressed to the judicial police agencies, and Article 1 of the circular issued by the ICC 2012/L.M.D./2021 and addressed to the Insurance authorities with regard to international cooperation in the matter of ML/TF and the associated predicate offences, to provide the largest possible amount of international cooperation rapidly in relation to ML/TF and the associated predicate offences and the exchange of information spontaneously or upon request.

Also, Article 6, clause 2, paragraph 3 of AML/CFT law No. 44/2015, the FIU shall “collect and retain the information received from the parties referred to in Articles 4 and 5 above, as well as the information received from Lebanese and foreign official authorities, and all other collected information, and to share such information with the Commission’s counterparts, in its capacity as

the competent authority and the official center to undertake such a task”. As Clause 10 of Article Six of Law No. 44/2015, the FIU’s Operating Rules stipulates in the first section that when the FIU exchanges information with its counterpart FIUs abroad or when receiving or sending requests for foreign assistance (Foreign ROAs), an Taking into account of the "EG charter" and its principles for the exchange of information (EG Principles for Information Exchange), the following is also adopted for the exchange of information with the foreign parties: The exchange of information is upon request or spontaneously, received requests for assistance are arranged in order of priority and executed in a timely manner. All information that is available to be accessed or obtained directly or indirectly, including information about the BOs, is quickly exchanged with foreign counterparts as if the requests were local.

It included the two notes issued by the BCC (Article 1) and the CMA (Article 4) regarding international cooperation obligating the exchange of information spontaneously and upon request by other authorities concerned with international cooperation.

**Criterion 40.2:**

**Criterion 40.2 (a):** In the matter of informal international cooperation, the Republic of Lebanon relies in principle of the national laws such as the Circular No. 85/S/2022 issued by the Cassation Public Prosecution on 02/06/2022 and the provisions of the Article 103 of the Customs Law and Article 9 of the Law No. 44/2015 about the FIU and the Article 25 of the Tax Procedures Law No. 44 of 2008 about exchanging information about crimes.

In the matter of informal international cooperation, the Republic of Lebanon relies on its membership at a number of organizations and treaties such as Interpol, Egmont, World Customs Organization, The Arab Convention on Combating Terrorism of 1998, which the Lebanese government was permitted to join under Law No. 57 of 31 March 1999, and the United Nations Convention against Transnational Organized Crime of 2000, to which the Lebanese government was permitted to join according to Law No. 680 of 24 August 2005, And the United Nations Convention against Corruption of 2003, which the Lebanese government was permitted to join under Law No. 33 of 16 October 2008, and the International Treaty for the Suppression of the Financing of Terrorism of 1999, which the Lebanese government was allowed to join under Law No. 53 of 24 November 2015. The foreign party requesting cooperation can also rely on duly concluded and ratified bilateral agreements between the country to which it belongs and the Lebanese Republic, which includes provisions facilitating the informal cooperation. We mention, for example: Bilateral agreements signed with the United Kingdom in 1922, with Syria in 1951, with Jordan in 1954, and with Italy in 1972.

**Criterion 40.2 (b):** There are no legal provisions that prevent the authorities concerned with international cooperation from using the most effective means of such cooperation.

**Criterion 40.2 (c, d and e)**

Article 6/10 of Law 44/2015 stipulates through the FIU's Operating Rules that the FIU is obligated to adopt dedicated, secure and protected channels when transmitting information and/or analysis results, either spontaneously or upon request, and that received requests for assistance are arranged according to priority, and executing them in a timely manner, in addition to treating all requests for assistance and exchanging information within the highest levels of security and confidentiality and in accordance with obligations regarding privacy and data protection, and protecting the

information exchanged as a minimum in the same way that information received from local sources is protected.

Circular No. 85/r/2022 issued by the Public Prosecution of court of cassation on 2/6/2022 directed to the judicial police agencies with regard to international cooperation in the subject of ML/TF and the associated predicate offences, in paragraph 2 thereof stipulates that the judicial police agencies must arrange International cooperation requests related to ML/TF and the associated predicate offences according to priority, its execution in a timely manner, the transmission and execution of information requests through clear and secure mechanisms and channels, and the use of the most effective means of cooperation. Paragraph 6 in the aforementioned circular also stipulates data protection and, at a minimum, protects information in the same way as if the information was obtained locally, and refused to provide information if it could not be effectively protected by the foreign entity requesting cooperation. The ICC, based on the circular issued 2012/LMZ/ 2021 on the procedures followed with regard to international cooperation in the context of AML/CFT, gives priority to all requests for international cooperation, transmits and executes them urgently through clear and secure mechanisms and channels, and must, at a minimum, protect the information as if it was information received from local sources. The confidentiality of the information received, the subject of the request, must be adhered to if so is requested, and if confidentiality cannot be adhered to, the requesting party must be informed of that, which means that there is a lack of priority standards since all requests are given the same priority.

The BCC (Article 8) and the CMA (Article 4), in accordance with the internal memos issued by them regarding international cooperation, give priority to all requests for international cooperation, transmits and executes them urgently through clear and secure mechanisms and channels, and adhere to the confidentiality of the information received, the subject of the request. If so is requested in the signed cooperation agreements.

**Criterion 40.3:**

Most of the competent authorities such as the Internal Security Forces, Public Security, Customs, FIU, Financial Markets Authority, and ICC, that have a role in international cooperation do not need to conclude MoUs with foreign counterparts in order to carry out this cooperation. Although this is not required, the competent authorities in the country sign MoUs for international cooperation with foreign counterparts,

where the legal rules for international cooperation<sup>72</sup> stipulate that authorities can carry out, when necessary and in a manner that does not conflict with the legislation in force, to negotiate bilateral or multilateral agreements or arrangements and sign them at an appropriate time and on the widest possible scale with the foreign counterparts authorities to provide the largest possible amount of international cooperation in a rapid manner in relation to ML/TF and the associated predicate offences and the exchange of information spontaneously or upon request.

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<sup>72</sup> The circular issued by the Public Prosecutor at the Court of Cassation No. 85/R/2022 addressed to the judicial police agencies (LEAs) with regard to international cooperation states in Article 1 thereof and Article 1 of the circular issued by the ICC 2012/L.M.Z. / 2021 and addressed to the insurance authorities and Article 1 of the two internal memoranda of the CMA and the BCC.

**Criterion 40.4:**

According to the FIU's Operating Rules under the provisions of Paragraph 10 of Article Six of Law 44/2015, the FIU is obliged to provide feedback to foreign parties regarding the use of the information obtained and the extent of its use if requested. The circular issued by the Public Prosecutor of the Cassation No. 85/p./2022 addressed to the judicial police agencies (LEAs) with regard to international cooperation in paragraph 5 thereof, and the circular issued by the ICC 2012/L.M.Z./ 2021 addressed to Insurance bodies in Article 7, also stipulates the use of international cooperation information related to ML/TF and the associated predicate offences that are obtained for the purpose for which they were requested only unless the foreign party grants its consent to use it for another purpose, as well as providing the required foreign parties with feedback Including cooperation in a timely manner regarding the use of the information obtained and the extent to which it is used if requested to do so. The two internal memoranda of each of the CMA (Article 3) and the BCC (Article 6) are required to provide feedback on international cooperation to foreign parties regarding the use of the information they obtained and the extent to which they are used if requested.

**Criterion 40.5:**

There is no restriction regarding the provision of information exchange and requests for assistance specifically in relation to tax matters. (The first paragraph of Article 5 of the Law on the Exchange of Information for Tax Purposes No. 55/2016). The privacy and professional confidentiality are not a ground to reject a request for international cooperation in ML, predicate offences and TF crime for many reasons such as the secrecy regulations applied to FIs and DNFBPs in line with applicable regulations<sup>73</sup>. No request for international cooperation regarding ML, associated predicate offences and TF crimes is rejected on the ground that the request is subject of an investigation or prosecution, unless such request will hinder such investigations or prosecutions<sup>74</sup>. Except for judicial police that don't reject any requests for international cooperation for the different nature or status of the requesting counterpart (Clause 7 of the Circular of the Cassation Public Prosecutor No. 85/S/2022 directed to the Judicial Police), there is no legal ground for the remaining competent authorities.

**Criterion 40.6:**

Lebanon imposed limitations on all competent authorities about using the exchanged information with the competent authorities only for the purpose for which it was requested or provided for, and by the authorities, unless if prior authorization was given by the competent authority requesting the information.

According to the FIU's Operating Rules in accordance with the provisions of Paragraph 10 of Article 6 of Law 44/2015, Article 5 of the Circular of the Public Prosecutor of the court of Cassation No. M.Z. / 2021 and addressed to the insurance authorities (daman) and Article 8 of the two internal memoranda issued by the ICC to oblige these authorities to use the information exchanged within the scope of international cooperation only for the purpose for which it was

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<sup>73</sup> Clause 7 of the Circular of the Cassation PP No. 85/S/2022 directed to Judicial Police / Articles 8 and 9 of the Law No. 44/2015 about the FIU / Article 7 of the Circular issued by the Insurance Control Committee No. 2012/2021 directed to insurance companies / two internal memos issued by the ICC (Article 2) and BCC (Article 8).

<sup>74</sup> Clause 10 pf Article 6 of Law No. 44/2015, Article 7 of the Circular of the Cassation PP No. 85/S/2022 directed to Judicial Police, Article 7 of the Circular, issued by the Insurance Control Committee No. 2012/2021 directed to insurance companies and Article 7 of the two internal memos issued by the ICC and BCC.

requested or provided, and only by the specified concerned authority, unless otherwise granted or approved.

**Criterion 40.7:**

The General Directorate of the Internal Security Forces undertakes international cooperation through INTERPOL, which is the competent authority that can provide international cooperation through INTERPOL. Articles 14, 112 and 114 of the INTERPOL Data Processing Regulation III/IRPD/GA/2011 state that when exchanging information, the authorities have to take into account, in each case, data protection requirements and comply with the provisions of the system. The FIU, based on Clause 10 of Article Six of Law No. 44/2015, the FIU's Operating Rules stipulates in the first section that when the FIU exchanges information with its counterpart FIUs abroad, or when receiving or sending requests for foreign assistance (Foreign ROAs), in compliance with the EG Charter and Principles for Information Exchange, all requests for assistance and exchange of information are treated with the highest levels of security and confidentiality and in accordance with obligations regarding privacy and data protection, and the information exchanged at a minimum is protected in the same way where information from local sources is protected. It is also refused to provide information if the entity requesting cooperation cannot protect the information effectively.

CMA also stated that, based on the internal memorandum issued on the procedures followed with regard to international cooperation in the framework of AML/CFT when carrying out international cooperation, the CMA considers all requests for international cooperation related to ML/TF and associated offences, and for this purpose it transfers and implements them urgently through clear mechanisms and secure channels while observing the confidentiality of the information subject of the request in the event that the request is confidential, and in the event that confidentiality cannot be complied to, the CMA shall inform the requesting party. The internal memorandum issued by the BCC also refers to the MoUs signed on the confidentiality of information and specifies how to use it in order to protect the data and information exchanged. The provision of information is rejected if the competent authority requesting cooperation cannot protect the information effectively.

Cooperation agreements with similar foreign bodies include a clause related to the confidentiality of exchanged information. For example, clause 9 of the cooperation agreement signed between the Lebanese CMA and the French Financial Markets Authority (AMF) on 12/5/2014 states that:

- Each of the two bodies shall maintain the confidentiality of the information and documents exchanged under the agreement,

The entity requesting the information may not use the information and documents it obtains under the agreement except in accordance with the provisions of Clause 8 of the Agreement, and it must, before disclosing any information or documents to another regulatory authority pursuant to the provisions of Clause 8, ensure that this regulatory body will comply with the provisions of Article 8 of the Agreement. The confidentiality stipulated in this clause 9 and the information and documents will be used exclusively for the purposes set out in clause 8.

Based on the circular issued by the ICC 2012/L.L.M./2021 regarding the procedures followed with regard to international cooperation in the framework of AML/CFT, the ICC gives priority to all requests for international cooperation, transmits and executes them urgently through clear and

secure mechanisms and channels. At a minimum, it protects the information as if it is information received from local sources. It also adheres to the confidentiality of the information received, the subject of the request, if so is requested. If confidentiality cannot be adhered to, the ICC informs the requesting party of that. Paragraph 6 of the circular issued by the Public Prosecutor at the Court of Cassation No. 85/p./2022 addressed to the judicial police agencies stipulates the necessity to adhere to the confidentiality of the information received, the subject of requests for cooperation if so is requested, and to adhere to confidentiality in accordance with the obligations of both parties regarding privacy and data protection, and at a minimum, information is protected in the same way. As if the information was obtained locally and refused to provide the information in the event that it could not be effectively protected by the foreign entity requesting cooperation.

**Criterion 40.8:**

The FIU is obligated as per Clause 10 of Article Six of Law No. 44/2015 in accordance with the text of the FIU's Operating Rules in Section 2, Clause 5, and the Circular issued by the Public Prosecutor of the Cassation No. 85/R/2022 addressed to the judicial police (LEAs) with regard to international cooperation, paragraph 4 and the circular issued by the ICC 2012/L.M.Z/ 2021 stipulate in paragraph 6 thereof and addressed to insurance (Daman) authorities and Article 5 of the two internal memoranda issued by the CMA and the BCC to obtain information from the relevant authorities on behalf of the foreign counterpart, which had requested it and is keen to exchange with it all the information obtained on its behalf spontaneously and upon request.

**Criterion 40.9:**

The FIU has legal ground to provide cooperation related to ML/TF and associated predicate offences based on Article Six of Law No. (44) of 2015 on AML/CFT, regardless of whether its counterpart FIU is administrative, law enforcement, judicial or other in nature and it can exchange information both spontaneously or upon request.

**Criterion 40.10:**

The FIU, in accordance with the Operating Rules established under Clause No. 10 of Article Six of Law No. (44) of 2015 related to AML/CFT, provides feedback in a timely manner, upon request and whenever possible, to foreign entities with regards to the use and usefulness of the information received therefrom and the results of the analysis performed based thereon.

**Criterion 40.11:**

**Criterion 40.11 (a):** In accordance with the FIU's Operating Rules, which are established based on Clause 10 of Article Six of Law No. (44) of 2015 with foreign counterparts, the FIU can rapidly exchange all information that is available to be accessed or obtained directly or indirectly, including information about the BOs.

**Criterion 40.11 (b):** In accordance with the FIU's Operating Rules, which are established based on Clause 10 of Article Six of Law No. (44) of 2015 with local counterparts, the FIU can rapidly exchange all information that is available to be accessed or obtained directly or indirectly.

**Criterion 40.12 (c):** The FIU in Banque Du Liban, through the powers entrusted thereto as the main supervisory authority over financial institutions in the field of AML/CFT, is granted, under Article VI, the status of a valid reference and official center for collecting and maintain information

from the stakeholders referred to in Articles 4 and 5 and information received from official authorities, Lebanese or foreign, and any other information collected and exchanged with its counterparts. Exchange of information with foreign counterparts (regardless of their nature) is based on the Core Principles of international financial control relevant to AML/CFT on the widest possible range and in accordance with the requirements of Recommendation 40 (FIU's Operating Rules) and includes as a minimum:

- Regulatory information for financial sectors,
- Information related to the activities and business of financial institutions, the beneficial owner, management, and fit and proper standards
- Information held by financial institutions related to AML/CFT, such as procedures, internal policies, due diligence measures, customer profiles, samples of accounts and operations.

As for the other supervisory authorities on the financial sector, which also have a supervisory role in the field of AML/CFT:

**BCC:**

The Banque Du Liban's BCC, being responsible for prudential supervision over FIs, exchanges information with its foreign counterparts in accordance with memoranda of understanding with the supervisory authorities and central banks in line with the Core Principles of effective banking supervision issued by the Basel Committee. This includes information related to basic supervisory concerns, licensing, consolidated supervision, and combating money laundering and terrorist financing, provided that this is done as permitted by laws (Internal Memorandum No. 1/2022).

BCC transfers requests that it receives from supervisory bodies that do not fall within its jurisdictions to the FIU.

**CMA:**

Article 10 of Law No. 161 grants the Chairman of the Board of the CMA the power to sign in the name of the CMA all instruments, contracts and agreements, including cooperation agreements with similar foreign bodies. Memorandum No. 41 specifies the procedures followed with regard to international cooperation in the context of AML/CFT, including exchanging information available to the CMA with counterpart foreign authorities, and implementing requests received from any competent authority with which the international agreement is in force or on the condition of reciprocity, and it includes any information that is in the possession of the supervisory authority.

**ICC:**

The internal circular issued by the Minister of Economy specifies the procedures followed with regard to international cooperation so that information is exchanged between the ICC and its counterpart bodies on reciprocal basis (clause 1), and this includes any information that is in the possession of the supervisory authority (clause 2).



### **Criterion 40.13:**

#### **The FIU:**

As mentioned in the analysis of Criterion 40-12, the FIU is granted, under Article 6 of the AML/CFT Law, the status of a valid reference and official center for collecting and retaining information from the stakeholders referred to in Articles 4 and 5, information received from Lebanese or foreign official authorities, and any other information collected and exchange it with its counterparts.

#### **CMA:**

Exchange of information available to the CMA locally with the foreign authorities with whom the State has an effective agreement or on the basis of reciprocity, and it includes any information that must be obtained directly or indirectly, including any information that is within the powers of the supervisory authority in proportion to its special needs, taking into account the laws and regulations in force. (Internal Memo of the CMA)

#### **ICC:**

The ICC shall exchange the information available to it locally with the counterpart foreign authorities with whom the state has an agreement in force or on the basis of reciprocity and includes any information that must be obtained directly or indirectly, including: any information that is within the powers of the supervisory authority in proportion to its own special needs. This is done in accordance with the legislation in force in the country and the provisions of agreements and on the condition of memoranda of understanding (the internal circular issued by the Minister of Economy regarding international cooperation).

#### **BCC:**

The Committee shall provide the foreign supervisory authorities with supervisory information about institutions that carry out banking and financial activities within the scope of their powers and exchange information related to basic supervisory concerns pursuant to the laws in force, especially the Banking Secrecy Law and Anti-Money Laundering Laws (Internal Memorandum No. 1 2022).

### **Criterion 40.14:**

The FIU's Operating Rules clarifies that the exchange of information with foreign counterparts is based on the Core Principles of international financial control relevant to AML/CFT on the widest possible range and in accordance with the requirements of Recommendation 40 and includes as a minimum:

- Regulatory information for financial sectors,
- Information related to the activities and business of financial institutions, the beneficial owner, management, and fit and proper standards
- Information held by financial institutions related to AML/CFT, such as procedures, internal policies, due diligence measures, customer profiles, samples of accounts and operations.

As for the other supervisory authorities, the BCC, based on the signed memoranda of understanding, exchanges information related to basic supervisory concerns such as the capabilities of the institutions subject to its supervision, the extent of their compliance with laws and due diligence procedures, information related to shareholders and the BOs, and the capabilities and experiences of the proposed departments for banking institutions that have a presence abroad. It can also exchange information related to financial and regulatory legislation, standards, requirements, and consolidated supervision. It transfers requests for assistance that do not fall within its powers to the FIU. (Internal Memorandum No. 1/2022). As for the CMA and the ICC, their internal procedures regarding international cooperation do not specifically cover the information mentioned in this criterion.

**Criterion 40.15:**

The FIU has the power to contact the Lebanese authorities (judicial, administrative, financial and security) in order to request information or see details of the investigations it has conducted on matters related to investigations conducted by the FIU, according to Article 9 of Law No. 44/2015. The FIU can conduct inquiries on behalf of the foreign counterparts, and as appropriate, these bodies are delegated or facilitated to conduct inquiries themselves, with the aim of facilitating group-level supervision (the FIU's Operating Rules).

As for the ICC, the execution of requests received from any foreign party, exchanging information in timely manner with counterpart foreign bodies and obtaining any other required information on its behalf (internal circular issued by the Minister of Economy). However, it was not inferred from the text, the extent that the ICC can delegate those counterparts or facilitate to conduct inquiries themselves with the aim of facilitating group-wide control.

the BCC - the followed procedures in subjects of international cooperation include giving priority to requests for cooperation, urgent response, and obtaining any other information required on behalf of the foreign entity. The Core Principles of the memoranda of understanding include the possibility of sending onsite teams from the two parties to conduct onsite study on FIs in the other country. (Internal memo No. 1/2022) There are no clear texts that support meeting this criterion by the CMA.

**Criterion 40.16:**

The FIU's Operating Rules stipulate in the second section that the foreign party requesting the information must obtain prior permission from the FIU in order to transmit any exchanged information or use it for supervisory or non-supervisory purposes. The FIU must obtain approval from foreign entities to transfer or use information for supervisory or non-supervisory purposes that it has been provided with. The information exchanged shall be used only for the purpose for which it was requested or provided, unless consent is given or obtained otherwise.

*As for the other supervisors:* The internal memorandum issued by CMA acknowledges the use of the information obtained for the purpose for which it was requested or obtaining prior approval

from the foreign supervisory authority from which the information is requested in order to transmit it or use it for a purpose other than for which it was requested. The concerned party shall be informed of such disclosure whenever such disclosure was a result of legal obligation. The text does not require immediate notification in such cases. Among the procedures followed with regard to international cooperation in the framework of AML/CFT, according to the circular issued by the Minister of Economy and Trade, that the ICC use the information obtained for the purpose for which it was requested or obtain prior approval from the foreign supervisory authority for which information are required therefrom, in order to transmit it or use it for a purpose other than for which it was requested, and inform the entity in the event of disclosing such information whenever such disclosure is a result of legal obligation. The text does not require immediate notification in such cases.

The procedures followed by the BCC in the matter of international cooperation include using the information exchanged for the purposes referred to in the request for assistance and within the scope of legitimate banking supervision. Any information exchanged are prohibited of being disclosed to third parties by virtue of MoUs, unless the approval of the providing party is obtained. In the event that the committee is legally obligated to disclose the information it obtained from the other party to any other supervisory or judicial authority, the BCC must inform the other party immediately of what information it is obliged to disclose and the legal obligation thereon (Internal Memorandum No. 1 2022).

**Criterion 40.17:**

the Public Prosecutor at the Court of Cassation issued circular No. 85 / R / 2022 addressed to the judicial police agencies (LEAs) with regard to international cooperation, where paragraph 4 of it referred to the request from the judicial police agencies (LEAs) “Exchange of information available locally with foreign counterparts for the intelligence or investigative purposes related to money laundering crimes, associated predicate offences and terrorism financing, including identifying and tracing criminal proceeds and instrumentalities, and conducting inquiries on behalf of these entities when necessary.”

**Criterion 40.18:**

A recent circular was issued (2-6-2022) by the Public Prosecutor at the Court of Cassation No. 85/p./2022, addressed to the judicial police agencies (LEAs) with regard to international cooperation, where paragraph 3 of it stipulates a request from the judicial police agencies “to use the powers legally available, including investigation methods in accordance with the legislation in force to conduct inquiries and obtain information on behalf of the foreign counterpart, and coordinate, when necessary, to form joint investigation teams to conduct cooperative investigations, with regard to money laundering, associated predicate offences and TF.

**Criterion 40.19:**

Article 3 of Circular 85/S/2022 issued by the Public prosecutor of the court of cassation stipulated the obligation to use of the judicial police agencies (LEAs) the powers legally available thereto, including investigation methods in accordance with the legislation in force to conduct inquiries and obtain information on behalf of the foreign counterpart, and coordinate, when necessary, to form joint investigation teams to conduct cooperative investigations, with regard to money

laundering, associated predicate offences and TF.

### **Exchanging information with non-counterparts**

#### **Criterion 40.20:**

The country doesn't prevent its competent authorities to exchange information with non-counterparts in an indirect way. The incoming request are executed by any competent authority in the foreign countries with which Lebanon has valid agreement or principle of reciprocity, and there are some conditions in some cases, some of which are mentioned under Section Four of "International Cooperation Guidelines with Lebanon to repatriate the corruption-generated assets", including if competent authority request information indirectly, clarifying the purpose of the information required and on whose behalf the request is made.

#### **Weighing and Conclusion:**

Lebanon obligates the competent authorities to execute different types of international cooperation, but there are still minor shortcomings due to the context of the country and ML/TF risks, including that no explicit provisions have been found regarding the obligation to provide cooperation by the FIU regarding the predicate offenses related to ML, and the internal procedures of the CMA and the ICC do not contain requirements for the exchange of types of regulatory and prudential information and those related to AML/CFT when it is related to AML/CFT, in particular with other supervisory authorities that have joint responsibility for the FIs operating in the same group. In addition to the inability of the CMA and BCC to allow counterpart agencies or facilitate the ability of foreign counterparts to conduct inquiries themselves in the country in order to facilitate group-wide supervision. The internal memorandum issued by the CMA do not obligate the immediate reporting for the use of the information obtained for the purpose for which it was requested, or to obtain prior approval from the foreign supervisory authority from which the information is requested in order to transmit it or use it for a purpose other than that for which it was requested.

**Recommendation 40 is rated LC.**

## Summary of Technical Compliance- Key Deficiencies

### *Compliance with FATF Recommendations*

Recommendation	Rating	Factor(s) underlying the rating
1 Assessing risks and applying a risk-based approach	Largely Compliant	<ul style="list-style-type: none"> <li>• Not providing all relevant FIs and DNFBPs with detailed reports on the NRA results in a manner that includes information appropriate to their jurisdictions.</li> <li>• Not obligating FIs (other than banks) to document the NRA and update it on an ongoing basis.</li> <li>• Not requiring banks to provide the rest of the competent authorities (other than the supervisory authorities as per the FATF definition - with the results of the NRA process that it is carrying out.</li> </ul>
2 National cooperation and coordination	Largely Compliant	<ul style="list-style-type: none"> <li>• The ambiguity of the timeframe or frequency of regular review of these mechanisms.</li> <li>• The ways of coordination among relevant authorities and mechanisms of exchanging information to combat proliferation are not clear.</li> </ul>
3 ML offence	Partially Compliant	<ul style="list-style-type: none"> <li>• Law No. 44 of 2015 did not cover all the requirements for criminalizing money laundering on the basis of the Vienna and Palermo Conventions, and Article 2 thereof did not cover some specific categories of predicate offences, such as illegal trafficking in stolen goods and other goods and causing serious bodily injuries. Also, at the level of criminalization, it did not set a condition whether the funds represent, directly or indirectly, proceeds of crime.</li> <li>• Penalties stipulated for ML offence - do not amount, according to the provisions of Article (3) of the law, to being a criminal penalty, but rather a misdemeanor penalty, making it disproportionate and non-dissuasive to natural persons in the event of conviction of a money laundering offense.</li> <li>• Determining the appropriate ancillary offences for the money laundering crime, it did not include association, conspiracy, assistance and direction to commit them.</li> </ul>
4 Confiscation and Provisional Measures	Largely Compliant	<ul style="list-style-type: none"> <li>• not meeting the requirements of sub-criterion 4.1c which is considered a moderate shortcoming, taking into account the high level of risks of TF linked with supporting terrorist attacks or groups abroad.</li> <li>• There is no requirement to allow confiscation of property intended to be used to finance a terrorist</li> </ul>

		<p>person or terrorist group, or legal requirements that prevent or invalidate measures that affect the state's ability to freeze, seize, or recover property subject to confiscation.</p>
5 TF Offence	Largely Compliant	<ul style="list-style-type: none"> <li>• There are minor shortcomings including the reservation to the definition of terrorism mentioned in the Para. B, Item 1, Article 2 of the Convention.</li> </ul>
6 TFS related to Terrorism and TF	Largely Compliant	<ul style="list-style-type: none"> <li>• Failure to fulfill the condition of “promptness” in the context of the official interaction between the Permanent mission of Lebanon to the United Nations in New York and the FIU. not including “financial and other related services” within the scope of the availability of funds.</li> <li>• Failure to arrange legal consequences in the event that a natural or legal person, not subject to any supervision, makes available funds, services or economic resources for the benefit of designated persons or entities.</li> <li>• Not defining some basic definitions such as refraining from making funds available, preventing disposition of and entity.</li> </ul>
7 Targeted financial sanctions “TFS” related to proliferation	Largely Compliant	<ul style="list-style-type: none"> <li>• Absence of an explicit legal eligibility of the FIU as a focal point in the application of TFS related to the suppression of proliferation.</li> <li>• Failure to fulfill the condition of “promptness” in the context of the official interaction between the Permanent mission of Lebanon to the United Nations in New York and the -FIU;</li> <li>• Not defining some basic definitions such as refraining from making funds available, preventing disposition of, and not defining the legal consequences of these procedures at the level of the mechanism’s wording.</li> </ul>
8 Non-Profit Organizations “NPOs”	Largely Compliant	<ul style="list-style-type: none"> <li>• The absence of binding legal requirements for NPOs in order to comply with the best practices provided by the Ministry of Interior and Municipalities and to activate them at the practical level to address the gaps related to TF.</li> <li>• The absence of any legal obligation for NPOs to open an account with an approved bank to receive funds and conduct financial transactions.</li> <li>• Absence of a mechanism to ensure the immediate exchange of information with the competent authorities when the NPO's involvement is suspected.</li> <li>• Absence of detailed procedures for providing international cooperation.</li> <li>• Absence of penalties in case NPOs breach their legal</li> </ul>

		obligations. However, this does not affect the rating of this recommendation in view of the fact that the rest of the criteria were (Met) or (Mostly Met), which is considered substantial in view of its materiality.
9 Confidentiality related to financial institutions “FIs”	Largely Compliant	<ul style="list-style-type: none"> <li>There are no impediments towards exchanging information by the FIU with most of the local and foreign competent authorities, despite the absence of an explicit requirement, under the legislations of FIU, to lift banking secrecy upon LEAs requesting information related to the investigations carried out thereby. On the level of sharing information between FIs, there are no impediments as per R’s. 16, 16 and 17.</li> </ul>
10 customer due diligence “CDD”	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
11 Record Keeping	Largely Compliant	<ul style="list-style-type: none"> <li>Not all texts directed to financial institutions require ensuring that due diligence information and transaction records are swiftly made available to the rest of the competent local authorities, according to the FATF definition, such as LEAs, investigation and prosecution authorities, and other supervisory authorities (other than the FIU).</li> </ul>
12 Politically Exposed Persons “PEPs”	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
13 Correspondent Banking Relationships	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
14 Money Value or Transfer Services “MVTs”	Largely Compliant	<ul style="list-style-type: none"> <li>The value of the fines imposed on those who engage in money transfer activity without a license are small at the current exchange rates, and therefore it is not commensurate with the importance of these violations and is not dissuasive.</li> </ul>
15 New technologies	Partially Compliant	<ul style="list-style-type: none"> <li>The ban (prohibition) is directed at banks and financial institutions and does not include natural and legal persons, and therefore all criteria of this recommendation are applicable to Lebanon.</li> <li>An assessment of VAs and VASPs risks was conducted, and a number of procedures were applied to monitor VASPs, and legal measures were taken. However, it was not clear what sentences were issued in these cases. No actions have been taken to meet the requirements of C.15.4 and 15.6 to 15-10.</li> </ul>
16 Wire Transfers	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
17 Relying on	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this</li> </ul>

Third Parties		recommendation
18 Internal controls and foreign branches and subsidiaries	Largely Compliant	<ul style="list-style-type: none"> <li>Requiring financial institutions to apply some of the requirements of C.18-1 at the group level, as indicated at the end of the analysis of C.18-2.</li> </ul>
19 High-risk countries	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
20 Reporting Suspicious Transactions Reports “STRs”	Largely Compliant	<ul style="list-style-type: none"> <li>The law does not include all the categories of predicate offenses identified in Recommendation 3.</li> </ul>
21 Tipping Off and Confidentiality	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
22 DNFBPs - CDD	Largely Compliant	<ul style="list-style-type: none"> <li>Failure to cover all the activities mentioned in Criterion 22-1 affects meeting all requirements of this Recommendation.</li> <li>The minor -deficiency with regard to the requirements for making information available to the rest of the competent authorities without delay.</li> </ul>
23 DNFBPs Other measures	Largely Compliant	<ul style="list-style-type: none"> <li>The law does not include all the categories of predicate offenses.</li> <li>The delay in reporting by lawyers as a result of the reporting mechanism through the Bar.</li> <li>Minor shortcomings in internal controls requirements, and failure to cover all activities affects compliance with the requirements of this Recommendation.</li> </ul>
24 Transparency and BOs of Legal Persons	Largely Compliant	<ul style="list-style-type: none"> <li>Lebanon has met most of the requirements of Recommendation 24, but it still has a number of shortcomings, which include the failure to conduct a more comprehensive assessment of the risks of CSPs, in light of the absence of anything to prevent any person under a power of attorney from the founders from dealing with the commercial registry to establish and register companies without be it required to comply with AML/CFT obligations, and information on civil companies established in Lebanon is not available to the public.</li> <li>There are no provisions indicating the existence of mechanisms that ensure that the information pertaining to the categories of shares owned by each shareholder is accurate and up to date. The requirement to retain information and records for a period of at least 5 years from the date on which the company is dissolved or, in other cases, when the</li> </ul>



		<p>company ceases to exist in the commercial registry and the tax administration, does not extend to this type of information.</p> <ul style="list-style-type: none"> <li>• Lebanon has a range of penalties against any legal or natural person in the event they fail to comply with the requirements. However, these penalties are not considered dissuasive, nor proportionate, and no texts were found that include penalties in the case of the failure of co-operatives.</li> <li>• As for the swift provision of international cooperation with regard to basic and beneficial ownership information, there are no provisions for some competent regulatory authorities.</li> </ul>
<p>25 Transparency and BOs of Legal Arrangements</p>	<p>Partially Compliant</p>	<ul style="list-style-type: none"> <li>• With regard to fiduciary in Lebanon, the role of the trustee is limited to the bank, and therefore they are subject to the obligations imposed on customers by banks, which include obtaining and maintaining adequate, accurate, and updated information about the identity of the settlor, the beneficiary, and the BOs, but they do not have texts for banks (in their capacity as trustees in relation to fiduciaries) to retain basic information about other regulated agents including investment advisors or managers, accountants and tax advisors.</li> <li>• There are no similar provisions in either case for the endowment, and the provisions related to retaining information and keeping it updated in ongoing basis do not include the beneficiary of the fiduciary, and the endowment texts do not meet the same requirements.</li> <li>• There is no provision for measures to ensure disclosure when executing an occasional transaction that exceeds the threshold set by the trustees, nor does the country have procedures for ensuring that trustees of foreign trust funds disclose their status to financial institutions and DNFbps when establishing business relationships with them or executing occasional transactions exceeding the specified threshold.</li> <li>• It is not clear that there are penalties for failure to grant the remaining competent authorities timely access to the requested information.</li> <li>• The FIU makes inquiries on behalf of the counterpart foreign supervisory authorities, as appropriate, and authorizes those authorities to inquire themselves, but it is not clear that the rest of the competent authorities have the same powers, and it is not inferred from the texts provided that there are powers for other</li> </ul>

		competent authorities to exchange locally available information on other legal arrangements. There are no texts regarding that with relation to waqf.
26 Regulation and supervision of FIs	Largely Compliant	<ul style="list-style-type: none"> <li>The absence of measures to apply periodic procedures to ensure the continuous clearance of the criminal record and the status of listing on the international and national lists of the owners, the BOs and those who occupy senior positions in financial institutions. General procedures are applied to ascertain fitness, properness and integrity when licensing insurance companies, but they do not include checking the background of the actual and controlling beneficiaries through indirect ways and scanning the names against the local and international lists.</li> </ul>
27 Powers of Supervisors	Compliant	<ul style="list-style-type: none"> <li>Lebanon met all the requirements of this recommendation</li> </ul>
28 Regulation and supervision of DNFBS	Partially Compliant	<ul style="list-style-type: none"> <li>Absence of measures to check the status of notaries, lawyers, and certified accountants on the UN terrorist lists, to verify this periodically, and to prevent the professional accreditation of criminals associates.</li> <li>There are no measures for fitness and properness, to prevent criminals and their associates from practicing DPMS professions, and real estate agents, and to ensure the status of their listing on the international terrorist lists. upon registering as companies, there are no controls to ascertain the background of the ultimate and controlling beneficiaries through indirect means, and to prevent criminals and their partners from occupying management positions in these companies or authorized signatories.</li> <li>There are no measures of fitness and properness to prevent criminals and their associates from acquiring controlling shares, becoming beneficial owners, assuming management functions or operating a casino, nor are there specific procedures for the supervision of notaries, lawyers and professional accountants to take into account the elements required by this Recommendation when evaluating risks and determining the periodicity and intensity of supervision. Not covering all activities (as mentioned in the analysis of Recommendation 22) affects compliance to this Recommendation.</li> </ul>
29 The FIU	Largely	<ul style="list-style-type: none"> <li>Lebanon met most of the requirements related to this</li> </ul>

	Compliant	<p>recommendation; Except that the obligation of law 44/2015 to reporting entities does not cover all categories of serious crimes included in the FATF Glossary (see Recommendation 3 Criterion 2).</p> <ul style="list-style-type: none"> <li>•</li> </ul>
30 Responsibilities of law enforcement and investigative authorities	Largely Compliant	<ul style="list-style-type: none"> <li>• It is not clear the proportionality of the procedures adopted in opening investigations into the predicate offences with relation to banking crimes resulting from violating the <b>Code of money</b> and credit, tax evasion and other violations related to customs duties, through which the Public Prosecution was restricted in initiating the case and conducting the necessary investigations in accordance with the provisions of Article (20) of the Code of Criminal Procedure, except after submitting a written request from the Governor of the Banque du Liban and the Director of the Customs Administration.</li> </ul>
31 Powers of law enforcement and investigative authorities	Compliant	<ul style="list-style-type: none"> <li>• The country met all requirements of this recommendation</li> </ul>
32 Cash Couriers	Largely Compliant	<ul style="list-style-type: none"> <li>• The table of fines specified in the mechanism for implementing Law No. (42) on declaring the transfer of funds across borders is not sufficient, proportionate or dissuasive to violators of the declaration system. It was not clear the extent to which international cooperation and assistance are considered comprehensive with regards to LEAs in line with R.36-40.</li> </ul>
33 Statistics	Largely Compliant	<ul style="list-style-type: none"> <li>• Statistics on money laundering and terrorist financing investigations, prosecutions, frozen and seized property are not strictly classified according to predicate offences.</li> <li>• The statistics only cover requests that are sent or forwarded and do not include those that involve direct contact between jurisdictions, which are minor deficiencies in the statistical record-keeping system.</li> </ul>
34 Guidance and Feedback	Largely Compliant	<ul style="list-style-type: none"> <li>• DNFBPs did not receive sufficient attention in the fields of training, as the level of understanding of staff in the sector varied about the risks associated with their work and the application of national measures to combat money laundering and terrorist financing.</li> </ul>
35 Sanctions	Largely Compliant	<ul style="list-style-type: none"> <li>• The absence of legal requirements that allow for criminal accountability for the conduct of the legal person in the event that their personal responsibility</li> </ul>

		is proven for the legal person's violation of the requirements of Law No. 44/2015 or its bylaws.
36 International Instruments	Largely Compliant	<ul style="list-style-type: none"> <li>The Lebanese Republic has reserved the definition of terrorism contained in paragraph (b) of the first item of Article Two of the Convention.</li> </ul>
37 MLA	Largely Compliant	<ul style="list-style-type: none"> <li>There are some minor shortcomings in R. 3, where the MLA cannot be provided in predicate offence related to causing severe body injuries and illicit trafficking of stolen and other goods.</li> </ul>
38 MLA Freezing and Confiscation	Partially Compliant	<ul style="list-style-type: none"> <li>There are no measures to respond to foreign countries' requests about identifying, freezing, seizing or confiscating instrumentalities intended to be used in all predicate offences and the properties of equivalent value.</li> <li>There are no practically-taken arrangements to coordinate the procedures of seizure and confiscation with foreign countries or active mechanisms about managing frozen, seized or confiscated properties and dispose them when needed.</li> </ul>
39 Extradition	Partially Compliant	<ul style="list-style-type: none"> <li>Given the context of the risks, there is no legal basis covering extradition requirements in relation to terrorist financing.</li> <li>The Public Prosecution of the court of Cassation does not have a system for managing cases related to extradition requests.</li> </ul>
40 Other Forms of International Cooperation	Largely Compliant	<ul style="list-style-type: none"> <li>Minor deficiencies in light of the context of the country and the risks of money laundering and terrorist financing, including the lack of inference on explicit texts regarding the obligation to provide cooperation by the FIU regarding the predicate offenses related to money laundering,</li> <li>The internal procedures of CMA and the Insurance Bodies Supervisory Committee do not contain requirements for exchanging types of regulatory, prudential and AML/CFT information when it is related to AML/CFT purposes, especially with other supervisory authorities that have joint responsibility for financial institutions operating within the same group.</li> <li>The inability of the capital market authority and the Banking Control Committee to authorize counterparties or facilitate them to conduct inquiries themselves with the aim of facilitating supervision at the group level.</li> <li>The internal memorandum issued by the CMA does not require immediate notification of the use of the</li> </ul>

		information obtained for the purpose for which it was requested, or obtaining prior approval from the foreign regulatory authority from which the information is requested in order to refer it or use it for a purpose other than the purpose for which it was requested.
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