



Amendments to the Regulation on Principles Relating to Repo and Reverse Repo Transactions of Banks

The Regulation Amending the Regulation on Principles Relating to Repo and Reverse Repo Transactions of Banks, prepared by the Banking Regulatory and Supervisory Agency (“**BRSA**”), was published in the Official Gazette No. 31391 dated 10.02.2021 and entered into force. The Regulation on Principles Relating to Repo and Reverse Repo Transactions of Banks (“**Regulation**”), adopted on 06.12.2015 based on Articles 43 and 93 of the Banking Law No. 5411 (“**Law**”), aims to stipulate the principles and procedures of repo and reverse repo transactions of banks. The amendments to the Regulation are explained below.

EXECUTIVE SUMMARY

The main amendments made by the Regulation Amending the Regulation on Principles Relating to Repo and Reverse Repo Transactions of Banks, which entered into force upon being published in the Official Gazette No. 31391 dated 10.02.2021, can be summarized as follows:

- (i) The scope of the repo and reverse repo transactions has been expanded to include repo and reverse repo transactions carried out through methods and financial instruments in compliance with interest free banking principles and standards.
- (ii) The definition of “investment fund” has been included; and regulations have been introduced regarding the valuation and collateralization ratios of investment funds eligible for repo and reverse repo transactions.
- (iii) The scope of financial instruments eligible for repo and reverse repo transactions of banks with residents in Turkey or abroad has been expanded, while a limitation has been introduced regarding shares eligible for repo and reverse repo transactions with residents abroad.
- (iv) There are certain changes regarding the valuation and collateralization ratios of financial instruments subject to repo and reverse repo transactions.
- (v) The written form requirement for the framework agreement regulating the general principles of repo and reverse repo transactions between the parties has been removed.

AMENDMENTS TO THE REGULATION

I. The Scope of the Regulation

Through adding a second paragraph to Article 2 (*Scope*) of the Regulation, it is stated that the scope of Regulation also covers transactions made in accordance with interest free banking principles and standards. Accordingly;

- (i) **Repo transactions** also include the sale transactions with a repurchase commitment through methods and financial instruments conforming to interest free banking principles and standards; and,
- (ii) **Reverse repo transactions** also include the purchase transactions with a resale commitment through methods and financial instruments conforming to interest free banking principles and standards.

II. Investment Funds

The definition of “investment fund” is included in the first paragraph of Article 4 (*Definitions*) of the Regulation as it is defined under Capital Markets Law No: 6362.

In addition, the criteria to be taken as basis in **the valuation and collateralization ratios of the investment funds** are regulated (see: IV. Valuation and Collateralization Ratios of Financial Instruments Eligible for Transactions).

III. The Financial Instruments Eligible for Repo and Reverse Repo Transactions

The amendments to Article 5 (*Financial instruments that may be subject to repo and reverse repo transactions of banks*) of the Regulation expanded the scope of those financial instruments while bringing an exception for shares subject to repo and reverse repo transactions with residents abroad.

A. The followings are now included in the scope of the financial instruments eligible for repo and reverse repo transactions:

- (i) Debt instruments issued by Turkey Wealth Fund Management Inc. and Turkey Wealth Fund in accordance with the Capital Markets Law No. 6362,
- (ii) Real estate certificates and project-backed securities that are issued domestically or abroad by issuers resident in Turkey and, traded in stock exchanges or other organized markets in Turkey or abroad,
- (iii) Investment fund contribution shares excluding hedge funds,
- (iv) Debt instruments, lease certificates, real estate certificates, project-backed securities, asset-backed securities, asset covered securities, mortgage-backed securities and mortgage covered securities issued by foreign organizations that are international organizations of which the Central Bank of Republic of Turkey (“**CBRT**”) and the public institutions affiliated to the public legal personality of Republic of Turkey without separate legal personality are either a member or shareholder (“**Securities included in Article 5.1/f. of the Regulation**”).

B. Besides, in repo and reverse repo transactions to be made with residents abroad, a distinction is made between the shares traded on Borsa İstanbul A.Ş. markets and shares traded on foreign markets. According to the amendment,

- (i) Solely the shares determined by Borsa İstanbul A.Ş. as eligible for repo and reverse repo transactions in Borsa İstanbul A.Ş. markets may be subject of a repo and reverse repo transaction; and,
- (ii) The shares traded in foreign stock exchanges or other organized markets may not be subject of repo and reverse repo transactions.

C. In addition, Securities included in Article 5.1/f. of the Regulation may be eligible for repo and reverse repo transactions **after the date to be determined by İstanbul Settlement and Custody Bank Co., Inc. (“Takasbank”) upon the submission of the eligibility request to Takasbank.**

IV. Valuation and Collateralization Ratios of Financial Instruments Eligible for Transactions

Article 6 (*Provisions on valuation and collateralization ratios of traded financial instruments*) of the Regulation has been revised as follows:

A. Valuation

In repo and reverse repo transactions that are executed off-exchange and not settled by a central counterparty;

- (i) In the **valuation of investment funds**, the provisions of the Communiqué on Principles Regarding Financial Reporting of Investment Funds, adopted by the Capital Markets Board’s and published in the Official Gazette No. 28867 (repeated) on 30.12.2013, will be applied; and,
- (ii) In the **valuation of Securities included in Article 5.1/f. of the Regulation may be eligible for repo and reverse repo transactions**, Turkish Accounting/Financial Reporting Standards issued by the Public Oversight, Accounting and Auditing Standards Authority will be applied.

B. Collateralization Ratios:

In repo and reverse repo transactions that are executed off-exchange and not settled by a central counterparty;

- (i) The indicative value to be applied in **collateralization of investment funds** will be the last price notified to Takasbank on the day the relevant financial instrument is subject to repo, and the following collateralization rates will be applied:
 - a. 95% of the indicative value for sub-funds of the money market umbrella fund,
 - b. 90% of the indicative value for sub-funds of the debt instruments umbrella fund and exchange traded funds that follow the debt instrument index,
 - c. 80% of the indicative value for sub-funds of the share umbrella fund and exchange traded funds that follow the corporate shares index,
 - d. 85% of the indicative value for sub-funds of the other umbrella funds and other exchange traded funds (excluding sub-funds of the hedge umbrella funds),

- e. 75% of the indicative value for real estate/venture capital investment funds.
- (ii) **Securities included in Article 5.1/f. of the Regulation** are collateralized over 100% of their indicative values.
- (iii) In the event that cash funds and collaterals subject to repo and reverse repo transactions are in different currencies, above-stated collateralization ratios will be applied as 5% lower.

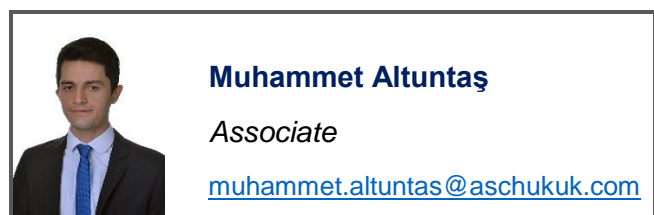
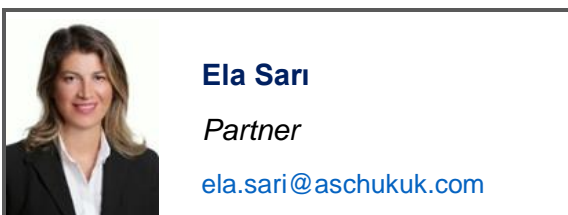
V. Framework Agreement

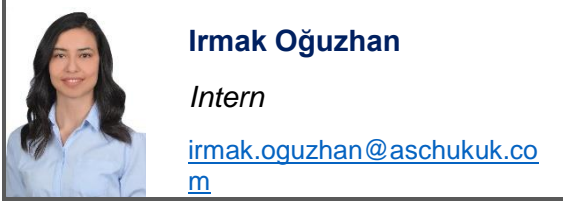
Pursuant to the amendment in Article 8 (*Principles of repo and reverse repo transactions*) of the Regulation, **the written form requirement** for the framework agreement that has to be signed between the parties to regulate the general principles of repo and reverse repo transactions **will not be required**.

ENTRY INTO FORCE

The aforementioned amendments in the Regulation entered into force on **10.02.2021**.

Please contact us for detailed information.





This memorandum has been prepared as of February 19, 2021 for informative purposes regarding the Regulation Amending the Regulation on Principles Relating to Repo and Reverse Repo Transactions of Banks which has been published in the Official Gazette dated February 10, 2021 and numbered 31391.

Our assessments in this memorandum do not constitute legal recommendation or legal opinion and Aksu Çalışkan Beygo Attorney Partnership may not be hold responsible depending on these assessments. It is recommended to obtain legal opinion for your inquiries within the scope of this memorandum.

ASC law
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