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## **Contact Information**

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The Association of Banks in Lebanon issued an open letter regarding the ninth draft of the financial regulation and deposit recovery law. This letter was addressed to the Lebanese President, Speaker of the Parliament, Prime Minister, Ministers and Lebanese citizens (especially the depositors). It stated that the draft law that was leaked to the media has several serious flaws, in its essence and in its formulation. The worst flaw is that the law let the depositors bear huge losses along with the banks, instead of the State that is the primary party responsible of these losses resulting from its mismanagement and poor governance.

The letter mentioned Alvarez and Marsal' s report, dated August 7<sup>th</sup>, 2023, which showed clear and documented evidence that the State and the Central Bank (BDL) through its previous management were the main parties responsible for the banking system' s crisis. The report stated the following:

- The State and its poor governance and lack of transparency and the mismanagement of BDL are the main cause of the conflict.
- BDL was not publishing its financial statements as per international reporting standards (IFRS) and used to hide its losses that resulted in misleading commercial banks and the public.

The report specified also that the current crisis is not restricted to the banking system or the sovereign debt problem, but the State and BDL' s pegging the LBP to the US Dollar, and the financing of the deficit and subsidy programs through bank deposits.

The main problem that ABL has with this leaked law is the hierarchy of responsibility. Article 311 of the Code of Money and Credit obliges the State to cover the deficit in BDL' s balance sheet, enabling BDL to return banks' deposits to commercial banks, thus enabling the latter to return the deposits back to depositors. As such, commercial banks are not obliged, as per Lebanese laws, to cover BDL' s losses; however, they are willing to be part of the solution, as per its potential.

This law also addresses the required reserves at BDL as BDL' s contribution to the deposits recovery process, whereas in reality these reserves are commercial banks and depositors' money. This will increase the losses incurred by both commercial banks and depositors. In this context, two issues need to be seriously considered:

- Who will cover the losses incurred by depositors resulting from liquidating the commercial banks?
- How does this comply with the statements in the media regarding the importance of reviving the banking sector towards the recovery and growth of Lebanon in the future?

The letter also referred to the assets of the BDL such as Middle East Airlines, Casino Du Liban, and the real estate portfolio, in addition to Gold that increased in value from around \$13.5 billion prior to crisis to reach around \$40 billion.

Given all that, ABL declared that it is keen to participate in any thorough plan that includes the following:

- Ensure that BDL and banks fulfill their contractual obligations concerning the deposits, and the State guarantee the Central Bank as per article 311 of Code of Money and Credit.
- Guarantee that banks regain public' s confidence and fulfill financial stability.
- Deposits recovery through utilizing the assets of the State and BDL to fulfill its obligations and significantly reduce the unfair burden placed on banks.
- Regaining confidence in the Lebanese economy through regaining financial growth and sustainability.

Lastly, ABL urged the decision makers to cooperate and issue a law that does not affect depositors, commercial banks and the State negatively. And is open to all constructive dialogue.

**For your Queries:**

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