

Draft Law on Safeguarding Foreign Currency Deposits in Lebanese Banks and Restoring Stability to the Financial and Banking Sectors

Article 1:

With regard to foreign currency deposits stuck in banks, it is strictly prohibited for the Lebanese government, the Central Bank of Lebanon, banks, or financial institutions, without the explicit written consent of the depositor, to take any decision or action or engage in any transaction that would:

- a. Cancel any bank deposit, deduct therefrom, or reduce its monetary value.
- b. Alter the nature of any bank deposit in the depositor's account or replace it with shares, any type of securities, or substitute its currency with another currency or digital currencies.

Such deposits shall be considered privileged debts with special priority status.

Article 2:

- a. The Lebanese government, public institutions, and private institutions or companies of a public nature shall settle all their obligations (debts and loans) in favor of the Central Bank of Lebanon in the currency of the debt and according to its cash value, as revealed by the financial audit of its accounts for the year 2024. This shall be done through equal annual installments over four years, starting from the third year inclusive from the date of issuance of this law. These settlements shall, by law, constitute one of the annual liquidity sources for reconstituting deposit liquidity within the economic, financial, and tax recovery plan, which will be detailed in Article Seven of this law.
- b. After the Lebanese government has settled its obligations to the Central Bank of Lebanon in accordance with paragraph "a" of this article, it shall:
 1. Reconstitute the capital of the Central Bank of Lebanon through annual installments over three years, starting from the fourth year following the enactment of this law, at a rate of 15% of the value of each of its assets, in the original currency of the asset, and at its appraised monetary value, as determined by two independent audit firms—one local and one international (TPA - Third Party Auditor). The schedule is as follows:
 - First year: At least one-third of 15% of the total appraised assets in cash at that time.
 - Second year: At least one-third of 15% of the total appraised assets in cash at that time.
 - Third year: At least one-third of 15% of the total appraised assets in cash at that time.

2. Maintain at least the 15% threshold annually, as stipulated in paragraph "b-1" of this article, in terms of the total appraised monetary value of the Central Bank's assets, starting permanently from the fourth year following the enactment of this law.
3. Settle Lebanese Treasury bonds in Lebanese currency owed to all holders within one year of the enactment of this law and restructure and reschedule all Treasury bonds in foreign currency.
4. Include provisions in successive annual budgets to ensure the implementation of the provisions of this article.

Article 3:

- a. The Banking Control Commission shall engage two independent audit firms—one local and one international (TPA - Third Party Auditor)—to conduct a comprehensive audit within a maximum period of six months from the date of issuance of this law. The audit shall cover:
 1. The balance sheets and budgets of banks and financial institutions, as well as all banking transactions from 2019 until the enactment of this law.
 2. Details of the total foreign currency transfers and loans from the Central Bank of Lebanon to banks and financial institutions from 2019 until the enactment of this law, including the reasons for these transfers and loans and their impact on the Central Bank's obligations toward banks and financial institutions according to their respective dates.
 3. The distribution of bank and financial institution profits from 2016 until the enactment of this law.
- b. The Central Bank of Lebanon shall:
 1. Following the issuance of the audit results mentioned in paragraph "a" and after implementing what is stated in paragraph "d" of Article Four of this law, deduct from its total obligations to each bank and financial institution the value of the liquidity determined in accordance with paragraph "d" of Article Four. It shall also deduct annually from its total obligations to each bank and financial institution the value of the capital that must be reconstituted according to the schedule outlined in paragraph "c" of Article Four, in order to calculate its net obligations to each bank and financial institution.
 2. Starting from January 1, 2024, deposit its monthly profits in all currencies in cash into a separate account.
 3. Starting from January 1, 2024, deposit annually in another separate account, in cash, the value of the differences resulting from the detailed revaluation of its assets and investments in Lebanese and foreign financial markets, as well as all companies and institutions in which it holds shares, in the original currency of the asset.

4. Starting from January 1, 2024, publish annually the valuation of its assets in the original currency, according to their cash value, the evaluation of its holdings in the required currencies at their cash value, and a monthly valuation of the balances of the two separate accounts mentioned in paragraphs "b-2" and "b-3" of this article in cash. By law, Seventy-five percent of the positive balance in each of these accounts shall be one of the sources of annual liquidity for reconstituting deposit liquidity as part of the economic, financial, and fiscal recovery plan outlined in Article 7 of this law.
- c. In parallel with what is stipulated in paragraph "b" of this article, the Central Bank of Lebanon shall settle its net obligations to each bank or financial institution proportionally according to the value of these obligations, through equal and consecutive monthly installments, according to the following schedule:
 1. Second year from the date of issuance of this law: Seventy-five percent of the positive balances in the two accounts mentioned in paragraphs "b-2" and "b-3" of this article at that time.
 2. Third year from the date of issuance of this law: Seventy-five percent of the positive balances in the two accounts mentioned in paragraphs "b-2" and "b-3" of this article at that time, in addition to the liquidity resulting from the Lebanese government's settlements to it during the third year in accordance with paragraph "a" of Article Two.
 3. Fourth year: 75% of the positive balances in the two accounts mentioned in paragraphs "b-2" and "b-3" at that time, plus liquidity from state repayments that year per paragraph "a" of Article 2, as well as liquidity generated from the state's partial recapitalization of the Central Bank per the schedule in paragraph "b-1" of Article 2.
 4. Fifth year: 75% of the positive balances in the two accounts mentioned in paragraphs "b-2" and "b-3" at that time, plus liquidity from state repayments that year per paragraph "a" of Article 2, as well as liquidity generated from the state's partial recapitalization of the Central Bank per the schedule in paragraph "b-1" of Article 2.
 5. Sixth year: 75% of the positive balances in the two accounts mentioned in paragraphs "b-2" and "b-3" at that time, plus liquidity from state repayments that year per paragraph "a" of Article 2, as well as liquidity generated from the state's partial recapitalization of the Central Bank per the schedule in paragraph "b-1" of Article 2.
- d. The repayments specified in paragraph "c" of this article shall be one of the sources of liquidity for the annual reconstruction of deposit liquidity as part of the economic and financial recovery plan outlined in Article 7 of this law.

- e. The Central Bank must undergo an annual audit by two independent auditing firms—one local and one international (TPA - Third Party Auditor).
- f. The Central Bank must publish weekly details of its balance sheet and budget in terms of liabilities and assets, explaining any discrepancies exceeding 5% compared to the previous balance sheet.
- g. The Central Bank must conduct foreign exchange clearance operations between the Lebanese currency and various foreign currencies through correspondent banks or the central bank of the currency's country of origin, in accordance with international standards.
- h. If the Central Bank liquidates, sells, leases, or mortgages any of its assets within seven years of the enactment of this law, the resulting liquidity shall mandatorily serve as a source of annual liquidity reconstruction for deposit liquidity, as outlined in Article 7 of this law.

The government commissioner at the Central Bank of Lebanon, within the scope of his duties as stipulated in Article 42 of the Code of Money and Credit, shall oversee the accounting of the Central Bank of Lebanon and ensure its proper implementation of the obligations imposed by this article.

Article 4:

Every bank operating in Lebanon as of the date of issuance of this law and every financial institution operating in Lebanon as of the date of issuance of this law shall undertake the following:

- a. Declare to the Banking Control Commission at the Central Bank of Lebanon, within a maximum period of three months from the date of issuance of this law, the total amount of their foreign currency deposits, detailed by their cash value, deposited in their internal accounts, their accounts in other banks or financial institutions in Lebanon, their accounts at the Central Bank of Lebanon, and their accounts in banks or financial institutions outside Lebanon. They shall also disclose the details of their total assets in the currency of the asset and their cash value, whether included in their balance sheets or off-balance sheet (off-balance sheet) as of the date of issuance of this law, as appraised and audited by two independent auditing firms, one local and one international (TPA - Third Party Auditor).

- b. Prepare an annual financial report for their assets in the currency of the asset and in their cash value, and for their liabilities in the currency of the liability and in their cash value, starting from the date of issuance of this law. This report shall include all details of their balance sheets in Lebanon and abroad (off-balance sheet), as well as their private funds in the currency of the capital and their cash value, appraised and audited by two independent auditing firms.
- c. Within three months from the date of issuance of this law, determine the volume of their transfers abroad made after October 17, 2019. Excluded from this determination are transfers that do not exceed the equivalent of seventy-five thousand US dollars in cash annually per depositor, solely for medical or educational purposes, upon submission of the relevant proofs. Also excluded are transfers related to the import of goods upon submission of the relevant proofs. This determination shall be subject to audit by the Banking Control Commission.
- d. Reconstitute the full liquidity equivalent to the total value of the transfers determined in paragraph "c" of this article, reaching fifty percent of their value within three years from the date of issuance of this law and one hundred percent of their value within six years.

The value of their total transfers determined in paragraph "c" of this article shall be deducted from the Central Bank of Lebanon's obligations to each bank and financial institution within a maximum period of three months from the date of issuance of this law, as stipulated in paragraph "b-1" of Article Three.
- e. Reconstitute their capital through annual installments over three years, starting from the date of issuance of this law, with a value equal to twenty-five percent of the value of each of their assets, in the currency of the asset and according to its cash value, as per the following schedule:
 - 1. First year: One-third of the value of twenty-five percent as a minimum of their total appraised cash assets at that time.
 - 2. Second year: One-third of the value of twenty-five percent as a minimum of their total appraised cash assets at that time.
 - 3. Third year: One-third of the value of twenty-five percent as a minimum of their total appraised cash assets at that time.

This annual appraisal shall be subject to audit by the Banking Control Commission. The value of their capital reconstitution, as determined in paragraphs "e-1," "e-2," and "e-3" of this article, shall be deducted annually from the Central Bank of

Lebanon's obligations to each bank and financial institution, as stipulated in paragraph "b-1" of Article Three.

Starting from the fourth year, the capital of each bank and financial institution shall not be less than twenty-five percent as a minimum of their total assets, appraised annually in cash, on a permanent and on a continuous base.

- f. Refrain from distributing any profits to their shareholders for four consecutive years starting from the date of issuance of this law, as a contribution to the formation of the aforementioned liquidity. If profits are distributed starting from the fifth year until the seventh year, they shall not exceed twenty-five percent of the profits.

The Banking Control Commission shall engage two independent auditing firms, one local and one international (TPA - Third Party Auditor), to conduct quarterly monitoring and ensure the implementation by each bank and financial institution of what is required in paragraphs "a," "b," "c," "d," "e," and "f" of this article. The Commission shall publish its annual reports in this regard.

Banks and financial institutions shall also engage two independent auditing firms annually to audit and verify their compliance with the obligations outlined in this article.

The process of reconstituting the liquidity of banks or financial institutions, as outlined above, shall, by law, constitute one of the liquidity sources for annually reconstituting deposit liquidity within the economic, financial, and tax recovery plan detailed in Article Seven of this law.

Article 5:

Banks or financial institutions that fail to implement any of the following provisions shall be deemed, by law, to have suspended payments as of October 18, 2019, and the provisions of Laws 2/67, 28/67, 110/90, and other applicable laws shall immediately apply to them. Shareholders, board members, authorized signatories, and auditors who were active in these institutions between January 1, 2015, and December 31, 2024, shall be subject to legal prosecution, including their assets and branches up to the fourth degree, and the statute of limitations shall not apply to their actions. The provisions apply to banks or financial institutions that fail to:

1. Reconstitute the required liquidity in accordance with paragraph "d" of Article Four.

2. Apply the daily liquidity coverage ratio (LCR) for banks and financial institutions in accordance with Basel III standards and the global solvency ratio (Solvency Ratio) after one year from the date of issuance of this law.
3. Reconstitute their capital in accordance with paragraph "e" of Article Four.

Article 6:

Natural and legal persons shall conduct annual public accounting starting from the year 2020, disclosing foreign currency debts and loans repaid to them or by them in Lebanese pounds at an exchange rate lower than the prevailing market rate at the time of these transactions. Any positive difference, if present, shall be considered an exceptional profit realized in US dollars in cash and shall be subject to an exceptional direct tax of 50%, payable within one year, with the possibility of installment payments over five years at an annual interest rate of 9%. Housing and personal loans up to one hundred thousand US dollars are exempt from this tax.

The amounts collected from the taxes mentioned in this article shall, by law, constitute one of the liquidity sources for reconstituting deposit liquidity within the economic recovery plan detailed in Article Seven of this law.

Article 7:

To ensure the depositor's freedom to recover their deposit and dispose of it at its cash value according to the account currency and as stipulated in Article Eight of this law, the Lebanese government shall, within a maximum period of six months from the date of issuance of this law, present an economic, financial, and tax recovery plan. The content of this plan shall not conflict with the provisions of this law and shall be based on the obligations imposed on banks, financial institutions operating in Lebanon, the Central Bank of Lebanon, and the government, as outlined in this law. The Central Bank of Lebanon shall develop its monetary strategy in line with the government's aforementioned plan.

Article 8:

Based on the direct contractual relationship between the depositor and the bank or financial institution, every bank or financial institution shall make deposit liquidity available to depositors to conduct any financial transaction of any kind—repayment, transfer, withdrawal, purchase, payment, etc.—at its cash value according to the account currency, through equal and consecutive monthly installments starting one year after the date of issuance of this law, according to the following schedule:

- a. First year: Ten percent of the value of each depositor's deposits.
- b. Second year: Ten percent of the value of each depositor's deposits.

- c. Third year: Fifteen percent of the value of each depositor's deposits.
- d. Fourth year: Fifteen percent of the value of each depositor's deposits.
- e. Fifth year: Twenty-five percent of the value of each depositor's deposits.
- f. Sixth year: Twenty-five percent of the value of each depositor's deposits.

Up to one-third of the total monthly installments for each year may be paid in Lebanese pounds at the market exchange rate on the date of payment.

Any bank or financial institution that fail to comply with its obligations toward any depositor according to the aforementioned schedule shall, by law, be deemed to have suspended payments as of the date of failure, and the provisions of Laws 2/67, 28/67, 110/90, and other applicable laws shall immediately apply to it. Shareholders, board members, authorized signatories, and auditors who were active in these institutions between January 1, 2015, and December 31, 2024, shall be subject to legal prosecution, including their assets and branches up to the fourth degree, and the statute of limitations shall not apply to their actions.

The Parliament has authorized the government to issue the economic, financial, and tax recovery plan and begin its implementation by means of a legislative decree.

Article 9:

Lawsuits filed regarding the recovery of deposits between depositors and banks or financial institutions shall be temporarily suspended, with the rights of the plaintiffs preserved for any party. These lawsuits shall remain suspended if the bank or financial institution implements its annual obligations according to the schedule mentioned in Article Eight within the specified time frame. The lawsuits shall resume in the event of non-compliance.

Article 10:

All legislative provisions and texts that conflict or are inconsistent with this law or do not align with its provisions shall be suspended for the duration of its validity, exclusively when it concerns the application of its provisions, until the expiration of this law, i.e., after seven years from the date of its issuance.

Article 11:

This law shall enter into force immediately upon its publication in the Official Gazette.

MP Dr. Farid Boustany

Statement of Reasons

Whereas Paragraph "f" of the Preamble of the Lebanese Constitution stipulates that Lebanon's economic system is a free-market system that guarantees individual initiative and private property;

Whereas Article 15 of the Constitution states that "property is protected by law, and no one may be deprived of their property except for reasons of public benefit, in the cases provided for by law, and subject to fair compensation," thereby ensuring constitutional protection for all types of property, including bank deposits;

Whereas, in accordance with Article 15 of the Constitution, depositors must be granted full ownership rights over their deposits without any restrictions, and they must be able to exercise all rights related to their deposits in the original currency and at their full recognized value, in cash and without any form of discrimination between depositors or between different deposits—except for legally or illegally obtained deposits, regardless of their classification. No deposit may be withheld, frozen, or restricted without a legal basis, in line with the constitutional principle of private property protection;

Whereas every depositor has the right and freedom to conduct banking transactions, including withdrawals, deposits, and internal or external transfers, in the currency of their account, without any restrictions or conditions, in accordance with the principle of a free-market economy as enshrined in Paragraph "f" of the Preamble of the Constitution;

Whereas Paragraph "c" of the Preamble of the Constitution affirms equality in rights and obligations among all citizens without discrimination;

Whereas the Universal Declaration of Human Rights, adopted by the United Nations in 1948 and referenced in the Preamble of the Lebanese Constitution, guarantees in Article 17 the right of every individual to own property;

Whereas all depositors in Lebanese banks are equal before the law in terms of rights and obligations, requiring the application of the principles of equality and social justice as stipulated in Paragraph "c" of the Preamble of the Constitution;

Whereas any financial, economic, or banking recovery plan must inspire investor confidence by safeguarding and fully returning depositors' funds;

Whereas it is necessary to enact legislation that protects bank deposits in their original currency and in all their forms from any write-offs or forced conversions without the explicit consent of the depositor, in line with the constitutional principles outlined above;

Whereas any legislative, administrative, or contractual provision that contravenes the Constitution, international treaties, and the principles of the Universal Declaration of Human Rights is deemed null and void;

Whereas the public interest necessitates the preservation of bank deposits to restore confidence in the banking sector;

Whereas the current banking crisis resulted from critical mismanagement decisions made at the level of individual banks and financial institutions, which blatantly violated fundamental international banking and risk management standards (prudential rules), as well as Circular No. 311 of the Banque du Liban, leading to a severe depletion of liquidity and solvency in foreign currencies. These issues were exacerbated by the Banque du Liban's failure to adhere to certain provisions of the Code of Money and Credit and its own regulations and circulars. Furthermore, the central bank squandered its foreign currency reserves due to costly monetary policies, untargeted subsidies, lending to the state and public institutions, and financial engineering operations. These factors, combined with the persistent fiscal deficit, trade deficit, and balance of payments deficit since 2011, the accumulation of public debt exceeding 150% of GDP by 2019, and the default on Eurobond payments in March 2020, have severely worsened the crisis;

Whereas it has become imperative to define and allocate the responsibilities of the banking crisis among banks, the Banque du Liban, and the state, and to establish their obligations concerning compliance with relevant laws, regulations, and international banking and financial standards without infringing on depositors' rights;

Whereas, to prevent similar crises in the future, it is essential to ensure the independence of the Special Investigation Commission, the Banking Control Commission, and the Capital Markets Authority from the governance and central board of the Banque du Liban through necessary legal and regulatory amendments;

Whereas, in order to safeguard depositors' rights within the framework of all proposed economic plans and legislative initiatives, it has become necessary to enact a law that protects bank deposits and restores confidence in the banking and financial sectors by setting a course for reconstituting banking liquidity and solvency in accordance with Lebanese laws and international banking standards. This law should also contribute to extinguishing the Banque du Liban's debts, recapitalizing it, and assisting the state in repaying its debts and obligations, thereby stimulating economic growth, financial recovery, and restoring financial and banking stability between the state, the Banque du Liban, and commercial banks;

Therefore, we submit this draft law to your esteemed Council for discussion and approval.

MP Dr. Farid Boustany