

TAKASBANK ACTING AS CENTRAL COUNTERPARTY IN TURKISH STOCK MARKET

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This briefing note aims to explain the role of Takasbank acting as the central counterparty (the “CCP”) in the specified markets of Borsa Istanbul A.Ş. (the “BIST”) and guide the investment institutions trading in BIST with respect to CCP membership, collateral and guarantee fund requirements.

A) CCP ROLE OF TAKASBANK

İstanbul Takas ve Saklama Bankası A.Ş. (the “**Takasbank**”), the central clearing and settlement house in Turkey, also provides CCP services for specific BIST markets which are designated by Capital Markets Board of Turkey (the “**CMB**”).

As part of the CCP practice, Takasbank operates through the *open offer method* in which Takasbank acts as the buyer against the seller and as the seller against the buyer, in order to fulfil the clearing and settlement of trades conducted in the relevant markets. In other words, Takasbank, as a CCP, undertakes to conduct the clearing and settlement of the trades of its members in the respective markets and based on this, Takasbank requires each CCP member to deposit sufficient amount of collateral and guarantee fund (the “**GF**”) contribution in order to avoid any pre-trade or post-trade risks that may be incurred by market participants.

B) APPLICABLE LEGISLATION

The CCP role of Takasbank is mainly regulated under “İstanbul Takas ve Saklama Bankası A.Ş. Central Counterparty Regulation” published in the Official Gazette dated August 14, 2013 and numbered 28735 (the “**CCP Regulation**”) which generally sets out the rules and principles to be applied to CCP practice in the respective BIST markets.

CCP Regulation is prepared based on Articles 77 and 78 of Capital Market Law No. 6362 (the “**Law**”) and accordingly, Law and CCP Regulation are the primary legislations concerning the CCP practice in Turkey. In accordance with Article 4 of CCP Regulation, there are two types of secondary legislation of CCP practice that sets out the rules in detail to be applied to each market to which CCP service will be provided:

- i. Market Directive (the “**Directive**”) that is prepared based on the CCP Regulation.
- ii. Market Procedure (the “**Procedure**”) is prepared based on the CCP Regulation and the Directive.

Given the above, it is worth to note that;

- The Directive and the Procedure can’t conflict with CCP Regulation, if it is so, CCP Regulation will control,
- The Procedure can’t conflict with the Directive and CCP Regulation, if it is so, the Directive and CCP Regulation will control.

C) MARKETS ELIGIBLE FOR CCP PRACTICE

As of 2 May 2018, there are already 4 (four) markets where CCP practice is effective and 1 (one) market, which is currently in the implementation process, listed as follows.

- i. Takasbank Securities Lending Market (*as of 02.09.2013*)
- ii. BIST Derivatives Market (*as of 03.03.2014*)
- iii. BIST Money Market (*as of 14.10.2016*)
- iv. BIST Equity Market (*as of 19.06.2017*)
- v. BIST Debt Securities Market (*expected to be effective after BISTECH transition*)¹

D) CCP MEMBERS

i. Membership types

In accordance with the CCP Regulation, there are 2 (two) types of CCP members:

- a) **Direct CCP Member:** Direct CCP member may only perform the clearing and settlement of the transactions of its own portfolio and/or its clients’.

¹ Takasbank will start providing CCP service in BIST Debt Securities Market with the transformation of the technological infrastructure with BISTECH in line with the collaboration of BIST and NASDAQ as stated in its letter dated 5 March 2018. Draft Directive and Draft Procedure setting forth the CCP rules in Takasbank Debt Securities Market are published, which is expected to be effective after BISTECH transition is completed.

b) General CCP Member: General CCP member may perform the clearing and settlement transactions of its own portfolio, its clients' as well as trading institutions'².

General CCP Member, other than its clients or its own portfolio, satisfies the settlement and clearing obligations of the trading institutions engaging in transactions in the related BIST markets. For this operation, General CCP member and trading institution are required to undertake certain responsibilities and liabilities arising from Article 10 of CCP Regulation:

1. General CCP member and trading institution sign an undertaking letter or an agreement with Takasbank in which General CCP Member unconditionally undertakes to satisfy the settlement obligations of the trading institution towards Takasbank.
2. General CCP member and the trading institution are jointly and severally liable towards Takasbank in relation to the settlement obligations of the trading institutions including the clients of such trading institutions.
3. General CCP member is obliged to ensure that the trading institution is complying with its obligations as per Article 16 of CCP Regulation such as reconciliation with General CCP Member regarding client positions and collaterals, custody of its client assets, disclosure of the documents and data when required by Takasbank, General CCP Member and CMB.
4. General CCP Member will be discharged of its liabilities arising from the clearing and settlement obligations of the trading institution, only provided that the rights, liabilities and accounts of trading institution towards Takasbank are transferred to another General CCP Member.

ii. Operation of CCP Members

CCP members operate in BIST markets through their *multiple position accounts* which is an aggregate account containing both CCP Member's own portfolios as wells as its clients'. However, it is worth to note that the positions and collaterals in this account pertaining to CCP member itself and its clients are maintained as segregated. Please further note that;

1. each CCP member may switch from one type of membership to the other if complies with the membership requirements,

² *Trading institution* is defined as an institution having authorisation to trade in the market but executes the settlement of obligations of such transactions through intermediation of a general CCP member.

2. each CCP member may withdraw from its membership subject to the Board of Directors (the “BoD”) decision of Takasbank,
3. each CCP member may transfer the positions and collaterals of trading institution’s clients to itself only if trading institution fails to satisfy its settlement obligations in full, upon serving a request to Takasbank,
4. Takasbank may impose further liabilities on CCP members through market directives.

E) COLLATERALS AND GUARANTEE FUND CONTRIBUTION AMOUNTS

i. Membership Collateral:

Takasbank requires its CCP members to deposit a membership collateral amount in order to cover their losses that may accrue from each CCP member’s failure of paying any contribution, fee or commission to Takasbank. The membership collateral is determined as 10.000 TL for General CCP Members and 5.000 TL for Direct CCP Members, which may be revised from time to time by Takasbank BoD.

Takasbank will return the membership collateral to CCP members upon termination of CCP membership providing that all obligations of the CCP member have been liquidated and CCP member does not have any undue liabilities against Takasbank.

ii. Transaction Collateral:

Takasbank requires CCP members, acting in the BIST markets where CCP practice is effective, to deposit a certain amount of transaction collateral (initial collateral and valued collateral) to cover the risks of their securities positions for each portfolio. The principles regarding collaterals such as required collateral amount for securities positions, including the valuation of collaterals, assets eligible as collateral are all designated in the respective market directives.

The title of the collateral is transferred to Takasbank. In case CCP member falls into default, Takasbank, without serving any notice or obtaining any approval from judicial or administrative authorities, is entitled to sell the collateral and cover its receivables from the sale proceeds or set-off the sale proceeds from the member’s obligations.

Takasbank will return the transaction collateral with its rights on the maturity date to CCP members provided that all obligations of the CCP member have been liquidated and CCP member does not have any undue liabilities against Takasbank.

The eligible collaterals which may be submitted by the CCP members – that will be subject to CCP transactions - to Takasbank are;

- Cash (Turkish Lira / Convertible Currency)
- Government Debt Securities issued in the local market

- Company Shares
- Letters of Guarantee
- Mutual Fund Shares
- Euro-Bonds issued by the Undersecretariat of Treasury of the Republic of Turkey
- Lease certificates issued by Asset Leasing Company of the Undersecretariat of Treasury of the Republic of Turkey (*Hazine Müsteşarlığı Varlık Kiralama A.Ş.*)

Letters of Guarantee shall be payable upon first request and without any limitations to be acceptable by Takasbank as collateral.

iii. **Guarantee Fund:**

a. **Contribution Amount**

Takasbank, for the purpose of covering the risks and losses of the members in default that exceeds their collateral amount in the respective BIST market where CCP practice is effective, establishes the GF. We would like to highlight the following issues that have significance in GF practice.

- 1) **GF Fixed and Variable Contributions:** Each CCP Member is obliged to deposit a fixed and a variable contribution amount to the GF calculated pro rata to the risks carried by such member. Based on this;

Fixed contribution amount, which is announced through market procedures, is an amount that shall not exceed the amount found by dividing the required size of the GF to the number of CCP members.

Variable contribution amount is determined in consideration of the respective CCP member's average collateral amount that needs to be deposited to the relevant BIST market and announced through member screens.

- 2) **Additional Contribution Amount:** The GF is composed of the deposited contribution amount that are defined under (1) above and also, additional contribution amount that is required to be deposited upon demand of Takasbank. The additional contribution amount requested from CCP member at once shall not exceed the contribution amount deposited for the month in which the default has occurred, and may either be requested from CCP member at once as the entire balance of the deposited fund or in tranches which shall not exceed the aggregate of the deposited fund.
- 3) **GF Calculation:** In accordance with the Directive, the size of the GF contribution amount to be provided from each CCP member is calculated at the first day of each month and updated in the next business day. The CCP member will be deemed in default if fails to deposit this contribution amount.
- 4) **Return of Contribution Amounts:** As per Article 33 of CCP Regulation, the contribution amounts shall be returned in kind to the CCP Member once the CCP membership is terminated. Given this, the fixed contribution amount will be returned to the CCP member entity once membership of the

relevant entity terminates and there are not any undue liabilities of such entity subject to the BoD approval. Besides, the variable contribution amount will be returned to CCP member entity in line with the maturity dates of the open positions in consideration of the potential defaults that may occur as from the BoD resolution date until the date CCP membership is terminated.

b. Margin Call for GF

Takasbank issues a margin call to CCP members in case there is a contribution deficit pursuant to Article 31 of CCP Regulation as a result of end-of-day valuation. CCP member, receiving such a margin call, shall deposit the required amount of contribution amount until the end of the date given in the Procedure, otherwise the CCP member will be deemed in default.

c. Compulsory Allocation

In case of the default of CCP Member, pursuant to Article 36 of CCP Regulation, Takasbank, may respectively resort to the following collaterals, GFs and Takasbank resources to cover the losses of the defaulting CCP Member.

- 1) Defaulting CCP Member collaterals deposited in its account or its clients account, GF of the defaulting CCP Member,
- 2) Compensation premiums of insurance policies, if any,
- 3) Capital allocated for covered risks,
- 4) Non-defaulting CCP Member's GF contributions,
- 5) Additional GF contribution amounts,
- 6) Capital undertaking of Takasbank.

In the scenario that the afore-mentioned 1, 2 and 3 remains insufficient to cover the losses of the defaulting CCP Member, Takasbank may cover the collateral deficit from the non-defaulting CCP Members' GF contributions pursuant to Article 28 of CCP Regulation.

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