Subject : 1% Limit on Derivative Transactions

In order to increase the effectiveness of the measures taken to protect financial stability and manage risks raised by the COVID-19 outbreak, the Banking Regulation and Supervision Agency (the “BRSA”) has made an announcement on April 12, 2020 and reduced the limit for banks’ currency swap, forward, option and other derivative transactions (the “Transactions”) with foreign counterparties to 1% of the bank’s equity, from 10% previously, in foreign currency/TRY Transactions where banks receive TRY at the maturity date.

The BRSA Announcement indicated that; (i) total notional principle amount of banks' currency swap, forward, option and other derivative transactions (the “Transactions”) with foreign counterparties cannot exceed 1% of the bank’s most recently calculated regulatory equity in the case where one leg of the Transaction is foreign currency and the other leg is TRY and where banks receive TRY at the maturity date and (ii) the calculation of the limit shall no longer be weighted based on maturities of the Transactions pursuant to the Resolution of the Banking Regulation and Supervision Board (the “Board”) dated April 12, 2020, and No. 8989. The limit was 10% as per the Resolution of the Board dated February, 8, 2020 and No. 8860.

In addition, the BRSA indicated that, in the case where one leg of the Transaction is foreign currency and the other leg is TRY and where banks pay TRY at maturity date; the total notional principle amount of these Transactions cannot exceed 1% of the bank’s most recently calculated
regulatory equity for Transactions with remaining maturity of 7 days, 2% for 30 days and 10% for one year.

Transactions conducted by Turkish banks with their foreign subsidiaries will be exempted from the calculation of above limits on the condition that such subsidiaries are credit or financial entities subject to consolidation with Turkish banks. The ratios shall be calculated daily on a consolidated and solo basis. Unless current excess is eliminated, no further Transactions of these types could be executed and maturing Transactions shall not be renewed. A written BRSA approval will be received for breaking before maturity or extension.

The Capital Markets Board has also imposed similar limits on capital markets institutions’ Transactions with foreign counterparties on April 13, 2020.

To discuss the impact of this regulation further, please contact our Senior Partner Özge Okat (ookat@pekin-pekin.com).