



**BANKING  
REGULATION AND SUPERVISION  
AGENCY**



**STRATEGIC PLAN  
(2010 - 2012)**





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## Message of the Chairman

Our Agency which carries out regulation, supervision and enforcement function in order to ensure confidence and stability in financial markets, make credit system operate effectively, protect rights and benefits of savers and improve financial sector, considers strategic planning as one of the basic instruments fulfilling its duties effectively.

In the First Strategic Plan period which covers the 2006-2008 period, growth in global level and liquidity abundance changed into recession in credit volume, economic shrinkage and bankruptcy of big financial and real sector institutions. These developments which lead to re-evaluation of risks caused international cooperation for preventing and managing the crisis effectively and a new global financial architecture to be brought up to the agenda.

Our Agency which adopted a reliable, stable, efficient and competitive financial market, and an effective and efficient supervision system in the said period; brought into action a series of practices aiming a more prudent regulation and supervision structure and displayed the first examples of approaches brought to the agenda in global scale. Accordingly, new practices such as risk-focused supervision, information systems audit and more prudent and effective capital adequacy standards have been initiated and strict regulations were made concerning liquidity risk. This period, at the same time, was a period in which regulation and supervision framework as well as market and risk structure of Turkish financial system are extensively evaluated in the light of international principles and standards. The Financial Sector Assessment Program (FSAP-Turkey) results were guiding for auditors and auditees. Due to crisis experiences of previous years, structural features based on branch banking and the measures taken, effects of global economic crisis on Turkish financial system were limited and leading measures taken by our Agency diminished the negative effects on the sector. Turkish banking sector, contrary to its equivalents abroad, maintained its stable growth and profitability, continued to borrow from international markets and to finance real sector, and managed to keep its risks in manageable levels.

In the following period; the improvement which global economy and financial system shall display, re-shaped international financial architecture, reviewing international principles and standards in the light of experiences, putting Basel principles and standards into practice, innovations in finance field and information technologies as well as developments to be furnished in the route of membership to the European Union shall be the main agenda topics for our country as much as for our Agency. BRSA Strategic Plan (2010-2012) has been prepared with the understanding of managing these processes effectively and turning them into opportunity for our country. Hence, improving administrative capacity, establishing a flexible, effective and comprehensive regulatory framework, increasing confidence and stability in financial markets, improving financial sector and monitoring consumer/ customer rights are determined as the main strategic targets.

We expect that the Plan which reflects our long term point of view to build a bridge between the position of the BRSA today and its targets to be carried out within the scope of policies aimed at strategic goals, targets and priorities and to contribute to the efficiency. BRSA shall monitor the development and success of its efforts within the scope of the Plan in the light of its strategic goals and targets and the activities accomplished shall be shared with the public in a transparent manner. We hope that the Strategic Plan (2010-2012) will be a guideline and supportive in target setting for our financial system as much as for our Agency.

**Tevfik BİLGİN**  
**Chairman**





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## ABBREVIATIONS

EU	European Union
BCBS	Basel Committee for Banking Supervision
BRSA	Banking Regulation and Supervision Agency
BIS	Bank of International Settlements
FATF	Financial Action Task Force
FSB	Financial Stability Board
FSAP	Financial Sector Assessment Program
FSI	Financial Stability Institute
IADI	International Association of Deposit Insurers
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IOSCO	The International Organization of Securities Commissions
IFC	Istanbul Financial Center
OECD	Organization for Economic Cooperation and Development
PBB	Performance Based Budgeting
TBMM	Grand National Assembly of Turkey
WTO	World Trade Organization



## INTRODUCTION

It is provisioned pursuant to the Article 88 of the Banking Law Nr. 5411 that strategic plan, performance indicators, targets and goals of the Agency are determined by the Board; while according to the Article 94, the Agency is authorized to set targets so as to improve financial services sector and upon the Article 97 it is provisioned that the Agency informs the Council of Ministers once in six months relating to strategies and carrying out these strategies. On the other hand, it is foreseen in the Article 91 of the said Law that Department of Strategy Development is established as the main service department; and upon the Article 18 of the Regulation on Organization, duties such as carrying out studies on determining the strategy, policy, targets and goals of the Agency, preparing strategic plan, monitoring and evaluating the enforcement, preparing and sharing with the related parties thereof the progress reports are assigned to this Department.

Strategic planning is generally defined as the plan including medium and long term targets, main principles and policies, targets and priorities, performance indicators of managements and methods to obtain them as well as distribution of resources. Strategic planning process is composed of phases to determine activities and projects that enable to analyze weak and strong aspects of the Agency as well as opportunities and threats, to define the condition desired to be reached in future and targets and goals that would ensure it and to provide these targets and goals to be accomplished eventually. Accordingly, efficiency of the planning is directly related to carrying out the process within the scope of participation and scientific principles.

Activities foreseen in the BRSA Strategic Plan constitute the beginning of a medium and long term change, determine the steps ought to be taken for fulfilling the mission of the Agency, diminish ambiguity and provide guidance, guide so as the budget and resource allocation is made according to the foreseen priorities.

Hence; the second Strategic Plan draft which is began to be prepared after the decrease in ambiguities arose in the conditions encircling the Agency due to global economic crisis which gained clarity in 2008 was drawn up by the Department of Strategy Development in the light of needs of the Agency and the sector, opinions and suggestions of the related parties in the market, necessities of international integration, international best practices and experiences of equivalent authorities. After that, it was reviewed in line with the opinions and suggestions of the Technical Working Group which is consisted of representatives of all departments, and was presented to the intra-Agency opinion. The draft which was finalized having considered the opinions and suggestions of the departments has been submitted to the Chairman's Office.

In the surveillance of the Chairman's Office and in the coordination of the Department of Strategy Development, the BRSA Strategic Plan (2010-2012) which shall be carried out by the related Vice-Presidencies as well as service departments and with the contributions of the related parties entered into force subsequent to the Board Resolution dated **May 6, 2010** and Nr. **3657** to be valid as of January 1, 2010. Amendments to be made to the Strategic Plan shall be subject to the process relating to determining the Plan.





## 1. FORWARD LOOKING

The role of the BRSA as a public agency as well as the expectation of the society relating to the way that role is exercised (mission), the point desired to be reached in the future (vision), institutional principles and conduct rules as well as the administration manner (main values) form the main items reflecting the forward looking of the Agency.

### 1.1. Mission

The Banking Regulation and Supervision Agency's (the Agency) mission is, within the framework of its duties and authorities, to ensure confidence and stability in financial markets, to enable effective operating of credit system, to protect the rights and benefits of depositors, to ensure the institutions subject to the Agency's supervision to operate in a sound, secure and well-organized manner in market discipline and to determine strategies for the improvement of financial services sector.

### 1.2. Vision

The BRSA's vision is to be an administrative authority at international standards and having regional leadership taking as basis good regulation and effective supervision in financial markets, efficient risk management, competitiveness and efficiency at international scale, the EU accession, transparency and accountability as well as innovativeness and perfectionism in financial markets, considering the balance between parties, being reliable and having organizational integrity.

### 1.3. Main Values

BRSA shall establish, implement and develop the necessary regulatory and supervisory framework for carrying out its mission and implementing its vision. In this scope, BRSA's main values are;

**Reliability**, carrying out the activities of the Agency by considering public benefit in an equal, fair, consistent, predictable and independent manner for all related parties, ensuring the transparency by illuminating the public regularly on activities, being accountable by always being open and ready for public evaluation and audit.

**Independency**, as a public legal person with administrative and financial autonomy, the Agency shall independently perform and use the duties and rights under its responsibility and assigned thereto by the legislation without taking order or instruction from any organ, authority, entity or person, shall independently use the financial resources allocated thereto, to the extent its duties and powers necessitate within the framework of the principles and procedures set out in its own budget, shall employ adequate number of personnel with required qualifications in order to efficiently fulfill its duties and powers and its decisions shall not be made subject to fitness audit.

**Impartiality**, Treating all parties equally and objectively as well as avoiding all types of discrimination while fulfilling its duties and exercising its authority.



**Efficiency,** Carrying out the activities of the Agency by qualified and specialized staff in the light of cost/benefit approach and on-time basis, in risk and quality-focused manner and in a manner which will increase the competition power of financial sector and open to innovation.

**Cooperation and Participation,** Carrying out the activities of the Agency in active cooperation and solidarity with related national and international agencies/institutions by considering the views of related parties.

**Responsiveness,** Evaluating and responding the developments in global and local financial system as well as reasonable demands, suggestions and complaints of the related persons timely and efficiently and making them subject to regulation and enforcement in case of necessity.



## 2. SITUATION ANALYSIS

Situation analysis is used as an ancillary factor for the determination of the strategies relating to institutional goals and targets. Intra-agency analysis is comprised of intra-agency analysis, stakeholder analysis and environment analysis.

### 2.1. Intra-agency Analysis

In this section, conditions and tendencies which can be controlled and arising from internal media that may affect the current status and future of the Agency are analyzed, strong and weak aspects of institutional structure and activities as well as human, physical and financial resources are determined and evaluated.

#### 2.1.1 Institutional Structure, Duties and Activities

The Banking Regulation and Supervision Agency which was established by the Abolished Banks Act Nr. 4389, started to operate on August 31, 2000. By the Banking Law Nr. 5411 published in the Official Gazette dated November 01, 2005, its duties and responsibilities are enhanced, authorities are increased and the Agency has become stronger. Within this framework; financial holding companies, financial leasing, factoring and consumer financing companies are included in the regulation and supervision scope of the Agency.

In Article 82 of the Banking Law, it is stated that the Banking Regulation and Supervision Agency; (1) has been established as a public legal person with administrative and financial autonomy, (2) shall independently perform and use the regulatory and supervisory duties and rights assigned thereto by the Law and the applicable legislation, under its own responsibility, (3) shall independently use the financial resources allocated thereto within the framework of the related laws, to the extent its duties and powers necessitate within the framework of the principles and procedures set out in its own budget, (4) shall employ adequate number of personnel with required qualifications in order to efficiently fulfill its duties and powers.

Organization structure of the Agency is set out by the Regulation on Organization Structure which was put into force by the Cabinet Decision. The Agency consists of the Banking Regulation and Supervision Board and the Chairman's Office. The Board is the decision-making organ of the Agency; it shall consist of seven members, including one chairman and one vice chairman appointed by the Council of Ministers for six years, having the qualifications determined in Article 84 of the Law.

The Chairman's office is comprised of the chairman and three vice-presidencies to assist him/her for the duties as well as advisors to the chairman and service units. Service units of the Agency are comprised of 14 departments as main service, consultation and support service units. Vice-presidents and heads of departments are assigned by Board resolutions.

Pursuant to the related provisions of the Banking Law Nr. 5411, Act on Bank Cards and Credit Cards Nr. 5464, Financial Leasing Act Nr. 3226 and Decree Law on Lending Transactions Nr. 90; main power, duty and responsibilities of the Agency for ensuring the confidence and stability in financial markets, effective operating of credit system and safeguarding the rights and benefits of depositors are;



- To regulate, enforce, ensure to be practiced, monitor and audit the establishment and activities, administration and organization structure, merger, division, share transfer and liquidation of banks and financial holding companies as well as, without prejudice to the provisions stipulated in other laws and related legislation, financial leasing, factoring and financing companies,
- To exercise its power given by the legislation by regulatory transactions or special resolutions to be made by the Board, to issue regulations and communiqués for the enforcement of the Law upon the Board resolutions, to exercise differentiation on those issues on bank or bank group basis,
- To be member of international financial, economic and professional formations in which domestic and abroad equivalent agencies participated, accordingly, to participate actively in the activities of Financial Stability Board and Basel Committees, to sign Memorandum of Understanding with the related authorities of foreign countries on the issues that fall under its duty field,
- To avoid any transaction or practice that will jeopardize the rights of depositors and regular and effective operating of banks and lead to serious losses in economy, to take and enforce necessary decisions and measurements to enable effective operating of credit system,
- To determine strategies for the improvement of financial services sector,
- To carry out the surveillance, on-sight audit and analysis of the enforcement of the provisions on the institutions under the scope of the Law as well as any operations thereof and the issues affecting their financial structure,
- To carry out the licensing transactions stipulated in the Banking Law and other related laws,
- To demand any information and document on the enforcement of the Law, from institutions under supervision and partners thereof,
- To publish reports on its activities, strategies, significant developments experienced in the related sector as well as the performances of the institutions under supervision and to prepare the necessary environment for Court of Accounts audit, to inform the Turkish Grand National Assembly Plan and Budget Commission and to ensure transparency and accountability by declaring final accounts to public,
- To make coordination with the authorized domestic and abroad authorities on the exercise of money, credit and banking policies, audit, information share and other issues,
- To carry out Systemic Risk Coordination Committee, Financial sector Commission and Coordination Committee activities as well as the secretariat pertaining thereto.
- To ensure the effective operating of card payments system through regulating the principles and procedures on issuing, using, only for account transactions relating to bank cards and credit cards,
- To carry out the permission transactions relating to institutions willing to have activities on forming card system, issuing card, making agreements with member work places, information share, clearing and netting, to ensure the supervision and surveillance of the activities of those institutions.



### 2.1.2 Human Resources

Human resources which are the fundamental source of the productivity of the Agency have a particular importance as it is hard and time-consuming to improve and substitute thereof and due to its determining impact on financial and physical resources as well as the usage efficiency of the information.

Within the framework of the Banking Law Nr. 5411 and the Public Servants Law Nr. 657; the Regulation on Human Resources of the Banking Regulation and Supervision Agency, Regulation on Competition, Authorization and Adequacy Examinations as well as the Operating Principles and Procedures of the BRSA, Regulation on Professional and Ethical Principles for the Members of the Banking Regulation and Supervision Board and the Personnel of the Banking Regulation and Supervision Agency form the legal ground for human resources management of the Agency. Furthermore, the Circular on Annual, Compassionate, Illness and Unpaid Leaves, the Banking Regulation and Supervision Agency Performance Directive and Circular on Security Measures also regulated the principles and procedures relating to human resources.

One of the strongest aspects of the Agency is that it has educated young and dynamic human resources profile. Human resources need due to the activity fields of the finance sector which are getting complicated and diverse are met by employing qualified personnel specialized on various fields by a competitive selection. As of end-2009, a total of 519 personnel is employed in the Agency as administrator, advisor, specialist and other personnel. 69% of the personnel are comprised of career personnel. While 68% of the personnel have graduate degree, 24% of the personnel have master and doctorate degree.

On the other hand, further strengthening of human resources in quantity and quality and exercising the measures which will increase the productivity and motivation of the personnel is one of the fundamental strategies of the Agency to reach at its goals and targets. Accordingly, new personnel employment is foreseen to be made continuously in order to meet the requirement in quantity due to the enhancing duty and power area of the Agency and in order to improve the quality of the personnel through increasing domestic and abroad training opportunities by annual training programs to be formed according to the requirements on service unit and personnel basis. Benefiting from distance training programs and exercising personnel change programs in coordination with international institutions and equivalent authorities are foreseen.

Within the Agency having a mostly horizontal organization, statues such as chief sworn banks auditor/chief specialist and senior sworn banks auditor/senior specialist are created based on seniority principle, to support the personnel motivation. On the other hand, it is expected that associating career personnel employed in banking, informatics and law in a common denominator to create a sense of belonging to the profession will contribute to develop the Agency's culture.

The Agency's personnel are made subject to annual performance evaluation within the framework of Performance Directive. Within the period of Strategic Plan, it is aimed that this performance evaluation system will be reviewed and be brought to a more efficient and effective state which rewards the personnel's superior aspects and corrects its deficiencies.



It is predicted that a foundation or a similar structuring embracing all of the career personnel would contribute to create a common culture and a sense of solidarity but also would be beneficiary to empower the Agency socially and financially and the efforts to this aim are planning to be supported.

To increase total productivity of human resources, efforts will be made to review and reorganize the present working hours and to improve health care for the personnel, considering the facilities of other regulatory authorities.

### **2.1.3 Physical Resources**

Physical resources being sufficient and ergonomic are affecting directly and positively the service quality and are contributing to reach at strategic goals and targets.

BRSA is conducting its activities in two buildings rented in Ankara and Istanbul, having a total area of 30.273 m<sup>2</sup>. In the Ankara and Istanbul buildings, there are standard rooms for administrators and meeting rooms in office floors, as well as personnel desks placed with open-office system. The communal areas are composed of meeting rooms, cafeteria, dining hall, library and training rooms.

In the face of the structure of the Agency and the expanding field of activity predicted within the Banking Law Nr. 5411 and the increasing number of personnel according to this expansion, a building appropriate to the requirements was not procured and an ergonomically appropriate environment was not provided; which are important disadvantages for physical resources. Especially the communal areas reserved for conference, meeting, in-service training, library and parking do not meet necessities and the vertical architecture disallows social activities; which creates the need to procure a more appropriate and ergonomic building which will answer the needs of the Agency within the forthcoming period. Furthermore, the conduct of activities in rented buildings is a fact that limits the investment in physical locations and development of working environment. For these reasons, in the implementation period of the Strategic Plan, in parallel with the project of making Istanbul a financial center, pursuant to the Development Plan and Medium-Termed Program, it is important that the Agency acquires a new service building appropriate to its needs. Accordingly; beside enhancing and forming more ergonomic working areas; meeting, training and conference rooms in compliance with the requirements and enabling adequate and multiple translation as well as areas for social activities supporting the institutional culture are aimed to be obtained.

Technological hardware and means of communication is one of the strongest features of the BRSA. Maintenance of the advanced machines having the specifications of photocopy, fax, scanner and printer which are located in every floor is carried out by outsourcing. There is an integrated telephone system between Ankara and İstanbul service buildings and at least one fixed telephone is given to every personnel of the Agency.

Laptops used by the Agency staff make available the usage of the latest version software programs. Furthermore, e-mail service, distance access to information systems network of the Agency and wireless internet opportunity are available for the personnel. Thanks to the information systems, infrastructure which is made flexible and reliable by



strengthening the safety procedures, information based systems are used intensely on the issues such as reporting by the institutions, producing reports and data for illuminating the public and sharing thereof interactively as far as possible, analyzing and evaluating the financial status of the institutions subject to supervision, conducting enforcement processes towards the institutions as well as personnel and transactions and paperwork.

#### **2.1.4 Financial Resources**

In Article 82(3) of the Banking Law Nr. 5411, it is stipulated that the BRSA shall independently use the financial resources allocated thereto within the framework of the principles and procedures laid down in the Banking Law and the Public Financial Control and Management Law No. 5018, to the extent its duties and powers necessitate within the framework of the principles and procedures set out in its own budget. In Article 101 of the Law, it is determined that the revenues of the Agency shall recover its expenditures, the expenses of the Agency shall be financed from contribution to be paid to the Agency before the budget takes effect by banks, leasing, factoring, consumer finance institutions and the amount to be collected as contribution to fund expenses shall not exceed three per ten thousand of the balance sheet total of such institutions.

In the period of the previous plan, participation share ratios were determined below the legal upper limit in order to increase the efficiency level in the sector and by taking into consideration the requirements of the Agency. Accordingly, the participation share ratio was applied as 2,5 per ten thousand in 2006, 2 per ten thousand in 2007, 1,5 per ten thousand in 2008 and 2 per ten thousand in 2009 in the said period and amounts collected from the institutions were realized as TL 78,454 thousand, TL 84,310 thousand, TL 78,195 thousand and TL 121,373 thousand, respectively.

One of the strongest features of the Agency is the fact that it has financial autonomy and the legal basis thereof is given by the Law. However, some difficulties which are not proportional with the intensity, scope, complexity, diversity and the importance of the activities may be faced during the realization of general expenditures due to the general practices and approaches. Especially, transfer of financial resources not used in the related year to the general budget limits the opportunity of the Agency to make long-term expenditure and investment planning. Furthermore, the fact that the Agency is subject to the Act on Travel Allowance Nr. 6245 pursuant to the current legislation has the potential to have negative impacts on audit activities and the opportunity to improve human resources.

On the other hand, issues such as enhancing duty and responsibility field of the Agency, increase in the number of personnel required, the goals and targets of the government relating to financial sector that are stated in plans and programs, assurance of a service building that meets the needs, the fact that coordination and secretariat of inter-agency and inter-institution platforms that have positive impacts on financial stability such as Financial Sector Commission, Coordination Committee and the newly formed Systemic Risk Coordination Committee; activities to be carried out relating to international memberships of Turkey and increasing training requirements relating to personnel are foreseen to have a significant increase in the expenditures of the BRSA in the following plan period.



## 2.2. Stakeholder Analysis

Persons, groups, agencies and institutions which benefit from products and services provided by the Agency, are affected from its activities or affect the Agency directly or indirectly are defined as stakeholders of the Agency. Determination of the stakeholders is important for; ensuring maximum participation during plan preparation and practice process, effective evaluation of practice results and minimizing the information asymmetry between the stakeholders. Within this scope, main stakeholders of the Agency are as follows:

**(a) Institutions subject to supervision;** banks, financial holding companies, financial leasing companies, factoring companies, financing companies, asset management companies, external audit companies conducting audit in banks, rating, valuation and support service companies, partners and members thereof, settlement and custody system companies and credit bureaus,

**(b) Chambers and associations;** Banks Association of Turkey, Participation Banks Association of Turkey, Chamber of Independent Accountants and Certified Public Accountants and Sworn Public Accountants of Turkey, The Association of Capital Market Intermediary Institutions of Turkey, Association of Valuation Specialists of Turkey, Financial Leasing Association, Factoring Association, Consumer Financing Companies Association, External Audit Association, Internal Audit Institute of Turkey, Corporate Management Association of Turkey, Risk managers association,

**(c) Consumers / customers and institutions which are composed of them;** customers or associations, organizations, federations, forums and related non-governmental organizations thereof,

**(d) Domestic agencies and institutions with which the Agency is in close cooperation;** The Undersecretariat of Treasury, State Planning Organization, Central Bank, Secretariat General for EU Affairs, Capital Markets Board, Competition Authority, Turkish Statistical Institute, Savings Deposit Insurance Fund, Istanbul Gold Exchange, Istanbul Stock Exchange, Turkish Derivatives Exchange, Turkish Accounting Standards Board, Turkish International Cooperation and Development Agency and the authority related with external audit,

**(e) Related public agencies and institutions;** The Turkish Grand national Assembly, Council of Ministers, Prime Ministry, related Minister, Ministry of Justice, Ministry of Finance, Ministry of Industry and Trade, ministers or ministries related with the agencies or institutions with which the Agency is in close cooperation, Financial Crimes Investigation Board, Information and Communication Technologies Authority and other related public agencies prescribed in the laws,

**(f) International organizations and institutions with which the Agency is in close cooperation;** The International Monetary Fund (IMF), World Bank (WB), Bank of International Settlement (BIS), Organization for Economic Co-operation and Development (OECD), Basel Committee on Banking Supervision (BCBS), Financial Stability Institute (FSI), Financial Stability Board (FSB), Financial Action Task Force (FATF), World Trade Organization (WTO), G-20 platform, International Association of Deposit Insurers (IADI), International Federation of Accountants (IFAC), International Organization of Securities Commissions (IOSCO),



International Accounting Standards Board (IASB) and related organizations of the European Union,

**(g) Equivalent authorities abroad;** Equivalent authorities of related countries concerning partnership, branch, related institution, representative and similar activities abroad of global-capital banks operating in Turkey as well as whole banks operating in Turkey,

**(h) Members of the Board and staff of the Agency;** Members of the Banking Regulation and Supervision Board as well as administrative personnel, and specialist personnel of the Agency comprised of administrators in charge in the Agency, sworn bank auditors and assistant sworn bank auditors, banking specialists and assistant banking specialists,

**(i) Agencies which conducts external audit at the Agency;** Court of Accounts, State Supervisory Council,

**(j) Judicial bodies;** Constitutional Court, Supreme Court of Appeals, Council of State and other related judicial bodies,

**(k) Arbitration authorities;** Arbitration Committee for Customer Complaints and other related arbitration institutions,

**(l) Related academic circles and Press information institutions.**

## 2.3. Environment Analysis

Within the scope of environment analysis, international and domestic conditions and tendencies concerning the field of duty of the Agency are analyzed as well as the high level policy documents and the opportunities and threats defined as critical are determined.

### 2.3.1 Situation and Developments Worldwide

Global economy has experienced a long-termed growing period since 2007 with the impulsive force of scientific and technologic developments, globalization and low-priced loan policies. Within this period, while foreign capital investments, national and international turnovers and mergers were increasing, the position of emerging and developing countries within the world economy has gained power in general in the corporate level; their incomes and their capacity of development have augmented considerably. In the light of lessons taken from the crisis experienced, countries which have realized their structural reforms, which have reduced their fragilities and strengthen their fundamental internal and external balances as well as their banking sector and international reserves and which have provided a fast development in the transformation into information economy have been the most successful countries. A faster increase in global liquidity, risk appetite and especially in the yields of financial sector in developed countries is observed within this period. The growth period has caused the difference between the poorest countries and the richest ones to widen and the inequalities in the distribution of incomes to increase.



On the other hand, the financial crisis appeared in 2007 because of the problems experienced in the mortgage sector in the USA, insufficient regulatory and supervisory structures and the weakness in the surveillance mechanisms has transformed into a global economic crisis in a short period of time. In this environment, during 2008, many financial institutions localized in developed countries have failed to satisfy their liabilities, the commercial loan activity has ceased, the loan market worldwide and the payments system have blocked and the stock markets around the world have experienced considerable decreases.

Face to these developments, the policies and implementations of countries have brought forward different approaches. In the approaches convenient to the philosophy of market economy, decision and application processes not suitable with the market economy applications and which are based widely on public resources have come together. Especially the increase of preservative tendencies orienting to the firms within national economy and the risk of limitation of global goods and capital flows are expressed by international institutions.

The measures taken were; providing a large scale of liquidity and capital to banks, purchasing the shares of banks, taking the deposit and loans under guarantee, taking over certain debt certificates, associating large companies with public support, supporting some of companies in difficulty, realizing coordinated interest rate cuts by Central Banks, determining a common approach in the field of finance within the framework of EU, forbidding the short selling in financial products for a determined period and giving support packages to consumers.

The crisis which was initially started in developed countries and in financial sector has gradually spread out in developing countries and in real sector. Especially some developing countries which have weak macroeconomic balances, financial sector and external payment possibilities were stuck in a difficult situation face to the crisis and some countries have signed agreements with IMF to provide financial support. These developments have brought a better understanding of the importance of international cooperation and risk appreciation in preventing and managing the crisis and a new evaluation of financial risks all around the world; they have also shown the requirement of a new financial architecture and the need to review the standards of Basel II. Within this framework, studies initiated with the initiatives of leaders of G-20 countries and including international institutions were focused on subjects such as arousing growth and employment, strengthening the international financial system as well as the institutions and supporting international trade and they formed the new architecture of global financial system.

The new financial architecture is based on the concept of financial stability and attaches importance to developing new instruments and mechanisms to protect and intensify the stability and also to augmenting international cooperation. Within this framework, it is predicted that:

- All financial institutions, markets and instruments having importance within the system shall be supervised effectively, while the ones not having importance within the system shall be taken within the scope of supervision according to their risk level,
- Regulations shall be renewed and expanded face to new institutions and instruments,



- Global accounting and reporting standards shall be applied, the accounting method concerning financial instruments shall be simplified and the investors shall be informed more,
- Capital structure of institutions shall be enforced and their liquidity shall be increased,
- Principles and rules determined by international institutions and organizations shall be ensured to be implemented in all the countries,
- The reviewed Basel II shall be gradually put into implementation,
- Standardization and passage into registration system shall be encouraged in over-the-counter derivative instruments,
- Cross-border crisis management shall be empowered,
- Resolving regimes and bankruptcy acts shall be reviewed as to provide a systematic closure to larger and complex financial institutions conducting cross-border activities

### **2.3.2 Situation and Developments in Turkey**

Due to the restructuring occurred in early 2000s and the measures taken in recent years, the effect of global crisis on the Turkish banking sector was remained limited. Contrarily to its equivalents abroad, the sector has maintained its stable growth and profitability within the period of 2006-2009, has continued to borrow from international markets and to finance the real sector and has succeeded to keep its risks in a manageable level. Main structural developments appearing generally within the first plan period are cited below:

- The share of loans among the assets, and especially the share of individual loans has increased, on the other hand the share of securities portfolio which is composed mostly of government bonds has decreased.
- Among liabilities, the deposit weighted structure has remained, domestic and external borrowing possibilities have increased, especially syndication and securitization loans.
- The weight of non-cash loans and liabilities as well as derivative transactions within the system kept increasing.
- Non-interest commission and incomes of banks as well as the interest incomes obtained from loans and the income items coming from banking services have increased rapidly.
- The indicators showing the level of accomplishment of intermediation function have improved and thus, the sector's contribution to the economy has increased.
- In the direction of increasing technologic possibilities and the banks' competition and growth strategies, positive developments were observed in the access channels to financial services.
- NPL ratio, FX net general position and liquidity indicators were ranged in manageable levels and capital adequacy ratio was realized highly above the minimum level predicted by international standards.
- Dependently on the increasing global capital interest, some deposit banks with domestic capital have become deposit banks with global by takeover.



- The Turkish banking sector kept providing finances from international markets and financing the real sector and showed a better performance of profitability than its equivalents in other countries.
- Alongside with these developments despite the maturity mismatch and the recession in recent years, the weight of domestic bonds within the balance sheet has remained.

Concerning the regulatory framework, within the period of 2006-2008, regulations relating to fields predicted by the Banking Law number 5411 and which were not subject to any regulations previously were put into force. These regulations were mostly focused on the establishment and activities of banks, principles of corporate management, internal systems, own funds, loan transactions, measurement and evaluation of capital adequacy and liquidity adequacy, classification of loans and reserve allocations, donations and aids, financial reporting, independent audit, evaluation, rating and support services, deposit and establishment and activities of non-bank financial institutions. Furthermore, a legal framework was formed in 2006 concerning banking card and credit card market, which were not made subject to any regulations previously.

Within the framework of a more prudent and effective regulatory and supervisory approach, adopted after the fluctuations occurred in the sector in mid-2006, the risk-based supervision was initiated, information systems supervision was started, the application of target capital adequacy ratio was started, special care was given to the supervision and monitoring of off-balance sheet transactions which have gained more and more importance within the sector, function of regulations limiting the liquidity risk was increased, the calculation of capital adequacy was improved as to reflect the risks more realistically and the institutions operating within the sector were encouraged to act more prudent, to evaluate better the risks and to inform their customers.

Another important development concerning the period of First Plan Period is certainly the studies of Financial Sector Assessment Program (FSAP-Turkey) conducted with the collaboration of World Bank and International Monetary Fund. Within the scope of these studies during which the Turkish financial sector was analyzed in details, an assessment of our Agency was made and the general outlook of the banking sector, crisis management and stress test applications were handled and the assessment report was published on November 2007.

Within the period of First Plan, the preliminary studies concerning the passage to Basel II were also continued. Under the present circumstances, the operational risk item was included to the calculations of capital adequacy as of June 2007, thus BRSA has started to calculate a capital adequacy partially in accordance with the EU Directives concerning the Basel II. On the other hand, the regulations concerning the Basel II standards are planned to be published within 2010.

Within the scope of preliminary studies concerning the reviewed Basel II within the forthcoming period, following subjects will be brought in the foreground:

- Requirement of education and the need to use of several software,
- Determining the technical details concerning the process of reviewing the bank capital adequacy by supervisory authority, which composes the second structural block,



- Augmentation of the importance of consolidated supervision,
- Requirements of regulation concerning especially the accounting, reserves, internal audit and risk management systems and information systems infrastructures,
- Increasing the effectiveness of Coordination and Orientation Committees as well as the sub-committees attached to them,
- Close follow-up of policies applied concerning the Process of Transition to EU and taking opinions of other institutions and organizations in Turkey.

Together with the lessons taken from previous crises, classical banking approach based on widespread network of branches, total balance sheet and derivative products and relative smallness of individual loan volume and capital adequacy ratio which is considerably higher than the international standards and a more prudent regulatory and supervisory approach which is put into practice before the crisis becomes evident are the strong aspects of the sector within the present environment.

Especially the possibility to access funds originated from Gulf Countries, collaboration processes included within the scope of G-20 studies and active memberships in institutions determining the international principles and standards are considered as main opportunities. Even if the process of membership to the European Union is considered as an opportunity, the uncertainties in the behavior of the Union are evaluated as a risk factor.

As a result of the reflections of the global economic crisis on Turkey, it is considered that the work load of the Agency will increase within the forthcoming period for both the educational need of the personnel and as regulatory and supervisory authority. It is more and more important to follow the concepts and models appeared within the framework of the new financial perception.

The stage to which Turkey has arrived in the process of adhering to EU is an important opportunity for BRSA and the economy; the legislation studies are based on EU regulations, which are improving the harmony in this subject. In the Turkey Progress Report 2009 published by the European Commission, it is emphasized that the Banking Sector has shown a considerable resistance face to the global economic crisis and that this resistance was mostly due to the improvements made within the framework of previous regulations and supervisions. Within this framework, it is specified that the BRSA has taken some measures to eliminate the effects of global crisis, the banks were demanded not to share their profits to empower their capital base and transitory regulations were made to facilitate that the banks may restructure their real sector loans. On the other hand, it is expressed that the Turkish legislation was partially in accordance with EU legislation concerning banks and financial groups; and that supervision and precautionary standards concerning banking as well as non-banking financial sectors shall be strengthened and the implementation of Basel II shall be more developed.

When compared with EU member countries, it is seen that the growing potential of the Turkish banking sector is still high. With adhesion to EU, it is expected that the entries of global banks to the system will increase. This situation is considered as an opportunity because it will affect positively the activity, competition and resource distribution within the sector, it will increase the usage of modern technology and it will facilitate the access to international markets.



### 2.3.3 High Level Policy Documents

Within the third paragraph of Article 93 of the Banking Law number 5411, it is provisioned that the BRSA shall comply with the principles, strategies and policies taking place within the development plan, programs and government program in all its activities, save for the authorizations predicted within the Law on Establishment provided for and these are listed below:

Within the scope of **Ninth Development Plan (2007–2013)**, the development of financial sector is set as one of the fundamental strategies to increase the competition power of the country's economy. Within this framework it was predicted that; gold banking shall be supported, an autonome regulatory structure shall be formed for all financial institutions, no empty fields shall be left in regulation and supervision of financial system, accounting and supervision standards shall be developed in financial system, legal infrastructures of factoring and financial leasing sectors shall be developed, risk management shall be established in all financial institutions, accordance to EU regulations shall be provided, loan and corporate governance rating system shall be established, factors corrupting the inter-institutional competition in taxation and access to information shall be removed, transaction and intermediation costs and bureaucracy shall be reduced, principles of corporate governance shall be applied, transparent, fair, and encouraging applications concerning customer rights and consciousness shall be strengthened and Istanbul shall be an international finance center.

Within the scope of **Medium-Termed Program (2010-2012)**, it was emphasized that the confidence and stability within the financial sector shall be strengthened and the sector's international competition capacity shall be increased. Within this framework, it is predicted that; measures to keep the loan channels alive shall be developed, actual approaches and instruments relating to empower the confidence within financial markets and to prevent systemic risks shall be operated, regulation and supervision of financial sector shall be developed, collaboration and information sharing between foreign supervisory authorities as well as other related international authorities shall be augmented and the Istanbul International Financial Center project shall be put into practice.

Within the scope of **2010 Annual Plan**, it is expressed that a financial system having a variety of instruments and a financial depth which will orient the resources to investments and which is regulated and supervised in international standards was targeted; a profitable, productive and rational structure having the power of international competition will be provided for financial sector and that the confidence and stability will be strengthened in the sector. Also in the program, it is predicted that the regulatory framework concerning the institutions, market and instruments within BRSA's field of duty will be strengthened; the efficiency and effectiveness of surveillance and supervision concerning banks and non-banks financial institutions under the supervision of BRSA will be increased with new approaches and instruments.

Within the scope of **2008 National Program**, it was predicted that affiliates not qualified as credit institution or financial institution shall be included in the banks' consolidated financial statements, coordination between institutions responsible for the supervision of group companies shall be provided, accordance to Basel II standards shall be



provided, Regulation on the Internal Systems of Banks shall be reviewed and the supervision capacity of BRSA shall be increased.

Within the scope of **Istanbul International Financial Center (IFC) Strategy and Action Plan**, it is predicted that; the process for related drafts to become law shall be accelerated, financial services shall be classified within the framework of EU legislation, financial instruments shall be made more elastic so that service packages may be formed to respond to the needs of customers, financial leasing and factoring services shall be developed, private sector borrowing instruments, securitization and housing finance markets shall gain operability, infrastructure concerning the derivative products and finance instruments without interest shall be developed, transaction costs shall be reduced to a competitiveness level, instruments which are not operated within the present state of play shall gain operability or new financial instruments and activities shall be developed, the duties and functions of Systemic Risk Coordination Committee shall be empowered and the productivity and professional equipment of human resources within the field of finance shall be increased.

#### **2.3.4 Risks and Uncertainties**

Main risks and uncertainties faced by the Agency in realizing the strategic goals and targets within the period of 2010-2012 are listed below:

- Bringing of the new financial architecture formed by global developments,
- Reviewing and finalizing the Basel II standards in the light of global crisis,
- Novelties in the field of finance and fast developments in information technologies,
- Vague and sometimes negative attitudes of the EU towards the membership of Turkey,
- The course of global crisis and its effects on the economy and financial sector of Turkey,
- Insufficiency of savings rate,
- Sustainability of public financing balances in global scale,
- Problem of maturity mismatch in the Turkish banking sector,
- Strengthening the regulatory and supervisory structure concerning the financial sector in general,
- Effects of transition to Basel II on financial sector and the Agency,
- Enactment processes of Draft Law on Financial Leasing, Factoring and Financing Companies and Draft Law on Making Amendments in Banking Law,
- Financial restrictions carrying the potential to affect negatively the supervisory activities and development of human resources of the BRSA, within the framework of general applications and approaches as well as the Travel Expense Law,
- Risks concerning global warming, natural disaster and pandemic diseases.





### 3. STRATEGIES

Strategic goals and targets concerning the period of 2010-2012 are determined in the light of the mission and vision of BRSA and considering the needs of the Agency and sector, opinions and suggestions of the related parties within the market, requirements of international integration, best international practices and experiences of equivalent authorities, and are listed below:

**Table 3.1: Strategic Goals and Targets**

Goals	Targets
<b>1. Enhancing the Administrative Capacity</b>	1.1. Developing human resources in accordance with the changing financial and economic environment.
	1.2. Improving corporate governance.
	1.3. Enhancing the capacity for research and analysis.
	1.4. Improving physical resources.
	1.5. Increasing the cost efficiency in the Agency's activities.
	1.6. Developing the institutional culture.
	1.7. Strengthening the communication with public.
	1.8. Improving the financial and social means of the Agency.
<b>2. Establishing a Flexible, Effective and Comprehensive Regulatory Framework</b>	2.1. Reviewing the regulations according to actual conditions, within the framework of the principle of good regulation.
	2.2. Making all institutions, markets and instruments within the scope of the Agency's authority subject to regulation and supervision with a prudential approach.
	2.3. Increasing the efficiency and effectiveness of supervision in the light of new approaches and instruments.
	2.4. Increasing the efficiency of enforcement processes.
<b>3. Increasing the Confidence and Stability in Financial Markets</b>	3.1. Monitoring the risks in household and corporate sectors and in asset markets.
	3.2. Monitoring financial markets more effectively.
	3.3. Monitoring policies concerning financial markets.
	3.4. Increasing the efficiency of systemic risk management.
	3.5. Increasing the collaboration with related domestic and foreign authorities.
<b>4. Developing Financial Sector</b>	4.1. Increasing the competition power of financial system
	4.2. Evaluating efficiency in transaction and intermediation costs regularly.
	4.3. Increasingly maintaining the collaboration and dialogue between the related parties of financial sector.
	4.4. Supporting the common projects among the institutions within the scope of regulation.



	<b>4.5. Increasing the capacity of financial sector.</b>
<b>5. Monitoring Consumer / Customer Rights</b>	<b>5.1. Giving weight to programs for increasing the consciousness of consumers / customers.</b>
	<b>5.2. Regarding that the consumer / customers benefit from financial services in a fair way and that they receive equal treatment.</b>
	<b>5.3. Increasing the sensitivity in protecting the information concerning consumers / customers.</b>
	<b>5.4. Improving the solution process for consumer denunciations and complaints.</b>
	<b>5.5. Extensification of the professional principles.</b>



#### 4. STRATEGIC PLAN-BUDGET RELATIONSHIP

The strategies taking place within the Strategic Plan will be implemented with the intermediation of annual work programs and budgets. In this regard, it is important that the financial resources of the Agency are developed as to increase corporate capacity. Pursuant to the article 101 of the Banking Law, in preparing the Agency's budget, following subjects shall be considered; the budget shall be associated to Development Plans and prepared according to the strategic plan as well as annual targets, necessary financial support shall be provided to take healthy decisions within the framework of the priorities predicted in the strategic plan, the relationship between the results of risk management system inside the Agency and resource distribution shall be strengthened, financial resources shall be harmonized with strategic priorities.

The Performance-Based Budgeting (PBB) which is an important tool to harmonize strategic plan and the budget is not put into practice yet by the Ministry of Finance and the draft guide for performance-based budgeting is not finalized yet, but several institutions and organizations are conducting pilot studies about this subject and the studies concerning the practice are still continuing. Within this scope, the studies for performance-based budgeting, which are considerably important for BRSA's strategic plans will be followed closely and will be accommodated as soon as possible after its implementation.

The amount to be collected from institutions under the regulatory and supervisory authority of the Agency as a participation share to the expenses of the Agency is determined as two in ten thousand (2/10,000) of their total balance sheets. Within this framework, it is estimated that; payments to be made by institutions will be TL 80.5 million, incomes expected from the evaluation of the Agency's fund will be TL 9 million and the other incomes will be TL 500 thousand, so the total income will be TL 90 million. No difference is predicted between the incomes and expenses of the Agency and the Agency's budget is planned to be TL 90 million for 2010, TL 94.5 million for 2011 and TL 99.3 million for 2012.

**Table 4.1: Allocation of Resources by Functions (\*)**

Amount (TL Th)	Realization				Estimate		
	2006	2007	2008	2009	2010	2011	2012
<b>Regulation</b>	2,549	2,593	2,963	2,916	4,011	4,171	4,387
<b>Supervision</b>	9,611	10,900	10,167	13,456	22,224	23,337	24,509
<b>Enforcement</b>	4,550	5,227	6,230	6,924	9,916	10,455	10,976
<b>Research</b>	1,988	2,273	2,148	2,216	5,069	5,324	5,591
<b>Administrative</b>	27,728	30,271	33,992	131,687	48,780	51,225	53,795
<b>Total</b>	46,425	51,264	55,500	157,199	90,000	94,511	99,259

##### Distribution (%)

<b>Regulation</b>	5.5	5.1	5.3	1.9	4.5	4.4	4.4
<b>Supervision</b>	20.7	21.3	18.3	8.6	24.7	24.7	24.7
<b>Enforcement</b>	9.8	10.2	11.2	4.4	11.0	11.1	11.1
<b>Research</b>	4.3	4.4	3.9	1.4	5.6	5.6	5.6
<b>Administrative</b>	59.7	59.0	61.2	83.8	54.2	54.2	54.2
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(\*) Expenditure of the Agency's service units are calculated by distributing them by fundamental functions of the Agency.



When the distribution of financial resources allocated to the fundamental activities of the Agency are analyzed, it is observed that the budget share allocated to enforcement activities within the period of First Plan (2006-2008) has increased from 9.8% to 11.2%, and the share allocated to regulation activities has decreased from 5.5% to 5.3%. On the other hand, the shares allocated to supervision, research and administrative activities have floated but they have not changed much. In 2009, the share of administrative activities has increased from 61.2% to 83.8% because of the purchase of a land for a new building. On the other hand, within the new plan period comparing to the previous period, it is expected that; the resources allocated for regulation activities and administrative activities will reduce and the resources allocated for supervision and research activities will increase, while the resources allocated for enforcement activities will preserve their actual level.



## 5. MONITORING AND EVALUATION

Pursuant to the paragraphs (b) and (d) of the article 88 of the Banking Law Nr. 5411, Banking Regulation and Supervision Board is entitled and authorized to establish the performance criteria of the Agency and to approve the reports showing its performance; in the paragraphs (f) and (g) of the article 89 of this Law, it is expressed that the Chairman of the Agency is entitled and authorized to carry out evaluations concerning activities based on goals and targets and performance criteria and to present these evaluations to the Board and to evaluate the strategies, policies and related legislation and performance criteria of the Chairmanship in the fields of duty of the Agency. On the other hand, in the second paragraph of the article 97 of the Law, it is predicted that the Agency shall inform the Cabinet semi-annually about its strategies and the implementation of these strategies.

Within the application period of Strategic Plan, a relationship will be established between the Plan and annual budgets and personnel performance management system and the strategic targets will be concentrated on; monitoring and evaluation of the level of accessibility to strategic goals and targets according to specific criteria will be one of main elements of strategic management approach.

It is predicted that the information obtained as a result of monitoring and evaluation activities shall be used to give feedbacks. After an analysis of activity realizations is made based on timing and compliance with targets; (a) if there aren't any fundamental changes in the Agency's capacity or in the environment where the activities are realized, (b) if the strategies and activities are realizing as planned, (c) if the development expectations on the road to attain the strategic goals and targets are appropriate, the Plan would be approved and will continue to be applied. However, if there are any changes and if unexpected or undesired results appear, the Plan will be reviewed and a re-evaluated and updated version will be put into application. The Plan will be valid until a new plan is put into practice. The monitoring and evaluation process will provide corporate learning and improvement, and in addition it will contribute to the principles of accountability and transparency.



BANKING

REGULATION AND SUPERVISION  
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