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INTERNATIONAL CORPORATE LAW COMPENDIUM: LEBANON

**by Joelle Yaacoub, Georges Abou Zogheib,
and Davide Paoli “A. Torbey Law Firm”**

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Davide Paoli “A. Torbey Law Firm”*

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§ LBN.01 INTRODUCTION

Lebanese Corporate Law has two statutory sources: the provisions of the Code of Obligations and Contracts (“COC”) and those of the Lebanese Code of Commerce (“LCC”). Book 9 of the COC is dedicated to companies and its provisions are generally applicable to all companies if they do not expressly or implicitly contradict the rules provided for under the LCC.¹

Lebanese law distinguishes between civil and commercial companies. The former are governed by the COC, while the latter are subject to the provisions of the COC and LCC.

Likewise, it is important not to leave unmentioned the fact that the descriptions of some corporations under Lebanese law are rooted in scattered texts promulgated by the Lebanese legislation. Decree Law No. 34 of 5.8.1967 relating to limited liability company (*Societe a Responsabilite Limite* in French) or SARL, and Decree Laws Nos. 45 and 46 of 24.6.1983 relating to holding companies and offshore companies, for instance, are the central pieces of legislation setting out the general rules governing the mentioned companies.

It should be noted that civil companies will not be further dealt with in this chapter.

§ LBN.02 TYPES OF BUSINESS ENTITIES UNDER LEBANESE LAW

As mentioned above, commercial companies in Lebanon are governed by the provisions of the LCC and by the rules of COC on Partnership Agreements if they do not contradict with the rules of the LCC.²

Under Lebanese law, all corporations with the exception of participating companies (*Société en Participation*) have legal personality, provided that the company is incorporated in writing and registered in the Registry of Commerce specifying the headquarters of the company.³

¹ Article 42 of LCC.

² Article 42 of LCC.

³ Articles 43, 44, and 45 of LCC.

[A] Limited Companies vs. Joint Stock Companies

[1] Limited Companies

The company that in the Lebanese corporate system shares most of the same characteristics of limited companies under common law systems is the limited liability company, *Societe a Responsabilite Limite* in French (“SARL”), bearing similarities between both companies of persons and shareholding companies under Lebanese law.

The central piece of Lebanese law governing the SARL is Decree Law No. 35 of 5 August 1967, which adds Title VII to Book II of the LCC concerning Limited Liability Companies.

The SARL combines features of a partnership and a corporation. This type of society is composed between 3 and 20 partners, except in cases where shares are inherited. In the latter case, the number of members cannot be more than 30. If this number is exceeded, the company must either be transformed into *Société Anonyme Libanaise* (“SAL”) (joint-stock company) within two years, or cease operations.⁴

The personal liability of the partner in a SARL is strictly limited to his participation in the capital of the company.

The name of the company must always be followed by the indication “SARL,” and the amount of capital is required to be prominently displayed on all printed advertisements, publications, and other documents issued by the SARL.⁵ A minimum capital of 5 million Lebanese pounds must be fully paid upon registration.⁶

The SARL is formed when the allocation of percentages of shares between the partners is fixed, the amount is paid to the bank, and the founders of the SARL must report in the statutes that these conditions are met.

It should be noted that banking, insurance, and airline companies cannot take the form of SARL.⁷

⁴ Article 5 of Decree Law No. 35.

⁵ Article 6 of Decree Law No. 35.

⁶ Article 7 of Decree Law No. 35.

⁷ Article 4 of Decree Law No. 35.

[2] Joint Stock Companies

Société Anonyme Libanaise (“SAL”) (joint-stock company) is fundamentally different from companies of persons because they are based on the principle of *intuitu pecuniari*, instead of *intuitu personae*.

A different degree of interest characterizes the scope of the members of these companies and makes these companies differ profoundly from companies of persons under a liability, subject, management, and duration perspective.

Future developments will focus primarily on the SAL in which the shareholders’ liability is limited, as well as other types of shareholding companies with specific characteristics.

The SAL is characterized by the financial implications of each shareholder (*intuitu pecuniare*) and the share capital is divided into shares (*actions*). Such shares are equal subdivisions of the company’s stock (capital), which is indivisible. Shares issued in a certain number grant specific rights to their holder(s), such as: (1) right to dividend; (2) right to option to subscription; (3) right of vote at general meetings; (4) right to refund of the nominal amount of the shares and to the apportionment of the company’s assets; and (5) right of conveyance of its title.

All such companies established in Lebanon shall be considered as having Lebanese nationality regardless of the nationality of the individual shareholders (who are legally liable only in proportion to their shares in the company).⁸

However, and notwithstanding the special legislation for some joint stock companies, the board of directors shall be made up by a majority of Lebanese nationals.

The SAL is a company in which the purchase of capital may be subject to public offering.⁹ It includes at least 3 shareholders and the minimum capital is 30 million Lebanese pounds, at least one quarter of which must be paid at registration (fully subscribed).¹⁰

Other aspects include:

- Legal persons may participate to the formation of the company.¹¹
- The liability of shareholders is limited to their contribution to the share capital.

⁸ Article 77 of LCC.

⁹ Article 81 of LCC.

¹⁰ Article 83 of LCC.

¹¹ Article 79 of LCC.

- However, no one can participate in the constitution of a joint stock company if he has been insolvent and has not been rehabilitated over the last 10 years at least, or has been convicted in Lebanon or abroad within less than 10 years for a crime or offence.¹²
- The statutes and any subsequent amendments must be filed and registered with the notary of the place of head office.¹³

The *Société en Commandite par Action* (“SCPA”) (partnership limited by shares) is incorporated with limited participation. The same rules governing the formation and operation of the SAL shall be applicable to an SCPA. These companies include two categories of partners: the active partners (“*Commandités*”), who have the same legal status as members of the SNC, and the sleeping partners (“*Commanditaires*”), who are subject to the same legal status as shareholders in joint stock companies.¹⁴ The sleeping partners have the right to transfer their shares without prior authorization of the other partners.

Offshore companies, regulated by Decree Law No. 46 of June 24, 1983, as amended, may have their headquarters in Lebanon or outside Lebanon. But they operate outside Lebanon.

Only the following activities as listed in Article 1 of the above-mentioned Decree may form the object of offshore companies in Lebanon:

(a)

Negotiating and signing agreements concerning transactions to be carried out outside of Lebanese territories or involving goods located abroad or in the Lebanese Customs Free Zone. These activities may be transacted with natural persons or artificial legal entities, whether resident in Lebanon or not, including offshore companies registered in Lebanon;

(b)

Managing from within Lebanese territories, companies, or entities located abroad, whatever their legal form or purpose, as long as their activities are undertaken in foreign countries. Providing professional, administrative, and organizational services including software programs and personnel training to foreign entities;

¹² Article 79 of LCC.

¹³ Article 80 of LCC.

¹⁴ Articles 226, 232 of LCC.

- (c) Engaging in multilateral commercial transactions outside Lebanon, including ancillary acts, such as negotiating, signing, shipping, and also using the available facilities of the Customs Free Zone to store imported goods for their re-export as well as engaging in the sale and purchase of such goods, provided they are not destined for the Lebanese market;
- (d) Engaging in international maritime conveyance on the understanding that the carriage cannot connect two Lebanese seaports, but rather a foreign seaport and Lebanese one or else two foreign seaports;
- (e) Holding shares, bonds, or participating in foreign non-resident entities; and lending moneys to such entities, provided the offshore company's participation exceeds 20 percent of their share capital, and provided these non-resident foreign entities do not have any partaking in Lebanese corporations;
- (f) Acquiring agency rights and representing foreign companies in foreign markets;
- (g) Opening representative agencies abroad whether under the legal form of subsidiaries or branches;
- (h) Launching, investing, managing, and acquiring financial projects located abroad in compliance with the above-mentioned rules in paragraph (b);
- (i) Opening credits and borrowing moneys in order to finance the above-mentioned activities through banks and financial institutions, whether resident in Lebanon or abroad; and
- (j) Renting offices or acquiring real estate properties in Lebanon as necessary to carry out the business and inasmuch as such activities comply with the regulations governing the acquisition of real estate properties by foreigners.

At the same time, restrictions exist on the type of acts Lebanese offshore companies can carry on:

- (a) Carrying on business or trade within the Lebanese territories;
- (b) Engaging in banking or insurance activities (regardless of territory); and

- (c) Making profit or earned revenue out of movable or real estate properties located in Lebanon, with the exception of income derived from bank accounts, and earnings derived from treasury bills.

New favorable amendments, such as the exemption of foreign employees from working permits in certain conditions, the favorable tax regime that will be addressed § LBN.09 discussing Corporation Tax, and the extension of the company's permitted activity have been introduced by the Law No. 19 of September 5, 2008.

Holding companies are exclusively governed by Decree Law No. 45 of June 24, 1983, and further amendments.

Holding companies are registered in the form of joint stock companies and shall follow the relevant provisions. However, the word "holding" must clearly appear in the company's name and the object of the holding company is restricted to some specific activities, limited to:

- (a) Acquisition of shares or stocks in existing Lebanese or foreign joint stock companies or limited liability companies, or participation in their creation.
- (b) Management of companies in which it owns quotas or shares.
- (c) Granting loans to companies in which it owns quotas or shares and standing security for these companies vis-à-vis third parties.
- (d) Acquiring ownership of patents, ownership of discoveries, concessions, registered trademarks, and all other reserved rights, as well as the right to license them to companies operating in Lebanon and abroad.
- (e) Acquiring chattels and real estate on condition that they are exclusively reserved to the requirements of its activities and in accordance with Lebanese law.

As with offshore companies, the company's capital may be set in foreign currency. All accounts and balance sheets are stated in the same currency as the capital.

A holding company is not allowed to directly acquire more than 40 percent in two companies operating in Lebanon in the same field of activity. This does not, however, apply to investments outside Lebanon.

The Lebanese legislature's sole purpose in creating the holding company among the corporate types in the country is to introduce its unique taxation regime: Holding companies enjoy tax exemption on profits and dividend distribution, and have accordingly become a successful and very popular corporate solution for Lebanese and foreign investors alike. The subject will be more thoroughly described under the § LBN.09, below.

[B] Related Companies

The LCC contains provisions relating to the following three types of companies of persons:

- (1) The *Société en Nom Collectif* ("SNC") (partnership company) operates under a company name (composed by the name of all partners or of some of them followed by the words "& Co.") constituted by two or several partners.

In these companies, no minimum capital is required.

All the partners have the status of commercial traders and are personally and jointly responsible for the liabilities of the company.¹⁵

The management and organization of the company belongs to all partners unless it is bestowed upon one or several partners or even to an outsider.¹⁶

- (2) The *Société en Commandite Simple* ("SCS") (simple partnership) operates under a single name that includes only the names of the active partners; this company is comprised of two categories of partners: active partners (*commandités*) who can only be responsible for management and are held personally and severally liable for the payment of the company debts (same regime as in the joint liability partnership); and the sleeping partners (*commanditaires*), who are liable only up to the amount of their contribution in the company¹⁷ except for

¹⁵ Article 46 of LCC.

¹⁶ Article 56 of LCC.

¹⁷ Articles 226, 228 of LCC.

the entrustment of *bona fide* third parties towards which they will be considered liable as active partners.

- (3) *Société en Participation* (participating company) is an undisclosed partnership that differs as such from all other trading companies. The association among members of the company has a merely internal relevance (parties' agreements uniquely bind partners through reciprocal rights and obligations), thus the participating company does not have any legal personality, third parties having no relationship, and relevant judicial action vis-à-vis the partner with whom they contracted.¹⁸ However, the participating company may be treated as a *de facto* company with respect to contracting third parties.

[C] Companies Depending on Governmental Authorization

Some companies in Lebanon need governmental authorization in order to lawfully operate. This is the case for real estate companies, which are subject to government regulations relating to the acquisition of real estate; insurance companies, which are subject to specific authorization from the Ministry of Economy in order to be established in Lebanon; and banks and financial institutions, which must be authorized by the Central Bank before operating in the country.

[1] National Company

The legislation with respect to SALs contains language that provides the criterion adopted to determine the nationality of the company.

As for other companies, in the absence of explicit texts, doctrine and jurisprudence have implemented the solution set for SALs. Under Article 78 of LCC, “all joint stock companies established in Lebanon shall have their head office in Lebanese territory, and such companies shall be—as matter of unqualified right—vested with Lebanese nationality, notwithstanding any text to the contrary.”

In practice, if a company wishes to change its nationality under Lebanese law, it is forced to relocate outside Lebanese territory.

¹⁸ Article 252 of LCC.

[2] Foreign Company

Foreign companies set up in Lebanon operate through a branch or through a representative office. A branch may directly undertake any activity in contrast to the representative office that is a commercial entity and not taxable, and is only allowed to market the product or service of its parent company.

These two types of foreign companies must obtain a permit from the Ministry of Economy and Trade in order to operate in Lebanon. Once the record “permit” is granted, the company must be registered in the Register of Commerce in Beirut.

§ LBN.03 FORMATION OF COMPANIES

This section will be limited to the most popular Lebanese companies, namely joint stock companies (“SAL”), holding companies (“Holding”), and offshore companies (“Offshore”).

The information required for incorporation of a company in Lebanon is the following¹⁹:

- Name/first name/date/place of birth/nationality of shareholders or members;
- Company’s name;
- Type and purpose of the company;
- Address of head office and branches or agencies in Lebanon or outside Lebanon;
- Name of authorized third parties to manage and direct the company, and sign on its name; and
- Amount of capital of the company and value attributed to contributions or shares.

[A] Company Name

All companies operate in Lebanon under a corporate name. The name of the partnership company is made up of the names of all the

¹⁹ Article 49 of LCC.

partners or some of them followed by the words “& Co.”²⁰ and “SARL” for limited liability companies,²¹ and “SAL” for joint stock companies.²²

With respect to limited partnerships, whose names are public, only the name of the general partners (*commandités*) must appear. The sleeping partner (*commanditaire*) who permits the insertion of his name in the company’s would be deemed an active partner vis-à-vis *bona fide* third parties.²³

[B] Shareholders

Under Lebanese law, the capacity of associates is given to people owning shares in an SARL, and shareholders to those with shares in an SAL.

In the case of an SARL, the name of each member and its role in the company must be included in the Articles of Association. Consequently, the statutes should be modified, saved, and filed with the notary and Registry of Commerce for each change of membership.

In an SAL, however, the situation is different. The Articles of Association do not need to contain information about the shareholders. Thus, and given the principle of free transfer of shares, the transfer of shares does not entail the amending of the statutes.

[C] Directors

This aspect must be dealt with separately according to the type of company.

[1] Limited Liability Companies

The administration is entrusted for a specific period, to one or more directors chosen among the associates or from outside, provided they are natural persons.²⁴

²⁰ Article 54 of LCC.

²¹ Article 6 of Decree Law No. 35.

²² Article 100 of LCC.

²³ Article 228 of LCC.

²⁴ Article 16 of Decree Law No. 35.

Their names, the duration, and extent of their function must appear in the statutes or attached to it.

Notwithstanding any provision to the contrary, it is possible to dismiss all or some of the directors by decision of the General Assembly or by court decision if valid reason (*raison valable*) justifies the dismissal.²⁵ However, when a director is dismissed without valid reason, he is entitled to claim damages.²⁶

[2] Joint Stock Companies

The administration of an SAL is entrusted to a board of directors (*Conseil d'administration*) composed of a minimum of three and maximum of twelve members.²⁷

Directors are elected by the shareholders by the general shareholder's meeting.

The first directors may be appointed by the statutes for a maximum of five years, while those appointed at the shareholders' meeting shall remain in office for three years.²⁸ Likewise, by action taken at a general meeting, the shareholders may revoke the directors *ad nutum*.

The board shall elect one of its members as president. He may be revoked by either the board or by the General Assembly, indirectly, in his capacity as a member of the board of directors. The chairman of the board shall serve as general manager.

[D] Corporate Bodies

The deliberative body in an SARL is the general meeting of associates, and in an SAL, the shareholders' general meeting. The shareholders' general meetings can be the constituent meeting, ordinary meetings, and extraordinary meetings. At these meetings, minutes of the assembly must be drafted and signed by the members of the office in order for the general meeting to be considered validly convened.

The constituent meeting's role is to ensure that all requisite matters and terms of the company's formation have been duly made and supporting evidence filed. It is also during this meeting that the first directors are

²⁵ Article 16 of Decree Law No. 35.

²⁶ Article 16 of Decree Law No. 35.

²⁷ Article 144 of LCC.

²⁸ Article 146 of LCC.

appointed, if the Articles of Association failed to do so; the auditors are also appointed and, together with the newly appointed directors, they certify under joint responsibility that the company has been formed in compliance with the governing regulations.

The reason for convening an ordinary meeting, which takes place annually at the end of the financial year, is to decide on the directors' compensation, dividend distribution, and to reappoint the auditors and directors at the end of their term of office.

Extraordinary meetings, on the other hand, are meant to address modifications to the Articles of Associations. To this extent, extraordinary meetings have the power to modify the Articles in each and every clause provided that three conditions are met: the nationality of the company is not changed, the shareholders' commitments are not increased, and third parties' rights are not jeopardized.

[E] Statutory Books

In order for the public to obtain and collect complete information regarding companies operating in the country, the LCC specifies that a trade register shall be kept in the district of primary jurisdiction by a clerk, under the supervision of the president of the court.

Every trading company, no matter what nationality, whose main establishment is in Lebanon, must be registered at the trade register where the head office is located. Such registration must be done within one month of the company's formation.

As a general rule, all registrations and entries on the trade register shall duly and effectively take place once the declaration has been made within the required forms. Articles of Association shall follow specific procedures depending on the nature of the company (e.g., joint stock companies' Articles of Association and any subsequent modification shall have to be submitted and registered in front of the Notary Public of the district where the head office of the company is located).

[F] Documents

In principle, the representative of the company is the director, in the SARL, and the chairman of the board of directors, in the SAL.

He has the general power to enter agreements on behalf of the company and bind the company with third parties, notwithstanding any contrary provisions in the statutes.

However, it is strictly forbidden for directors and associates in an SARL, under default penalty, to get from the company loans, guarantees, or commitments to them, their spouses, or family members, or under fictitious names²⁹; the same applies for the shareholders and directors of an SAL.³⁰

[G] Process and Documentation for Formation of a Company

Generally speaking, in order to incorporate a company, the SAL and SARL in particular, the following steps should be followed:

- The Articles of Association must be filed before a Notary Public;
- The capital must be deposited at a local bank which, in turn, must submit a certification to be used at the Registry of Commerce;
- Stamp duties on the statutes must be paid;
- Registration must be made at the competent Registry of Commerce.³¹

²⁹ Article 18 of Decree Law No. 35.

³⁰ Article 158 al.5 of LCC.

³¹ Upon registration, the applicant must submit to the chief clerk two (2) copies of signed statement containing information about its status to which the following documents must be attached: the minutes of the constituent General Assembly, and the minutes of the meeting of the board of directors at which officers (when they were not designated by statutes) were appointed. There is no statutory format for reporting, but it should be addressed to the chief clerk of the Registry of Commerce and include, in the case of companies, the following information:

- Company name;
- Purpose and type of society;
- Address of head office and branches in Lebanon or abroad;
- Date of commencement of operations of the company and its life;
- Act of incorporation;
- Amount of company capital; and
- Name, surname, and identity card or passport of the shareholders or members.

[H] Conversion of a Private Company to a Public Company

Sometimes, funds are needed by the company for its expansion, development, and for its better management. Therefore, the laws and regulations for listed companies concerning the organization of the Beirut Stock Exchange³² (“BSE”) and the execution of the internal rules³³ of the BSE regulate the conversion of a private company to a public company by way of listing at the BSE.

Any Lebanese joint stock company that is member of the BSE and any foreign company or other foreign issuer of securities may apply for the admission of its securities in the official or secondary market.³⁴ However, in order to become a listed company and to offer securities on the official market, the company must simultaneously fulfill the following conditions³⁵:

- 25 percent or more of its capital has to be made publicly available;
- The 25 percent has to be spread over at least 50 people;
- The capital must amount at least to three million U.S. dollars; and
- Three years must have elapsed since the incorporation of the company.

If the last two conditions are not met, the issuer may apply to be admitted to the secondary market, which requires that the company’s be equal at least to one million U.S. dollars. Finally, a company that is not admitted but whose capital is at least equal to one hundred thousand dollars can request that the securities be traded in the OTC market. All the conditions of introduction in the exchange are determined by the Rules of the BSE.

[I] Ongoing Filing Requirements

Should the Articles of Association be amended, it will be necessary to record such modification and to file it before the Notary Public and the

³² Decree Law No. 120 of 16 September 1983.

³³ Decree Law No. 7667 of 16 December 1995.

³⁴ Article 83 of the Rules of the Beirut Stock Exchange.

³⁵ N. Diab & Iyad Boustany, *La titrisation des actifs*, LGDJ, p. 252-253.

Registry of Commerce of the company's headquarters in a number of situations, including:

- (1) Change to the Articles of Association, such as the duration of the company;
- (2) Modification in the company's purpose;
- (3) Increase or decrease in the share capital;
- (4) Change of the registered office;
- (5) Change in the participation of associates (in case of an SARL); and
- (6) Change of name.

It is necessary to point out that all companies, with the only exception of offshore companies in certain conditions, must retain an appointed lawyer in Lebanon from the date of the company's registration and for its duration.

§ LBN.04 RELATIONSHIP BETWEEN THE MEMBERS AND THE COMPANY

[A] Shareholders' Agreements

The aim of the agreement of shareholders is to guarantee the right of signatories and to define their commitment.

Lebanese corporate law does not expressly deal with Shareholders' Agreements: given the contractual nature of the agreements, they will naturally be inspired by the freedom of contracting and will follow the provisions of Lebanese law.

These agreements establish rules that concern the relationship between the main shareholders with respect to the distribution of powers, the protection of minority shareholders, and the company's ownership.

[B] Joint Ventures Agreements

Lebanese law does not substantially differ from the approach to joint ventures adopted by Western legal systems. Joint Venture Agreements are not dealt with as a separate legal category, although lawyers

and businessmen in the country carry out joint ventures readily in the form of commercial companies.

[C] Decisions of Shareholders and Shareholding Significance

In an SARL, one part represents one vote. The following chart sets out the types of decisions that may be taken by the company and the majority thresholds in terms of the voting rights of shareholders.

FRACTION OF CORPORATE CAPITAL	DECISION	LEGAL BASIS
Unanimity	<ul style="list-style-type: none"> Change in the company's nationality Transformation of the company into <i>Société en commandite simple</i>, <i>Société en nom collectif</i>, or <i>Société en commandite par action</i> Increase in capital contribution or the signing of obligations of a partner 	<ul style="list-style-type: none"> Article 26 of Decree Law No. 35 Article 34 of Decree Law No. 35 Article 26 of Decree Law No. 35
Three-quarters	<ul style="list-style-type: none"> Approval for the transfer of shares to third parties Any change to the Articles of Association Transformation of company into SAL 	<ul style="list-style-type: none"> Article 26 of Decree Law No. 35 Article 26 of Decree Law No. 35 Article 34 of Decree Law No. 35
Annual general meeting required: At least 50 percent of capital at the first convocation And the majority of votes at the second convocation	<ul style="list-style-type: none"> All remaining activity not conflicting with the above 	<ul style="list-style-type: none"> Article 25 of Decree Law No. 35

In principle, one or more managers shall convene the members within six months of the closing of accounts, to meet in an ordinary annual meeting.³⁶ Otherwise, they will be summoned to a meeting by the company's appointed auditor. If he fails to call a meeting, such right shall be granted to any partner or associate of a group representing a quarter of the number of members and a quarter of the capital, or half the capital at least. In case of failure of anyone belonging to this latter group, any partner may request the court to appoint a person who shall be responsible for convening the general assembly and setting its agenda.³⁷

In principle, one share represents one vote³⁸ in joint stock companies. However, paid up shares, existing under registration in the name of the same holder for at least two consecutive years, shall give right to two votes per each share, unless specified otherwise under the statutes.³⁹

The following chart sets out the types of decisions that may be taken by the shareholders and the majority thresholds in terms of the voting rights of shareholders.

Meeting	Decision	Quorum	Majority
Shareholder's Constituent Meeting	Incorporation of the company	Shareholder representatives ⁴⁰ : First meeting: 2/3 of capital Second meeting: 1/2 capital Third meeting: 1/3 of capital	2/3 vote of the attending shareholders or represented ⁴¹
	Any change to the Articles of Statutes	Shareholder representatives: First meeting: 2/3 of capital Second meeting: 1/2 capital Third meeting: 1/3 of capital	2/3 vote of the shareholders attending or represented

(continued)

³⁶ Article 23 of Decree Law No. 35.

³⁷ Article 23 of Decree Law No. 35.

³⁸ Article 116 of LCC.

³⁹ Article 186 of LCC.

⁴⁰ Article 193 of LCC.

⁴¹ Article 195 of LCC.

Meeting	Decision	Quorum	Majority
Shareholder's Extraordinary Meeting ⁴²	Change in the purpose of the company	The quorum shall not be less than 3/4 of capital	
	—Change in the company's nationality —Increase costs for the shareholder —Violate the rights of third parties	Unanimity	Unanimity
Shareholder's Ordinary Meeting	—Approval of accounts —Distribution of dividends —Reappointment of the auditor —Appointment of new directors upon expiry of their office in order to pass a decision that does not change the Articles of Incorporation ⁴³	Shareholders representing ⁴⁴ : First meeting: not less than 1/3 of capital Second meeting: This meeting is held regardless of the portion of capital represented	Absolute majority of the number of shareholders present or represented ⁴⁵ unless there is an otherwise text

§ LBN.05 SHARE CAPITAL

[A] Authorized/Nominal Share Capital

The shares in an SARL are known as *parts sociales* and, in an SAL, as shares or *actions*.

⁴² Articles 201, 202, 203, 204 of LCC.

⁴³ Article 196 of LCC.

⁴⁴ Article 198 of LCC.

⁴⁵ Article 199 of LCC.

In an SARL, it is forbidden to establish the shares of the members in the form of securities, registered, to order or bearer, and the associate cannot issue for his own account, through public subscription, any actions, stocks, bonds, or other similar securities.⁴⁶

The situation is different in an SAL, where the capital is divided into shares that are negotiable instruments with different forms.⁴⁷

Two different kinds of capital contributions exist under Lebanese law governing shareholding companies and limited liability companies. Such contributions can be in cash or in kind. When in kind, the value shall follow a special procedure set out as required under the Articles of the limited liability company and under the company's statutes.

Unlike the companies of persons regime, in shareholding companies and limited liability companies, the partners' service contribution is not allowed.

[B] Types/Classes of Shares

[1] Ordinary Shares

In an SAL, shares consist of equal subdivisions of the company's capital, indivisible, to which a negotiable security is either registered (*actions nominatives*), to order (*actions a ordre*) or to bearer (*actions au porteur*).⁴⁸ In principle, each share carries one vote, irrespective of whether it has been fully paid up or not.

All shareholders in an SAL enjoy the same rights unless there are different categories of actions. In this latter case, all shareholders belonging to the same class must receive the same benefits.

[2] Preferential Shares

However, it is acceptable for a resolution to call an extraordinary meeting deciding to bestow preference shares whenever the Articles do not formally forbid it.⁴⁹

⁴⁶ Article 3 of Decree Law No. 35.

⁴⁷ Article 104 of LCC.

⁴⁸ Article 104 of LCC.

⁴⁹ Article 110 of LCC.

Likewise, the law creates double voting⁵⁰ shares if the paid up shares are registered under the name of the same holder for at least the last two years before each meeting is convened.

[C] Limitations on the Circulation of Shares

In an SARL, shares are not transferable to a third party outside the company without prior approval of the shareholders representing at least three quarters of the capital. The transfer is established by “Authentic Act” or by private agreement, notified to the company’s director and to each member.

In an SAL, share transfers are not subject to restrictions relating to shares of capital stock and warranty administrators, and provisions of other statutes; in some cases, the Articles of Incorporation may establish a right of preemption in favor of the shareholders or some of them, or the company itself, under the condition that they have to be used within a specified period and under terms set forth in the statutes.⁵¹

[D] Increase of Corporate Capital

In limited companies, a capital increase requires the vote of the majority necessary to pass a modification to the Articles of Incorporation: i.e., at least three-fourths of the capital.⁵²

In an SAL, the decision to increase capital, which implies a change to the statutes, must be taken by the extraordinary meeting of shareholders.⁵³ The increase cannot occur until total payment of the initial capital,⁵⁴ and the legal rules governing the formation of an SAL must be observed when a resolution of capital increase is taken, subject to nullity of such resolution, fines and liability of directors, supervisory auditors, and experts.⁵⁵

Shares are issued at a price above their nominal value when new shares are subscribed by other than the existing shareholders, despite the preferential right of existing shareholders. The surplus resulting from the

⁵⁰ Article 117 of LCC.

⁵¹ Article 118 of LCC.

⁵² Article 26 of Decree Law No. 35.

⁵³ Article 201 of LCC.

⁵⁴ Article 205 of LCC.

⁵⁵ Article 206 of LCC.

subscription of shares will become part of the company's reserves when the company has a capital reserve.⁵⁶

[E] Reduction of Corporate Capital

In limited companies, and in the case of loss of three-fourths of the capital, partners must, if they do not decide to dissolve the company, proceed with a capital reduction in proportion with the loss. However, the decision to reduce the capital may be taken without adversely affecting the rights of third parties.

At the meeting deciding on the reduction of capital for a reason different from losses, the shareholders may instruct the manager to purchase a certain number of parts in order to remove such losses. In the SAL, this decision must be taken at an extraordinary meeting of shareholders. Any reduction of capital made illegal by the company's purchase of its own shares, including payments made using funds from the capital or legal reserve, will result in directors' liability.⁵⁷

§ LBN.06 THE PROTECTION OF MINORITY SHAREHOLDERS

In general, decisions are taken by majority vote in the SAL and in the SARL. As a consequence, minorities, absent, and opposing shareholders end up being bound by the decisions taken by the majority.

While it is true that the majority is supposed to act in the interest of the company, in practice there is a concrete risk of abuse of majority; it can mean that the majority uses its power to coerce the minority into pursuing a personal interest and not that of the company.

In an SARL, the Lebanese legislature provides several instruments to ensure protection to minority shareholders. First, it is possible to remove directors following a court decision and for valid reason.⁵⁸ Second, the law absolutely prohibits managers and partners from obtaining from the company loans, guarantees, or commitments in their favor or in favor of their spouses, ascendants or descendants, even under borrowed

⁵⁶ Article 207 of LCC.

⁵⁷ Article 209 of LCC.

⁵⁸ Article 16 of Decree Law No. 35.

names, and that under penalty of nullity.⁵⁹ Third, before a general meeting for the approval of accounts is convened, a partner may address written questions to the manager to be answered during the general meeting.⁶⁰ Fourth, each member may at its discretion consult the records and documents relating to the management and the corporate financial statements of the last three years. Fifth, in cases of director's and auditor's negligence, any partner or group representing a quarter of the number of members and a quarter of the capital or representing half the capital at least, and in case of failure, any partner may request the court to appoint a person responsible for convening the Assembly and establishing its agenda.⁶¹

In an SAL, the governing principle to which the legislation is aimed is the "equality of shareholders." However, it is customary to distinguish between majority shareholders and minority shareholders, controlling shareholders, and "small shareholders."

The Lebanese legislature, in order to address the possible adverse consequences of any inequality, may require that certain formalities be met before a decision is made, and if it is found that the decision is contrary to the general interests of society, it may call for an appropriate remedy to cancel the decision. *A priori*, the LCC provides conditions on the procedures for convening the Assembly, and the quorum and majority required for the validity of decisions. First, the shareholder's constituent meeting, ordinary meeting, and extraordinary meeting of shareholders can validly deliberate only if the quorum required under the law is reached. However, when a special meeting is convened in order to make important decisions concerning the company, such as a change of nationality or an increase in shareholders' expenses, the law requires unanimity. At this point, any shareholder may examine the inventory, balance sheet, accounts, list of shareholders, the report of the board of directors, and the Commissioner's supervision.⁶²

In addition, the supervisory commissioner shall convene the General Assembly whenever the directors fail to do so or at the request of a group of shareholders representing one-fifth of the company's capital.⁶³

⁵⁹ Article 18 of Decree Law No. 35.

⁶⁰ Article 21 of Decree Law No. 35.

⁶¹ Article 23 of Decree Law No. 35.

⁶² Article 196 of LCC.

⁶³ Article 176 of LCC.

With respect to any such meeting, upon request of the quarter of the members of the Assembly, the meeting must be deferred for eight days if the attending shareholders do not consider themselves sufficiently informed on matters submitted for deliberation.⁶⁴

In addition, certain agreements entered into by the company require prior authorization of the assembly, such as agreements between the company and a director, or between the company and another establishment owned by one of the directors and in which the latter is a joint partner, manager or director, or other agreements relating to opening a current account, guarantees, and loans for any director.⁶⁵

In this way, and whenever the terms and conditions mentioned above do not comply with the law, it would be easy to nullify a decision. Similarly, protection of minorities is reflected in measures that allow for the appointment of experts.

Under Lebanese law, since there is no text on the special expertise of minority and under common law, any shareholder in practice has the power to request the judge to appoint an expert whose mission is to opine on a potential conflict. This will apply for the interest of the company and of the minority shareholders.

Finally, protection of minorities can be ensured by directors' liability based on fraud, breach of law or regulations, or their mismanagement.⁶⁶

However, in an SARL and SAL, and in case the formal requirements are met but the substance of the decision is contrary to the interests of society, the minority may challenge the decision and claim damages for the abuse of the minority, based on Article 192 LCC for SAL and Section 124 COC for SARL.

§ LBN.07 RIGHTS AND DUTIES OF DIRECTORS

[A] Qualification for Directors

In an SARL, a director does not necessarily have to be an associate in the company, but he must be a natural person.⁶⁷

⁶⁴ Article 190 of LCC.

⁶⁵ Article 158 of LCC.

⁶⁶ Articles 166, 167 of LCC.

⁶⁷ Article 16 of Decree Law No. 35.

In an SAL, matters of broad direction are left to the Council of Administration. The ordinary General Assembly elects the board of directors from the shareholders of the company.⁶⁸ So obviously a director is *a priori* a shareholder. The administration is under the direction of the chairman of the board of directors of the company who may delegate some of his functions as general manager of the company to another director; this delegation occurs under the liability of the chairman.

Similarly, it should be noted that in an SAL, the majority of the board of directors shall have Lebanese nationality.⁶⁹

[B] Election and Removal of Directors

[1] Limited Companies

The management of the company is given to one or several managers. The manager does not necessarily have to be elected from the members of the SARL and he/she shall be designated by the statutes or by a resolution for a limited or unlimited period.

Notwithstanding any provision in the statutes to the contrary, the manager can be removed by decision of the general meeting or by a court order, when a valid reason justifies such dismissal. The manager can claim damages in the event of wrongful dismissal.

[2] Joint Stock Companies

In principle, directors are elected by the shareholders' general meeting, for a maximum period of three years, subject to re-election.

The first directors may be designated by the company's Articles for a maximum period of five years. The names of the appointed directors must be registered in the trade system of commerce. A director may be either a Lebanese national or a foreigner but at least the majority of the members of the board of directors must be Lebanese nationals.

The directors are removed by the shareholders at an ordinary general meeting. They may also be removed by court order with just cause and based on proper grounds.

⁶⁸ Article 147 of LCC.

⁶⁹ Article 144 al.2 of LCC.

[C] Powers of Directors

The management of an SARL is entrusted to one or more managers who have all necessary powers to properly conduct the affairs of the company unless the provisions of the statutes provide otherwise.⁷⁰

The board of directors has the broadest powers to execute the decisions of the General Assembly and take all necessary measures to ensure the normal operation of the business of the company.⁷¹

[D] Restrictions on Directors

In an SARL, managers may not execute any agreement with the company for their personal account or any agreement in which they have a direct or indirect interest; for all such matters, special permission of the partners shall be required. However, standard contracts entered into in the ordinary course of business are exempted from this prohibition.

In addition, the managers can be part of the management of another enterprise without the permission of partners.

With reference to joint stock companies, directors may not take part in the management of a similar company without special authorization from the general meeting.

Directors must not place themselves in a position in which there is a conflict between themselves and the company.

Any agreement concluded between the company and a director and any transaction passed between the company and another establishment that would be owned by one of the directors is subject to the prior approval of the general meeting.

The board of directors and the supervisory commissioner shall submit, separately, to the general meeting a report on the transactions to be concluded, and the meeting resolves whether or not to approve the contract, and this approval must be renewed every year by the general assembly.

If the above rules are not respected, the contract between the company and a director may be nullified upon request of the company itself or the company's creditors.

⁷⁰ Article 16 of Decree Law No. 35.

⁷¹ Article 167 of LCC.

[E] Liability of Directors

In an SARL, manager(s) are personally responsible vis-à-vis the company and third parties for any violation of Decree Law No. 35, statutory provisions, and in the event of mismanagement.⁷²

In an SAL, directors are responsible for their actions in accordance with Sections 166 and 167 of LCC. Under the provisions of these two sections, directors are responsible, even towards third parties, for all fraudulent acts and all infringements of the law and the statutes.⁷³

Directors are also responsible to shareholders for their mismanagement.⁷⁴

In all cases, directors are jointly and severally liable for the company's bankruptcy.

In addition, managers of an SARL⁷⁵ and administrators of an SAL may be subject to criminal liability, especially in cases of fraud or when there is a questionable distribution of dividends or a fictitious set of false balance sheets or for attempting to cause an artificial majority, or if they withdraw the contributions deposited at the bank before the formalities of incorporation. Similarly criminal liability may be alleged by application of common law concepts such as breach of confidence, misuse of corporate assets, and bankruptcy.

[F] Fiduciary Duties

Under Lebanese law, there is currently no general code of conduct governing the organization and operation of corporate bodies that has been adopted by all or at least the majority of existing companies. However, it seems clear under the provisions of the LCC that administrators and managers of companies must act in an honest and diligent manner in performing their duties, and act with integrity and good faith for the best interests of the company.

⁷² Article 19 of Decree Law No. 35.

⁷³ Article 166 of LCC.

⁷⁴ Article 167 of LCC.

⁷⁵ Article 35 of Decree Law No. 35.

§ LBN.08 EMPLOYMENT**[A] General Aspects With Regard to Lebanese Employment Law**

The Employment Code enacted in 1946 with its amendments and decrees is the main legislation governing labor law in Lebanon. In the hierarchy of laws, collective agreements, if any, follow; next comes the jurisprudence of the Arbitral Labor Council, whose role is to actively resolve disputes between employers and employees in cases where there is a legal vacuum.

The relationship of subordination, even in the absence of a written employment agreement, subjects the employer and the employee to the labor law provisions mentioned above.

[B] Health and Safety Issues**[1] Occupational Health and Medical Control**

General measures for health protection that apply to all institutions, particularly with regard to safety measures for lighting, ventilation and air circulation, drinking water, and toilets, as well as measures for the control of dust and smoke and the safety of pajamas and precautions taken against fire are determined by decree taken by the Council of Ministers after consulting the Department of Social Affairs.

[2] Environmental Risks Prevention Program

The Lebanese Employment Code has imposed on employers the obligation to ensure that workplaces are kept in a constant state of cleanliness and hygienic conditions are maintained and that amenities necessary to employees be provided.

Similarly, workplaces must be designed to ensure the safety of employees. These measures of hygiene and safety must be taken by the employer, who is subject to penalties for failure to comply with any of such provisions.

[3] Internal Commission for Accident Prevention

Lebanese law does not contain provisions relating to internal commission for accident prevention.

[4] Health Hazard Allowance

Lebanese law does not contain provisions relating to health hazard allowance.

[C] Employee Dismissal Fund

The termination of a contract of employment may take two forms: a resignation, when it is made by the employee, or a dismissal, when it is made by the employer. The Employment Code contains specific provisions for the implementation of both mechanisms.

In general, when the dismissal or resignation is unreasonable, the employee or employer may claim damages that will be determined in accordance with specific criteria determined by law based on the type of work performed, age, length of service with the company, marital status, health, and the fairness of the termination decision.⁷⁶ In both cases, a notice period, whose duration varies depending on the length of service, is necessary.

Any dispute related to employment or to the enforcement of the employment agreement is under the exclusive jurisdiction of the Arbitral Labor Council.⁷⁷

In 1963, a social security law came into effect, which includes provisions for benefits such as end-of-service compensation, family allowance, sickness, maternity, and compensation for work-related accidents. This law requires employers to register in the National Social Security Fund ("NSSF") all employees working in Lebanon for local and international firms.

Contributions to the social security fund are as follows:

- Family Allowances: 6 percent of the employee monthly salary with a ceiling of Lebanese pounds 1,500,000 per month.

⁷⁶ Articles 50 to 6 of Employment Code.

⁷⁷ Decree Law No. 17561 of 18/11/1964.

- **Sickness:** 9 percent of the employee monthly salary with a ceiling of Lebanese pounds 1,500,000 per month out of which the employee pays two percent.
- **Termination Indemnity:** 8.5 percent of the employee's total monthly salary.

[D] Work Permits and Visas

Any foreigner wishing to reside and work in Lebanon must obtain a work permit issued by the Ministry of Labor upon request of the employer. Similarly, he must obtain a residence permit issued by the *Sûreté Générale*.

It is interesting to note that the chairman of the board of directors in holding and offshore companies is exempted from obtaining a work permit if he is foreign and not residing in Lebanon.

§ LBN.09 CORPORATION TAX**[A] Corporate Income Tax**

The following is a summary of the tax treatment for the main types of companies operating in Lebanon:

Joint Stock Companies: Joint stock companies are subject to:

- 15 percent tax on business profits;
- 10 percent tax on capital gains; and
- 10 percent withholding tax on the distribution of dividends.

The transfer of shares of joint stock companies, offshore, and holding companies is completely exempted from any taxes whatsoever.

Offshore Companies: Lebanese offshore companies are exempt from:

- Tax on profits;
- Tax on capital gains;
- Tax on profit distribution (withholding tax);
- Stamp duties;

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- Tax on salaries and remuneration paid to company employees working outside of Lebanon;
- Tax on 30 percent of foreign employees' basic salaries when working in Lebanon;
- The transfer of shares in the offshore companies is also completely exempted from any taxes whatsoever.

The company is only subject to an annual inclusive tax of one million Lebanese pounds (US\$ 667), and 10 percent tax on capital gains from the sale of fixed assets in Lebanon.

Holding Companies: Lebanese holding companies are exempt from:

- Tax on profits;
- Tax on profit distribution (withholding tax);

Holding companies, however, are subject to the following taxes:

- 10 percent on the interest on loans issued to companies operating in Lebanon, if the loan maturity is less than three years;
- 10 percent tax on capital gains received from the sale of holding company shares or its participation in Lebanese companies it has owned for less than two years;
- 10 percent on amounts collected from renting patents and on the reserved rights it possesses in a Lebanese company;
- 5 percent tax on management fees collected from affiliated corporations in Lebanon, provided that those fees do not exceed a certain limit to be specified by a government decree (this decree has not yet been issued);
- Proportionate tax on shareholders' equity in accordance with the following brackets, and subject to a limit of 5 million Lebanese pounds (US\$ 3,333) per year:
 - 6 percent, if shareholders' equity is less than Lebanese pounds 50 million;
 - 4 percent, if shareholders' equity is between Lebanese pounds 50 million and 80 million;

— 2 percent, if shareholders' equity is greater than Lebanese pounds 80 million.

However, the general applicability of all these provisions is limited by exemptions provided in Decree Law 144 itself and in Decree Law 45 and Decree Law 46.

Decree Law 144 provides for exemptions among which is an indefinite exemption to be applied to the following companies and institutions:

- Educational institutions;
- Hospitals, orphanages and shelters that admit patients without charge;
- Mental institutions;
- Agricultural ventures; and
- Agricultural consumer cooperatives.

Moreover, Lebanon boasts a number of advantageous double taxation conventions with countries worldwide. The treaties with the following countries have become part of Lebanese law following ratification: Algeria, Armenia, Bahrain, Belarus, Bulgaria, Cyprus, Czech Republic, Egypt, France, Iran, Italy, Jordan, Kuwait, Malaysia, Malta, Morocco, Oman, Pakistan, Poland, Qatar, Romania, Russia, Senegal, Syria, Tunisia, Turkey, U.A.E., Ukraine, and Yemen. Special reference must be made to the Convention between France and Lebanon signed in Paris on 24 July 1962 and approved by the Decree Law No. 13673 of 23 August 1963, as it is the only surviving bilateral treaty of its kind with France allowing Lebanese companies investing in France and French companies operating in Lebanon to enjoy an unusual tax shield for a number of corporate operations.

[B] Social Contribution on Profits

Lebanese law does not contain provisions relating to Social Contribution on Profits.

§ LBN.10 INSOLVENCY, BANKRUPTCY AND BUSINESS REORGANIZATION

[A] Business Not Subject to Law No. 304/1942

Law No. 304/1942 provides for rules and procedures relating to bankruptcy and reorganization of merchants under the supervision of the court. However, special laws apply to financial institutions and insurance companies.

In accordance with the special law, a bank in Lebanon is considered in suspension of payment whenever any of the following occurs:

- The bank declares it has suspended payment;
- The bank does not settle a debt at maturity date;
- The bank draws a bad check to the order of the central Bank; or
- The bank does not provide sufficient funds to cover any clearing operations' debt.

The court of the district where the company files for bankruptcy or reorganization should be located where the company has its principal place of business,⁷⁸ and this court will be competent to take cognizance of all actions stemming from the rules applicable to insolvency.

[B] Bankruptcy and Types of Business Reorganization

[1] Bankruptcy

Under Lebanese law, only merchants (whether Lebanese or foreigners) in a state of insolvency or those who support their credit in an apparently illegal fashion may be declared bankrupt. A merchant is any person engaged in commerce⁷⁹ as his usual profession, as well as all companies whose object is of a commercial nature and all joint stock companies, notwithstanding their object.

Each of the partners of a commercial partnership must be considered a merchant and the partnership's bankruptcy entails the individual bankruptcy of all the partners. Foreign partnerships shall be subject to

⁷⁸ Article 490 of LCC.

⁷⁹ Article 6 of LCC.

Lebanon insolvency proceedings when they are operating a branch office or an agency in Lebanon; however, civil and professional partnerships cannot be considered as insolvent or bankrupt.

An insolvency petition may be filed by one or several creditors. It may also be filed by the merchant himself, who has to make this declaration, under penalty of committing an offence of simple bankruptcy, within 20 days of his suspending payments, at the same time as he submits a detailed balance sheet duly certified as to the accuracy of his liabilities and assets. A bankruptcy court will try a case only after it has determined that the debt is certain and due.

When a judgment of bankruptcy is made, the court, at the same time, determines the period for which payments have been suspended, appoints the receiver⁸⁰ and the commissioner-judge⁸¹ (from one of the member of the court).

The immediate effects of the bankruptcy judgment are:

- Posting of the name of the insolvent on a notice board at the door of each court and in the ring of all exchanges.⁸²
- Rendering the insolvent the object of civic forfeitures.⁸³
- Relieving the insolvent, in favour of receivers, of the management of all his property, even those which may revert to him during the period of insolvency.⁸⁴
- Suspending individual proceedings that are henceforth in the hands of receivers.⁸⁵
- Suspending the run of interests on debts not guaranteed by a preference, a pledge, or a mortgage.⁸⁶
- Forfeiting the time limit in relation to the insolvent (and not to his co-obligations) even on behalf of such creditors as may hold a surety.⁸⁷

⁸⁰ Article 512 of LCC.

⁸¹ Article 520 of LCC.

⁸² Article 499 of LCC.

⁸³ Article 500 of LCC.

⁸⁴ Article 501 of LCC.

⁸⁵ Article 503 of LCC.

⁸⁶ Article 504 of LCC.

⁸⁷ Article 505 of LCC.

The bankruptcy procedure aims to organize and administer the claims of creditors and provides for equality of distribution, but like most cases, there are exceptions that must be made. Some claims are granted priority while others are subordinated. The goal is to do so as equally and fairly as possible.

[2] Reorganization Under the Supervision of the Court

The LCC provides a mechanism to avoid bankruptcy, which is an arrangement with creditors: any merchant judging himself unfit to meet his financial obligations either before or within ten days of suspension of payment, may apply to the court of primary jurisdiction where he is domiciled, or summon all his creditors to suggest a payment scheme arrangement. Should this arrangement fail to find the creditors' approval, rules and procedures relating to bankruptcy are implemented and the court declares the bankruptcy, which can be qualified as simple or fraudulent depending on whether the merchant has abstracted books, embezzled or concealed part of his assets, or has acknowledged himself as fraudulent in laying claim to debts that are not owed to him. This latter case shall be qualified as fraudulent bankruptcy and is governed by provisions under the Lebanese Criminal Act.

Consequently, the company will be represented by the receiver in bankruptcy (salaried proxy) who manages the company's assets, and the creditors of the bankrupt will be gathered into a group.

Lebanese law provides two stages for bankruptcy: first, the simplest, is an arrangement to find a compromise between unsecured creditors and secured creditors (*créanciers chirographaires, créanciers hypothécaires ou nantis d'un gage*) when they surrender their security.⁸⁸ Alternatively, should such a compromise not be possible, the claims of all the creditors could be combined,⁸⁹ and no distinction will be made between foreign and domestic creditors with regards to Lebanon insolvency law.

Moreover, a scheme of arrangement may be granted for total or partial relinquishment of the insolvent's assets; this scheme does not relinquish the proceeds of abandoned chattel, which chattel shall be sold through the good offices of the receivers.⁹⁰

⁸⁸ Articles 557, 558, and 560 of LCC.

⁸⁹ Article 584 of LCC.

⁹⁰ Article 600 of LCC.

If, at any time before the confirmation of the scheme of arrangement or the formation of the union, the course of the insolvency operations comes to a standstill due to shortage of assets, the court may decide to close the insolvency operations. This ruling shall restore to every creditor the right to proceed on his individual actions.⁹¹

The LCC provides some special provisions for companies; under these provisions, all corporations can arrive at an arrangement with creditors or be declared bankrupt. Similarly, partners in an SARL, and directors and persons who acted in their capacity as general director in the SAL, i.e., anyone with authority to sign on behalf of the company, may seek an arrangement with creditors.

A director can be prosecuted and held criminally liable when the bankruptcy of a company is declared.

[3] Out-of-Court Reorganization

Lebanese law does not contain provisions relating to out-of-court reorganization due to the principal effect of the judgment of bankruptcy; the judgment, in fact, is effective from the day it was declared, and it results in the relinquishment by the insolvent, in favor of receivers, of the management of all his property, including those which may revert to him during the period of insolvency.

The insolvent can no longer effect any payment, nor receive any, except for settlements made in good faith of a trade bill. He cannot present any legal proceedings but he can present all conservation actions designed to safeguard his rights.⁹²

[C] Antecedent Transactions

The date on which bankruptcy is declared also determines the period in which payments may be suspended. The period may not extend beyond 18 months from the date of the declaration of bankruptcy.⁹³

The court has complete discretion in determining the period for which payments may be suspended.

⁹¹ Article 601 of LCC.

⁹² Article 501 of LCC.

⁹³ Article 495 of LCC.

The period of suspension is important to avoid fraudulent conveyances; some transactions are void when they have been made by the debtor, from the period of suspension of payment laid down by the court or within 20 days prior to such period.⁹⁴ Moreover, all other payments made by the debtor for mature debts and all other acts he has performed against considerations following the suspension of payments and before the adjudication of insolvency, may be made void if, on the part of those who have received from him or dealt with him, such acts have occurred with due knowledge of the suspension of payment.⁹⁵

⁹⁴ Article 507 of LCC.

⁹⁵ Article 508 of LCC.

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