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Client Alert | Turkey

New Measures on OTC Derivate Transactions in Turkey

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The Turkish Capital Markets Board ("CMB") and Borsa Istanbul ("BIST") rolled out new announcements this week launching measures on OTC derivative transactions - partly found guilty for increasing the vulnerability of the Turkish economy to volatility and exposing it to market players with an appetite to benefit from such conditions by means of these instruments.

Today the CMB announced that in line with the commitments of Turkey as part of the G20 and in order to implement "best practices on financial markets", the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) ("**CRA**") is tasked with centralizing and aggregating data on OTC derivative contracts as a trade repository. The CRA will have a centralized role for collecting, storing and disseminating data to reduce risk exposure and increase operational efficiency. The CRA will also provide aggregated data to all relevant regulators and supervisory entities to address systemic risk, promote financial stability, conduct market surveillance and prevent market abuse. To enhance the transparency of OTC derivatives markets on a wider scale, the CRA will also disseminate summary reports to the public.

Operational and infrastructural preparations are said to be almost complete and the guidelines setting out the principles of reporting to the CRA -expected to follow ESMA precedents- are to be announced shortly. The reporting obligation is expected to be imposed on the Turkish parties to the OTC derivative transactions and intermediaries facilitating these trades. The format of the reporting will be determined by the CRA after receiving approval and comments from the Ministry of Treasury and Finance as well as other relevant authorities. Secondary legislation is expected to be published by the CMB shortly on the basis of Article 87 of the Capital Markets Law setting out the statutory ground for appointing a trade repository.

On Monday, BIST announced that it is currently working on setting up an organized swap market, for foreign currency transactions initially, to be followed by other products and markets. By creating an on exchange swap market as an alternative to the OTC transactions, BIST aims at attracting market participants to the local swap markets, instead of foreign markets such as London. The creation of a liquid market for swaps is expected to contribute to the liquidity management of Turkish counterparties and increase market transparency. Takasbank is expected to act as counterparty in the transactions to be traded on the BIST swap market and be responsible for risk management and collateral custody. Involvement of Takasbank is also intended act as a credit enhancement for exchange traded swaps.

Market participants expect that this move will be supported by further regulation incentivizing Turkish banks to trade on the BIST swap market. And this is anticipated to be achieved through the Banking Regulation and Supervision Agency allowing flexibility to Turkish banks on the restrictions that were recently imposed on the currency swap and swap-like transactions previously covered in our client alert. It would also be important to factor in any potential additional transaction costs that may be incurred or delays that may occur in the settlement of trades in regulating the BIST swap market.

Executing swap transactions on a regulated market would allow better and faster transmission of data to the Central Bank, enabling it to take prompt measures to address any systemic or sectoral risks, and to intervene when necessary with the appropriate monetary policy actions.

Regulators have emphasized that these actions are not intended to impose any limitations on the execution of OTC derivative transactions, but to improve transparency and reporting of such instruments in order to have the means to assess consolidated country exposure originating from derivative transactions.

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