

From the Banking Regulatory and Supervisory Agency

**REGULATION ON PRINCIPLES RELATING TO REPO AND REVERSE REPO
TRANSACTIONS OF BANKS**

(Published in Official Gazette dated December 6, 2015 Nr. 29554)

SECTION ONE

Objective, Scope, Basis and Definitions

The Objective

ARTICLE 1 – (1) The objective of this Regulation is to set down the procedures and principles of repo and reverse repo transactions of banks.

Scope

ARTICLE 2 – (1) This Regulation covers the obligations of banks in repo and reverse repo transactions among banks or with natural or legal persons.

(2) The repo and reverse repo transactions of the banks made within the framework of open market transactions with the CBRT are out of the scope of this Regulation.

(3) Provisions of this Regulation, other than Article 10 hereof, are not applicable on repo and reverse repo transactions made by banks with banks and financial institutions in foreign over-the-counter markets within the framework of special netting agreements or international framework repo agreements.

(4) CBRT is exempted from provisions of this Regulation.

Basis

ARTICLE 3 – (1) This Regulation was prepared based on Articles 43 and 93 of the Banking Law no. 5411 dated 19/10/2005.

Definitions

ARTICLE 4 – (1) The terms used in this Regulation shall have the meanings designated to them below;

- (a) Bank: Bank defined in Article 3 of the Law,
- (b) Stock Exchange: The stock exchanges defined in subparagraph (ç) of first paragraph of Article 3 of the Capital Markets Law no. 6362 dated 6/12/2012,
- (c) Law: Banking Law no. 5411,
- (ç) Agency: Banking Regulatory and Supervisory Agency,

- (d) Board: Banking Regulatory and Supervisory Board,
- (e) Special netting agreements: The master netting agreements covering repo transactions and/or securities or commodities lending transactions and/or other capital market based transactions,
- (f) Repo: The sales of financial instruments with a repurchase commitment,
- (g) Reverse Repo: The purchase of financial instruments with a resale commitment,
- (ğ) Clearing Bank: Istanbul Settlement and Custody Bank Co., Inc.,
- (h) CBRT Central Bank of Republic of Turkey,
- (ı) Investment firm: The investment firms defined in subparagraph (v) of first paragraph of Article 3 of the Capital Markets Law no. 6362.

SECTION TWO

Principles on Repo and Reverse Repo Transactions

Financial Instruments That May Be Subject to Repo and Reverse Repo Transactions of Banks

ARTICLE 5 – (1) Financial instruments that may be subject to repo and reverse repo transactions with residents are listed below:

- (a) Public debt securities issued domestically or abroad, including treasury bonds, treasury bills, income-indexed bonds and income sharing bonds, as well as lease certificates issued domestically or abroad by asset lease companies established within the framework of the Law on Arrangement of Public Finance and Debt Management no. 4749 dated 28/3/2002,
- (b) Liquidity bonds issued by CBRT,
- (c) Debt securities issued by Privatization Administration, Housing Development Agency, public economic enterprises, local administrations, and the associated administrations, enterprises and institutions pursuant to the Capital Markets Law no. 6362,
- (ç) Debt securities, lease certificates, asset-backed securities, mortgage-backed securities and asset covered securities and mortgage covered securities issued domestically or abroad by issuers resident in Turkey, and traded in stock exchanges or other organized markets at home or abroad,
- (d) Shares determined by Istanbul Stock Exchange subject to repo and reverse repo transactions in Istanbul Stock Exchange markets; and

(e) Other financial instruments to be determined by the Board.

(2) In addition to financial instruments listed in the preceding first paragraph, financial instruments traded in foreign stock exchanges or other organized markets may also be the subject of repo and reverse repo transactions to be made with a resident abroad.

Provisions on Valuation and Collateralization Ratios of Traded Financial Instruments

ARTICLE 6 – (1) Principles on valuation and collateralization of traded financial instruments are determined by the stock exchange in all repo and reverse repo transactions undertaken in the stock exchange, or by central clearing houses assuming the central counterparty functions in repo and reverse repo transactions undertaken in the stock exchange or in over-the-counter markets and settled as a part of the central counterparty application, independently from and irrespective of the provisions of this Regulation.

(2) In repo and reverse repo transactions which are undertaken in over-the-counter markets and settlement of which is not subject to the central counterparty application, out of the traded financial instruments:

a) those indicative values of which are published in the Official Gazette are valued and assessed over these prices and rates; and

b) those indicative values of which are not published in the Official Gazette, but which are traded in the stock exchange are valued over their weighted average prices or rates occurring in the relevant stock exchange in the valuation day, or in the case of stock exchanges with two sessions in a day, over their weighted average prices or rates occurring in the second session, and those which are normally traded in the stock exchange, but which are not the subject of any trading in the stock exchange in the valuation day are valued and assessed over their weighted average prices or rates current as of the last trading date; and

c) those indicative values of which are not published in the Official Gazette and which are not traded in the stock exchange are valued and assessed in accordance with the Turkish Accounting/Financial Reporting Standards issued by Public Supervision, Accounting and Audit Standards Agency.

(3) Financial instruments valued and assessed pursuant to subparagraph (a) of second paragraph are collateralized over 100% of their indicative values.

(4) Financial instruments valued and assessed pursuant to subparagraph (b) of second paragraph are collateralized over 75% of their indicative values, and financial instruments belonging to issuers who have received a long-term credit rating corresponding to investable level from rating agencies established in Turkey and authorized by the Board or by the Capital Markets Board or from international rating agencies which are directly recognized by the Board or which are permitted by the Capital Markets Board to engage in rating activities in Turkey or

financial instruments having the said credit rating are collateralized over 85% of their indicative values.

(5) Financial instruments valued and assessed pursuant to subparagraph (c) of second paragraph are collateralized over 65% of their indicative values, and financial instruments belonging to issuers who have received a long-term credit rating corresponding to investable level from rating agencies established in Turkey and authorized by the Board or by the Capital Markets Board or from international rating agencies which are directly recognized by the Board or which are permitted by the Capital Markets Board to engage in rating activities in Turkey or financial instruments having the said credit rating are collateralized over 75% of their indicative values.

(6) If cash funds and collaterals subject to repo and reverse repo transactions are in different currencies, the collateralization ratios referred to in third, fourth and fifth paragraphs hereof are applied 5% lower.

(7) If cash funds and collaterals subject to repo and reverse repo transactions are in different currencies, the valuation is based on the currency of cash funds subject to transaction, and the valuation is effected by converting the currency of financial instrument to that currency.

(8) The Board is authorized to change the collateralization ratios mentioned in this article according to the definition and characteristics of financial instruments that may be subject to repo and reverse repo transactions.

Currency, Maturity and Rate of Interest / Rate of Return

ARTICLE 7 – (1) Cash funds or collaterals subject to repo and reverse repo transactions may be in Turkish Lira or a foreign currency.

(2) In repo and reverse repo transactions, maturity may be freely determined, providing that the date of redemption of the relevant financial instrument is not exceeded. End of maturity is determined as a business day.

(3) Rate of interest / rate of return to be applied in repo and reverse repo transactions are determined by the parties thereto.

Principles of Repo and Reverse Repo Transactions

ARTICLE 8 – (1) Repo and reverse repo transactions are undertaken in accordance with the following principles:

a) A written framework agreement regulating the general principles of transactions is signed between the parties,

- b) Transaction is undertaken under the terms and conditions agreed upon between the parties, and the price of financial instruments is paid as agreed upon in the framework agreement,
- c) Relevant financial instrument is delivered in accordance with the procedures set forth in the framework agreement, and is kept in custody by the bank within the framework of principles envisaged in Article 9 hereof,
- ç) At the end of maturity of the transaction, against performance of obligations, and upon payment of the agreed price to the relevant party, the financial instrument is returned to the counterparty within the framework of principles envisaged in Article 9 hereof,
- d) In reverse repo transactions undertaken by banks with their customers other than investment firms, at the end of maturity of the transaction, financial instruments are returned by the bank from the depot to the counterparty within the frame of principles envisaged in Article 9 hereof,
- e) In the case of reverse repo transactions undertaken by banks with investment firms, at the end of maturity of the transaction, financial instruments are returned to the counterparty in account between the depots in reliance upon an instruction of the institution being a party to the transaction.
- (2) Whether the depot condition set forth in first paragraph of Article 9 hereof will be sought for the financial instruments subject to repo and reverse repo transactions to be undertaken in markets included in Istanbul Stock Exchange debt securities market or not will be determined and decided by Istanbul Stock Exchange.
- (3) No framework agreement will be signed for repo transactions to be undertaken between members in Istanbul Stock Exchange. The parties may undertake their transaction by issuing and giving the statement prepared by Istanbul Stock Exchange.
- (4) Banks may transact in their own name and in the account of their customers or in their own name and account in the stock exchange, and only in their own name and account in the over-the-counter market.
- (5) Banks may not use financial instruments of their customers in their repo transactions.
- (6) Provisions of first paragraph are not applied in foreign repo and reverse repo transactions in connection with financial instruments traded in foreign stock exchanges or in other organized markets.

Principles of Delivery

ARTICLE 9 – (1) Financial instruments subject to repo and reverse repo transactions are required to be kept in custody by banks in their accounts held with the Clearing Bank or the correspondents of the Clearing Bank within the framework of principles determined by the Clearing Bank.

(2) Collaterals and security deposits subject to repo transactions are not physically delivered to the buyer. Transactions are undertaken in account.

(3) Financial instruments bought by banks through reverse repo transactions in markets within the organization of Istanbul Stock Exchange, irrespective of the counterparty thereof, may again be subject to a repo transaction, providing that it remains between the date of transaction and the date of maturity, and its maturity does not exceed the last date of resale.

(4) Provisions of first paragraph of this Article are not applicable in foreign repo and reverse repo transactions covering financial instruments traded in foreign stock exchanges and other organized markets and undertaken with banks and financial institutions.

Transaction Limits

ARTICLE 10 – (1) Difference between total repo balance and total reverse repo balance of banks may not exceed 20 times their own funds.

(2) Except for transactions undertaken in Istanbul Stock Exchange, in the transactions undertaken with the same person or entity, difference between repo balance and reverse repo balance may not exceed twice the own funds of the bank.

Audit and Information Obligations

ARTICLE 11 – (1) Without prejudice to powers and responsibilities of Istanbul Stock Exchange and other institutions and organizations arising out of their own laws and regulations, the repo and reverse repo transactions undertaken by banks within the framework of provisions of this Regulation will be audited and supervised by the Agency.

(2) Banks are under obligation to report their transactions undertaken outside Istanbul Stock Exchange to the Clearing Bank. Principles as to reporting of transactions undertaken outside Istanbul Stock Exchange are determined by the Clearing Bank.

SECTION THREE

Miscellaneous and Final Provisions

Principles on Tracing

ARTICLE 12 – (1) Repo and reverse repo transactions are traced by the Clearing Bank in accounts opened separately for members, not in the accounts of right owners.

(2) Provisions of the regulations of the Capital Markets Board pertaining to collective investment enterprises and pension investment funds are, however, reserved.

Application on Banks Holding an Operating License

PROVISIONAL ARTICLE 1 – (1) Banks holding on operating license as stipulated in subparagraph (j) of first paragraph of Article 4 of the Law as of the effective date of this Regulation will continue to carry out their repo and reverse repo transactions.

Effective Date

ARTICLE 13 – (1) The provisions of this Regulation shall become effective as of the date of publishing.

Enforcement

ARTICLE 14 – (1) The provisions of this Regulation shall be enforced by the Chairman of Banking Regulatory and Supervisory Agency.