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FURTHER NORMALIZATION STEPS CONCERNING FOREIGN CURRENCY DERIVATIVE TRANSACTIONS

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On 11 November 2020, the Turkish Banking Regulatory and Supervision Agency ("BRSA") took a step further towards normalization by continuing to relax certain thresholds it imposed on local banks' ("Banks") derivatives transactions following the onset of the COVID-19 pandemic. In April, the BRSA and the Capital Markets Board of Turkey ("CMB") had tightened their limits on Banks' foreign currency swap, forward, option and other derivatives transactions (where the parties swap Turkish Lira and foreign currency) ("FX Derivatives Transactions")[1]. The latest measures further ease thresholds the BRSA had previously slackened in September.[2]

The recent changes introduced by the BRSA specify that, for FX Derivatives Transactions between Banks and non-resident counterparties:

(a) if at settlement a Bank provides Turkish Lira; new volumetric thresholds shall be 5% for transactions with seven days remaining until settlement, 10% for transactions with thirty days remaining until settlement and 30% for transactions with one year remaining until settlement, whereas such thresholds had been previously determined as 2%, 5% and 20%, respectively; and

(b) all other limitations previously announced by the BRSA on FX Derivatives Transactions shall remain unchanged.

Accordingly, limitations imposed on FX Derivatives Limitations by the BRSA can be summarized as follows:

(1) Where at settlement a Bank receives Turkish Lira; the total notional amount of FX Derivatives Transactions may not exceed %**10** of the Bank's most recently calculated regulatory capital (delta values may be taken into consideration for options transactions), and if any excess exists, further

[1] Please refer to our Alert dated 14 April 2020 available at http://www.cakmak.av.tr/articles/Banking_Finance/41250012.pdf for further details.

[2] Please refer to our Alert dated 30 September 2020 available at http://www.cakmak.av.tr/articles/Banking_Finance/70654125.pdf for further details.

such FX Derivatives Transactions may not be executed and any such FX Derivatives Transactions may not be renewed;

(2) Where at settlement a Bank provides Turkish Lira; depending on the settlement date of the FX Derivatives Transactions, their total notional amount may not exceed certain ratios based on the Bank's most recently calculated regulatory capital (delta values must be taken into consideration for options transactions) as follows: (i) **5%** for transactions with seven days remaining until settlement, (ii) **10%** for transactions with thirty days remaining until settlement and (iii) **30%** for transactions with one year remaining until settlement. Furthermore, for purposes of the calculation above, the effective date shall be taken into consideration for FX Derivatives Transactions where the effective date is after the transaction date. If any excess exists, further such FX Derivatives Transactions may not be executed within the maturity ranges with limit breaches;

(3) Banks' transactions with their consolidated non-resident credit and financial institution affiliates are exempt from the FX Derivatives Limitations;

(4) The above ratios must be calculated daily, on a solo and consolidated basis; and

(5) Any early settlement or extension of the original maturity date (for whatever reason) of any transaction falling within the scope of the limitations imposed by the BRSA to FX Derivatives Transactions shall be subject to the prior written consent of the BRSA.

As of writing, the limitations imposed on FX Derivatives Transactions by the CMB remain unchanged.

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