

COVID-19: Measures for Banking Sector (II)

Introduction

[In our Information Note on Measures for Banking Sector dated 14 April 2020](#), we elaborated on measures taken by the government and the regulatory bodies in order to minimize the risks associated with the outbreak of coronavirus Covid-19 (**Covid-19**) and particularly in order for the banking sector and financial markets not to be affected from the negative impacts of the pandemic. Following our first Information Note on Measures for Banking Sector, the regulatory bodies has continued to take further measures and this information note discusses the latest significant measures that have been put in place in the Turkish banking sector.

Measures regarding Derivative Transactions in Foreign Currency

The Banking Regulation and Supervision Agency (**BRSA**) has taken new measures regarding derivative transactions due to fluctuations in markets and increase in risks, in efforts to enhance efficiency of steps and measures taken for the management of such risks and to maintain the financial stability.

In this context, the BRSA decision numbered 8989 and dated April 12, 2020 has re-determined the scope of steps and measures taken under the press releases of the BRSA dated February 09, 2020 and December 18, 2019. It is also worth noting that such press releases will continue to apply unless otherwise stated under the latest BRSA decision numbered 8989 and dated April 12, 2020. Accordingly, the followings have been resolved in terms of money swap, forward, option and other derivative transactions which Turkish banks conduct with non-Turkish residents for the purpose of TRY purchase at maturity:

- Limitation determined as 10% of own funds will be re-determined as 1%;
- Application of different consideration ratios depending on maturity utilized in the calculation of transactions included in the limitation will be suspended; and
- Written approval of the BRSA will be obtained in the event that a transaction is intended to be terminated by withdrawing money before its maturity for any reason whatsoever, or maturity of a transaction is intended to be extended.

Furthermore, the followings have been resolved in terms of money swap, forward, option and other derivative transactions which Turkish banks conduct with non-Turkish residents for the purpose of TRY sale at maturity:

- Ratio of the aggregate amount of the relevant transactions to the lastly calculated regulatory capital of banks will not exceed (i) 1% for transactions with 7 days to maturity, (ii) 2% for transactions with 30 days to maturity and (iii) 10% for transactions with 1 year to maturity, in any calendar day; and
- Written approval of the BRSA will be obtained in the event that a transaction is intended to be terminated by withdrawing money before its maturity for any reason whatsoever, or maturity of a transaction is intended to be extended.

Measures on Risk Calculation of Banks

As per the BRSA decision numbered 8999 and dated April 16, 2020, a new measure providing flexibility in credit provisions has been introduced. According to the recent measure, 0% risk weight may be applied to FX denominated receivables owed by the Central Administration of the Republic of Turkey, for the purpose of the calculation of the principal

amount subject to credit risk, in accordance with the Standard Approach under the Regulation on Calculation and Evaluation of Banks' Capital Adequacy.

Measures in relation to Banks' Calculation of Asset Ratio

Pursuant to the BRSA decision numbered 9000 and dated April 18, 2020 which has been amended and supplemented by way of another decision numbered 9003 and dated April 30, 2020, Turkish banks will be required to calculate "asset ratio" (AR) on a weekly basis by utilizing the formula below. Accordingly, banks will apply the following formula as of 01 May, 2020 for the calculation of AR on a weekly basis:

$$\text{AR} = [\text{Loans} + (\text{Securities} \times 0.75) + (\text{CBRT}^1 \text{ Swap} \times 0.5)] / \text{TRY Deposit} + (\text{FX Deposit} \times 1.25)$$

Additionally, AR will be calculated on a stand-alone/solo basis according to the above formula; and development and investment banks as well as banks under the control of the Savings Deposit Insurance Fund of Turkey will be exempt from such AR calculation. Having said that, any bank whose aggregate amount of TRY deposits and FX deposits (except for bank deposits) is less than TRY 5 billion as of March 31, 2020 according to data reported to the BRSA, will be allowed to ensure compliance with the above decision of the BRSA by December 31, 2020.

The BRSA has also provided detailed explanations on the scope/meaning of terms specified in the numerator and denominator of the above AR formula. As such, the calculation method of "Loans", "Securities", "CBRT Swap", "TRY Deposit" and "FX Deposit" have been explained in details under the aforesaid decisions of the BRSA.

It is further noteworthy that, monthly average of the AR by the end of each month shall not fall below 100% for deposit banks and 80% for participation banks. Any excess amount violating the legal limits within the sense of Article 148(1)(a) of the Banking Law (Law No. 5411) (the "Banking Law") will be calculated as the amount of change in the numerator which will bring the ratio to 100% and 80% respectively for deposit banks having the AR value by the end of each concerned month below 100%, and for participation banks below 80%. In accordance with Article 148(1)(a) of the Banking Law, administrative monetary fine in an amount up to 5% of any exceeding amount may be imposed on the respective banks.

Expansion of the Scope of Takasbank's Operation License

Pursuant to the decisions of the CBRT which were published in the Official Gazette on April 28, 2020, İstanbul Takas ve Saklama Bankası A.Ş. (*Istanbul Settlement and Custody Bank Joint Stock Company*) (**Takasbank**) has been authorized to carry out activities of "Payment of Vehicle Purchase and Sale Price *via* Takasbank" and "Provision of Swap and Central Counterpart Services for OTC Derivative Products".

Measures for Efficient Use of the Turkish Currency Reserves within Turkey

The BRSA has recently issued a decision for efficient use of TRY reserves in order for Turkish banks to meet needs of domestic financing of both public and private sectors. As per the BRSA decision dated May 5, 2020 and numbered 9010, the BRSA has been resolved on the following measures to be applicable until the extraordinary circumstances arising from the Covid-19 fall away:

¹ Central Bank of the Republic of Turkey.

- The aggregate amount of banks' TRY placement, TRY depository, TRY repo and TRY loan transactions to be conducted with non-Turkish financial institutions (including partnerships and branches located abroad which are considered as credit/financial institution subject to foreign-based consolidation) will be limited to 0.5% of their respective lastly calculated regulatory capitals;
- The above rate will be calculated on a daily and stand-alone/solo basis; and
- Banks will no longer be able to carry out any transaction until any existing exceeding amounts (if any) are remedied or extend the maturity of any matured transactions.

Conclusion

In a nutshell, bearing in mind that fluctuations and risks in global markets have tended to increase, the regulatory bodies continue to put certain measures in place in order for the Turkish banking sector and financial markets not to be affected from such global developments. Therefore, market participants should keep a close eye on any additional legislative measures to be introduced by the government or the regulatory bodies in a way to have an impact on banking and finance areas, and all transactions contemplated to be conducted within Turkey should be structured in light of any such legislative developments.

**Kind regards,
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