



BANKING CONTROL COMMISSION
BANQUE DU LIBAN

Beirut, March 15, 2017

Circular No.287

Addressed to Banks operating in Lebanon and their External Auditors

Subject: Participation of Banks in Startup Companies, Incubators, Accelerators, Venture Capital Companies, and Holding Companies.

Pursuant to Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23) relating to Banks' Participations in Startup Companies, Incubators, Accelerators, Venture Capital Companies, and Holding Companies specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision 6116,

Banks operating in Lebanon are requested to comply with the following:

1- Definitions

For the purpose of implementing the provisions of this Circular, the expressions below shall mean:

- **Company/Companies:** shall refer to the following institutions:
 - Startup Companies
 - Incubators
 - Accelerators
 - Venture Capital Companies
 - Holding Companies specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).

- **Regulatory Capital:** the regulatory capital used to compute the regulatory limits, as specified in Basic Decision No 6938 of March 25, 1998 (BDL Basic Circular No 43- the Regulatory Capital for computing the Regulatory Limits of Banks operating in Lebanon), and also in Banking Control Commission Circular No 277 of May 21, 2014.

2- Policy and Procedures relating to Participation in Companies

- In order to benefit from the provisions of Article 8 bis, Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular 23), banks must comply with the stipulations of Paragraph First of the said Article, and verify that Companies fulfill the following requirements:
 - Companies are Lebanese joint-stock companies with nominal shares.
 - They are not financial companies or offshore companies.
 - They neither use nor accept to use the funds resulting from the facilities specified in Article 8 bis of Basic Decision No 6116, whether directly or indirectly outside Lebanon.
 - They contribute to the socio-economic growth and to job creation in the Lebanese market.
 - Their project focuses on the Knowledge Economy and supports creative intellectual skills (Intellectual Capital).

- The bank's Senior Executive Management must draw and follow up the policy and procedures relating to its participation in Companies, provided that:
 - The policy and procedures are documented.
 - The policy and procedures specify, at least:
 - The party responsible for approving the participation.
 - The mechanism for selecting Companies targeted for participation.
 - The ceiling of total participations in all Companies and in each Company.
 - The follow-up mechanism of participations in Companies, and the parties in charge of this follow-up, including the mechanism in place to check compliance with the provisions of Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), as well as the proper use of the funds disbursed by the bank to the Companies in which it participates, in accordance with Article 8 bis of Basic Decision No 6116.
 - The need to prepare, for each participation, a file that comprises the information mentioned in Part 3 below.

3- Contents of the File relating to the Bank's Participation in Companies

- The file of each participation must contain all the information concerning the participation, as well as the documents and reports requested in Subparagraph 2, Paragraph Fourth, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23). The said information shall include, for indicative purposes only:
 - Information on all the Company's shareholders, including the information that confirm that none of the shareholders is governed, whether directly or indirectly, by Article 158 of the Code of Commerce and by Article 152, Paragraph 4 of the Code of Money and Credit.
 - Information on the Company's Board members and their expertise.

- Information on the Company's managers and their expertise, particularly in connection with Startup companies.
 - The external auditors accredited by the Company.
 - A detailed description of the Company's business activity and business plan.
 - The amount and percentage of participation in the Company.
 - The assessment mechanism of the bank's participation in the Company.
 - The total exposure to the Company, along with the detailed amount of loans and credits granted to the Company (if any), and the detailed interests, commissions and fees collected from the Company.
 - The bank's exit strategy.
 - The annual financial statements for the last three years and/or the projected financial statements, provided they include the balance sheet, the income statement, and the cash flow statement.
 - The Company's Key Performance Indicators.
 - The external auditor's annual report on the Company's activities, to be received by the end of April of each year.
- Concerning Venture Capital Companies, and Holding companies specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), the file must contain, in addition to the foregoing, the information below (where applicable):
 - The Private Placement Memorandum.
 - Information on the companies in which Venture Capital Companies participate, and the subsidiaries of Holding Companies specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), including at least:
 - The business activity of each Company.
 - Information on the Board members and the Management of each Company, along with their expertise.
 - The amount and percentage of participation in each Company.
 - The assessment mechanism of the participation in each Company.
 - The feasibility plan for each Company.
 - The financial statements of each Company, which include the balance sheet, the income statement, and the cash flow statement.
 - Reports on the business development and the Key Performance Indicators of each Company.
 - The external auditor's annual report on the activities of each Company, to be received by the end of April of each year.

4- Responsibility of the Bank's Senior Executive Management and Board of Directors

4-1 Responsibility of the Senior Executive Management

The following duties fall within the Senior Executive Management's responsibility:

- To draw the policy and procedures relating to participation in Companies, as mentioned in Part 2 above.
- To examine the Companies in which the bank may participate, by perusing the project and feasibility plan of the Company, as well as the available and projected financial statements.
- To propose to the bank's Board of Directors the name of the Companies in which the bank may participate, along with the relevant exit strategy.
- To prepare and submit to the bank's Board of Directors, at least semi-annually, periodic reports on the status of participations, the business development of Companies in which the banks participate and their Key Performance Indicators, after receiving from these Companies the necessary information and reports, at least those requested in Subparagraph 2, Paragraph Fourth, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).

4-2 Responsibility of the Board of Directors

The following duties fall within the Board's responsibility:

- To approve the policy and procedures relating to participation in Companies, and to review them periodically, at least annually.
- To approve the participations, after considering the Senior Executive Management's relevant proposals.
- To follow up periodically, at least semi-annually, by way of reading and discussing the reports prepared by the Senior Executive Management, the Compliance Department and the Internal Audit Unit:
 - The use by the bank of the facilities obtained under Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).
 - The status of participations in Companies, the appropriateness of investments in these Companies, their business development, and the compliance with Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), notably regarding the proper use of funds disbursed by the bank to the Companies.

5- Responsibility of the Compliance Department and Internal Audit Unit

5-1 Responsibility of the Compliance Department

The Compliance Department is responsible for checking compliance with all the provisions of Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), through the following duties, which include for indicative purposes only:

- To verify that the bank uses the facilities obtained under Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), in conformity with the provisions of the said Article.

- To verify that participations in Companies are compatible with the substance of Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).
- To verify that the participations effected by Venture Capital Companies and by Holding companies specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23), are compatible with the Private Placement Memorandum and the substance of Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).
- To verify the identity of the Company's shareholders and managers.
- To verify that the Company is not involved, whether directly or indirectly, in suspicious transactions related to money laundering and terrorist financing.

5-2 Responsibility of the Internal Audit Unit

The Internal Audit Unit shall prepare a specific periodic report, to be submitted at least annually and when necessary, showing the audit results related to the use by the bank of facilities granted under Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23) and related also to the bank's participations in Companies.

6- Ceilings of Participations in Companies

- Ceilings of participations in Companies are shown in the following table:

	Type	Value
1-	Ceiling of the bank's total participations in Companies	4% of Tier 1 Capital
2-	Ceiling of participation in any Venture Capital Company	0.8% of Tier 1 Capital
3-	Ceiling of participation in any Startup Company	0.4% of Tier 1 Capital
4-	Ceiling of participation in any Incubator	0.4% of Tier 1 Capital
5-	Ceiling of participation in any Accelerator	0.4% of Tier 1 Capital
6-	Ceiling of participation in any Holding Company specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).	0.4% of Tier 1 Capital

- The above-mentioned ceilings shall be calculated based on the amount of approvals obtained from BDL Central Council. When calculating those ceilings, the amount of shareholders' loans approved by BDL Central Council shall be factored in, even if they have not been yet disbursed.

7- Reporting Participation in Companies in Form 2010

The total amounts of participations in Companies (including the amounts of shareholders' loans approved by BDL) shall be reported in Form 2010, i.e. without netting with BDL financing:

7-1 Regarding Participations in Venture Capital Companies:

- Pursuant to the International Financial Reporting Standard 9 (IFRS 9), the total amount of participations in Venture Capital Companies shall be classified at Fair Value through P&L, under the automatic sorting No 15623 -“Shares in funds classified at fair value through Profit and Loss - Unrelated non-financial sector” in Form 2010.
- Banks shall assess these participations periodically, at least annually, in accordance with the IFRS 13 - Fair Value Measurement, and with the audited reports on the Company’s market value, submitted by the latter to banks.

7-2 Regarding Participations in Startup Companies, Incubators, Accelerators, and in Holding Companies specified in Subparagraph 10, Paragraph First, Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23):

- Pursuant to IFRS 9, participations in the Companies mentioned in the title above shall be classified at Fair Value through P&L, under the automatic sorting No 15613 “Equities classified at fair value through Profit and Loss - Unrelated non-financial sector”.
- Banks shall assess these participations periodically, at least annually, in accordance with the IFRS 13 - Fair Value Measurement, and to the audited reports on the Company’s market value, submitted by the latter to banks.

8- External Auditors’ Responsibility

The external auditors of banks shall:

- Include in the annual report on banking standards, deviations, and violations, all violations detected when they verify the banks’ compliance with the provisions of Article 8 bis of Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23) and the provisions of this Circular No 287.
- Promptly notify the Banking Control Commission of any significant violation.

9- Reporting to the Banking Control Commission

Banks shall submit to the Banking Control Commission, on a semi-annual basis, the attached Form SH5 “Information on Banks’ Direct Participations in Startup Companies, Incubators, Accelerators, Venture Capital Companies, and Holding Companies specified in Subparagraph 10, Paragraph First, Article 8 bis, Basic Decision No 6116 of March 7, 1996 (BDL Basic Circular No 23).

10- Repealed Memos

BCC Memos No 17/2015 of July 3, 2015 and No 7/2016 of June 27, 2016 shall be repealed.

On behalf of the Banking Control Commission

The Chairman

Samir Salim Hammoud

Attached: [Form SH5 relating to “Information on Banks’ Direct Participations in Startup Companies, Incubators, Accelerators, Venture Capital Companies, and Holding Companies specified in Subparagraph 10, Paragraph First, Article 8 bis, of Basic Decision No 6116 of March 7, 1996 \(BDL Basic Circular No 23\).](#)