

# 1. ISE STOCK MARKET SETTLEMENT TRANSACTIONS

## APPLICATION PRINCIPLES

### 1.1. Basis

The General Assembly of the Stock Exchange and the Board of Directors of the Stock Exchange and/or the Chairman of the Stock Exchange, based on the authority granted by the General Assembly, are authorized to determine the rules relating to the settlement of transactions realized in the Stock Exchange.

The main legislation on the subject, which is Article 35 of the Regulation on the ISE, has the authority over the settlement of transactions realized in the Stock Exchange. Again, articles 32, 33, 34 and 35. of the Istanbul Stock Exchange the Stock Market Regulation and 3, 4 ,5, 6 and 7. Articles of the Regulation for Clearing and Custody Centers of the ISE together with the article 35 of the Regulation on the ISE have defined the time of settlement, default case, method of delivery and payment and characteristics of securities to be delivered. Furthermore, based on the authority granted by these three regulations, the decisions taken or decrees by the Board of Directors of the Stock Exchange and the Chairman of the Stock Exchange relating to the settlement are announced to the persons concerned via Exchange Bulletins.

### 1.2. Eligible Institutions

The institutions trading at the ISE Stock Market are deemed as natural members of Takasbank. Besides Investment Funds/Trusts and Pension Funds are also members of Takasbank. The institutions, which will trade, have to sign “Custody Agreement and Conditional and Cash Electronic Transaction Letter of Undertaking” before starting the transaction, inform the authorized people for the transactions and deliver their signature specimen to Takasbank.

Settlement transactions are performed by using the accounts of Takasbank and Brokerage Houses with the Central Registry Agency Inc. Following-up the settlement transactions of brokerage houses, default transactions, RTG DvP Settlement transactions and transfer transactions of investment fund/trusts are realized through Takasbank system by using the user codes and passwords obtained from Takasbank.

### 1.3. Settlement principles

**Netting:** For the transactions of the brokerage houses realized during two sessions, netting is performed on the stock and total TRY basis. During two sessions with the same date, a brokerage house selling and buying the same stock is debited or credited for settlement of the said stock by deducting the sales total from the purchase total according to the resulting net balance. The considerations of buys or sells in all stocks are usually netted and the brokerage house has payables to settlement if purchase amounts are higher and has receivables from settlement if sales amounts are higher. Daily netting is performed. Liability and receivable transition between days is not possible.

**Delivery versus payment:** Unless brokerage houses cover their debts to the settlement center, they are not paid the receivables from settlement. In case of partial coverage of debt, the payment is made pro rata the covered debt. The blocking of the receivables of brokerage

houses against settlement debts is performed from the most liquid to the least liquid one and the release of blockage in case of covering the debts is performed from the least liquid to the most liquid one. The liquidity order applied for stocks is as National Market (ISE 100 Index), National Market (Off-index), Secondary National Market, New Economies Market and Watch-List Market.

**Book-entry Settlement:** Cash debts to settlement and cash receivables from settlement are paid as book entry. Securities debts to settlement are covered by brokerage houses via transfer (debt coverage) from customer accounts. Receivables of brokerage houses from settlement are transferred to custody accounts via transfer (transfer of credit). Physical handover of securities to settlement accounts or physical delivery of securities from settlement accounts is not possible.

**Central Settlement:** Except the ones considered as out of scope by the Board of Directors of the Stock Exchange, it is compulsory that the settlement of all stock exchange transactions take place at the Settlement Center.

**Same Day Value Transactions:** In principle, the brokerage houses covering their settlement debts on the settlement day get their settlement receivables on the same day.

#### **1.4. Settlement Process**

After the second session is completed on T (Trade) day being the day of completion of buy/sell transaction, all transactions realized at the ISE will be transferred from the ISE system to Takasbank system on contract basis and electronically. Takasbank computer system performs the netting of securities buy/sell transactions of brokerage houses separately on brokerage house and customer basis and only performs the netting of cash transactions on brokerage house basis thus concludes the calculations of debit and credit on the same day (T). Net debit/credit information resulting from Takasbank system in customer detail are transferred to the CRA(Central Registry Agency) system due to the fact that the stocks will be safe-kept in the CRA system as book entry and the transfer transactions for customer settlement purposes will take place in the CRA system.

Debit/credit information in customer detail sent to the CRA on T day will be transferred to Takasbank system with error codes after customer accounts are checked in the CRA system. Based on this information from the CRA the netting results constituted in member and customer sub-account detail are transferred to Takasbank member screens starting from the evening of T day. Brokerage houses can watch this information from settlement screens and in case they discover an error they inform the correction procedures to the Stock Exchange until T+1 day 17:00 hours the latest. At the end of T+1 day the correction requests informed by the brokerage houses to the Stock Exchange are recorded and a blockage in the amount of settlement debt is imposed upon debited customer accounts (as preferred by the institution) in the CRA system.

##### **1.4.1. Covering the Stock Debt**

The settlement transactions are made through Takasbank Settlement Pool Account opened with the CRA. CRA simultaneously conveys Takasbank the movements in the Settlement Pool Account with the CRA.

On the settlement day, securities sold from investor accounts in the CRA system will be transferred from the transfer blockage accounts for settlement purposes to the settlement pool account of the brokerage house. Transfer transactions to Takasbank Settlement Pool account opened for settlement transactions in the CRA system to cover the settlement of the brokerage house with the securities transferred to the settlement pool of the brokerage house and transfer transactions to creditor customer accounts for in-house settlement purposes will be automatically performed by the CRA system with the approval of the brokerage house. Information will be sent from the CRA system to Takasbank system for the securities transferred to Takasbank Settlement Pool account with an electronic message and settlement debt of the brokerage house will be covered in Takasbank system.

Brokerage houses owing stocks to settlement due to T day transactions on T+2 day (second business day following the transaction) can cover their debts by transferring first from the related customer account to the settlement pool account of the brokerage house and from here to Takasbank Settlement Pool account. In case stocks are not available in the customer account the stocks sold are transferred to the customer account via physical delivery or transfer from the account of another brokerage house and settlement debt of customer account is covered.

#### **1.4.2. Distribution of Stock Receivables**

Within the framework of delivery versus payment (DVP) principle against covered settlement debts, by preserving debt-blockage balance, settlement receivables are released and depending on the balance of settlement pool accounts a real-time electronic receivable distribution message will be sent to the CRA system for securities receivable distribution. In the CRA system the receivables will be first transferred from Takasbank Settlement Pool account to the settlement pool account of the brokerage house and from here to creditor customer accounts. The receivables are transferred to customer accounts by considering the receivable instructions constituted in the CRA system in the evening of T+0 and updated in the evening of T+1.

In case of non-availability of the cover for the receivables released as a result of debt coverage transaction in Takasbank Settlement Pool account, a sequence for receivables on securities basis will be formed. In the formation of the sequence for receivables the time of the debt coverage transaction in Takasbank system enabling the release of related receivable will be taken into consideration.

#### **1.4.3. Covering Cash Debt**

Cash debts of brokerage houses are covered on institution basis and by using the cash account held with Takasbank. In order an institution having cash debt to fulfill its settlement obligation it should transfer cash equaling to its settlement debt to the stock settlement debt account (22-1) held under cash account.

Brokerage houses can transfer cash being settlement debt to the stock settlement debt account (22-1) by using one or several of the means mentioned below:

From Settlement Menu Screens: By using Settlement Menu Cash Debt Coverage Screens they can cover their settlement debts with the cash in their free current accounts.

Transfer: They can cover their settlement debts by transferring to the stock debt account through cash transfer from the account of another brokerage house held with Takasbank.

EFT from another bank account: Settlement debt can be covered by making EFT to the stock settlement account (22-1) from another bank account. For transactions where EFT is made to the stock debt account; the time that Takasbank account held with CBT is credited is taken into consideration.

By depositing to the account number 7002 held with T. Is Bankasi A.S. Borsa (Stock Exchange) Branch; in order to transact the cash deposited into the said account in Takasbank system, EFT should be made by T Is Bankasi from the account number 7002 to the stock debt account held in Takasbank. Following the entry of EFT's made by T. Is Bankasi to the account number 22-1, debt of the member will be covered.

In cash: If brokerage houses want to fulfill their cash obligations in cash they have to deposit it to the related accounts until 14:30 the latest.

Setoff of Receivables from Other Markets: Brokerage houses can cover their debts arising from the ISE Stock Market transactions with their receivables arising from the ISE Bonds and Bills Market, Stock Exchange Money Market transactions.

Setoff instructions should be defined to Takasbank system until 14:30 the latest for Bonds Market and until 15:45 for Stock Exchange Money Market. After setoff instruction is defined to the system settlement receivables to be distributed to related member's account can be deducted from debited market.

Setoff instructions are valid until the closing hours of EFT on the instruction day and instructions not fulfilled until the closing hours of EFT will become void. In case the receivables are not paid on the same day by the debtor market despite having given a setoff instruction the debtor member will be obliged to pay its debt to creditor market on the same day.

Amounts transferred to the Stock Settlement Debt Account (22-1) in lieu of the stock settlement debt will be automatically transferred by the system to the Settlement Cash Pool and brokerage house's cash debt will be covered. The blocked securities receivables of the institution in return for cash debt covered by preserving the debt=receivable balance according to Delivery Versus Payment principle will be released.

#### **1.4.4. Payment of Cash Receivables**

For cash coming to the stock debt account, automatic debt coverage procedure is performed according to sequence of arrival and for each amount transferred to the settlement pool via debt coverage procedure, automatic transfer of receivable is made. For brokerage houses having released their cash receivables by fulfilling securities obligations, settlement receivables will be transferred to free current accounts according to sequence of release. For the sequence of release the time of covering the debt will be considered in all of the above mentioned means.

Cash receivables of brokerage houses will be credited to free current accounts held with Takasbank. Brokerage houses can transfer the amounts credited to their free current accounts

- in cash
- via EFT to another bank
- to another account held with Takasbank or
- setoff them from their debts to other markets.

#### **1.4.5. Guarantee Fund**

Guarantee Fund established by the ISE for facilitating cash settlement transactions comprises the default penalties transferred to the amount which has been transferred by the ISE to the institutions and its income return. Guarantee Fund is included to the settlement pool account for cash settlement transactions on each settlement day and after covering all cash debts at the end of the day it is returned to the Fund account.

In case there are one or several brokerage houses having not fulfilled their cash obligations to settlement and to the extent the Fund Account is sufficient, institutions with outstanding cash receivables are given their receivables. The amount being settled by the Fund via covering cash default is returned to the Fund.

#### **1.4.6. Settlement of Primary Market Transactions**

Primary Market settlement transactions are made according to the same principles and time intervals as the secondary market transactions.

Securities group information of transactions realized in the Primary Market are sent by the ISE as B. Depending on whether the securities sold in the Primary Market are stocks or receipt, their debit and credit records are converted in Takasbank system and sent to the CRA system. If the issuing company of which the stocks are to be sold in the Primary Market is included in the registered capital system it is included in netting due to the conversion of its debit and credit information. If the issuing company of which the stocks are to be sold in the Primary Market is included in Tier-I capital system its debts and receivables are converted to receipts.

In the CRA system, the stock debt will be covered by transferring from the issuing company's account to the brokerage house's account mediating the transactions with the ISE and from this account automatically to Takasbank Settlement Pool Account.

#### **1.4.7. Settlement of Subscription Right Coupon Transactions**

The settlement of transactions realized in the Subscription Right Coupon Market is performed within the framework of settlement rules applied for stocks.

#### **1.4.8. Settlement of Wholesale Market Transactions**

For the transactions in Wholesale Market cash and securities settlement is mainly performed via Takasbank. However, if the Presidency of the Stock Exchange deems that

the written request of the buyer and seller is acceptable, then the settlement transactions can be realized between the members outside the Stock Exchange.

The transactions realized in the Wholesale Market are sent by the ISE with “LE” group code for old stocks and “LY” group code for new stocks. In case the traded stocks have an effect to increase the circulation, group conversions of stocks are made and contracts are sent to CRA by quoting “open to public”. For the stocks not increasing the circulation then group conversions are made and sent to CRA by quoting “not open to public”.

Securities debt of related accounts held with the CRA are covered.

## **1.5. Default Transactions**

Brokerage houses not covering their debts on T+2 day until 16:00 will be deemed in default without further notification.

Cash or securities receivables of brokerage houses resulting from buy or sell transactions on T day can not be transferred to member accounts on the settlement day due to the fact that Takasbank is not a party to settlement transactions and the possibility of non-completion of the settlement of these transactions as a result of default. Therefore, in case of sale of the stocks of which the settlement has not been completed yet by brokerage houses on T+1 day (purchased on T day) default can occur on related settlement day (T+3 day). Due to irregular netting, the sale of the purchase transactions made of T day before T+3 day theoretically bear default risk.

### **1.5.1. Principles of Default**

For the determination of default;

For securities transactions the time of transfer from the custody accounts of brokerage houses held with the CRA to Takasbank Settlement Pool Account will be taken into consideration.

For the cash transferred from the Settlement Menu screens to the account number 22 by covering cash debt and the cash coming via transfer from another member’s account, the time of entering the account number 22 will be taken into consideration.

For the payments to be made for covering cash settlement debts to the settlement debt accounts held with us by using EFT system, the time when the funds enter the Takasbank EFT account held with CBT (TIC-Turkish Interbank Clearing) will be taken into consideration.

For the funds deposited to T. Is Bankasi A.S. Borsa Branch among the EFT’s coming to the stock debt account, the time of delivery to the account number 7002 will be taken into consideration.

For the calculation of default penalty, the highest of overnight weighted average interest rates occurred in the ISE Repo-Reverse Repo Market or the CBT Interbank Money Market will be taken as basis.

The formula for the calculation of Default Penalty = Base \* Interest Rate

The base for cash default transactions is the cash obligation amount covered with delay whereas for securities default it is the amount found by multiplying the number of securities covered with delay with the weighted average price of the second session on the transaction day.

The default interest will be calculated by basing on the calendar days between the time of default and the day obligations are fulfilled.

In case the obligations not fulfilled on T+2 day until 16:00 are fulfilled until the closing hours of EFT, a default interest equaling to the amount calculated by basing on the highest (x1) of overnight weighted average interest rates occurred in the ISE Repo-Reverse Repo Market or the CBT Interbank Money Market will be applied.

For the members having fulfilled their obligations on the days following the closing hours of EFT on the settlement day, a default interest equaling to the amount calculated by basing on the highest (x3) of overnight weighted average interest rates occurred in the ISE Repo-Reverse Repo Market or the CBT Interbank Money Market will be applied.

In the name of the brokerage houses not having covered securities or cash debt on T+3 day until 9:15, ex officio debt coverage by the Stock Exchange in the ISE via same day value buy or sells is made. The notification of the members not having concluded the settlement of the transactions on the settlement day partially or wholly, i.e. members in default and the transactions subject to default will be made by Takasbank to the Presidency of the Stock Exchange on T+3 day as of 9:15 and default coverage transactions are performed by related market directorate on T+3 day via buy or sells in a separate order and with "same day value".

In case the default debt is not covered during the day until 16:00 or a negative difference arises between the default amount and the transactions due to performed default transactions resulting from the not taking place of ex officio buy and sell or its taking place partially, such difference should be deposited by defaulting brokerage houses to Takasbank account on the same day. In case the said amount is not deposited on the same day, the differences, default interests and buy-sell expenses and the uncovered part of default debt will be deducted from the Stock Exchange collateral of defaulting members and the members not raising the collateral to full amount are not allowed to trade in the Stock Exchange.

The defaulting member deposits the default penalty to related accounts with the Settlement Center in 3 business days as of the accrual date. The default penalties not deposited within the stated period will be ex officio collected from the free current accounts of the members held with the Settlement Center. In case such collection is not possible, recourse will be taken against the collaterals in the ISE.

The minimum default base is 50 TRY and the minimum default interest is 5 TRY. In securities as well as monetary defaults minimum 50 TRY and lesser amounts determined

by the Board of Directors of the Stock Exchange will be exempted from default penalty for one day.

From those defaults covered the next day and/or later due to non-fulfillment of securities and cash obligations on the settlement day (T+2) those above the limit determined by the ISE will be informed to the ISE and according to times of elimination of default, default amounts and numbers the ISE may request additional collateral to be deposited in different ratios or amounts and periods. In case the non-fulfillment of securities and cash obligations within the settlement period is due to the Stock Exchange, Settlement Center of Central Bank of Republic of Turkey or technical or similar reasons to arise outside own will of the member, the member won't be asked for default interest as well as additional collateral if such issues are evidenced by valid information and documentation.

A member which does not get delivery or payment due to default of another member (non-fulfillment of its obligations) will be paid 2/3 of the default interest collected from the defaulting member in return for the delayed days. There will be no payment for unjust treatment if the creditor member gets paid on the same day. In order to effect the payment for unjust treatment it is required that the non-delivery or non-payment does not stem from problems caused by the systems of the ISE, Takasbank Inc. and RT Central Bank, the member in creditor position with respect to cash or securities should timely fulfill its cash or securities obligations and the default interest should be collected by invalidating the written objection of the member in default with respect to cash or securities.