



**SCREENING CHAPTER 09
FINANCIAL SERVICES**

**AGENDA ITEM V: BANKING AND
FINANCIAL CONGLOMERATES**

**Country Session: The Republic of TURKEY
2-3 May 2006**



ADMINISTRATIVE FRAMEWORK FOR BANKING SECTOR SUPERVISION



BANKING REGULATION AND SUPERVISION AGENCY

- **The Banking Regulation and Supervision Agency (BRSA) was established as a public legal person with administrative and financial autonomy in 1999 according to the Banking Law No. 4389 (Official Gazette (OG) No. 23734, dated 23.06.1999).**



BANKING REGULATION AND SUPERVISION AGENCY (cont.)

- **The Banking Regulation and Supervision Board is the decision-making organ of the BRSA.**
- **The Board consists of seven members, including one chairman and one vice chairman. The chairman of the Board is the chairman of the BRSA.**
- **The term of office of the Board chairman and members is six years.**



BANKING REGULATION AND SUPERVISION AGENCY (cont.)

- The decisions of the BRSA cannot be audited for compliance.**
- No authority or person can give instructions and orders to influence the decisions of the BRSA.**



DUTIES, POWERS AND RESPONSIBILITIES OF THE BRSA

- To regulate, enforce and ensure the implementation of the establishment, activities, management and organizational structure, merger, disintegration, change of shares and withdrawal of authorisation of;
 - ✓ Banks, financial holding companies, financial leasing, factoring and consumer finance companies.
- To supervise the implementation of the provisions of the Banking Law and to conduct on-site and off-site examination on consolidated and non-consolidated base.



DUTIES, POWERS AND RESPONSIBILITIES OF THE BRSA (cont.)

- To request any information from banks, their shareholders, subsidiaries, participations, branches, representative offices, outsourcing institutions and other real and public or private legal persons in order to fulfil its duty of supervision.**



DUTIES, POWERS AND RESPONSIBILITIES OF THE BRSA (cont.)

- To issue by-laws and communiqués regarding the enforcement of the Banking Law.**
- To sign memorandum of understandings with the competent authorities of other countries**



TRANSPARENCY AND ACCOUNTABILITY

- The annual report pertaining to the activities of the BRSA is submitted to the Council of Ministers.
- BRSA informs the Plans and Budget Commission of the Turkish Grand National Assembly about its activities once a year.
- BRSA briefs to the Council of Ministers regarding its policies and the implementation of such policies, every six months.



TRANSPARENCY AND ACCOUNTABILITY (cont.)

➤ BRSA informs the public about;

- ✓ Its activities**
- ✓ The drafts of the secondary legislation**
- ✓ The legislation and amendments issued**
- ✓ Supervisory decisions**

via the internet and official bulletins.



COOPERATION WITH OTHER INSTITUTIONS

- **BRSA, Undersecretariat of Treasury, State Planning Organization, the Saving Deposits Insurance Fund and the Central Bank of the Republic of Turkey exchange views regarding the implementation of monetary, credit and banking policies.**
- **Financial Sector Commission**
- **Coordination Committee**
- **Cooperate and exchange information with other supervisory authorities**
 - ✓ **Memorandum of understandings (twelve MoUs have been signed, two of them are with EU countries)**
 - ✓ **Reciprocity principle**



EXCHANGE OF INFORMATION AND PROFESSIONAL SECRECY

- **Chairman, Board members, BRSA personnel and personnel of outsourcing institutions and independent auditing firms cannot disclose the confidential information that they acquire as part of their duties to anybody other than those who are authorized by the relevant laws.**
- **This obligation continues after leaving office.**
- **The information exchanged is subject to professional secrecy provision.**



EXCHANGE OF INFORMATION AND PROFESSIONAL SECRECY (cont.)

- BRSA and SDIF have to exchange information for the calculation of insurance premiums, general status of the banking sector, measures to be taken as a result of the supervision of deposit banks.
- SDIF personnel is also subject to the professional secrecy requirements.
- BRSA, SDIF and the Central Bank have access to the jointly-agreed databases of each within the framework of the principles of confidentiality, in order to fulfil the duties set forth in the Banking Law.



EXCHANGE OF INFORMATION AND PROFESSIONAL SECURITY (cont.)

- The confidential information and documents obtained by the BRSA from other authorities may be used for the purposes of**
 - ✓ Issuing establishment and operating permissions**
 - ✓ Supervision of activities**
 - ✓ Monitoring compliance with the legislation**
 - ✓ The administrative lawsuits filed against the decisions of the Board**

POWER OF SANCTION AND RIGHT TO APPLY TO THE COURT

- **Without prejudice to the provisions of criminal law, in order to end the breaches of laws and regulations or causes of such breaches BRSA may;**
 - ✓ **Take corrective, rehabilitating and restrictive measures**
 - ✓ **Withdraw the license**
 - ✓ **Impose administrative fines**
 - ✓ **Apply to the Office of Chief Public Prosecutor in certain cases**

- **The administrative lawsuits initiated against Board decisions are tried in the Council of State with priority.**



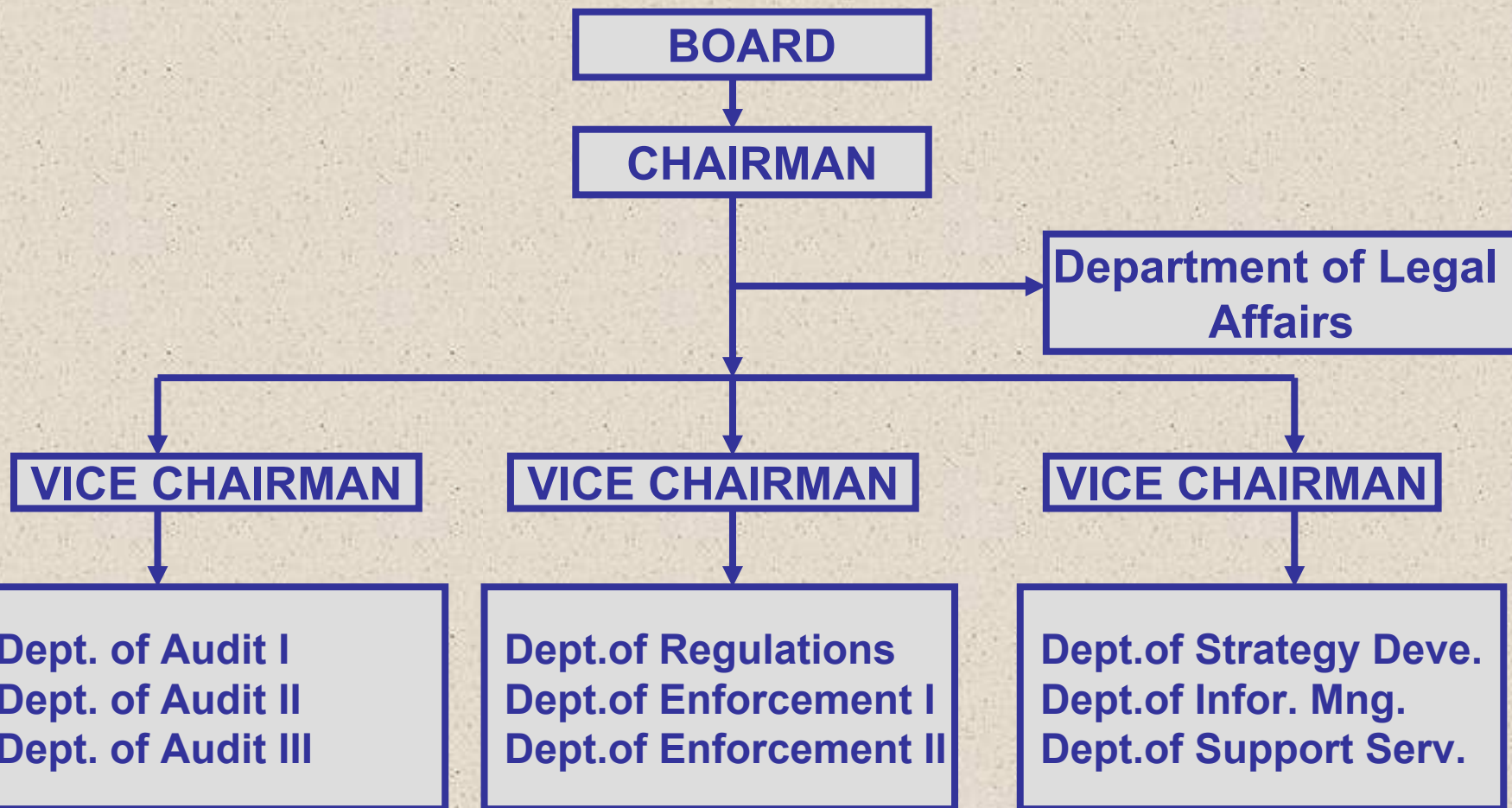
BUDGET AND STAFF

- Expenses of the BRSA are financed by the contributions paid to the BRSA by the institutions depending upon the balance sheet totals of the previous year.



BUDGET AND STAFF (cont.)

Position	Number
Administrator	14
Counsellor	2
Sworn bank auditors	113
Banking experts	173
Other staff	148
Total	450





SUPERVISORY PRACTICE

- **On-site and off-site supervision functions are performed under Audit Departments.**
- **Supervision groups perform risk focused supervision.**
- **Supervision groups consisting of professional staff is responsible for both on-site and off-site supervision of banks.**

SUPERVISORY PRACTICE (cont.)

➤ **Off-site supervision activities are carried out by;**

- ✓ **Analysing various indicators relating to banks' financial performance in daily, weekly, monthly and quarterly periods,**
- ✓ **Preparing standard periodic reports, such as stress testing, scenario analysis, derivatives reports and notes, etc.**



SUPERVISORY RECORD

- **In 2005, on-site examination was performed in banks which represents 95% of the banking sector assets.**
- **In total, 255 on-site examination reports have been written.**
- **In Great Britain, Germany, Netherlands and Bahrain on-site examinations were performed in coordination with the relevant authorities.**



ENFORCEMENT RECORD

➤ In 2005,

- ✓ 10 denunciations of offence were made
- ✓ 20 administrative fines were imposed



LICENCING RECORD

- There has been no application for authorisation in the last five years.
- Investment and development banking license of a bank was changed into a deposit banking license.

**BANKING SECTOR (as of December 2005)**

Group	#	Assets (Bill.TRY)	Assets (Bill. EUR)	%
Public Dep. Banks	3	124,49	78,00	30,59
Private Dep. Banks	17	237,04	148,60	58,25
SDIF Banks	1	1,86	1,20	0,46
Participating Banks	4	9,94	6,23	2,44
Foreign Dep.Banks and Branches	13	20,71	13,00	5,09
Inv. & Dev.	13	12,87	8,00	3,16
Total	51	406,91	255,03	100,00



CONSOLIDATED BANKING DIRECTIVE



RELATED BANKING LEGISLATION

- **Banking Law No. 5411**
(Official Gazette (OG) No. 25983 (*bis*), dated 01.11.2005)
- **By-law on the Establishment and Operations of the Banks** (OG No. 24445, dated 27.06.2001)
- **By-law on the Measurement and Assessment of Capital Adequacy of the Banks** (OG No. 24657, dated 31.01.2002)



RELATED BANKING LEGISLATION (cont.)

- **By-law on the Banks' Internal Control and Risk Management Systems (OG No. 24312, dated 08.02.2001)**
- **Communiqué No. 17 on Standards on Financial Statements and Related Disclosures to be Announced to the Public (OG No. 24793 (*bis*), dated 22.06.2002)**



SCOPE & DEFINITIONS

- **Credit institution: Deposit banks and participation banks.**
- **Bank: Deposit banks, participation banks and development and investment banks.**
- **Deposit bank: The institutions operating primarily for the purpose of accepting deposit and granting loan in their own names and for their own accounts as per the provisions of the Banking Law and the branches in Turkey of such institutions established abroad.**



SCOPE & DEFINITIONS (cont.)

- **Participation bank:** The institutions operating primarily for the purposes of collecting fund through special current accounts and participation accounts and granting loan pursuant to the Banking Law and the branches in Turkey of such institutions established abroad,
- **Financial holding company:** Institution whose all or majority of subsidiaries are credit institutions or financial institutions, provided that at least one of them is credit institution.
- **Financial institution:** Institutions, other than credit institutions, which have been established to perform insurance, individual private pension company or capital market activities or to engage in minimum one of the fields of activity set out in the Banking Law, development and investment banks and financial holding companies.



BUSINESS OF TAKING DEPOSITS

➤ Other than credit institutions no real or legal person may carry on the business of taking deposits (Art. 60 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS

I- Authorisation

- Authorisation is a two stage process.
 - establishment permission
 - operation permission

REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

I- Authorisation

➤ Permission

- ✓ The establishment of a bank in Turkey or the first branch of a bank incorporated abroad is permitted by the Board (Art. 6 of BL).

➤ Capital

- ✓ Minimum paid-up capital is TRY 30 million (€ 18 million) (Art. 7 of BL).
- ✓ Minimum paid-up capital for development and investment banks is TRY 20 million (€ 12 million) (Art. 7 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

I- Authorisation for establishment of a new bank

➤ Programme of operations

- ✓ The work plans for the envisioned fields of activity, the projections regarding the financial structure of the institution and an activity program including internal control, risk management and internal audit system showing the structural organization must be submitted (Art. 7 of BL).

➤ Members of board of directors

- ✓ Board of directors must have at least 5 members (Art. 23 of BL).
- ✓ Members of board of directors must meet the fit & proper criteria and sufficient professional experience (Art. 7 of BL).

REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

I- Authorisation for establishment of a new bank

➤ Fit & proper test

- ✓ There should be no evidence that hampers consolidated supervision (Art. 7 of BL)

➤ No requirement of economic needs test.



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

I- Authorisation for establishment of a new bank

➤ Fit & proper test

- ✓ Each natural person founder and natural person shareholders of the legal person founders with qualified shares should meet the strict fit & proper criteria indicated in the Article 8 (Art. 7 of BL).
- ✓ Legal person founders should have a transparent and open partnership structure together with the risk group (Art. 8 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

I- Authorisation for establishment of a new bank

➤ Corporate governance

- ✓ Corporate governance principles should be met and internal control, internal audit and risk management systems should be established (Art. 10 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

I- Authorisation for establishment of the first branch of a bank incorporated abroad

➤ Requirements (Art. 9 of BL, Art. 6 of By-law on the Establishment and Operations of the Banks)

- ✓ No restriction by competent authority on its primary activities**
- ✓ Consent of competent authority to operate in Turkey**
- ✓ Transparent partnership structure**



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

II- Refusal

- The decision regarding the permission is notified to the applicant within three months following the application date or after the applicant provides the missing application documents, if any (Art. 6 of BL).
- The decision for refusal is notified to the applicant together with the reasons (Art. 21 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

III- Withdrawal

- **The establishment permission is withdrawn when:**
 - ✓ **The permission is based on non-factual declarations**
 - ✓ **Failure to apply for operating permission within nine months following the issue of establishment permission**
 - ✓ **Losing the eligibility qualifications for permission until commencement of operation (Art. 11 of BL).**



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

III- Withdrawal

- The operation permission is withdrawn in case;
 - ✓ The bank has received the operating permission on the basis of non-factual declaration.
 - ✓ The bank failed to commence the activity within six months.
 - ✓ Events listed in Article 71 of the Banking Law occurred.
- Withdrawal decision is notified in writing to the relevant parties and is published in the Official Gazette (Art. 12 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

IV- Permission for Qualifying Holding

- Any acquisition of shares that result in the acquisition by one person directly or indirectly of shares,
 - representing 10% or more of the capital of a bank
 - exceeding 10%, 20%, 33% or 50% of the capital
 - falling below these percentages
- Transfer of preferential shares irrespective of limits (Art. 18 of BL).



REQUIREMENTS FOR TAKING UP AND PURSUIT OF BUSINESS OF CREDIT INSTITUTIONS (cont.)

V- Requirements for Qualifying Holding

- The shareholders with qualified shares have to bear the fit & proper criteria required for founders (Art. 18 of BL).



CROSS BORDER SERVICES

According to Foreign Exchange Legislation:

- Money transmission services from Turkey to abroad must be provided by the banks in Turkey.
- Residents cannot obtain consumer credits and mortgage credits from abroad.
- Foreign exchange purchase and sale operations must be carried out by banks in Turkey, foreign exchange offices, precious metals intermediary institutions and PTT.
- Only can branches of foreign banks extend financial loans & credits in foreign currencies to residents.



FREEDOM OF ESTABLISHMENT

- **The establishment of first branch of a credit institution incorporated abroad is subject to permission of the BRSA.**
- **Upon authorisation, a credit institution may carry on activities listed in Article 4 of the Banking Law.**



FREEDOM OF ESTABLISHMENT (cont.)

- **Branches of foreign exchange offices must be authorized by the Undersecretariat of Treasury. Initial capital requirement for opening a branch is the same as establishing a subsidiary.**
- **Branches of factoring, leasing and consumer finance companies must be authorized by the BRSA. Initial capital requirement for opening a branch is the same as establishing a subsidiary.**



FREEDOM OF ESTABLISHMENT (cont.)

- **Banks established in Turkey must receive the Board's permission to;**
 - ✓ **Open branches or representative offices abroad**
 - ✓ **Set up subsidiaries abroad**
 - ✓ **Participate in existing undertakings abroad (Art. 14 of BL)**

PRUDENTIAL SUPERVISION

I- Technical Instruments

➤ Own funds

- ✓ The own funds is calculated by subtracting the deductible values from the total of core capital and supplementary capital (Art. 44 of BL).
- ✓ Items included in the calculation of core and supplementary capital are listed in Article 4 of By-law on the Establishment and Operations of the Banks.



PRUDENTIAL SUPERVISION (cont.)

II- Level of Application

- **Credit institutions should comply with the provisions regarding own funds, large exposures, holdings in non-financial institutions and risk management on consolidated and non-consolidated basis.**



PRUDENTIAL SUPERVISION (cont.)

III- Minimum Own Funds Requirements for Credit Risk

- For calculation of capital requirement arising from credit risk Basel-I methodology is used.



PRUDENTIAL SUPERVISION (cont.)

IV- Large Exposures

➤ Definitions

- ✓ Exposure means any asset or off-balance sheet items listed in Article 48 of the Banking Law.
- ✓ The exposures made available to a person or a risk group that equal to or exceed 10% of own funds are considered large exposures (Art. 54 of BL).

PRUDENTIAL SUPERVISION (cont.)

IV- Large Exposures

➤ Definitions

- ✓ A real person and his spouse and children, the undertakings where they are members of board of directors or general manager or the undertakings which they or a legal person control individually or jointly, directly or indirectly or participate with unlimited responsibility, constitute a risk group (Art. 49 of BL).
- ✓ Risk groups also include real and legal persons that have surety, guarantee or similar relationships where the insolvency of one will lead to the insolvency of the other (Art. 49 of BL).

PRUDENTIAL SUPERVISION (cont.)

IV- Large Exposures

➤ Limits

- ✓ The total amount of exposures incurred by a bank to a person or a risk group cannot be more than 25% of its own funds (Art. 54 of BL).
- ✓ This rate is applied as 20% for a risk group including the bank. The Board may increase this rate up to 25% or to lower it down to the legal limit (Art. 54 of BL).
- ✓ The total of large exposures cannot exceed eight times of the own funds (Art. 54 of BL).

PRUDENTIAL SUPERVISION (cont.)

IV- Large Exposures

➤ Limits

- ✓ The exposures that are not taken fully or partially into account in calculation of loan limits are listed in Article 55 of the Banking Law and Articles 23, 24 of the By-law on the Establishment and Operations of the Banks.
- ✓ Off-balance sheet exposures including derivatives are taken into account by using credit conversion factors depending on the nature of the exposure (Art. 21 of By-law on the Establishment and Operations of the Banks).

PRUDENTIAL SUPERVISION (cont.)

IV- Large Exposures

➤ Monitoring

- ✓ **The board of directors is responsible for ensuring the establishment, implementation and monitoring of policies for extending loans and for taking the necessary measures (Art. 51 of BL).**
- ✓ **Banks report their loan portfolio including large exposures monthly (Art. 95 of BL).**
- ✓ **In case limitations are exceeded, the bank has to promptly inform the BRSA (Art. 43 of BL).**
- ✓ **Excesses have to be eliminated within the period to be given by the BRSA (Art. 47 of BL).**



PRUDENTIAL SUPERVISION (cont.)

V- Qualifying Holdings Outside the Financial Sector

- A bank cannot acquire shares at an undertaking other than credit institutions and financial institutions at an amount that exceeds 15% of its own funds (Art. 56 of BL).
- The total amount of its shares in these undertakings cannot be more than 60% of its own funds (Art. 56 of BL).



PRUDENTIAL SUPERVISION (cont.)

V- Qualifying Holdings Outside the Financial Sector

- In case the limits are exceeded, the exceeded amount is taken into account as an item of reduction from core capital in the calculation of own funds (Art. 56 of BL).

PRUDENTIAL SUPERVISION (cont.)

VI- Supervision

➤ **BRSA supervises**

- ✓ **Banks on non-consolidated basis**
- ✓ **Parent banks and financial holding companies on consolidated basis (Art. 78, 95 of BL)**

PRUDENTIAL SUPERVISION (cont.)

VII- Disclosure by credit institutions

➤ Annual Report

✓ Information regarding internal systems

- Internal control**
- Internal audit**
- Risk management**

➤ Communiqué No. 17 - Information regarding financial structure

- Capital adequacy ratio**
- Credit risk**
- Market risk**
- Currency risk**
- Interest rate risk**
- Liquidity risk**



CAPITAL REQUIREMENTS DIRECTIVE



RELATED BANKING LEGISLATION

- **Banking Law No. 5411 (Official Gazette (OG) No. 25983, dated 1.11.2005)**
- **By-law on the Measurement and Assessment of Capital Adequacy of Banks (Capital Adequacy) (OG No. 24657, dated 31.1.2002)**

CAPITAL ADEQUACY OF BANKS

- Provision of Article 45/1 of the Banking Law requires banks;
 - ✓ To keep adequate own funds against losses that could arise from the risks encountered
 - ✓ To calculate and report capital adequacy ratio.
- Capital adequacy ratio cannot be less than 8%.
- Currently capital charges are required only for credit and market risk.

SCOPE

- Banks have to maintain adequate amount of capital against losses which may result from,
 - ✓ Interest rate risk and equity risk for their trading book business
 - ✓ Foreign exchange risk for all of their business activities
- On a consolidated and unconsolidated basis (Art. 1 of By-law on Capital Adequacy)

TRADING BOOK

- "Trading book items" are;
 - ✓ On balance sheet and off balance sheet positions in financial instruments which are
 - intentionally held for short-term resale in money and capital markets on a continuous basis and
 - held with the intention of benefiting from the expected or realized differences between their buying and selling prices or from other price and interest rate variations or
 - held due to brokerage and market making activities
 - ✓ Derivative contracts held to hedge other elements of the trading book (Art. 3 of the By-law on Capital Adequacy)

TRADING BOOK (cont.)

- Rules on valuation and hedging are set in the Communiqué No. 1 on Recognition of Financial Instruments (OG No. 24793 (*bis*), dated 22.06.2002)
- No rules for trading intent
- No procedures for systems and controls of trading

OWN FUNDS

- **Own funds is defined in the By-law on the Establishment and Operations of the Banks.**
- **For market risk, subordinated debt as “tier 3” is defined in Article 3 of the By-law on Capital Adequacy.**
- **Tier 3 capital is used on condition that;**
 - ✓ **It will be limited to 250% of bank’s core capital.**

PROVISIONS AGAINST RISKS

- **Banks calculate capital charges against;**
 - ✓ **General and specific market risk for interest rate and equity positions in the trading book**
 - ✓ **General market risk for foreign exchange positions in the trading and banking book.**
 - ✓ **Market risk due to options**
- **Standardized Method or Internal Models may be used (Art. 7 of the By-law on Capital Adequacy)**



MONITORING AND CONTROL OF LARGE EXPOSURES

➤ Banks are required to monitor and control their large exposures in accordance with the Articles 48, 49, 50 and 54 of the Banking Law.

POSITION RISK

- **Netting rules are not determined.**
- **Specific and general market risk for positions on traded debt instruments and equities are calculated according to Article 19 of the By-law on Capital Adequacy.**
- **Specific risk for traded debt instruments is calculated as defined in the Directive 93/6/EC.**
- **General market risk of interest rate related instruments is calculated based on the maturity method for each individual currency separately .**
 - ✓ **In the maturity method, the alternative provided for “coupon of less than 3%” is not included**
 - ✓ **Duration based method is not adopted**

POSITION RISK (cont.)

- **Specific risk capital charge of equities is calculated by using;**
 - **8% in general,**
 - **4% for liquid and well diversified portfolio and**
 - **2% for instruments underlying indexes such as ISE-100, S&P 500, DAX, FTSE 100 (Article 22 of the By-law on Capital Adequacy).**

- **General market risk for equities is calculated over all positions for each country portfolio multiplied by 8%.**

- **Deltas of options for equities are included in the calculation.**



POSITION RISK (cont.)

- **No capital requirement for underwriting**
- **No capital requirement for credit derivatives**
- **No capital requirement for collective investment undertakings**



SETTLEMENT AND COUNTERPARTY CREDIT RISK

- **No capital requirement for settlement/delivery risk and counter party credit risk**

FOREIGN EXCHANGE RISK

- **Capital requirement for foreign exchange risk is calculated according to Article 23 of the By-law on Capital Adequacy.**
- **A bank may be exempted from capital requirement on its foreign exchange positions provided that;**
 - ✓ **Greater of the sum of its gross long positions and the sum of its gross short positions in each currency does not exceed 100% of capital, and**
 - ✓ **The difference between sum of its gross long positions and the sum of its gross short positions does not exceed 2% of its capital.**



COMMODITIES RISK

➤ **No capital requirement for commodities risk**

➤ **Article 57 of the Banking Law limits transaction on commodities**

“Banks shall not engage in trading property and commodity for commercial purposes, excluding the contracts based on property and commodity under the Capital Market Law No. 2499 and the trading of precious metals to be deemed appropriate by the Board, and shall not participate in undertakings whose main field of activity is property trading except for mortgage financing institutions and real estate investment trust.”



INTERNAL MODELS

- **Article 9- General principles of VaR models**
- **Article 10- Qualitative standards**
- **Article 11- Quantitative standards such as**
 - ✓ **99 % confidence level, 10 day holding period, 1 year of data**
- **Article 12- Comparison of average of past 60 days and the most recent VaR**
- **Article 13- Stress testing of VaR models**
- **Article 14- Back testing of VaR models**
- **Article 15- Multiplication factor and plus factor**
- **Article 16- Procedures to be followed in granting authorization to use risk measurement models**
- **Article 17- Termination of authorization**



CAPITAL REQUIREMENT DIRECTIVE BASEL-II



COMPLETED ACTIVITIES

- **Comments on CP3**
- **Announcement of “CRD/Basel-II Road Map (Draft)”**
 - ✓ **First Draft and Second Draft**
- **Quantitative Impact Studies**
 - ✓ **Participation in QIS-3 with 6 large banks**
 - ✓ **Domestic QIS-TR with 23 banks (95% of total assets)**
- **Activities of Basel-II Committees**
- **Surveys and Other Projects Related to Banks’ Preparedness**
 - ✓ **Basel-II Survey-1 and 2**
 - ✓ **Banks’ Road Maps and Progress Reports**



COMPLETED ACTIVITIES (cont.)

➤ Translations

- ✓ Whole Basel-II document
- ✓ Practical considerations for the implementation of Basel-II
- ✓ High-level principles for the implementation of Basel-II



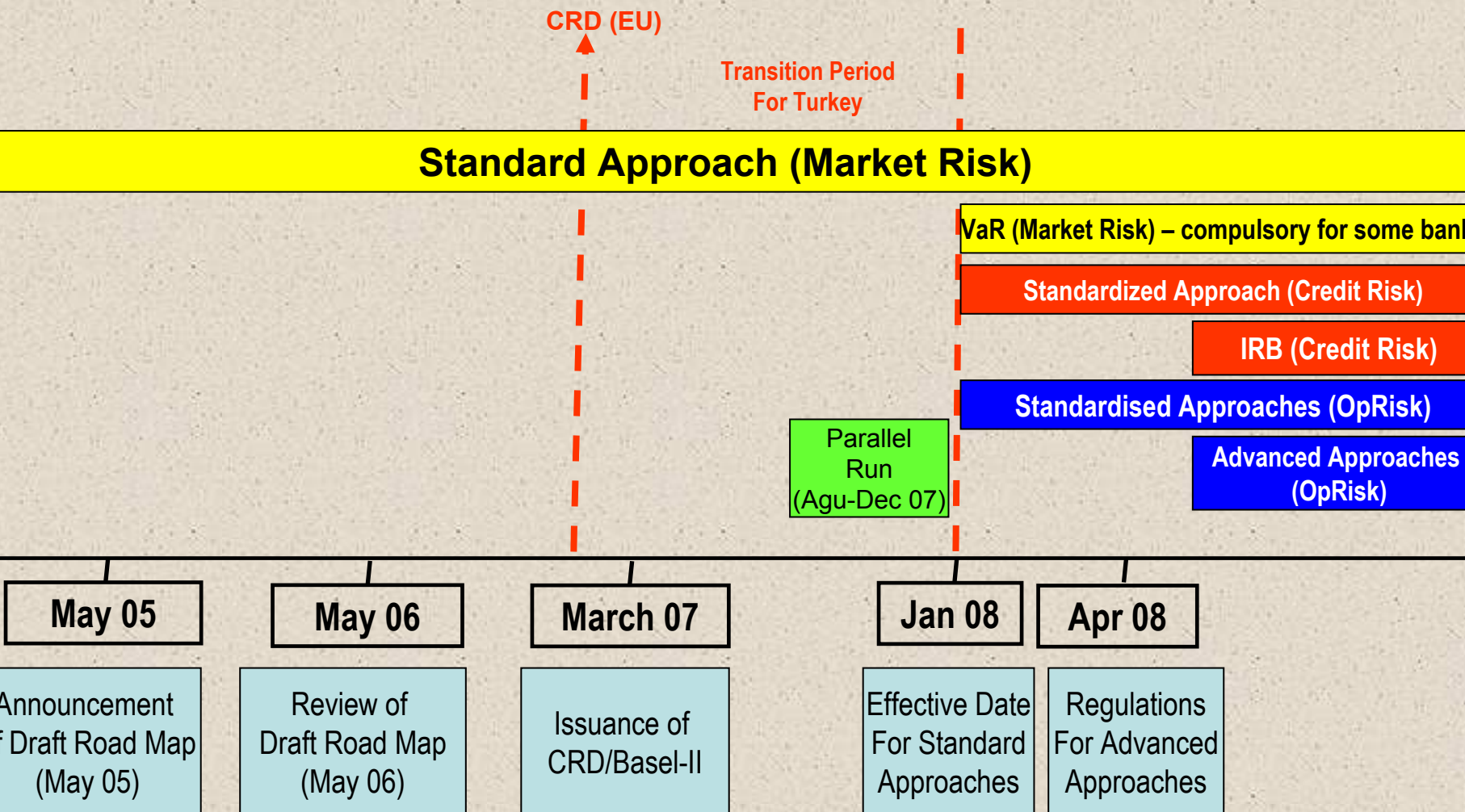
COMPLETED ACTIVITIES (cont.)

➤ Working Papers and Other Publications

- ✓ Developing Operational Risk Database in Banks
- ✓ Operational Risk Database Modelling
- ✓ The Basel Approach to Operational Risk: An Assessment of Operational Risk Data
- ✓ The Basel Approach to Operational Risk: Three Pillars of Operational Risk
- ✓ Potential Impacts of Basel-II on SME Loans
- ✓ Basel-II, Economic Repercussions and the Transition Process
- ✓ Guidebook for Basel-II National Discretions
- ✓ QIS-TR Assessment Report
- ✓ Basel-II in Ten Questions
- ✓ Risk Assessment Reports



DRAFT SCHEDULE FOR IMPLEMENTATION





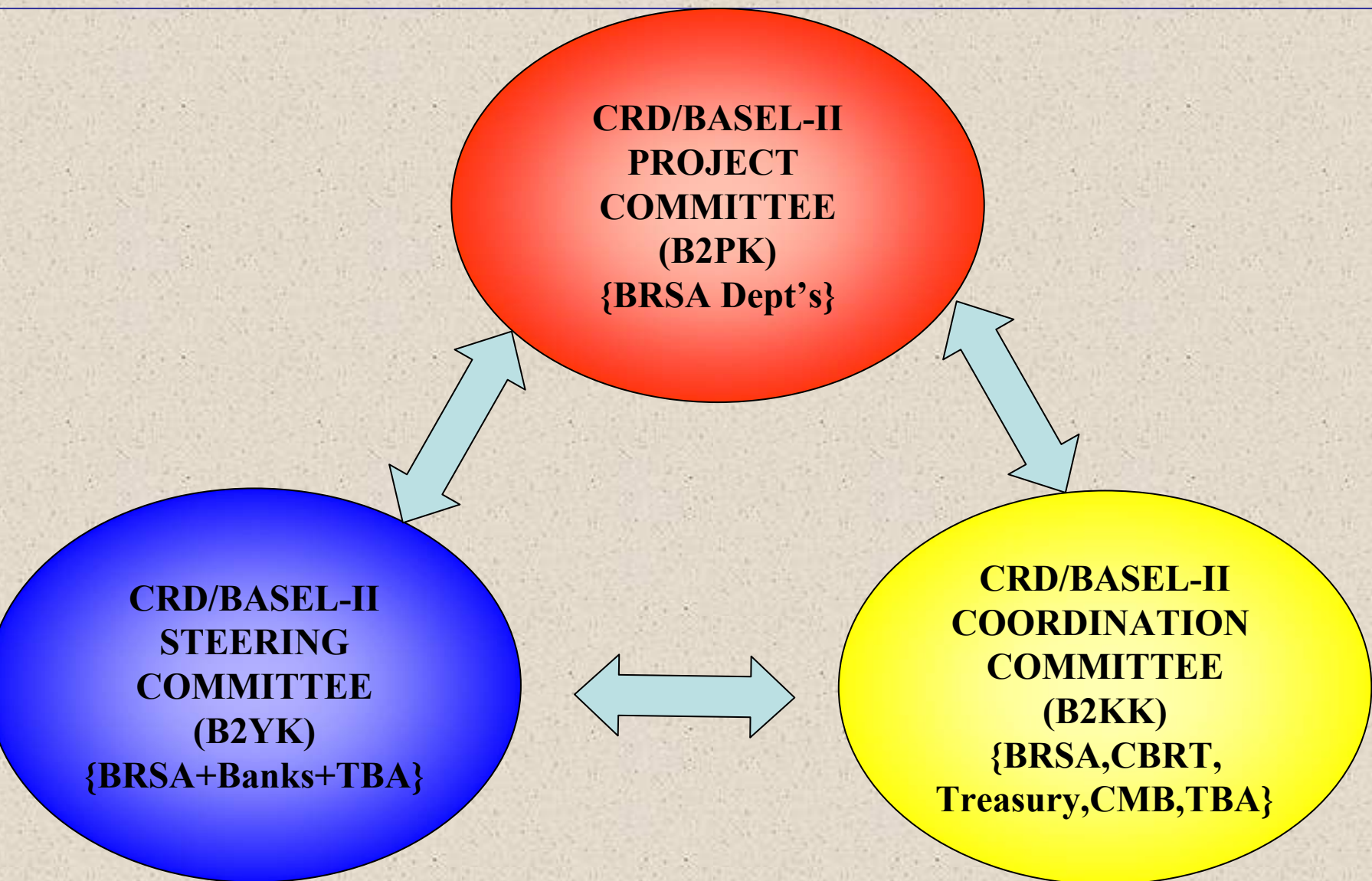
DRAFT SCHEDULE FOR IMPLEMENTATION

- **Issues Related to Home-Host Supervisory Cooperation**
- **Institutional Capacity Building for BRSA**
 - ✓ Training and study visits
- **Disclosure of BRSA**
 - ✓ Basel-II Project Progress Report
 - ✓ Seminars , Conferences, etc.
 - ✓ Research Papers, Reports, etc.
 - ✓ Intranet + Extranet + Internet



DRAFT SCHEDULE FOR IMPLEMENTATION

- **Regulations**
 - ✓ Risk Management Regulations
 - ✓ Basel-II Regulations (Capital requirement, rating firms, validation, etc.)
 - ✓ National Discretions
- **Impact Studies**
 - ✓ QIS
 - ✓ Other
- **Banks Progress**
 - ✓ Surveys
 - ✓ Banks' Road Maps
 - ✓ Banks' Progress Report





CAPITAL REQUIREMENTS FOR BROKERAGE HOUSES



RELEVANT TURKISH LEGISLATION

- **Capital Market Law No. 2499 (Official Gazette (OG) No. 17416, dated 30.07.1981)**
- **Serial: V No:34 Communiqué on the Principles Regarding Capital and Capital Adequacy of Brokerage Houses (OG No. 23384, dated 26.06.1998)**
- **Communiqué Serial: V, No: 77 on the Principles Regarding Public Disclosure by Intermediary Institutions (OG No. 25362, dated 30.01.2004)**

GENERAL OVERVIEW

- Principles related to the intermediation activities of Intermediary institutions and also the maximum commitment limit with respect to the types of intermediations are regulated by the CMB.
- Brokerage houses and portfolio management companies are subject to the CMB's capital adequacy requirements.

REQUIREMENTS

➤ Minimum equity capital requirement

Brokerage houses have to keep minimum equity capital corresponding to the licences they have.

Equity capital is composed of;

- ✓ Paid in capital
- ✓ Share premium
- ✓ Revaluation reserve
- ✓ Reserves
- ✓ Net profit/ loss(-)
- ✓ Loss of other previous terms(-)

➤ Minimum paid-in capital requirement

Brokerage houses have to keep minimum paid-in capital (25% of their equity capital) corresponding to the licences they have.



MINIMUM EQUITY CAPITAL CORRESPONDING TO THE LICENCES

Intermediation of the previously issued capital market instruments	€ 444,810
Intermediation for the public offering or issuance of capital market instruments	€ 223,330
Repos and Reverse Repo Agreements	€ 223,330
Portfolio Management	€ 178,420
Investment Advisory	€ 46,760

REQUIREMENTS (cont.)

➤ Own funds requirement

- The own funds of brokerage houses are the amount calculated by deducting the following assets from their equity capital;
 - ✓ fixed assets
 - ✓ unsecured receivables from individuals and institutions with whom there is direct or indirect relationship, capital market instruments not traded in the exchanges and other regulated markets issued by such individuals and institutions
- Own funds of brokerage houses cannot be less than any of the following items;
 - ✓ minimum equity capital corresponding to the licences
 - ✓ risk provisions
 - ✓ operating expenses of the last three months prior to the valuation date

REQUIREMENTS (cont.)

➤ Liquidity Requirement

Brokerage houses should maintain current assets at least as much as their current liabilities

$$\frac{\text{Current assets}}{\text{Current liabilities}} \geq 1$$

➤ General Borrowing Limit

Total liabilities of Brokerage houses should not exceed 15 times of their own funds

$$\frac{\text{Total liabilities}}{\text{Own Fund}} \leq 15$$



PROVISIONS AGAINST RISKS

➤ Position Risk

- ✓ Risks stemming from the issuer of the assets or price fluctuations occurring in the markets and changes in current values of receivables and liabilities.
- ✓ The net position of assets might be considered.

➤ Position risk is calculated for;

- ✓ Capital market instruments including the ones purchased within underwriting
- ✓ Debts and credits,
- ✓ Gold and precious metals
- ✓ Foreign exchanges
- ✓ Financial futures, option and future contracts
- ✓ Borrowed and lent securities
- ✓ Capital market instruments sold within the framework of repurchase agreements

PROVISIONS AGAINST RISKS (cont.)

➤ Counter-Party Risk

- ✓ Risks in receiving the assets back due to lending without sufficient collateral, making other commitments, delivery of assets as a collateral, entrustment or loan.**
- ✓ Calculated by taking into account the collateral deficit.**

➤ Foreign Exchange Risk

- ✓ Total net open positions calculated on the basis of each currency.**
- ✓ Higher of the net short and long position totals is compared with 2% of own funds and 8% of the excess shall be considered as the foreign exchange risk.**

PROVISIONS AGAINST RISKS (cont.)

➤ Risk for Large Exposures

- ✓ Risk for large exposures implies the risk arising from a certain asset or liability of the brokerage house constituting a significant proportion of own funds.
- ✓ The net position of assets might be considered.

REPORTING REQUIREMENTS

- Brokerage houses are obliged to prepare “risk provision calculation table”, “own funds calculation table” and “liquidity requirement calculation table” in every 15 days period.

PUBLISHING REQUIREMENTS

- Brokerage houses should publish their capital adequacy figures.

INDEPENDENT AUDIT

- Annual and semi-annual capital adequacy figures should be audited by independent auditors.



INCOMPLIANCE WITH THE REQUIREMENTS

- **Depending on the incompliance 10, 20 or 30 working days shall be granted.**
- **Activities of the brokerage house shall be suspended temporarily or their license shall be cancelled if the violation goes on.**



NEW CAPITAL REQUIREMENTS

- **CMB participates Basel II working group activities which are organized by the BRSA. The group is composed of the representatives of BRSA, CBRT, Treasury, The Banks Association of Turkey and CMB.**
- **The implementation of the new capital requirements framework for brokerage houses is among the activities carried out within the Twinning Project.**



FINANCIAL CONGLOMERATES



SCOPE OF CONSOLIDATION

➤ **Credit institutions, insurance companies and other financial institutions are subject to consolidation in case following relations exist with the parent bank;**

✓ **control**

✓ **significant influence**



METHODS OF CONSOLIDATION

- **Subsidiaries are consolidated according to full consolidation method (Art. 6 of the Communiqué No.15 on Recognition of Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates, Interests in Joint Ventures)**
- **Participations are consolidated according to equity method (Art. 11 of the Communiqué No. 15)**
- **Jointly controlled entities are recognized in consolidated financial statements through proportionate consolidation or equity method. (Art. 7 of the Communiqué No. 15)**

FINANCIAL HOLDING COMPANY

- Financial holding company is defined in the Banking Law as, an institution whose all or majority of subsidiaries are credit institutions or financial institutions, provided that at least one of them is credit institution.
- Its scope, principles and procedures applicable for its capital adequacy, internal systems, consolidated supervision and coordination of supervision will be determined by the BRSA.



E-MONEY



LEGAL FRAMEWORK

- The CBRT is authorized to establish payment, securities transfer and settlement systems and to set forth regulations to ensure the uninterrupted operation and supervision of the existing or future systems, to determine methods and instruments including electronic environment for payments (Art. 4. paragraph 1/f of the Law No. 1211 on the Central Bank of the Republic of Turkey (OG No. 13409, dated 26.01.1970))



LEGAL FRAMEWORK

➤ Banks and other financial institutions to be deemed appropriate including those issuing electronic payment instruments, shall, by taking into consideration their liabilities subject to reserve requirements, the ratio of reserve requirements, their establishment period and interest rate to be applied to those requirements when necessary, including the transactions to be executed in extraordinary withdrawals from deposit and participation funds and in mergers, acquisitions and divisions shall be determined by the Bank (Art. 40 paragraph II of the CBRT Law).

➤ No legislation in force specifically for e-money yet



DEPOSIT GUARANTEE SCHEMES



LEGAL BASIS

The deposit insurance system in Turkey has been arranged in the framework of :

➤ The Banking Law No. 5411
(Official Gazette (OG) No. 25983, dated 01.11.2005)

➤ BRSA Resolution No. 1143

➤ By-law on insurance of
participation funds
(profit and loss sharing funds)
(OG No. 24880, dated 18.09.2002)

Accepted by the SDIF
Resolution No. 496
dated 12 December 2005



ADMINISTRATIVE STRUCTURE

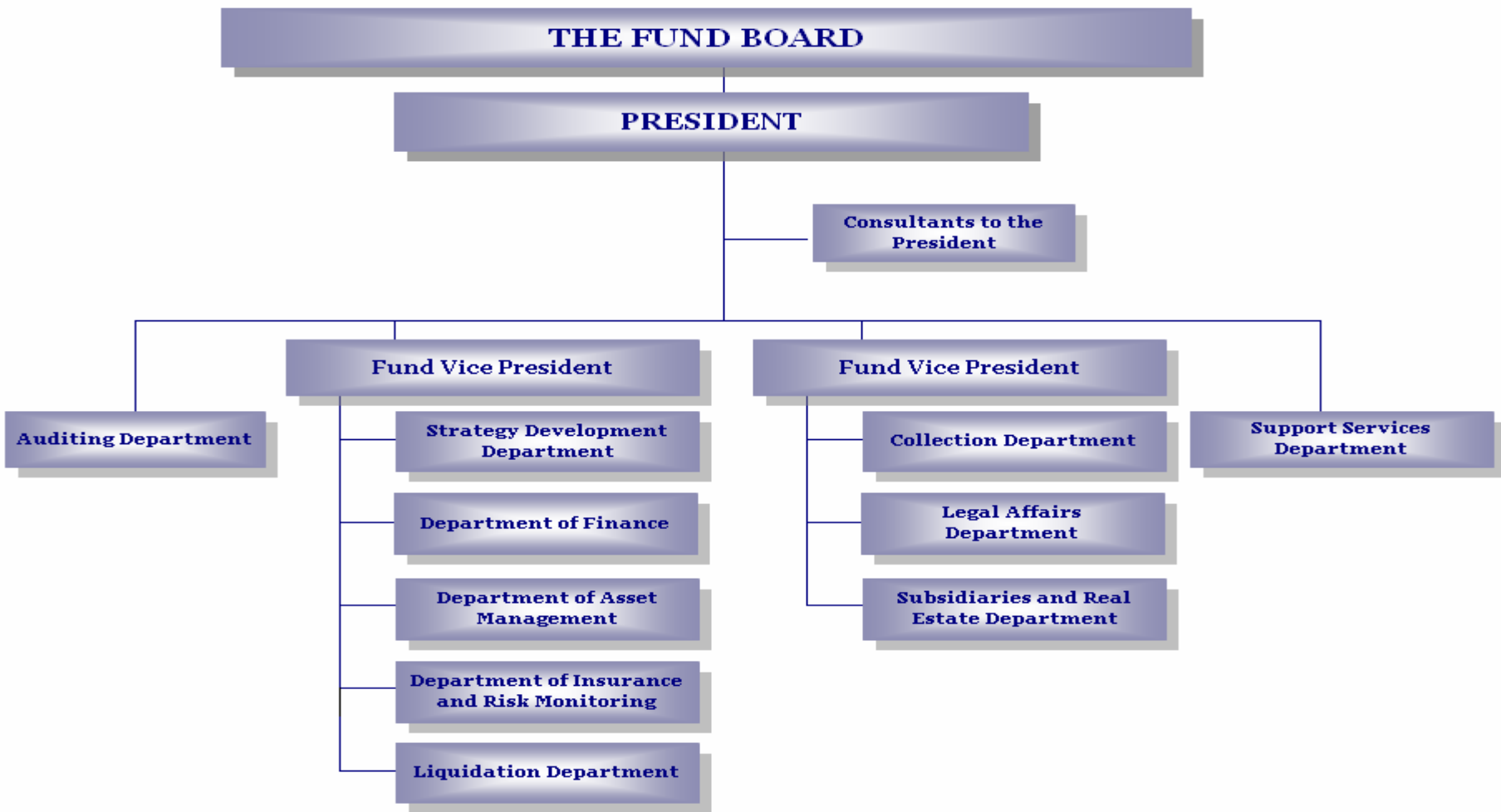
The savings deposit and participation fund accounts of natural persons in Turkey are solely protected by the Savings Deposit Insurance Fund (SDIF) which has administrative and financial autonomy.

COMPETENT AUTHORITIES

The coverage and amount of the savings deposit and participation funds belonging to natural persons which will be subject to insurance are set by the SDIF Board in agreement with the Central Bank, the BRSA and the Undersecretariat of Treasury.



SAVINGS DEPOSIT INSURANCE FUND ORGANIZATION CHART





DISTRIBUTION BY TITLES OF THE FUND PERSONNEL (30.04.2006)

Vice-president	2
Consultant	5
Head of Department	8
Head of Office	5
Group Coordinator	17
Specialist	134
Auditor	13
Lawyer	111
Administrative / Support Service Staff	115
TOTAL	410



OBJECTIVES OF THE DEPOSIT INSURANCE SYSTEM

- **Protecting small depositors' funds**
- **Contribute to the stability of the financial system**
- **Providing a formal mechanism for resolving failed banks**



SCOPE OF THE INSURANCE

- **Savings deposits and participation funds belonging to natural persons in the onshore home market are insured by the Savings Deposit Insurance Fund.**
- **Savings Deposit: The deposit accounts opened at a deposit bank by natural persons and not subject to the commercial transactions excluding check drawings exclusively**
- **Participation Fund: The funds at special current and participation accounts opened at participation banks by natural and legal persons**



THE LIMIT OF THE INSURANCE

- The savings deposit and/or participation fund in each bank belonging to the each natural person are covered by the SDIF up to the limit of TRY 50,000 (€ 31,250).
- Turkish legislation does not provide for any degree of co-insurance.



EXCLUSIONS FROM PROTECTION

The following depositors are excluded from protection under the Banking Law;

- Majority shareholders of the credit institution as well as their direct family members**
- The chairman and members of the board of directors of the institution, senior managers as well as their direct family members**
- Proven criminals and money launderers**
- Other deposits, participation funds and accounts determined by the Board**



MEMBERSHIP TO THE SYSTEM

- **Membership of the Credit Institutions to the system is compulsory.**
- **Deposit guarantee scheme in Turkey is funded by insurance premiums (ex-ante).**
- **Credit institutions shall insure their savings deposit and participation funds belonging to natural persons on the basis of the portion subject to insurance, and shall pay the risk-based insurance premiums on this basis.**



PUBLICITY

- **Credit Institutions are obliged to make a written explanation about the portion under the insurance guarantee of the savings deposit and participation fund accounts in a visible place in its branches.**



MEASURES TO BE TAKEN WHEN A CREDIT INSTITUTION DOES NOT MEET ITS OBLIGATIONS TOWARDS THE SDIF

- Pursuant to Article 122 of the Banking Law, the Fund may ask the BRSA to supervise whether insurance premiums are paid within the framework of the principles set by itself.
- The Fund may prosecute and collect the insurance premiums within the framework of the Law No. 6183 on Collection Procedures of Public Receivables (OG No. 8469, dated 28.07.1953), in case the premiums are not paid by the credit institutions.
- The Fund may decide to prosecute and collect the difference between the amount of the savings deposit and participation funds subject to insurance that is declared to the competent authorities and the amount of the savings deposit and participation funds determined by the Fund in accordance with the provisions of the Banking Law.



REIMBURSEMENT

- Reimbursements under the insurance coverage are made in New Turkish Lira after the operating permission of the bank has been revoked.
- Without prejudice to provisions concerning prescription in Article 62 of the Banking Law; there are no time limits to make claims and to pay claims.
- In the calculation of TRY payments of the insured FX deposits, Central Bank's bid rates for foreign exchange at the date of revocation of the operating permission of the bank is used.
- Depositors have the right to take legal action directly against the SDIF.



BANK ACCOUNTS AND BRANCH ACCOUNTS



FINANCIAL REPORTING LEGISLATION

➤ By-law on Accounting Principles

(Official Gazette (OG) No.24793 (*bis*), dated 22.06.2002)

➤ 22 Communiqués:

- ✓ Communiqué No. 1- Recognition of Financial Instruments
- ✓ Communiqué No. 2- Recognition of Tangible Assets
- ✓ Communiqué No. 3- Recognition of Intangible Assets
- ✓ Communiqué No. 4- Recognition of Leases
- ✓ Communiqué No. 5- Recognition of Related Party Transactions
- ✓ Communiqué No. 6- Recognition of Banks Combinations
- ✓ Communiqué No. 7- Recognition of Impairment of Assets



FINANCIAL REPORTING LEGISLATION (cont.)

- ✓ **Communiqué No. 8-Recognition of Provisions, Contingent Liabilities and Contingent Assets**
- ✓ **Communiqué No. 9- Recognition of Accounting for Government Grants and Disclosure of Government Assistance**
- ✓ **Communiqué No. 10- Recognition of Bank's Employee Benefits**
- ✓ **Communiqué No. 11- Recognition of The Effects of Changes in Foreign Exchange Rates**
- ✓ **Communiqué No. 12- Recognition of Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies**



FINANCIAL REPORTING LEGISLATION (cont.)

- ✓ **Communiqué No.13- Recognition of Events After the Balance Sheet Date**
- ✓ **Communiqué No.14- Recognition of Financial Reporting in Hyperinflationary Economics**
- ✓ **Communiqué No.15- Recognition of Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Associates, Interests in Joint Ventures**



FINANCIAL REPORTING LEGISLATION (cont.)

- ✓ **Communiqué No.16- Preparation of Cash Flow Statements**
- ✓ **Communiqué No.17- Standards on Financial Statements and Related Disclosures to be Announced to the Public**
- ✓ **Communiqué on Uniform Chart of Account**

(OG No. 24793 (bis), dated 22.06.2002)



FINANCIAL REPORTING LEGISLATION (cont.)

- ✓ **Communiqué. No.18- Recognition of Taxes (OG No.25551, dated 12.08.2004)**
- ✓ **Communiqué. No.19- Standards on Financial Statements and Related Disclosures to be Announced to the Public for Participation Banks (OG No.25858, dated 27.06.2005)**
- ✓ **Communiqué on Annual Report (OG No.25930, dated 08.09.2005)**
- ✓ **Communiqué on Uniform Chart of Account for Participation Banks (OG No. 26076, dated 10.02.2006)**



SCOPE

➤ Banks have to

- ✓ **Correctly record all their transactions and**
- ✓ **Prepare clear, reliable and comparable financial reports
(Art.37 of the BL)**



LAYOUT OF THE BALANCE SHEET

➤ **Main Asset Items:**

- I. Cash and balances with Central Bank
- II. Trading securities
- III. Receivables from banks and other financial institutions
- IV. Receivables from money markets
- V. Securities available for sale
- VI. Loans
- VII. Factoring receivables
- VIII. Held to maturity securities
- IX. Associates
- X. Subsidiaries
- XI. Other investments
- XII. Leasing receivables
- XIII. Required reserves
- XIV. Miscellaneous receivables
- XV. Interest and income accruals and rediscounts
- XVI. Tangible assets
- XVII. Intangible assets
- XVIII. Deferred tax asset
- XIX. Other assets

➤ **Main Liability Items:**

- I. Deposits
- II. Debts to money markets
- III. Loans borrowed
- IV. Debt securities in issue
- V. Funds
- VI. Miscellaneous debts
- VII. Other foreign resources
- VIII. Taxes, duties, charges and premium payable
- IX. Factoring debts
- X. Financial leasing debt
- XI. Interest and expense rediscounts
- XII. Provisions
- XIII. Subordinated loans
- XIV. Deferred tax liability
- XV. Shareholder's equity

➤ **Main Off-Balance Sheet Items:**

- I. Contingent liabilities
- II. Commitments
- III. Derivative financial instruments
- IV. Deposited assets
- V. Pledged assets



LAYOUT OF THE PROFIT AND LOSS ACCOUNT

- **Main Items:**
- I. **Interest income**
- II. **Interest expense**
- III. **Net interest income (I-II)**
- IV. **Net fee and commission income**
- V. **Dividend income**
- VI. **Net commercial profit/loss**
- VII. **Other operating income**
- VIII. **Total operating income (III+IV+V+VI+VII)**
- IX. **Provision for loans and other receivables (-)**
- X. **Other operating expenses (-)**
- XI. **Operating profit (VIII-IX-X)**
- XII. **Profit/loss of associates and subsidiaries**
- XIII. **Profit/loss on net monetary position**
- XIV. **Profit before tax (XI+XII+XIII)**
- XV. **Provision for taxes (\pm)**
- XVI. **Ordinary operating profit/loss after tax (XIV \pm XV)**
- XVII. **Extraordinary profit/loss after tax**
- XVIII. **Net period profit and loss (XVI+XVII)**



VALUATION RULES FOR CERTAIN BALANCE SHEET ITEMS

- **Tangible assets are valued at fair value less depreciation and impairment, if any.**
- **Intangible assets are valued at their cost or fair value less amortisation and impairment, if any.**
- **Trading securities and available for sale securities are valued at fair value.**
- **Held to maturity securities and loans are valued at amortised cost by using effective interest method.**



VALUATION RULES FOR CERTAIN BALANCE SHEET ITEMS (cont.)

- Monetary items in foreign currency are reported using the exchange rate on the balance sheet date.

- Non-monetary items
 - ✓ carried in terms of cost denominated in a foreign currency are reported using the exchange rate at the date of transaction,

 - ✓ carried at fair value denominated in a foreign currency are reported using the exchange rate that existed when the value was determined.



CONTENTS OF THE NOTES ON THE ACCOUNTS

➤ According to the Communiqué No. 17, banks should prepare their;

- ✓ balance sheets, (including off-balance sheet items)
- ✓ income statements,
- ✓ statements of changes in equity and
- ✓ cash flow statements

on consolidated and non-consolidated basis with their notes.

➤ Every main item of financial statements should be disclosed in detail.

CONSOLIDATED ACCOUNTS

- Parent bank has to prepare consolidated financial reports in order to provide information about their financial positions and activity results as a whole (Art. 38 of BL).
- Procedures and principles of preparing consolidated financial statements are determined by the Communiqué No. 15 related to the By-law on Accounting Principles.



PUBLICATION

- Banks submit their financial reports to the related authorities and publish them (Art. 39 of BL).
- Financial reporting requirements of banks are regulated in the Article 30 of the By-law on Accounting Principles.
- Annual reports of banks are published;
 - ✓ in the Official Gazette
 - ✓ in the Turkish Trade Registry Gazette and
 - ✓ on the internet.

PUBLICATION (cont.)

- **Banks' annual reports include;**
 - ✓ **information about**
 - **their status,**
 - **management and organization structures,**
 - **human resources,**
 - **activities,**
 - **financial situations,**
 - **assessment of the management and**
 - **expectations regarding the future**
 - ✓ **consolidated and non-consolidated financial statements,**
 - ✓ **summary of board of directors' report and**
 - ✓ **independent audit report (Art. 40 of BL).**



PUBLICATION (cont.)

➤ Interim Financial Reporting

- ✓ Balance sheet and income statement with their notes are published on the internet quarterly on consolidated and non-consolidated basis.**
- ✓ Cash flow statement and statement of changes in equity with their notes are published on the internet semi-annually on consolidated and non-consolidated basis.**

➤ Annual, semi-annual and quarterly financial reports should be approved by the independent audit firms.



REPORTING AND PUBLICATION OF FINANCIAL DOCUMENTS OF TURKEY BRANCHES OF BANKS INCORPORATED ABROAD

- **Turkey branches of banks incorporated abroad are deemed as banks (Art. 3 of BL).**
- **Financial reporting requirements of Turkey branches of banks incorporated abroad are the same as the banks.**
- **Turkey branches of banks incorporated abroad publish their annual reports related to the activities in Turkey with the year- end balance sheets and income statements of their head offices (Art. 30 of the By-law on Accounting Principles).**