



**BANKING REGULATION AND SUPERVISION
AGENCY**

**BANKING SECTOR RESTRUCTURING PROGRAM
ACTION PLAN**

September 25, 2001

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	September 2001	December 2001	January 2002	June 2002	December 2002	Current Situation (As of September 25, 2001)
I. Regulatory and Supervisory Arrangements						
a-Capital Adequacy						
- Incorporation of the market risks on solo basis in the calculation of capital adequacy ratio			January 1, 2002			Regulation on Measurement and Assessment of Capital Adequacy of Banks was published on February 10, 2001. This regulation lays down the principles and procedures related to calculation of capital adequacy standard ratio of banks both on a consolidated and unconsolidated basis with a view to ensure that they maintain an adequate amount of capital to cover losses which may result from existing and potential risks. Also, a series of meetings have been held with the risk management group of the Banks Association of Turkey. Further works on reporting format for market risks is about to be completed and will be sent to the banks as soon as it is finalized. Also a manual for procedures to approve risk measurement models is being prepared.
- Incorporation of the market risks on consolidated basis in the calculation of capital adequacy ratio				July 1, 2002		Regulation on Measurement and assessment of Capital Adequacy of Banks was published on February 10, 2001. According to the regulation, market risks will be calculated on a consolidated basis starting on July 2002. During the transition period, necessary adaptations for the calculation of consolidated capital adequacy ratio will be made in parallel to the changes in the regulation on principles for consolidated financial tables.
-To ensure that all banks comply with minimum capital adequacy requirement						Commitment letters have been required from banks with capital deficiency. These requirements are being strictly enforced.

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b- Foreign Exchange Exposure Limits						
- To set up a working group to identify and classify the use of structured finance products by banks to cover FX exposures, and to formulate remedial regulatory action to minimize risks originating from the use of such instruments.						The committee is to be established in October 2001 and findings and needs for regulations are expected to be determined by December 2001
- To undertake on-site examinations, in coordination with foreign supervisors where necessary, to verify compliance with consolidated FX open position limits between reporting dates.						13 branches and 1 participation in Bahrain-Manama, Luxemburg and Malta were audited on-site. Auditing of a bank's participation in Netherlands is continuing. Compliance with foreign exchange position regulations are audited during these inspections. Such inspections will continue in the future.
c- Loan Loss Provisioning and Connected Lending Limits						
- Banks that do not comply with the new connected exposure limits and the BRSA to agree on time-bound action plans	August 2001 (agreement)	Follow-up		Follow-up	Follow-up	
- To review the Decree on Loan Loss Provisioning with a view to make amendments to facilitate corporate sector restructuring.						

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d- Repurchase Agreements (repos)						
- To set up a committee to recommend measures to reduce the risks caused by excessive use of retail repos/short-term liabilities in the banking sector						The Committee finalized its work in July 2001 and proposals were submitted to the related State Minister. In this framework, withholding tax rate on repo transactions was increased.
-Inclusion of repo transactions on balance sheet			January 1, 2002			
e-Risk Management						
- To monitor the establishment process of internal control and risk management systems of banks						Regulation on Banks' Internal Control and Risk Management Systems was issued on 8 February, 2001. The regulation aims at determining the principles and procedures of the internal supervision and risk management systems that the banks shall establish in order to monitor and control the risks that they are exposed to. Further work on additional regulations is continuing and will be finalized by the year –end.

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f-Accounting and Auditing						
- Publication of The Regulation of Accounting Practices						Related regulation will be issued in January 2002 and will be put into effect in consecutive periods.
-To complete full introduction of International Accounting Standards (IAS) for banks.						
-Revision of the licensing regime for auditors of banks and other financial institutions.						
-Revision of the establishment and operation principles for independent auditing firms						A draft revision has been prepared, and is expected to be finalized by November 2001.
- Encouraging banks to give importance to internal and external supervision and ensuring examinations on internal control and risk management systems and lending portfolio and market risks during independent auditing						

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<i>g-Financial Conglomerates</i>						
-To create the legal basis for formation of financial conglomerates and to amend corporate and tax legislation to facilitate the transformation of financial-industrial groups into separate financial and corporate conglomerates		Review		Making necessary amendments	Separating financial activities from industrial activities	
-To introduce effective consolidated regulation and supervision of financial activities of conglomerates						
<i>h-Supervisory Activities of BRSA</i>						
- Close monitoring of the off-shore banks established by Turkish Banks or their dominant share holders						Draft Memorandum of Understandings (MoUs) has been sent to Netherlands, Malta, Luxemburg, Bahrain, Albania, Romania, Switzerland and Ireland. A MoU agreement was signed between BRSA and the Central Bank of the Turkish Republic of Northern Cyprus on September 17, 2001. Auditing of offshore branches will start in October 2001.
- On-site supervision of branches in foreign countries						13 branches and 1 participation in Bahrain-Manama, Luxemburg and Malta were audited on-site. Auditing of a bank's participation in Netherlands is under progress.
-To undertake projects and training activities in order to struggle with money laundering and fraud.						

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<i>i-Other Regulations</i>						
-To review tax legislation with a view to eliminate any biases in favor or against certain types of financial sector activity				Review	Making amendments	
-To amend prudential regulations for banks and non-bank financial institutions if necessary in order to introduce consolidated regulatory infrastructure				Completing preparations	Completing the necessary infrastructure	
-Coordinated review of the improvements required in the legal framework for bankruptcy and collateral foreclosure, and enactment of the changes required to allow accelerated/more efficient non-performing loan (NPL) resolution, and preparation of a plan to set up a moveable goods register						
- To determine principles and procedures in storing files in the form of microfilms and/or electro-magnetic environment.						
II. Problem Bank/Bank Failure Resolution and Establishing a Sound Banking Sector						
<i>a-Resolution of SDIF Bank</i>						
-Sale of Demirbank	September 20					Sold to HSCB on September 20, 2001.
- Finalizing the bidding process of Etibank and İktisat Bank	1-15 October					-Koç Group's bidding deadline for Etibank was extended to October 1, 2001 - Uni Credito Italiano SPA's bidding deadline for İktisat Bank was extended to October 15, 2001.
- Finalizing the bidding process of Sitebank	October 17					Nova Bank S.A.'s bidding deadline was extended to October 17, 2001.
-Resolution process of Tarişbank, Bayındırbank, Kentbank and EGS Bank						Sales and other resolution process will start as soon as transfer balance sheets are prepared.

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-SDIF Collection Department to adopt procedures for packaging and selling bad assets and to initiate third party sale of such packages on a pilot basis and for accelerated in house foreclosure of bad assets using new special powers granted to it in the amendment to the banking law, and to initiate such foreclosures on a pilot basis.						
-To initiate binding legal time constraints for resolution of bad assets						
-To complete transfer of all problem loan files above TL 75 billion to the Collection Department of SDIF, and to reach a negotiated settlement with the loan defaulters, or to initiate legal action for all problem files, and resolution of problem loans concerning exposure below 75 billion TL						The transfer of 2.300 files above TL 75 billion has been completed. Approximately 2.000 files below TL 75 billion have been transferred to the Collection Department of SDIF.
<i>b-Establishing a Sound Banking Sector</i>						
- Implementation of capital restoration plans by the capital deficient banks.						The observance of the performance criteria will be strictly enforced. 5 banks that were not able to commit to a credible recapitalization plan were taken over by SDIF. 2 investment banks have been closed for the same reasons.
- Encouraging mergers & acquisitions, entry of foreign banks and forming Joint Ventures with foreign banks						Legal arrangements that support bank mergers and acquisitions have already been realized. Projects on removal of bureaucratic obstacles on foreign bank entry are at the completion stage.
- Increasing the efficiency of the banking system through Resolution of SDIF banks.						SDIF banks represent 16 percent of total assets and 15 percent of total deposits of the system. Thus, resolution of SDIF banks, will increase funds available to private banks and lower their borrowings from abroad to meet funding needs

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III. Strengthening the Institutional Capacity of BRSA and SDIF						
<i>a-Measures to Strengthen the Institutional Capacity of the BRSA</i>						
-To develop Human Resources Policy (job description, determination of norm position, national and international training programs and principle and procedures of rotation)						
-To improve the management process			February 2002			
-To set up a problem bank unit within the BRSA's enforcement department and adopt a pre failure corrective action manual for the new unit, which defines mandatory pre failure intervention triggers						Works on the issue still goes on.
-To revise the common data-base and improve upon efficient supervisory techniques				September 2002		BRSA has already prepared a list of supervision tools to be improved.
-To develop procedures manuals for all major existing BRSA units				August 31, 2002		Guidelines concerning BRSA's duties and functions have been under review by taking into account international practice and developments in the area of banking techniques and regulations.
- To continue the full implementation of BRSA's strategic plan.						
<i>b-Measures to Strengthen the Institutional Capacity of the SDIF</i>						
-To prepare and approve a strategic plan that will strengthen the institutional capacity of SDIF						
-With clearly assigned implementation responsibilities that puts in place a more effective organizational structure						
-Sets performance targets for the bank resolution and asset management functions of the SDIF Banks						
-Envisages the hiring of additional qualified staff to handle the high volume of non performing loans and other problem assets to be transferred to the Collections Department for collection /workout						
-Builds a centralized and high quality management information system that will allow SDIF senior management and the SDIF Board to monitor progress being made towards reaching agreed resolution and asset management/collection targets						
-Strengthen the administrative and fiscal autonomy of SDIF						

