

Lebanon

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Political unrest and pending legislation: an update on financial reforms

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For most of 2007 and the first half of 2008, Lebanon experienced some political uncertainty when opposition parties boycotted the government and parliament. However, since the Doha Accords of May 2008 and the election of a new president, there is renewed hope of things moving forward again.

Despite the political deadlock, we have witnessed some developments in Lebanon's legal framework, notably in relation to the issue and transfer of Lebanese banks' shares, company law, Islamic finance laws, and so forth.

Nevertheless, numerous legislative projects remain pending before parliament, and it is hoped that these will start moving through the legislative process again. These draft laws aim to bring significant reforms to the financial and business environment.

Banking and finance

Despite the political situation, the dynamic and evolving banking infrastructure is securing and strengthening the banking and financial sector and the Lebanese economy in general. The Banking Secrecy Law of 1956 binds Lebanese banks to absolute secrecy with respect to their client accounts. Secrecy can only be lifted with the client's prior authorisation, in the event of bankruptcy or in the event of a conflict between the client and the bank arising from banking relations.

The Anti Money Laundering Law of 2001 is not an exception to the banking secrecy obligation. It was drafted in compliance with international standards to create an efficient

bank controlling system in order to avoid involvement in potential money laundering operations, notably by keeping records of client identities and transactions. However, client secrecy is only lifted by this law in the event that a specially formed committee rules to that effect.

The Fiducie Law of 1996 remains a valuable tool for transactions. It sets out a trust-like structure where the assets held by the fiduciary agent are separated from the assets of the settlor and are thus protected from its creditors, except in the event of the settlor's bankruptcy. These assets are also separated from the fiduciary agent's patrimony and cannot be seized by its creditors.

One of the most recent developments in banking law concerns the transfer and issue of bank shares. Law No 308 of 2001 provides that any transfer of more than 5% of a Lebanese bank's shares shall require the prior authorisation of the Central Bank (BDL). BDL decision No 9893 of May 15 2008 extends the prior authorisation requirement and imposes the obtaining of an authorisation from the BDL for the indirect acquisition of Lebanese banks' shares, except when acquired by banks and financial institutions duly incorporated in their country of origin. The amendment aims to further monitor and control the shareholding of Lebanese banks and protect them from having their shares indirectly transferred to unknown foreign investors.

In 2004, the incorporation of Islamic banks and Islamic transactions became regulated in Lebanon. These structures are destined to attract individuals and companies reluctant to deal with traditional banks and to develop a new source of funding for projects unable to find financing through conventional means. Since the enactment of the 2004 Law, the BDL has issued several decisions governing the operations of Islamic banks in

Lebanon. Three new Islamic banks were incorporated in 2006, one in 2007.

In December 2005, Laws on securitisation and collective investment schemes were enacted. Consequently, the BDL issued (in 2005 and 2007) decisions specifically regulating Islamic collective investment schemes.

Another significant legislative development is BDL decision No 9382 of July 26 2006, setting out the basic principles of corporate governance applicable to Lebanese banks.

A more recent development in corporate governance is BDL decision No 9725 of September 27 2007, which sets out rules relating to corporate governance applicable to Lebanese Islamic banks. One of its principal rules is the obligation for Islamic banks to create an independent corporate-governance unit to ensure the development and application of sound internal corporate-governance rules.

Finally, a draft Capital Markets Law, which deals with significant reforms of the financial markets, bringing them into line with international standards, is pending before parliament. The draft law primarily aims to protect the investing public and better regulate financial activity in Lebanon, notably by creating an independent regulatory authority for financial markets and transactions. It also creates a specialised court to settle disputes in the markets, as well as a compensation fund for investors.

Corporate law

A draft Law pending before parliament aims to liberalise company law by allowing non-shareholders of a Lebanese joint-stock company to sit on its board, provided that their number does not exceed one-third of the board members.

Holding and offshore companies, both possible in Lebanon, remain popular with investors. They present significant tax advantages as their profits are exempted from

income tax. Depending on their capital, these companies remain subject to an annual lump tax not exceeding L£5 million (\$3,500) for the holding company and fixed to L£1 million for offshore.

These companies also present other advantages. Law No 727, enacted in 2006, exempts holding companies from having at least two Lebanese directors on their boards.

Real estate

Despite the political situation and the war of July 2006 which caused great damage to country's infrastructure, the real-estate sector has continued its development through 2007 and Q1 of 2008, with local and foreign investors continuing to invest in real-estate projects.

There are few restrictions to foreign ownership of real estate, although ownership of more than 3000m2 requires a special permit that, subject to certain conditions, can be obtained in two to three months.

Privatisation

Privatisation will be another sector to watch in 2008 to 2009, and it is hoped by many that the process will resume swiftly, notably in the telecommunication and power sectors.

Lebanon's legal sector and its economy in general have proven their remarkable resilience over the past months and, if political stability persists, 2008 and 2009 could be interesting to watch.

Banking and finance

Recommended firms

Tier 1

Abouhamad Merheb Nohra Chamoun Chedid
Abousleiman & Partners
Raphaël & Associés
Moghaizel Law Offices

Tier 2

Badri & Salim El Meouchi Law Firm
Nabil Abdel-Malek Law Offices
Tyan & Zgheib

Tier 3

Alem & Associates
Baroudi & Associates
Ghaleb S Mahmassani Law Firm
Ramzi Joreige & Partners
Sami S Nahas Law Offices

Mergers and acquisitions

Recommended firms

Tier 1

Abouhamad Merheb Nohra Chamoun Chedid
Moghaizel Law Offices
Raphaël & Associés
Tyan & Zgheib

Tier 2

Abousleiman & Partners
Alem & Associates
Badri & Salim El Meouchi Law Firm

Tier 3

Baroudi & Associates
Khattar Associates
Sami S Nahas Law Offices

Political strife and tensions have hobbled hopes of further improvements to Lebanon's legislation and legal market. Law firms have received little new work, and are instead focusing on the completion of existing mandates. With elections due in 2009 as part of an agreement brokered in Doha, the country's lawyers have hopes of a more favourable business environment. But there is scepticism brewing about whether the agreement will provide a long-term answer to a country that has been "dead economically" for so long.

Despite this grim outlook, Lebanese companies still enjoy trickle-down benefits from the abundance of money in the Arab world. "We are getting the leftovers," says one lawyer. The real-estate industry, for example, is still on the up. Market observers have witnessed a newfound bullishness in the financial market, one remarking: "We are seeing investors becoming more sophisticated and willing to take risk."

The retention of lawyers has been a traditional problem to dog local firms, as many of the most talented practitioners have moved to neighbouring Arab countries, where the economies is flourishing and - relatively - free from political problems.

Abouhamad Merheb Nohra Chamoun Chedid

Key lawyer Elie Chamoun at Abouhamad Merheb Nohra Chamoun Chedid is noted by peers and clients as an active M&A practitioner. Nassib Chedid, meanwhile, is a well-regarded banking lawyer. "It's a very good law firm focused on local issues and strong in litigation," says a competitor. Among the firm's premier clients are digital-imaging company Agfa-Gevaert and Boston Scientific.

Leading lawyers

Elie Chamoun

Nassib Chedid
Antoine Merhab

Abousleiman & Partners

Abousleiman & Partners "by far the leading firm in the market" according to one client, has experienced another good year, and has recently worked on the \$6 billion privatisation programme for the national telecoms company. The stop-start programme is, at the time of writing, in stop mode, although the Lebanese government is determined to complete the sale in an attempt to address its mounting national debt.

The firm's recent debt capital markets work includes represented Credit Suisse and Bank Audi in relation to refinancing through the issuance of series-48 MTNs valued at \$975 million, followed by the \$732 million exchange of master notes for an issue of series-48 notes.

In addition, the firm has been advising on a number of securitisations in the region. For instance, the firm advised Fransabank on its eight-year diversified payments rights securitisation valued at \$100 million, as well as acting for Rymco on a \$50 million securitisation of auto loan receivables.

The firm is a favourite counsel of Fransabank. On the equity side, the firm advised on its establishment of a bank in Syria and preparation for the new branch's IPO, which raised \$40 million and was two-and-a-half times oversubscribed. The same bank retained the firm to assist in its issuance of \$100 million preference shares. Another key client, Blom Bank, instructed the firm in relation to its redemption of the preference shares.

On the M&A side, the firm again acted for Fransabank, this time on its acquisition of 97% of BLC Bank in October 2007. The firm also advised a Lebanese fashion company on the restructuring of its group of companies.

Leading lawyers

Randa Abousleiman

Alem & Associates

After entering the M&A rankings for the first time last year, Alem & Associates climbs to an enviable second-tier position and makes its debut in the banking and finance rankings. "Their legal work is always on time, quite accurate and quite comprehensive," says a client. "I'm usually quite comfortable with their contract and legal arguments. I see them as an extension of our firm; I value them as good partners."

Highlight deals for the firm include acting for a Saudi Arabian investment house in rela-

tion to the financing for a \$180 million investment into a German company listed on the London Stock Exchange. The firm advised a client in relation to its bid to acquire 100% of outstanding shares of Petrolube valued at \$400 million. Petrolube is Saudi Arabia's largest producer of lubricating oil.

The firm is also strong on the capital markets side: it recently represented Al Khabeer Financial Advisors in relation to the structuring of a *shariah*-compliant mortgage company and its subsequent private placement in Saudi Arabia, amounting to \$1 billion. "They have good knowledge of the capital markets authority, the Saudi contract laws and also the Ministry of Commerce," comments a client. The client particularly notes the accessibility of key lawyer Ziad Dannaoui: "Ziad is around seven days a week. He's available on his mobile all the time which is nice."

Leading lawyers

Ziad Dannaoui

Badri & Salim El Meouchi Law Firm

Badri & Salim El Meouchi's financial and corporate strength is partly due to leading lawyers Chadia El Meouchi and Lilia Sabbagh. "They have an international experience and most importantly they are very efficient," says a client. "In my banking business, speed is of great importance and they are very good on this side." The two put their international experience to use by advising Exchange Holdings in relation to the issuance of \$400 million of equity subscribed to by the country's sovereign wealth fund.

Salim El Meouchi is also widely praised by peers and clients of the firm.

In project finance, the firm is working on a large project advising an undisclosed company on its establishment of a new power plant in Lebanon and obtaining government licences. The project is worth more than €100 million. The firm also acted for Al Waab City in relation to the €225 million financing for the Al Waab real-estate project.

The firm has been very active in M&A, in deals such as representing Exchange Holdings in its acquisition of 20% of the share capital of Elysian Systems in the form of a subscription agreement in November 2007. The firm is also advising a Saudi banking client on its acquisition of a Lebanese branch of an Islamic bank.

The firm is often enlisted by represent banks, listed companies and real-estate group to advise on the issuance of GDRs in foreign jurisdictions such as Qatar. Clients are impressed with the efficiency of Badri &

Salim El Meouchi's services. "They reply very quickly on queries," says one.

Leading lawyers

Chadia El Meouchi

Salim El Meouchi

Moghaizel Law Offices

Faddi Moghaizel of Moghaizel Law Offices frequently represents reputable global banks. The firm's clients also include a number of government-owned entities and private clients. Its banking expertise subdivides into specialist areas such as financial law, retail banking, secured lending and syndicate loans.

The firm is often called upon to advise foreign clients in connection with their investments into Lebanon. Recent examples include Agence Française de Développement, which enlisted the firm to advise on a series of loans to local banks to enable them, in turn, to fund Lebanese businesses; and an Italian cement company, which the firm advised on its \$20 million acquisition of a local company.

Moghaizel has also advised on a number of takeovers in the banking sector, most notable acting for a sovereign wealth fund in the \$250 million acquisition of a Lebanese bank.

Leading lawyers

Faddi Moghaizel

Raphaël & Associés

Raphaël & Associés maintains its top-tier position in the rankings this year. The firm's expertise includes banking and M&A, especially in the telecoms and securities sectors. The firm's international experience allows it to enjoy a large share of overseas clients seeking its services when looking to invest in the Middle East.

Moussa Raphaël is the firm's name partner and most prominent practitioner, although the market notes the ascent of younger lawyers such as Adel Nassar.

Raphaël & Associés offers a range of financial and corporate legal services, with particular industry specialisation in telecoms, technology and construction.

Leading lawyers

Moussa Raphaël

Other notable firms

Responsiveness seems to be one of **Nabil Abdel-Malek Law Offices'** strengths. "They have been very good, very responsive," says one client. "Generally services provided are very good and can meet deadlines." Partner Nabil Abdel-Malek is well-versed in legal

issues. Says a client of Abdel-Malik: "He knows the law very well and is very precise in replies. All in all, [he provides] very good service."

The firm has a strong reputation for finance work, but has also handled a large number M&A transactions - it has been involved in the acquisition activities of Agility, The Sultan Center and Al Ghanim.

Tyan & Zgheib has a number of lawyers qualified to practise in foreign countries. It also has an impressive portfolio of corporate clients including British American Tobacco and Coca-Cola. The firm's strong French ties are evident; it counts Air France and Danone as part of its clientele.