

Decision Number 10

Financial Intermediation Institutions

Addressed to

Financial intermediation institutions, financial institutions and banks undertaking business securities activities in Lebanon on behalf of their clients and/or for their own accounts, under articles 1, 2 and 5 of Law No. 161 of August 17, 2011 (related to Capital Markets).

The Chairman of the Capital Markets Authority /Governor of the Central Bank of Lebanon,

Pursuant to Law No. 161 of August 17, 2011 related to Capital Markets,

Pursuant to the decision of the Capital Markets Authority's Board taken in its meeting of December 20, 2013,

Declares the following,

Preamble:

Pursuant to Law No. 161 dated August 17, 2011, (related to Capital Markets) which entrusted the Capital Markets Authority with all the powers related to the establishment, activity and control of financial intermediation institutions,

Without prejudice to the authority of the Banque du Liban over the institutions whose main activity is to undertake all kinds of professional credit and loan operations,

The Capital Markets Authority shall take all the procedures, measures and conditions stipulated in the basic decision No. 6213 of June 28, 1996, issued by the Central Bank of Lebanon (basic circular No.27 addressed to banks, financial institutions and financial intermediation institutions) related to financial intermediation institutions in accordance with what is set forth hereunder).

Article 1: Under the conditions, rules and procedures stipulated in this Decision, the professional undertaking of financial intermediation activities in Lebanon is restricted to the following institutions:

- 1- Financial intermediation institutions established in the form of Lebanese-joint stock companies whose main object is to undertake financial intermediation activities.
- 2- Branches of foreign financial intermediation institutions undertaking financial intermediation as their main activity.



- 3- Banks and financial institutions registered with the Banque du Liban.

Article 2:

- 1- Financial intermediation institutions may undertake the following operations in the regular course of their business, according to the category that each institution belongs to:

First Category: The category that may undertake the following operations and activities:

- a- Execution of clients' orders on the various negotiable financial instruments or transferable securities, in particular spot transactions, forwards, futures contracts, options contracts and swaps, and transactions on derivatives or structured financial instruments related to the following:
 - Shares of all kinds.
 - Debenture bonds, government bonds, and other bonds issued by public entities.
 - Financial or commercial papers.
 - Certificates of deposit.
 - Currencies.
 - Precious metals.
 - Commodities.
- b- Introducing brokerage operations, where these operations are restricted to introducing clients to correspondents or to institutions that shall undertake the requested financial operations.
- c- Marketing or promotion of various financial instruments and products, including those mentioned in sub-paragraph (a) above.
- d- Non-discretionary management of securities, financial instruments and cash portfolios, including those mentioned in sub-paragraph (a) above.
- e- Management of their own securities and financial instruments portfolios, including those listed in sub-paragraph (a) above, provided that none of their clients is a counterparty, whether directly or indirectly.
- f- Marketing and promotion of shares or stakes in collective investment schemes, with the CMA's prior approval.
- g- Financial surveys and consultancies limited to capital markets.
- h- Assistance in the issuing and marketing of securities and financial rights.
- i- Discretionary management of securities, financial instruments and cash portfolios, with the client's explicit written approval.
- j- Market makers' transactions, through the purchase and sale of financial instruments, including those previously listed in sub-paragraph (a) above, without prejudice to the conditions set forth in the attached annex.
- k- Liquidity providers' transactions, in order to provide liquidity at the best price through an electronic platform for financial instruments not listed on regulated markets. These instruments shall be directly purchased and sold from the client, without being confirmed with the correspondents, and without prejudice to the conditions specified in the attached annex.

Second Category: the category that may perform the same transactions as the first category, except for the transactions mentioned in sub-paragraphs (j) and (k) of paragraph (1) of this article



Third Category: The category that may perform the same transactions as the first Category, except for the transactions mentioned sub-paragraphs (g), (h), (i), (j) and (k) of paragraph (1) of this article.

- 2- In order to carry out their activities, financial intermediation institutions have the right to undertake other operations that are complementary to their main objective. They are however prohibited from undertaking:
 - a- Exchange operations, except when such operations are complementary or related to those performed, within the limits of their objects, on behalf of their clients.
 - b- Cross-border transportation of cash, metal coins, bullion and specie.
 - c- Any commercial or industrial activity or any activity not related to financial intermediation.
- 3- Financial intermediation institutions are prohibited from:
 - a- Receiving funds from their clients, unless through checks or transfers, including those received for the purpose of creating or covering all margins.
 - b- Executing at their clients' request in favor of third parties in Lebanon or abroad, foreign or domestic incoming transfers in excess of USD /1,500/.
- 4- Financial intermediation institutions are prohibited, after January 25, 2012, from opening any account that is inferior to the equivalent to USD /10,000/ and is allocated to deal with financial instruments that are listed or unlisted on regulated markets
- 5- The CMA shall specify in the regulations and instructions issued to implement this Decision, the definition and meaning of the expressions, of this article and the limits and conditions of the implementation of this article on financial intermediation institutions, financial institutions and banks undertaking business securities activities in Lebanon on behalf of their clients and/or themselves, under articles 1, 2 and 5 of Law No. 161 of August 17, 2011 (related to Capital Markets).

Article 3:

- 1- Before starting their activities, financial intermediaries must obtain a license from the CMA.
- 2- The shares of the Lebanese financial intermediation institutions must all be nominal.
- 3- A prior authorization by the CMA is required to assign the shares in the capital of a financial intermediation institution in the following cases:
 - If the assignment leads, directly or indirectly, to the acquisition by any person of more than 10% (ten percent) of the institution's total shares.
 - If the assigner or the assignee is one of the incumbent or elected members of the Board of Directors, notwithstanding the number of the shares assigned.

Under this article, the transfer of shares by inheritance or by assignment between spouses or between ascendants and descendants is not considered as an assignment.

Article 4: Financial intermediation institutions must apply for registration with the CMA. To be accepted, registration applications must meet legal requirements.



The CMA shall publish a list of the Registered Financial Intermediation Institutions, according to the provisions governing banks in Article 136 of the Code of Money and Credit¹.

Any Institution that is not included in the List in the financial Intermediation Institutions is prohibited from undertaking financial intermediation activities or from using the expressions “Financial Intermediation Institution”, “Owner of a Financial Intermediation Institution”, “Financial Intermediary” or any similar expression, in any language, whether in its corporate name, in its object, or in its advertisements. It is also prohibited from using these expressions in a manner that might mislead the public about its nature.

A financial intermediation institution must indicate its registration number from the afore-mentioned list, under the same conditions, and on the same documents as those required for registration in the Trade Register.

Article 5: First: The minimum capital required for a Lebanese financial intermediation institution, and the minimum capital to be allocated to the branch of foreign financial intermediation institutions licensed to operate in Lebanon, is set as follows:

- First Category: a minimum of seven billion five hundred Lebanese pounds.
- Second Category: a minimum of five billion Lebanese pounds.
- Third Category: a minimum of two billion Lebanese pounds.

Second: Financial intermediation institutions operating in Lebanon must allocate, out of their Tier-1 capital, a specific amount to be computed according to their category:

- a- An amount equivalent to the minimum specified in the first paragraph of this article, and allocated to the headquarters.
- b- An amount equivalent to three hundred fifty million Lebanese pounds allocated to each branch.

Third: Any Lebanese financial intermediation institution intending to open a branch abroad must allocate to this branch the triple of the amount required for the opening of branch in Lebanon, in addition to the amount imposed by the concerned foreign authorities.

Fourth: The whole capital, or the whole allocations or any subsequent increase must be paid up in full and in a single cash payment.

Article 6: The CMA shall determine the valuation principles for asset items that constitute a counterpart to the capital of a financial intermediation institution.

Furthermore, the CMA shall require on financial intermediation institutions to prove, at any time, that its assets effectively exceed its liabilities by at least, an amount equivalent to its capital.

¹For this purpose, the same numbering applied in the Lists previously issued by the Central Bank of Lebanon is being applied as well.



The Financial intermediation institutions that incur losses must, within a time limit of six months, reconstitute its capital, or freeze for this purpose a cash reserve, or reduce its capital to no less than the minimum required by Article 5 above.

The provisions of this Article shall apply to the financial intermediation institutions operating in Lebanon.

Article 7: The CMA is entitled to issue recommendations and instructions and to use any other means that ensure that the financial intermediation institution operates in a sound manner.

Financial intermediation institutions must comply with the recommendations and instructions issued by the CMA.

Article 8: A prior authorization from the CMA is required for the opening by a Lebanese financial intermediation institution of a branch abroad for the opening of a new branch in Lebanon by a Lebanese or foreign intermediation institution, and for the relocation of a branch.

Article 9: All institutions undertaking business securities activities in Lebanon must:

- 1- Concerning financial intermediation operations, provide their clients, personally and periodically, with statements of accounts, and with other duly signed relevant statements.
- 2- Notwithstanding clause (1) above, and concerning introducing brokerage, ask explicitly their correspondents or the institutions performing the required financial operations to provide their directly concerned clients (and not through the institution itself) with the documents specified in clause (1) above.
- 3- Publish, regarding their operations and accounts, periodical statements and positions that reflect accurately their situation.
- 4- Insert in all the contracts and documents concerning the operations performed with their clients, a warning statement expressing that financial investments, notably those of speculative nature, expose them to high risk and obtain from their clients a statement in which they indicate that they have taken cognizance of the warning.
- 5- Restrain the responsibility of providing clients with statements of accounts to an autonomous body that is independent from the Front Office and the introducing brokers.
- 6- Confirm, pursuant to clients' orders, all transactions performed for clients with correspondents, including those related to financial instruments and derivatives, listed or unlisted in the regulated financial markets, with the exception of market makers' transactions and liquidity providers' transactions at the best price..
- 7- Record all phone calls with clients, when the latter give or make any request, by phone, to perform any transaction on their behalf.
- 8- Study each investor's profile, taking into consideration the suitability of the suggested investments to investor's profile that must be periodically updated and/or at the occurrence of any drastic change in the



situation of the investor, and refrain from offering, to the investor, any product not suitable for his profile depending on several criteria, including but not limited to:

- The investor's age
- The investor's retirement plan
- The investor's previous investments
- The investor's knowledge of financial products
- The investor's ability to bear financial risks
- The investor's investible assets
- The investor's investment strategies

Article 10: Financial intermediation institutions must record and describe their operations in a clear and precise manner, and the following information should be readily available in detail on a daily basis and at any time:

a- In regards to the operations conducted on behalf of their clients:

- 1- The full name, and address of each client, and personal number allocated to him/her.
- 2- The exact execution date of each operation and its serial number.
- 3- The quantity, nature, price and number of financial instruments purchased or sold.

Each client must have a personal reference number that, in no circumstances, can be given, to another client, even if the relationship between the client in question and the financial intermediation institution has been terminated.

b- In regards to the operations conducted for their own account:

The exact execution date of each operation and its serial number, in addition to the quantity, nature, price and number of financial instruments purchased or sold.

Article 11: 1) Financial intermediation institutions must comply with the following:

- a- Informing their clients, in advance, of the risks pertaining to operations.
- b- Informing their clients, when acting on their behalf, about any potential conflict of interests that might arise between both parties due to the operation in question.
- c- Committing to protect the confidentiality of the information regarding their clients' accounts, and the operations conducted on behalf of these clients, and also committing not to use such information for their own benefit or the benefit of any other person.



d- Refraining, while conducting financial intermediation operations, from using any information, not officially announced or published that was obtained from clients or any other source.

2) The provisions of this Article shall also apply to all staff of financial intermediation institutions.

Article 12: 1) All financial intermediation institution must keep for their clients the following accounts:

a- A securities account or more to record the securities of each client, except those on which the financial intermediation institution has a relinked to a lending margin.

b- A bank account or more to record the funds held by each client.

2) The securities and funds deposited and recorded in the abovementioned accounts are not included in the assets belonging to the financial intermediation institution.

3) The records and the bank accounts of each client kept according to the provisions of this Article must clearly show the characteristics of the securities, and the details of the funds belonging to each client.

Article 13: The Financial Control Unit at the CMA shall control the Lebanese financial intermediation institutions, and the branches of foreign financial intermediation institutions operating in Lebanon, under rules and principles specified by the CMA.

Article 14: Any Lebanese financial intermediation institution, and any branch of the foreign financial intermediation institution operating in Lebanon, must notify the CMA if it intends to cease carrying on its activities.

The CMA may compel such institution to fulfill all its obligations before permanently ceasing its activities in Lebanon.

Article 15: Financial intermediation institutions operating in Lebanon are prohibited from receiving deposits, as specified in Article 125 of the Law of Money and Credit , and from lending any party as specified in Articles 121 and 178 of the said code. They may , however grant facilities related to the operations they carry out , provided the conditions of these facilities are stated in written, clear and detailed agreement.

Financial intermediation institutions may obtain funds from partners or shareholders, or through the issuance of debenture bonds, under the provisions of Article 122 and the following Articles of the Code of Commerce and Legislative Decree No. 54 of June 16, 1977 on the bonds convertible into shares.

Article 16: The provisions of Article 127 of the Code of Money and Credit shall apply to all financial intermediation institutions.



Article 17: a) Financial intermediation institutions must comply with the overall regulatory measures taken by the CMA, and with the procedures imposed by the CMA for the protection of their clients.

b) Financial intermediation institutions must, in particular, submit to the CMA all required information, documents statistics and accounting statements, in accordance with the conditions, forms and time limits set by the CMA.

Article 18: Any institution violating the provisions of this Decision shall be subject to the administrative sanctions set out in the observed laws and regulations, particularly those set forth in Law 161 of August 17, 2011 (related to Capital Markets these sanctions shall not impede the enforcement of other penal or administrative sanctions applicable to the violating institutions.

Article 19: The financial intermediation institution shall be struck off the List mentioned in the second paragraph of article 4 of this Decision, in any of the following cases:

- a- If the institution does not effectively start its activities within six months from the date of its registration on the List of Financial Intermediation Institutions.
- b- If it stops its activities for six successive months.
- c- If it is being liquidated.
- d- If it does not reconstitute its capital or does not increase it to the required minimum.
- e- If it has been bankrupt.

Article 20: When struck off, the financial intermediation institutions shall be automatically prohibited from carrying out financial activities and shall be dissolved and liquidated in accordance with the laws in force.

A financial intermediation institution under liquidation may, for the specific purpose of liquidation, continue to use its designation as a “financial intermediation institution”, provided the expression “under liquidation” appears clearly after its corporate name.

Article 21: No party can undertake business securities activities unless obtaining an approval from the CMA.

Article 22: This Decision shall be published in the Official Gazette, and shall be effective upon its publication.

Beirut, January 9, 2014
Chairman of the CMA/ Governor of the Central
Bank

Riad Toufic Salameh
(Signature)



Annex 1

Requirements Complementary to Market Maker and Liquidity Provider's Transactions

1- Quantitative requirements:

- a- Daily losses resulting from speculation operations must not exceed 2% of Tier 1 capital, and total cumulative losses must exceed, at any given time, 20% of Tier 1 capital.
- b- In case these losses exceed 20% of Tier 1 capital, the institution must either liquidate this overturn on the next working day if it cannot do so on the same day, or deposit a special reserve in Lebanese pound equivalent to this overturn.



- c- The notional value of opened positions must not exceed the free Tier 1 capital , i.e. Tier 1 capital after deducting
 - The impairment in the provisions and the items of Article 153 of the Code of Money and Credit, and the excess on the provisions of Article 153 of of this Code for financial institutions.
 - The impairment in provisions for financial institutions.
- d- Calculating the number of authorized opened positions so that the notional value of the said positions does not exceed, at any time, the free Tier 1 Capital.
- e- Calculating the notional value based on the total f opened positions (x) the notional value of the opened positions(x) entry price of opened positions, according to the following equation:

$$\sum_{i=1}^n (Q_i \times N_i \times P_i)$$

i=1

Qi: Number of opened positions for each type of contract

Ni: notions value for each opened position

Pi: the entry price for each contract

2- Qualitative Requirements:

- a- Establish a Risk Committee pursuant to the provisions of Basic Decision No. 9956 of July 21, 2008.
- b- Establish a Risk Management Unit that fulfills its mission in accordance to all relevant regulations and circulars issued in this regard, and is in charge of the following:
 - Drawing a risk management policy, and specifying the acceptable financial instruments and derivatives and transactions that may be performed by the financial institution or the financial intermediation institution.
 - Specifying the risk limits for all acceptable positions and financial instruments (daily, weekly, monthly and annual limits).
 - Setting a documented methodology for the management of opened positions, and their risk reduction, provided this methodology is periodically reviewed by the Risk Committee.
- c- Adopt systems for risk measurement and for financial instruments and derivatives pricing.



- d- Create, in addition to the Front Office and the Back Office, a Middle Office in charge of controlling daily all positions and verifying compliance with specified limits and margins.
- e- Comply with the provisions of Basic Decision No.7737 of December 15, 2000, issued by Banque du Liban to assess efficiency of internal audit systems and internal control procedures in relation to risk management.