

COMMUNIQUE ON COMPLIANCE WITH THE PRINCIPLES AND STANDARDS OF INTEREST-FREE BANKING

Purpose and scope

ARTICLE 1 -(1) The purpose of this Communique is to regulate the procedures and principles regarding the structures and processes that participation banks and development and investment banks, that provide financing to their customers under paragraph 10 of article 19 of the Regulation on Credit Transactions of Banks published in the Official Gazette dated 1/11/2006 and numbered 26333, will establish to comply with the principles and standards of interest-free banking.

Basis

ARTICLE 2 - (1) This Communique has been prepared based on articles 29 and 93 of Banking Law dated 19/10/2005 and numbered 5411.

Definitions and abbreviations

ARTICLE 3 - (1) In the implementation of this Communique, the following terms refer to:

- a) Association: Participation Banks Association of Türkiye
- b) Advisory committee: Interest-free banking advisory committee
- c) Advisory Board: The Advisory Board within Participation Banks Association of Türkiye
- ç) Audit committee: The committee regulated in Article 24 of Law No. 5411,
- d) Interest-free banking: The activities of participation banks and the activities of development and investment banks within the scope of the 10th paragraph of the Article 19 of the Regulation on Credit Transactions of Banks,
- e) Interest-free Banking Principles and Standards: The principles and standards and general decisions determined by the Advisory Board
- f) Board: Banking Regulation and Supervision Board
- g) Agency: Banking Regulation and Supervision Agency
- ğ) Regulation: The Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks published in the Official Gazette dated 11/7/2014 and numbered 29057.

Interest-free banking advisory committee

ARTICLE 4 - (1) Banks are obliged to establish an advisory committee to ensure that their activities comply with interest-free banking principles and standards. The advisory committee acts under the board of directors.

(2) The advisory committee shall consist of at least three members. At least two-thirds of the members must be resident in the country. Members shall be assigned by the bank's board of directors and be presented to the approval of the first general assembly.

(3) The term of office of the advisory committee members shall be three years. The duty of an advisory committee member shall end with the end of their term of office, death, serious disease, their inability to work due to a disability, when they no longer fulfil the required conditions for their assignment, when they voluntarily leave their duty, or by the mutual decision of at least two-thirds of the board of directors of the bank. Members whose term of office has ended may be re-elected.

(4) (Amended:OG-30/11/2021-31675) The advisory committee shall elect a chairperson among its members to regularly perform the duties assigned under the provisions of this

Communique and a vice-chairperson to serve in the absence of the chairperson. The chairperson of the committee must be residing in Türkiye.

(5) Banks shall create an advisory committee secretariat under the advisory committee by employing sufficient number of staff to carry out the necessary services for the effective performance of advisory committee activities. The function of the advisory committee secretariat may be performed by the unit or staff specified in the fourth paragraph of Article 9.

(6) The advisory committee secretariat shall perform at least the following duties:

a) Notifying members on the agenda and time of the advisory committee meetings and providing them with the information and documents regarding the agenda issues.

b) Organising the minutes of the advisory committee meetings and carrying out the process of signing the minutes by the advisory committee members.

c) Informing the units or the staff in charge of interest-free banking compliance activities on the decisions of the advisory committee.

ç) Forming the opinion of the advisory committee on the issues that fall within the scope of interest-free banking principles and standards upon applications from within and outside the bank, and managing the process of notifying relevant persons and units or personnel in charge of interest-free banking compliance activities.

Conditions for assigning advisory committee members

ARTICLE 5 - (1) It is mandatory that at least two-thirds of the members in the advisory committee have at least a bachelor's degree in theology or equivalent fields, or a master's or PhD degree at interest-free finance as well as at least three years of professional experience in interest-free finance. The Board is authorized to seek these conditions for all members if it deems necessary.

(2) Advisory committee members must have the competence, judgment, honesty, and reputation required by their duties.

(3) Those who do not meet the conditions specified in sub-clause (d) of the first paragraph of Article 8 of Law No. 5411 cannot be appointed as advisory committee member.

(4) People to be appointed as members of the advisory committee shall be notified to the Agency together with the documents showing that they meet the conditions required in this article. These people may be appointed as members of the committee unless the Agency states its negative opinion within fifteen days of the notice.

(5) A person may take part in the advisory committees of two banks at most, provided that they meet the conditions specified in this Communique.

(6) Banks shall determine objective criteria for evaluating whether the advisory committee and its members fulfill their duties effectively, efficiently and continuously, and set out an evaluation process within the framework of these criteria. The results of the evaluation process shall be taken into account in the decision-making process whether members of the advisory committee should continue to work.

The independence of the advisory committee

ARTICLE 6 - (1) The advisory committee shall take decisions independent of the influence of senior management and all related parties. Banks shall take measures to ensure that advisory committee members avoid conflicts of interest while performing their duties.

(2) (Amended:OG-30/11/2021-31675) Including the last one year prior to their appointment, the advisory committee members are obliged;

a) Not to be a member of the board of directors who has executive duties, a manager with an executive unit answering to him/her, or an employee working in a unit that has executive nature, at the bank and/or its subsidiaries subject to consolidation,

b) Not to have qualified shares in the bank and/or its subsidiaries subject to consolidation,

c) Not to have qualified shares, not to be a member of the board of directors with executive duties, or not serve as a manager with an executive unit answering to him/her, in commercial organizations with significant debt/receivable relationship with the bank and/or its subsidiaries subject to consolidation,

ç) Not to be , the spouse or up to the second-degree relative (including this degree) by blood or marriage of the bank's majority shareholder, members of the board of directors or the general manager,

d) Except for the remuneration received for their duty as a member of the advisory committee, not to receive any salary or similar income from the bank and/or the subsidiaries subject to consolidation, based on their profitability,

e) Not have a spouse and/or children as general manager, deputy general manager, or at an equivalent manager position in the bank and/or subsidiaries subjected to consolidation, and to possess the qualifications and conditions required in sub-paragraphs (a), (b) and (c).

Duties and authorities of the advisory committee

ARTICLE 7 - (1) The advisory committee shall have the following duties and authorities:

a) Making decisions exclusive to the bank regarding the principles and standards of interest-free banking and their implementation.

b) Examining internal regulations according to compliance with interest-free finance principles and standards.

c) Evaluating and approving the standard contracts and their annexes related to the bank's products and services in terms of interest-free banking principles and standards.

ç) (Amended:OG-30/11/2021-31675) Reporting its decisions to the Advisory Board on annual basis until the end of January of the following year.

d) Presenting opinions on interest-free banking principles and standards to individuals and organizations that provide law, audit, and other related services to the Bank and its subsidiaries subject to consolidation.

e) Providing information about the current activities of the advisory committee to be included in the bank's annual activity report and evaluating the compliance of the bank's activities with interest-free banking principles and standards.

(2) Banks shall take measures to ensure that advisory committee members access the information and documents they need to fulfill their duties.

(3) The advisory committee cannot take decisions contrary to the principles and standards determined by the Advisory Board and the general decisions taken.

Working procedures and principles of the advisory committee

ARTICLE 8 - (1) The advisory committee shall convene at least twice a month when deemed necessary, upon the call of the chairperson of the advisory committee. Advisory committee meetings may be held by the physical presence of members or by the online participation of some or all of the members.

(2) The chairperson of the advisory committee shall determine the meeting's agenda and time. The determined agenda and time shall be notified to all members, together with information and documents regarding the agenda topics, three business days before the meeting date at the latest. An agenda item may be added to the meeting with the proposal of at least two members.

(3) Relevant bank managers or employees and other experts may attend the advisory committee meetings according to the agenda item of the meeting.

(4) The advisory committee shall convene with at least two-thirds of the total number of members. The decision quorum of the advisory committee shall be the absolute majority of the total number of members under any circumstances. Decisions shall be signed by the members. Members who oppose decisions shall report their reasons within fifteen days from the date of the decision. The decisions shall be recorded with the summary of the subject examined and discussed, the justification of the decision, the basis and if any, the reasons of the opposing members. Members who do not sign the decisions or do not report their reasons for opposing within the time limit shall be deemed not to have attended the meeting without an excuse.

(5) Necessary business processes shall be established to convey the decisions of the advisory committee to relevant persons and units within the bank and to be taken into account in internal control activities.

(6) The advisory committee shall not make an evaluation of the work and transactions whose judgment process is ongoing or completed.

Interest-free banking compliance activities

ARTICLE 9 - (1) The purpose of interest-free banking compliance activities is to ensure that new transactions, products and activities carried out or to be carried out by the bank comply with the principles and standards of interest-free banking and the decisions taken by the advisory committee.

(2) Interest-free banking compliance activities shall include, as a minimum, the controls of services provided, investments made, contracts and transactions with customers, service providers and third parties, prepared policies, procedures and other internal regulations, financial statements, activity reports and other public disclosures, promotions and advertisements, financial and non-financial in-house reports, decisions taken by the authorised bodies, the bank's main contract and relations with shareholders and personnel to ensure compliance with interest-free banking principles and standards and the decisions of the advisory committee.

(3) Within the framework of interest-free banking compliance activities, the board of directors, relevant units and personnel shall be informed about the principles and standards of interest-free banking and the decisions of the advisory committee and their possible effects.

(4) Interest-free banking compliance activities shall be carried out by unit or personnel in charge of compliance control in the framework of the Regulation, or a unit or personnel exclusively appointed for the purpose of ensuring compliance with the interest-free banking principles and standards.

(5) The unit or personnel that carries out the interest-free banking compliance activities shall submit a report of their activities to the audit committee at least once every three months.

(6) Bank's policies and procedures regulating its compliance activities to interest-free banking principles and standards shall be submitted for the approval of the board of directors after obtaining the opinion of the advisory committee.

Interest-free banking internal audit activities

ARTICLE 10 - (1) The purpose of interest-free banking internal audit activities is to provide assurance to the senior management, shareholders and other stakeholders of the bank regarding that the compliance function is effective and adequate and that the bank activities are carried out in accordance with the principles and standards of interest-free banking and with the decisions of the advisory committee.

(2) With interest-free banking internal audit activities; the adequacy and effectiveness of interest-free banking compliance activities shall be evaluated, and the compliance of the

bank's activities and transactions with interest-free banking principles and standards and the decisions of the advisory committee shall be supervised.

(3) Interest-free banking internal audit activities shall be carried out by the internal audit unit within the framework of Article 22 of the Regulation.

(4) A report shall be submitted to the audit committee at least once every three months regarding interest-free banking internal audit activities. This reporting obligation may also be fulfilled by the report specified in the fourth paragraph of Article 31 of the Regulation. The audit committee shall submit the incoming report together with its opinion to the board of directors within ten working days at the latest.

(5) The audit committee shall meet with the advisory committee at least twice a year to discuss the actions taken in relation to the reports and findings contained in the reports on interest-free banking compliance and internal audit activities.

Personnel

ARTICLE 11 - (1) (Amended:OG-30/11/2021-31675) The personnel who will work in interest-free banking compliance and internal audit activities and in the advisory committee secretariat must either have worked for a minimum of three years in participation banks and have a interest-free finance certificate deemed appropriate by the Advisory Board or have a master's or PhD degree in interest-free finance.

(2) The personnel who work in interest-free banking compliance and internal audit activities and in the advisory committee secretariat shall perform its duties and responsibilities impartially and independently. If there are any issues that may harm their independence and impartiality, the personnel shall inform those to the relevant directors and units and retires from their job.

(3) Participation banks are obliged to take the necessary measures to ensure that the personnel they employ is able to perform their duties in accordance with the principles and standards of interest-free banking and the decisions of the advisory committee and have sufficient knowledge and experience.

Information and individual application (Amended Title:OG-30/11/2021-31675)

ARTICLE 12 - (1) (Amended:OG-30/11/2021-31675) Banks shall inform their customers and public adequately and effectively about the functioning of their products and services, the provisions of contracts, and the rights and obligations of the parties within the scope of interest-free banking principles and standards. The procedures and principles in this regard shall be established by the Board.

(2) The disputes between the bank and its customer regarding the matters covered by the principles and standards of interest-free banking shall be put on the agenda of the advisory committee upon the written request of the customer and are resolved within 30 days following the date of the written request. The customer shall have the right to appeal the decision of the advisory committee regarding the dispute to the Advisory Board for consideration within fifteen days following the date of the decision. The Advisory Board may decide to cancel or change the decision of the advisory committee or implement as it is. The Advisory Board is authorised to evaluate disputes of the same type together and to take joint decisions.

Informing the public

ARTICLE 13 – (Repealed:OG-30/11/2021-31675)

Responsibilities of the board of directors

ARTICLE 14 - (1) Within the scope of this Communique, the board of directors shall be responsible for;

a) Determining the structures, job descriptions, authorities and responsibilities, business processes, reporting channels regarding compliance with the principles and standards of interest-free banking in the bank,

b) Ensuring that the relevant personnel of the bank are effectively informed about the principles and standards of interest-free banking and the decisions of the advisory committee,

c) Determining the duties and responsibilities of the bank personnel regarding the compliance with the principles and standards of interest-free banking and the decisions of the advisory committee,

ç) Ensuring that members of the advisory committee and the personnel working in the interest-free banking compliance and internal audit activities and in the advisory committee secretariat are not engaged in conflicts of interest in the performance of their duties,

d) Taking measures to ensure that members of the advisory committee and the personnel working in the interest-free banking compliance and internal audit activities and in the advisory committee secretariat can access the information and documents they need to perform their jobs,

e) Creating training programs for the professional development of members of the advisory committee and the personnel working in the interest-free banking compliance and internal audit activities and in the advisory committee secretariat, giving them sufficient and timely information on applicable law and amendments to the law, and creating processes so that they share their knowledge and experience with each other, bank's managers, and other personnel,

f) In case of any non-compliance with the interest-free banking principles and standards and the decisions of the advisory committee; stopping businesses and transactions that lead to the non-compliance, informing the advisory committee on the issue and preparing plans to eliminate the non-compliance,

g) Determining policies and processes to inform the customers of the bank about the functioning of products and services within the scope of interest-free banking principles and standards, the provisions of contracts, and the rights and obligations of the parties,

ğ) Determining the policies and processes regarding the public disclosure of the decisions taken by the advisory committee and its members,

h) Informing the members of the advisory committee, experts participating in the meetings of the advisory committee, and the personnel working in the interest-free banking compliance and internal audit activities and in the advisory committee secretariat about their obligations under Article 73 of the Law, and taking necessary measures to ensure their compliance with their obligations.

(2) The board of directors of the bank may form committees to fulfill its responsibilities specified in the first paragraph.

Provisions on development and investment banks

ARTICLE 15 - (1) Development and investment banks that provide financing to their customers based on the methods listed in the first paragraph of Article 19 of the Regulation on Credit Transactions of Banks shall be subject to the provisions of this Communiqué, limited to the said financing activities.

(2) (Amended:OG-30/11/2021-31675) Development and investment banks may fulfill their obligations to establish an advisory committee stated in the first paragraph of Article 4 through service outsourcing. In case of outsourcing services, the provisions of Articles 4, 5, 6, 7, 8 and 12 and sub-paragraph (h) of the first paragraph of Article 14 on the advisory committee of this Communiqué shall be applied by analogy. The procedures and principles

regarding the approval and follow-up of the organizations from which outsourcing will be made shall be determined by the Association, with the approval of the Board.

(3) (Amended:OG-30/11/2021-31675) For interest-free banking compliance and internal audit activities, the reporting frequency stated in the fifth paragraph of Article 9 and the fourth paragraph of Article 10 shall be applied at least once a year for development and investment banks.

(4) (Amended:OG-30/11/2021-31675) For the personnel to work in the interest-free banking compliance and internal audit operations and the advisory committee secretariat, the requirement in the first paragraph of Article 11 stating that they must have worked for at least three years in participation banks shall not be applied for development and investment banks.

Transition provisions

PROVISIONAL ARTICLE 1 - (1) Banks covered by this Communiqué are obliged to comply with the provisions of this Communiqué within 6 months as of the effective date of this Communiqué.

Determining procedures and principles

PROVISIONAL ARTICLE 2 - (Repealed:OG-30/11/2021-31675)

Validity

ARTICLE 16 - (1) This Communiqué enters into force on the date of its publication.

Execution

ARTICLE 17 - (1) The provisions of this Communiqué are executed by the Chairman of the Banking Regulation and Supervision Agency.

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