

<b>DIRECTIVE</b>			
<b>Subject</b>	Directive on Establishment, Duties and Operating Principles of Takasbank CCP Risk Committee		
<b>Relevant Department</b>	Central Risk Management Team		
<b>Document No</b>	YNR.MRY.002	V:4.0 Restricted	

# **DIRECTIVE ON ESTABLISHMENT, DUTIES AND OPERATING PRINCIPLES OF TAKASBANK CCP RISK COMMITTEE**

## DOCUMENT HISTORY

<b>Ver. No</b>	<b>Date</b>	<b>Prepared by/ Modified by</b>	<b>Approved by</b>	<b>Explanation</b>
V1.0	27/05/2016	Central Counterparty Department Manager	Board of Directors	Initial Publication
V2.0	28/07/2016	Central Counterparty Department Manager	Board of Directors	Revision due to changing in the Takasbank's title structure
V3.0	28/06/2019	Central Counterparty Department Director	Board of Directors	Revision due to changing in the Takasbank's title structure, removing the Temporary Article.
V4.0	10/10/2019	Central Counterparty Department	Board of Directors	Revision due to changing in the Takasbank's title structure

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# **DIRECTIVE ON ESTABLISHMENT, DUTIES AND OPERATING PRINCIPLES OF TAKASBANK CCP RISK COMMITTEE**

## **SECTION ONE**

### **Purpose, Scope, Base, Definitions and Abbreviations**

#### **ARTICLE 1 - Purpose**

- (1) The purpose of this Directive is to stipulate the principles and procedures regarding the establishment, duties and operation of Takasbank Central Counterparty (“CCP”) Risk Committee (“Committee”).

#### **ARTICLE 2 - Scope**

- (1) The selection of the committee members, their duties and responsibilities, their term of office and departure from office, Committee’s convening and decision-making principles and procedures, issues on which the Committee may express opinion of advisory nature to the Board of Directors or the Board of Directors may request opinion of advisory nature from the Committee, the principles and procedures for expressing opinion by the Committee to the Board of Directors and the notification of the Capital Markets Boards about the Committee’s advices fall within the scope of this Directive.

#### **ARTICLE 3 - Base**

- (1) This Directive has been prepared on the basis of Article 41 of Istanbul Clearing, Settlement and Custody Bank Inc. Central Counterparty Regulation published in the Official Gazette dated 14/08/2013 numbered 28735, and Article 11 of Takasbank Internal Regulation on Organization and Duties and of the Takasbank Central Counterparty Regulation on Risk Management Implementation Principles.

#### **ARTICLE 4 - Definitions and Abbreviations**

- (1) Terms used in the implementation of this Directive shall bear the following meanings;
- a) **Initial margin:** Collateral which is requested for opening of the trading positions to cover the risks that, in case of occurrence of any event of default in future, may be exposed during the time period elapsed from the date the default has occurred to the closing date of the positions.
  - b) **Variation margin:** Collateral which is requested as a result of the gaps arising out of the valuation of outstanding trade positions with the mark-to-market prices.
  - c) **Audit committee:** The committee composed of the non-executive Members of the Board of Directors of the Bank, which has been formed to assist the Board of Directors in fulfilling its supervision and oversight activities, establish the internal control, risk management and internal audit systems of the Bank in compliance with the relevant legislation, ensure their operability, appropriateness and adequacy, and assure its financial reporting systems.
  - d) **Guarantee Fund:** The fund/funds established with the contribution amounts of the CCP members for use in the event the clearing and settlement obligations relating to the markets or capital market instruments to which central counterparty service is provided are failed to be fulfilled.
  - e) **General Manager:** The General Manager of Takasbank.
  - f) **Back-testing:** Tests aiming to measure the performances of risk measurement models used in determining the margins.

- g) **Committee:** The CCP Risk Committee.
- h) **Board:** The Capital Markets Board.
- i) **Central Counterparty Department:** The department is in charge of CCP risk, collateral and default management activities together with financial analysis and risk monitoring operations and comprises of the Central Risk Management Team, the Collateral Monitoring and Default Management Team, the Central Assets Pricing and Financial Analysis Team.
- j) **Central Counterparty (CCP) service:** The activity where Takasbank undertakes settlement finality by acting as buyer against the seller and seller against the buyer through open-offer, contract novation or any other legally-binding method on the basis of the markets or capital markets instruments deemed appropriate by the Board.
- k) **CCP:** The Central Counterparty.
- l) **Stress testing:** The adoption of parameters, assumptions and scenarios reflecting the stressed market conditions in the models used for margining to measure the capacity of the financial resources that may be used by Takasbank for the CCP risks to cover the exposures arising from less-likely extreme market volatilities.
- m) **Clearing and Settlement:** All of the processes that enable the transfer of cash and/or assets between the parties through fulfillment of the obligations arising in relation to the transactions conducted in the market by the CCP members within the deadlines and on conditions set forth by Takasbank.
- n) **Takasbank/Bank:** Istanbul Takas ve Saklama Bankası A.Ş.
- o) **Collateral:** Assets delivered by the central counterparty members to Takasbank as initial or variation margin or guarantee fund contribution amounts to be able to cover the risks that may arise from the transactions they conducted.
- p) **Collateral valuation haircut:** The haircut which is applied to the assets accepted as collateral and reflects the depreciation that may be incurred on their values when the need for liquidating them arises.
- q) **Member:** The institutions that are found eligible by Takasbank to become a party to the rights and obligations arising from the transactions conducted in the markets to which CCP service is provided as well as to the settlement of such rights and obligations.
- r) **Board of Directors:** The Board of Directors of Takasbank.

## SECTION TWO

### General Principles

#### ARTICLE 5 -Formation of the Committee and its Structure

- (1) A CCP Risk Committee which is commissioned and authorized to express opinion of an advisory nature to the Board of Directors on issues related to the CCP arrangements and the management of CCP risks shall be established.
- (2) The Committee is comprised of two independent members of the Board of Directors, two members to represent the CCP members and one member to represent the clients of the CCP members. Takasbank audit committee members can participate in the Committee meetings as an observer even they hold no office in the CCP Risk Committee. The Committee members are elected by the Board of Directors for a 2-year term of office.

- (3) The Board of Directors assigns one of the board members serving in his capacity as an “independent member” as the “Committee Chairman” and another one as the “Committee Deputy Chairman”. The independent members holding office in Takasbank audit committee may also serve as chairman or deputy chairman in the CCP Risk Committee. In the meetings to which neither the committee chairman nor the deputy chairman can attend, one of the members of Takasbank audit committee may chair the meeting provided that he/she shall not vote.
- (4) The Committee members to be selected to represent the CCP members shall be elected by the Board of Directors from the candidates to be separately nominated by two by each of the first four CCP members who have deposited, on average, the highest contribution amount in the one year period preceding the calendar year in which the election is made to the guarantee funds established by the CCP markets; as two of them being the permanent members and two of them being the substitute members. If these CCP members fail to inform any candidate member for the Committee for any reason, the member selection shall be made from among the candidates to be put up by other CCP members in order of depositing the highest contribution amount to the guarantee fund. The candidates to be nominated by the CCP members are not required to be an employee of the nominator CCP member.
- (5) As to represent the clients of the CCP members; one permanent member and one substitute member shall be elected by the Board of Directors from among the candidates to be separately nominated by one by each of the first four CCP members who have deposited, on average, the highest contribution amount in the one year period preceding the calendar year in which the election is made to the guarantee funds established by the CCP markets. If these CCP members fail to inform, for any reason, any candidate member who will represent the clients, the member selection shall be made from among the candidates to be put up by other CCP members in order of depositing the highest contribution amount to the guarantee fund.
- (6) The candidates to be nominated to the CCP Risk Committee by the CCP members for selection to represent the clients should be proposed to the CCP member by the top three corporate clients who have the greatest average initial margin at Takasbank in the one year period preceding the calendar year in which the election is made, who do not belong to the same equity group with the CCP member, and are willing to serve in the CCP Risk Committee on behalf of the clients in the CCP markets. Only one candidate can be nominated for the Committee by a single client. If the number of corporate clients proposing a candidate is more than two, the candidate of the client whose initial margin at Takasbank is greater shall be informed to Takasbank. The candidates to be nominated by the corporate client of the CCP members as to serve in the Committee are not required to be an employee of the nominator corporate client. The clients cannot nominate for the Committee membership any employee of the CCP member of whom they are a client nor can any member of its board of directors or audit committee.
- (7) The permanent and substitute members to be elected to the CCP Risk Committee must be a holder of a bachelor's degree from the departments of the universities providing a minimum 4-years of education and must also have a minimum 7 years of professional or academic experience in the fields of capital markets, banking or risk management.
- (8) The candidates to be nominated by the CCP members and the corporate clients of the CCP members must be designated by the competent bodies of the relevant institutions.
- (9) The Committee membership shall terminate, by the Board of Directors’ Resolution, upon expiration of the membership term, resignation of the member, deemed as having resigned, or request of the institution who has nominated the member. An assignment shall be made by the Board of Directors from among the substitute members for the vacant memberships to complete the remaining term.
- (10) If the independent members of the Board of Directors holding office in the Committee resign from their positions in Takasbank Board of Directors, their duties in the Committee shall terminate

automatically. In such a case, a reelection shall be conducted by the Board of Directors for the memberships that became vacant as well as the Committee chairman or deputy chairman positions.

- (11) In case of mandatory situations such as the weakening of the Committee's representative capacity of the CCP markets in terms of the shares of the CCP members and their clients in the margin-collateral and guarantee funds, the impossibility to replace the vacant memberships with the substitute members, etc., the Board of Directors may resolve the renewal of the elections for all committee memberships without waiting the two years' period.
- (12) The Committee members whose term of office has expired can be reelected to the same position, and they may continue to hold office until the successors are elected in their place.
- (13) Takasbank employees, representatives of the market operators or external experts may participate in the CCP Risk Committee upon invitation by the Committee Chairman on condition to have no voting right. The director of Takasbank Central Counterparty Department and the Assistant Manager in charge of CCP and Financial Services is a permanent participant of the meetings to ensure making the necessary notifications.

## **ARTICLE 6 - Operating Principles and Procedures of the Committee**

- (1) The chairman or deputy chairman of the Committee may call an extraordinary meeting of the Committee upon request of the Board of Directors or proposal of the General Manager or the members. The ordinary meetings of the Committee are held in March and September. The meeting requests to be jointly made by at least three members are fulfilled within 15 days. The meetings are held on Takasbank Head Office building. The secretariat services of the Committee are carried out by the Central Counterparty Department.
- (2) The meeting agenda is set by the chairman or deputy chairman of the Committee by taking account of the proposals received from the the Assistant Manager in charge of CCP and Financial Services and the committee members and announced to the members before the meeting. New items can be added to the agenda in the meeting upon request of the members and by the decision of majority.
- (3) The committee meetings are run by the chairman or, in his absence, by his deputy. The Committee convenes with the simple majority of the members and adopts its decisions by the majority of those attending the meeting. In case of equality of votes, the decisions are adopted based on the vote of the chairman or, in his absence, of his deputy. The Committee meetings can be conducted with all types of technological methods as well as by remote access. The negotiation and writing language of the Committee is Turkish.
- (4) Meeting decisions and results are established / signed with consecutive serial numbers by a report/minute. The meeting results are submitted to the information of the Board of Directors by the chairman or deputy chairman of the Committee with a written minute. The advices of the CCP Risk Committee are not binding upon the Board of Directors. In such a case, however, the Board should be informed about both the advices of the Committee and the reasons for their non-applicability. The committee decisions and the minutes submitted in relation to the committee decisions to the Board of Directors are maintained separately by the Central Counterparty Department together with the copies of the adopted resolutions.
- (5) The Committee members are responsible for being honest and objective in the opinions they will give and in the decisions they will make, and keeping the secrets they may learn in the Committee meetings of whose disclosure is contrary with the legislation and business ethics. The Committee members cannot use the business and trade secrets they learned to provide advantage to themselves nor can others.
- (6) The personal attendance of the members to the committee meetings is essential; and those who cannot attend due to their excuse shall convey their excuse prior to the meeting to the Central Counterparty Department in writing or via email, as to be submitted to the chairman of the Committee. This situation

shall be recorded in the meeting minutes. The members who serve in the Committee on behalf of the CCP members or their clients and fail to participate in two successive committee meetings shall be deemed to have resigned from the Committee membership.

## **ARTICLE 7 - Duties and Powers of the Committee**

- (1) In the CCP Risk Committee, the issues such as;
- 1) important revisions to be made in the types and criteria of CCP membership,
  - 2) important revisions to be made in the initial and variation margin calculation method and models used in the markets to which CCP service is provided,
  - 3) important revisions to be made in the guarantee fund calculations,
  - 4) important revisions to be made in the collateral valuation methods or collateral compositions,
  - 5) important changes to be made in the assets accepted as collateral,
  - 6) stress testing results and the measures need to be taken accordingly,
  - 7) back-testing results and the measures need to be taken accordingly,
  - 8) important revisions to be made in the calculation and use of the amounts allocated or committed from Takasbank capital to the CCP default management resources,
  - 9) important amendments to be made in the directives and procedures related to the CCP default management,
  - 10) beginning to provide CCP service to the new markets or capital market instruments,
  - 11) use of insurance in the CCP default management, etc.

that might affect the markets to which CCP service is provided shall be discussed, and the points for which an advice will be given to the Board of Directors and their content shall be decided.

- (2) The Board of Directors may, on issues it deems necessary, request from the CCP Risk Committee to express an opinion. The requests of the Board of Directors shall be immediately addressed by the Committee.

## **ARTICLE 8 - Budget and Expenses**

- (1) Takasbank pays no remuneration to the members of the CCP Risk Committee in relation to their assignments.

## **SECTION THREE**

### **Miscellaneous and Final Provisions**

#### **ARTICLE 9- Enforcement**

- (1) This Directive shall be resolved by the Board of Directors and enter into force on the date on which it was approved.

#### **ARTICLE 10 - Execution**

- (1) The provisions of this Procedure shall be executed by the Board of Directors.