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# **TAKASBANK CENTRAL COUNTERPARTY DIRECTIVE ON DEFAULT MANAGEMENT IMPLEMENTATION PRINCIPLES**

## DOCUMENT BACKGROUND

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# Takasbank Central Counterparty Directive on Default Management Implementation Principles

## CHAPTER ONE

### Purpose, Scope, Basis, Definitions and Abbreviations

#### ARTICLE 1 - Purpose

- (1) The purpose of this Directive is to stipulate the principles to be implemented for the management of default process in the markets and/or capital market instruments to which Istanbul Settlement and Custody Bank Incorporation provides service as the Central Counterparty (CCP).

#### ARTICLE 2 - Scope

- (1) In the markets and/or capital market instruments to which service is provided as CCP, the management of the events of pre-default or default arising from failure of the members to fulfill their obligations, in whole or in part, against Takasbank or for other reasons stipulated in the relevant legislation falls within the scope of this Directive.

#### ARTICLE 3 - Basis

- (1) This Directive has been prepared on the basis of Article 12 of the Articles of Association of Istanbul Takas ve Saklama Bankası A.Ş. and Article 13 of the General Regulation on the Establishment and Operating Principles of the Central Clearing and Settlement Institutions.

#### ARTICLE 4 - Definitions and Abbreviations

- (1) Terms used in the implementation of this Directive shall bear the following meanings:
  - a) **BRSA:** The Banking Regulation and Supervision Agency.
  - b) **BİAŞ/Exchange:** Borsa Istanbul A.Ş.
  - c) **Department:** Central Counterparty Department.
  - ç) **Direct CCP Member:** A central counterparty member authorized to perform only its own and/or its clients' settlement and clearing operations.
  - d) **Guarantee Fund:** The fund/funds established with the contribution amounts of the CCP members for utilization 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) **General CCP Member:** A central counterparty member authorized to perform the settlement and clearing operations of the trading institutions in addition to its own and/or its clients' settlement and clearing operations.
  - g) **Relevant legislation:** The Capital Markets Law, the Regulation on the Establishment and Operating Principles of the Central Clearing and Settlement Institutions, Istanbul Takas ve Saklama Bankası A.Ş. Central Clearing and Settlement Regulation, Istanbul Takas ve Saklama Bankası A.Ş. Central Counterparty Regulation, other legislation relating to the market directives and procedures.
  - ğ) **Margin requirement:** Initial, variation, physical delivery margins and any other margin that may be established for risks arising from the positions.

- h) **Trading institution:** The institution that trades in the markets or capital market instruments wherein Takasbank serves as CCP, but performs the settlement of its obligations relating to the said transactions through a General CCP member.
- i) **Law:** The Capital Markets Law No. 6362.
- i) **Board:** The Capital Markets Board.
- j) **Liquidity risk:** The probability of loss that may result from the inability to convert the collaterals into cash/to close the positions or from their conversion into cash/closing with the prices lower/higher than those estimated as a result of extreme fluctuations or declined depth in the markets.
- k) **Central counterparty service:** The activity where Takasbank undertakes the settlement finality by acting as buyer against the seller and seller against the buyer through open-offer, novation or any other legally-binding method on the basis of the markets or capital markets instruments deemed appropriate by the Board.
- l) **CRA:** The Central Registry Agency.
- m) **CCP:** Central Counterparty.
- n) **CCP Default Management Committee (DMC):** The Committee authorized and empowered to manage the default process within the limits prescribed by the relevant legislation and membership contracts.
- o) **Central Counterparty Regulation:** Istanbul Settlement and Custody Bank Incorporation Central Counterparty Regulation published in the Official Gazette dated 14.8.2013 and numbered 28735.
- ö) **Central Clearing and Settlement Regulation:** Istanbul Takas ve Saklama Bankası A.Ş. Central Clearing and Settlement Regulation published in the Official Gazette dated 18.7.2013 and numbered 28711.
- p) **Market:** Places wherein Takasbank is authorized by the Board to provide CCP service.
- r) **Market directive:** The arrangements for the markets and capital market instruments to which Central Counterparty service will be provided, which have been adopted by the Board of Directors, approved by the Board and published on Takasbank's website.
- s) **Procedure:** The arrangements comprising the rules, principles and procedures for the CCP activity and its functioning and implementations, which have been prepared pursuant to the general framework stipulated in the CCP Regulation, market directives and regulations, and approved by the General Manager.
- ş) **Capital market instruments:** Securities and derivative instruments as well as other capital market instruments, including the investment contracts, determined by the Board as falling into this scope.
- t) **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.
- u) **Takasbank:** Istanbul Takas ve Saklama Bankası A.Ş.
- ü) **CBRT:** The Central Bank of the Republic of Turkey.

## CHAPTER TWO

### General Principles and Takasbank's Financial Liability

#### ARTICLE 5 - General principles

- (1) Ensuring the continuance of the smooth functioning of the system is essential with respect to Takasbank and market participants in any default situation that may be experienced in the markets to which CCP service is provided.
- (2) For the markets and capital market instruments to which CCP service is provided, Takasbank deals only with the direct or general CCP members. Takasbank is not liable for the obligations of the Members against their clients and of the general central counterparty members against the trading institutions.
- (3) Procedures may be issued for the operations, processes and rules to be observed in the implementation of the principles stipulated in this Directive.

#### ARTICLE 6 - Takasbank's financial liability

- (1) The financial liability of Takasbank as a CCP shall be up to the amount arising from its undertaking to ensure the fulfillment of the obligations of the parties for the transactions conducted in the markets or capital market instruments and the finalization of settlement by acting as the counterparty for each of the parties; provided however that it shall be limited to the resources designated in accordance with the CCP Regulation.
- (2) The liability of Takasbank in its capacity as a central counterparty against the member starts at the moment when the buy/sell or bid/ask orders are matched and ends with the finalization of the settlement.
- (3) Finalization of settlement takes place by delivery to the relevant accounts or transfer between the accounts of the payables and receivables arising from the positions generated as a result of the matched orders in the relevant markets/capital market instruments. For the settlement finality, the realization moments of the transfer of assets between the accounts shall be regarded as the moment that settlement is completed.
- (4) The liability of Takasbank in physical delivery operations subject to the CCP service shall be limited to the delivery of the asset subject to the physical delivery on the settlement date; and in case of failure to deliver it on the settlement date, its delivery by supplying it from the market in accordance with the principles and procedures stipulated in the relevant legislation; and in case of failure to supply it from the market or upon request of the concerned party, its cash consideration calculated again in accordance with the principles and procedures stipulated in the relevant legislation together with the default interest to be computed till the date of late delivery or payment.
- (5) The liability of Takasbank against the lender in lending transactions to which it provides CCP service shall be limited to the transaction commission amount and the delivery of the asset subject to the lending on the maturity date; and in case of failure to deliver it on the maturity date, its return by supplying it from the market in accordance with the principles and procedures stipulated in the relevant legislation; and in case of failure to return or upon request of the concerned party, payment of its cash consideration calculated again in accordance with again the principles and procedures stipulated in the relevant legislation and the transaction commission to be computed till the date of the return.

- (6) After the moment that Takasbank's undertaking for the settlement finality is fulfilled, the losses that may be incurred by the counterparties for whatever reason cannot be associated with the default management funds designated in accordance with the CCP Regulation.

## **CHAPTER THREE**

### **Definition of Default, its Notification and the Central Counterparty Default Management Committee**

#### **ARTICLE 7 - Definition of default**

- (1) In the presence of the following situations, the relevant member shall be deemed to have defaulted without requiring Takasbank to issue any protest, serve a written warning, grant an extension of time and execute any legal proceeding and action thereof.
- a) Non-fulfillment of the obligations arising from any debt that becomes due and payable within the time periods and in accordance with the principles and procedures prescribed in the directives or procedures of the relevant market/capital market instrument;
  - b) Non-fulfillment of the margin call, deposited guarantee fund and additional guarantee fund obligations within the time periods prescribed in the directives or procedures of the relevant market/capital market instrument to which CCP service is provided;
  - c) Non-payment of the membership fees, transaction fees and commissions within the prescribed time periods;
  - ç) Non-execution of the physical deliveries within the time periods prescribed in the market directives or procedures.
  - d) Occurrence of any necessity to cover the member's obligations by Takasbank for any reason including the temporary or permanent suspension of the activities of the member or termination of its membership.

#### **ARTICLE 8 - Central counterparty default management committee (DMC)**

- (1) A CCP Default Management Committee shall be established to serve as the decision maker for the default management processes in the markets and/or capital market instruments to which CCP service is provided.
- (2) The Committee also acts as the decision-making body in the resolution of defaults occur in the markets and platforms where the central clearing is submitted. The provisions of Article 35 of the Istanbul Settlement and Custody Bank Incorporation Central Clearing and Settlement Regulation are reserved.
- (3) CCP Default Management Committee shall determine and be responsible for the measures to be taken and the assignments to be made during the process.
- (4) The members of the committee are; the General Manager of Takasbank (Chairman), the Assistant General Managers in charge of the markets and operations, the Assistant General Managers in charge of CCP and Financial Services, the Central Counterparty Director and the Head of Legal Affairs Department. During the resolution of defaults occur at the markets and/or platforms where the CCP service is submitted, the related department manager and other Assistant General Managers also become members of the CCP Default Management Committee. In addition, Takasbank employees and the representatives of relevant institutions deemed appropriate by the Chairman of the Committee may also participate in the committee meetings to express advisory opinion.



- (5) In the committee meetings held for the resolution of defaults arising from the markets where the CCP service is provided, decisions are taken by absolute majority. In case of equality of votes, the operation shall be established in accordance with the decision of the Chairman of the Committee. The CCP Default Management Committee convenes with the majority of the members. In case of failure to achieve quorum, or whenever it is necessary, Takasbank employees holding at least a Manager title and whose attendance to the meeting by proxy for the permanent members deemed appropriate by the Chairman of the Committee may participate in the meetings with voting right. In the absence of the Chairman, his deputy or, in his absence, the most senior Assistant General Manager chairs the Committee.
- (6) Secretariat operations of the CCP Default Management Committee are carried out by the CCP Department. Decisions made in the meetings are recorded to the minutes.

#### **ARTICLE 9 - Notification of Default**

- (1) Except for the events of pre-default considered to be not arisen from any permanent weakness in the member's capacity to meet its obligations; if it is provided by the CCP Default Management Committee that the member shall be unable to fulfill its obligations against Takasbank and the measures referred to in Chapter 5 of this Directive are decided to be applied for such member, then this situation shall, pursuant to Article 13 of the CCP Regulation under the heading of "Notification Obligation About Members", immediately be informed to other relevant institutions such as the Board, BİAŞ, CRA, CBRT and BRSA.
- (2) The announcement time of the default to the CCP members shall be determined by the CCP Default Management Committee by taking account of the market conditions.
- (3) The default notification is required to contain information about the default as well as the eligible measures to be taken under the relevant legislation after the notification. The precise content of the notifications shall be set forth by the CCP Default Management Committee.

## **CHAPTER FOUR**

### **Events of Pre-Default and their Management**

#### **ARTICLE 10 - Event of Pre-default**

- (1) Events of default where in the member delays fulfilment of its clearing and settlement obligations up to, at most, the deadlines stipulated in the relevant directives and procedures, and which do not hinder the continuation of the member activities are considered as pre-default.

#### **ARTICLE 11 - Measures to be taken in the event of pre-default**

- (1) The CCP Department establishes the necessary systems to enable smooth monitoring of the default in the markets and/or capital market instruments to which CCP service is provided. In cases where any event of pre-default may entail a significant risk for Takasbank, the CCP Department shall, by taking account of the status of the positions and collaterals subject to the default, inform the members of the CCP Default Management Committee about pre-default.
- (2) During the course of pre-default, no collateral outflow is allowed for the accounts of the member that are in collateral shortfall.
- (3) Pre-default period is limited to the time period granted in the relevant market directives and procedures for removal of the default by the member or Takasbank. In cases where removing default seems easily possible with the existing collaterals and it is determined that failing to resolve default

is resulted from causes other than financial incapacity, then this period can, unless otherwise explicitly stipulated in the market directives and procedures, be extended until the end of the next business day by the CCP Default Management Committee.

- (4) For the often repeated pre-default events, the CCP Default Management Committee is authorized to decide on the measures to be taken, including those set forth below.
- a) Suspending the trading authority of the member and/or the customer accounts from which the default has arisen for a certain time period or claiming the execution of disciplinary actions referred to in Section 7 of the CCP Regulation under the heading of “Disciplinary Provisions”.
  - b) If the pre-default, in the lending transactions, concentrates on specific securities and such concentration is resulted from the tightness in the trading volume of the relevant security, restricting the lending eligibility of the relevant security.
  - c) Analyzing the causes of pre-default and determining other measures to be deemed necessary, including amendments in the legislation.

## **CHAPTER FIVE**

### **Default Management Tools and Default Management Process**

#### **ARTICLE 12 - Default management tools**

- (1) The major tools to be used in default management are the porting of positions, their closing, sale through auction or compulsory transfer, the restriction of profit distribution on the futures and options markets and the risk protection arrangements.
- (2) In using the default management tools, the causes of default and their impact on the markets are taken into account.
- (3) The CCP Default Management Committee is authorized to take other measures it may deem necessary, by observing the relevant legislation, the contracts signed with the members and the international principles.

#### **ARTICLE 13 - Default decision**

- (1) If allotting extra time to the member who fails to fulfill its obligations against Takasbank is not deemed appropriate by the CCP Default Management Committee or the member still fails to fulfill its obligations at the expiry of the allotted time, then the DMC shall convene promptly and a default notification shall be served in accordance with article 9 of this Directive.

#### **ARTICLE 14 - Default management process**

- (1) The process after the default notification shall be managed based on the decisions of the CCP Default Management Committee to be made in accordance with the relevant legislation particularly the CCP Regulation and the market directives and procedures, and the member contracts. For the issues not explicitly stipulated, the DMC may observe the international principles and practices.
- (2) Upon the default notification of the CCP Default Management Committee, and unless otherwise stipulated by the DMC, all trading authorizations of the member on its accounts shall be suspended. Removal of the market trading authorization of the defaulting member and the relevant trading institutions - if any - shall be requested from the Exchange and/or the trading platform operators.

- (3) With the decision to be made by the CCP Default Management Committee, the cash margin requirements and the guarantee fund contribution amounts of the defaulting members may be determined to be kept out of credit and interest accrual facilities by the Fund Management Team. The CCP Default Management Committee may, by taking the size of default into account, decide the relevant guarantee fund to be kept out of credit and interest accrual.
- (4) During the course of the default management process, the members shall be informed in a regular manner by the Department about the amount of financial resources, from which resources the utilizations were made and which level and sequence are reached at the resources available for default management.
- (5) During the course of the default management process, one or more than one or all of the following measures, but as to be not limited only to those, may be enforced either simultaneously or in a sequence to be determined by the CCP Default Management Committee.
  - a) Upon receipt of a request from the member after the default notification, closing the positions at the member accounts through the methods specified in Article 18 of this Directive and in a manner that not to pose any liability to Takasbank.
  - b) Porting the positions related to the accounts having sufficient collateral at the defaulting member, in whole or in part, together with their collaterals, to a non-defaulting member in the manner stipulated in Article 18 of this Directive.
  - c) Closing the open positions failed to be ported to another member through positions in opposite direction to be taken from the market for these accounts, even if no collateral deficit exists.
  - ç) Reciprocal closing or netting of all or a portion of the positions ex-officio by Takasbank through the positions in opposite direction at the same maturity existing in other accounts of the defaulting member.
  - d) Entering into hedging transactions by taking positions in opposite direction on different maturities and/or at different underlying assets to mitigate the risks that may be posed by the open-positions.
  - e) Converting to cash, in accordance with Article 23 of this Regulation, the non-cash collaterals and guarantee fund contribution amounts in the defaulting member's own accounts or in its client accounts which are in collateral deficit.
  - f) Using the defaulting member's excess margin requirement amounts in other markets for default management by the decision of the CCP Default Management Committee.
  - g) Using the defaulting member's guarantee fund contribution amounts in other markets for default management by the decision of the CCP Default Management Committee provided that it has no risk in the relevant market.
  - ğ) Using the non-defaulting member's guarantee fund contribution amounts for default management by the decision of the CCP Default Management Committee pursuant to Article 23 of this Regulation.
  - h) Requesting from the non-defaulting members to deposit the additional guarantee fund contribution amounts they have committed.
  - ı) Holding auctions for the positions failed to be closed.
  - i) Reciprocal closing of the positions failed to be closed or transferred by auction through positions in opposite direction at the same maturity selected among the positions in the portfolios or client accounts of the non-defaulting members, or terminating them through

compulsory transfer or cash-settlement in the manner stipulated in Articles 20 and 21 of this Regulation.

- j) If it is determined that the default occurs under extraordinary conditions or it may create extreme consequences; incorporating the measures defined in Article 48 of the CCP Regulation to be taken under extraordinary conditions, particularly the suspension of daily profit distribution, into the default management tools.
- (6) The CCP Default Management Committee may determine entering into hedging transactions for the positions failed to be ported and remained open, but may also decide to enter into hedging transactions for risky positions that it considered non-portable after the pre-default without waiting for the expiry of the time period to be deemed necessary for the notification of default. All costs and losses arising out of the hedging transactions shall be covered from the collaterals of the account and member causing the default, and should they be insufficient, from other default management tools listed in the 1st subparagraph of Article 22 of this Directive.
- (7) The auctions to be held for the positions can be organized, in the manner stipulated in Article 19 of this Directive, either for porting the relevant positions or for the positions in opposite direction to be taken to close the positions. The Department shall submit to the CCP Default Management Committee its evaluations regarding which option would be more feasible on the basis of the pricing offers to be received from the market.
- (8) The legal proceedings for the collection from the defaulting members of the funds which do not belong to the defaulting members and were used in the default process by the decision made by the CCP Default Management Committee shall be initiated by Takasbank Legal Affairs Department.
- (9) If any recourse was made to the guarantee fund contribution amounts of the non-defaulting members during the default management process, the amounts used from the guarantee fund contribution amounts of the members, whose collection depends upon the legal proceeding shall be informed to the members by the decision of the CCP Default Management Committee.

#### **ARTICLE 15 – Porting the positions and collaterals**

- (1) In order for, in the event of default, the positions monitored in the single position accounts of any defaulting member, and the collaterals associated with such positions, to be ported to another non-defaulting member, the following conditions are required to be met.
  - a) Should any designation regarding the transferee CCP member be made beforehand between the relevant CCP member and Takasbank, the porting operations shall be conducted within 24-hours in accordance with the provisions of the agreement thereof without any further consent or approval of the defaulting member. If the porting cannot be executed for any reason, the positions and collaterals failed to be ported shall be liquidated in accordance with the provisions of this Directive.
  - b) Should no designation regarding the transferee member be made beforehand, and if an agreement is achieved between the defaulting member and the CCP member(s) willing to take over the positions and/or collaterals, or if the clients find any member to take over the positions and collaterals or Takasbank finds a member willing to take over the positions and/or collaterals, then the porting operation may be conducted irrespective of any time. Investigating the porting opportunities for the positions and collaterals in accordance with this subparagraph shall not preclude Takasbank from closing the positions by using relevant collaterals or implementing other measures thereof.
  - c) The procedures to be observed after the default notification when necessary, in facilitating communication and coordination with the defaulting member and its members

for porting of the positions and collaterals shall be determined in the CCP Default Management Committee.

- ç) For the porting operations, the reconciliation of the position and collateral amounts subject to the takeover shall be made between Takasbank and the members taking over such positions and collaterals. A copy of the said reconciliation shall immediately be conveyed to the Board and the defaulting member or those authorized to represent and bind that member.
  - d) The CCP Default Management Committee may limit the power of the CCP member taking over the single position accounts and the associated collaterals thereof to withdraw available collaterals in the accounts until the reconciliation between the records at the defaulting CCP member and Takasbank records shall be achieved.
- (2) In order for the multiple position accounts to be ported, the joint instruction of all customers holding any position and/or collateral in the accounts shall be required.

#### **ARTICLE 16 - Prioritization of positions required to be closed**

- (1) Prioritization of the positions required to be closed shall be evaluated by the Department by taking the sensitivity of the portfolios, their volumes and netting opportunities, liquidity risks and average maturities into account.
- (2) In closing out the positions remained opened despite the measures being taken, the unhedged positions shall be given priority.

#### **ARTICLE 17 - Position netting**

- (1) In the market and/or capital market instruments to which CCP service is provided, the short and long positions of the same contract included in the accounts associated with the defaulting member can be closed, rather than closing them by taking positions in opposite direction, by holding them until the maturity date as a risk-neutral position pair in the default accounts to be exclusively opened by using the settlement prices. The list of transferred positions shall be shared with the market administrator by the relevant market/operations team to facilitate reconciliation.
- (2) Before entering into transactions with opposite direction for hedging or position closing purposes, less risk-sensitive position pairs can also be formed through the positions in opposite direction in different contracts. Positions in opposite direction recorded in different accounts shall be moved to exclusive default accounts by using the settlement prices. Any loss or profit to be incurred in the default accounts to which such positions have been moved shall be associated with the default management resources. Taking no action for the matched position pairs may be opted.

#### **ARTICLE 18 - Position closing and hedging transactions**

- (1) Position closing and hedging-related transactions that may be necessitated by the default management measures can be conducted, in accordance with the decisions to be made by the CCP Default Management Committee by taking the market liquidity as well as their impact on the prices into consideration, through;
  - 1) execution of opposite direction operations with the purpose of closing by the market operators with the file to be transmitted to the Exchange or to the relevant trading platform by the relevant market operations team,
  - 2) taking the position in opposite direction on the Exchange and the relevant trading platforms via the members it shall agree upon.

- 3) taking the position in opposite direction on the over-the-counter-market via the brokers it shall agree upon,
  - 4) opening position on the markets that are deemed necessary by Takasbank Fund Management Team.
- (2) For the closing transactions to be conducted by the Exchange or the relevant trading platform, the relevant department of the market operators shall send an order for the position in opposite direction on behalf of the accounts at the defaulting member. Changes in the risk level as the positions are closed shall be monitored by the updates to be made by Takasbank margining system. The Department shall monitor the changes in the risk level and report to the CCP Default Management Committee.

#### **ARTICLE 19 - Holding the auction**

- (1) Takasbank may organize auction to transfer or close out the unreported positions. The auction shall be held open to all members and to the clients via the members. For the general CCP members, participating in the auction is mandatory.
- (2) Detailed information about the positions to be opened for the auction, the time frame of the auction and the product-based acceptable price brackets shall be submitted by the Central Risk and Collateral Management Group to the CCP Default Management Committee for approval.
- (3) In case the CCP Default Management Committee decides to hold an auction, the relevant market operations team shall deliver to the Exchange or the relevant trading platform operators and the parties who will participate in the auction, the auction notice containing the relevant position data, auction time frame and the deadlines for submitting offers.
- (4) The General CCP Members whose participation in the auction is mandatory are expected to submit their best effort bid and offer prices to the auction opened by Takasbank.
- (5) Takasbank may auction, in an open or sealed bid manner, the entire unreported positions as a single portfolio for their acquisition by an individual member, but may also offer multiple portfolios to be formed on the basis of different criteria for their acquisition to several members.
- (6) The auction may be cancelled by Takasbank either completely or on portfolio or position basis.

#### **ARTICLE 20 - Mandatory transfer**

- (1) Should holding any auction be deemed not necessary, all positions be failed to be transferred at the end of the auctions to be opened, or the auctions be cancelled, then the positions remained opened may, pursuant to the third subparagraph of Article 37 of the CCP Regulation, be mandatorily transferred to the members to be designated by the CCP Default Management Committee.
- (2) In identifying the member portfolio accounts to be mandatorily transferred, the factors such as the risk limits of the members, the amount of position they took over in the auctions, and the existence of positions in opposite direction related to the positions to be taken over shall be considered. For the compulsory transfer, the theoretical prices, the agreed auction prices or the prices set forth by Takasbank on the basis of the loss limit that can be assumed under the relevant legislation can be used.

#### **ARTICLE 21 - Terminating positions by mandatory cash settlement**

- (1) The CCP Default Management Committee may determine to terminate the positions remained opened despite the measures being taken for the default management through mandatory cash settlement together with the mandatory transfer alternative to the member portfolio accounts rather than transferring them mandatorily to the member portfolio accounts.

- (2) For mandatory cash settlement, the opposite direction positions in the portfolio or client accounts associated with the non-defaulting members shall be used.
- (3) The prices to be used for closing out the positions through mandatory cash settlement shall be determined at a level that would not cause Takasbank's remaining capital after using default management resources to fall below the capital amount calculated in accordance with the BRSA legislation, by also considering the status of the non-defaulting accounts from which the opposite direction positions to be closed are selected.

## **CHAPTER SIX**

### **Default Management Resources**

#### **ARTICLE 22 - Resources used in default management process and distribution of losses**

- (1) When using the collaterals, guarantee fund contribution amounts and Takasbank resources to be resorted in case of default of the CCP members, the following order of priority shall be observed:
  - a) Collaterals in the defaulting member's own accounts or in its client accounts which are in collateral deficit.
  - b) Deposited guarantee fund contribution amount by the defaulting CCP member.
  - c) Indemnities to be made from the insurance policies, if any.
  - ç) Capital allocated by Takasbank for the covered risks.
  - d) Deposited guarantee fund contribution amounts by other CCP members.
  - e) Additional guarantee fund contribution amounts to be requested from the CCP members.
  - f) Commitment made from the remaining capital of Takasbank.
- (2) The margin requirement amounts changing as a result of the account updating operations made throughout the default management process, the resources listed in the first subparagraph of this article and the amount of foreign resources to be used, where necessary, and the amount and/or rate of utilizations made from such resources shall be reported by the Department to the DMC.
- (3) The CCP Default Management Committee may decide to borrow against collateral from the CBRT and other banks in order to provide liquidity during the default management process. Assets belonging to Takasbank's own portfolio can be given as collateral on condition that they do not exceed the capital allocated and committed by Takasbank in the default management process. Non-cash collaterals and guarantee fund contribution amounts of the defaulting or other members that can be used in the default management process may also be pledged for borrowing purposes to the CBRT or other banks.
- (4) Resources other than the default management to be used by Takasbank before the default notification in order to fulfill the obligations of the defaulting member in its capacity of central counterparty as well as all interests and other costs which may be incurred as a result of the borrowing transactions mentioned in the third subparagraph above shall be covered from the default management resources in accordance with the order set forth in the first subparagraph of this article.
- (5) The contribution amounts to the guarantee funds established for the markets other than the one where the CCP member defaulted may be used for its obligations in the market at which it has defaulted, as to come after the item (b) of the first paragraph of this article, provided that it has no risk in the relevant markets or all of its positions have been liquidated. Apart from its collaterals and guarantee fund contribution amounts, the defaulting CCP member's other assets at Takasbank may be used in

the settlement finality or debt liquidation after item (a) of the first paragraph of this article provided that they are unencumbered.

- (6) Collaterals associated with the client positions followed under the single position accounts of the CCP members can only be used in fulfilling the obligations of the relevant client.
- (7) Should the capital allocated for the covered risks be used in accordance with this article due to default, the used amount shall be restored by Takasbank within a month. The allocated capital amount to be restored in this way during one year period cannot exceed the amount determined in the beginning of the period. If any default reoccurs within the one month period to be lapsed until the replenishment of the used capital, then the remaining portion of the allocated capital, if any, shall be used. For the portion which cannot be covered, the guarantee fund of the non-defaulting members shall be resorted. Replenishment of the capital shall not necessitate the return of the guarantee fund contribution amounts being used.
- (8) If the default management resources fail to be sufficient to resolve the defaults to be experienced in the markets and/or capital market instruments to which CCP service is provided, the measures to be taken thereof shall be stipulated in the Istanbul Settlement and Custody Bank Inc. Restructuring Plan to be approved by the Board of Directors.

### **ARTICLE 23 – Liquidation of collaterals and the use of guarantee fund contribution amounts**

- (1) The non-cash assets and the guarantee fund contribution amounts in the client accounts causing the default and/or in the portfolio accounts of the defaulting member and the assets provided by other members as the guarantee fund contribution amounts, if the required conditions occurs, shall be liquidated upon the decision of the CCP Default Management Committee without the need to get any approval or hold any auction.
  - (2) If the capital market instruments subject to collateral, whose ownership has been taken over by Takasbank in accordance with the agreements executed with the members, are listed in the exchange or other organized markets, then they can be sold in these markets or over their value in these markets or can be offset against the liabilities of the debtor. Assets not listed in the exchange or other organized markets shall be valued in accordance with the valuation principles stipulated in the Takasbank Central Counterparty Regulation on Collateral Management Implementation Principles and liquidated. Assets subject to collateral, whose ownership has been taken over, can also be used, to the extent permitted by the legislation, as collateral against borrowing instead of being liquidated.
- (3) The CCP Default Management Committee may liquidate the non-cash collaterals and the guarantee fund contribution amounts in a lump sum by taking account of the impact of the asset sales on the market liquidity and prices, but may also opt to sale the assets partially.
- (4) Conversion of the non-cash collaterals and the guarantee fund contribution amounts into cash can be performed through;
  - 1) the assets sales to be directly made in the markets to be deemed eligible by Takasbank Fund Management Team,
  - 2) the assets sales to be made by the relevant market department of the Exchange on behalf of Takasbank or via an investment institution to be designated by Takasbank.
- (5) The use of collaterals starts with the most liquid assets; and their ability to quickly be converted into cash shall be taken as the base.



- (6) If it is concluded further to the risk assessment to be made by the Department that the resources available for use up to the deposited guarantee fund contribution amounts of the non-defaulting CCP members may fail to be sufficient, then such situation shall be informed to the CCP Default Management Committee and an authorization shall be requested for converting the non-cash contribution amounts of the non-defaulting members into cash. Upon authorization of the DMC, the assets shall be started to be converted into cash.
- (7) The guarantee fund contribution amounts deposited by the members who participate in the guarantee funds after the occurrence of the relevant default shall not be used in that default management process. All members who have any deposited guarantee fund as of the occurrence date of default shall be subject to additional guarantee fund obligation. The existing guarantee fund contribution amounts of the members who requested to leave the CCP membership prior to the occurrence of default, and which amounts have not been returned based on the time period being determined by considering the average maturity of the outstanding positions in the market shall be used in default management. An additional contribution amount can be requested only once from these members up to the deposited guarantee fund during the period to be elapsed till the return of their existing guarantee funds.
  - (8) In distributing the losses to be attributed to the guarantee fund to the non-defaulting members, the shares of such members within the required size of guarantee fund shall be taken as the basis.

#### **ARTICLE 24 - Returning resources after the default management process**

- (1) The collaterals of the non-defaulting accounts of the defaulting member that are released after closing their positions due to inability to port them to another member shall be paid or delivered to the authorized body/bodies designated by the Law by also taking the regulations of the Board into consideration, for further return to the relevant account holders.
- (2) With the portions of the collaterals and guarantee fund contribution amounts of the defaulting CCP member that have not been used yet, if any, and the resources to be covered through the proceedings related to such member, the debts received for the liquidation of the liabilities of the CCP member and the utilized non-default management resources shall be paid off first, if any.
- (3) If there is any portion remaining from the resources to be covered through the proceeding of the CCP member after the payment of debts or other non-default management resources, then such resources shall be used in the repayment of the resources by starting from the resource designated for use at the bottom of the order and moving up to the previous. Should any partial repayment be made to the resource owners, then the returns shall be made on a pro-rata basis.
- (4) No payment or return shall be made by Takasbank to the defaulting member unless all primary and secondary liabilities arising from the default, including the portion covered from Takasbank's capital, shall be fully paid off.
- (5) The collaterals of the CCP member or its clients remaining after the porting or liquidation of the collaterals and positions in the accounts associated with the relevant CCP member on whose name an administrative or judicial liquidation process was initiated shall be paid or delivered to the authorized body/bodies designated by the Law by also taking the regulations of the Board into consideration.

## **CHAPTER SEVEN**

### **Miscellaneous and Final Provisions**

#### **ARTICLE 25 - Default management tests**

- (1) The applicability of the default management processes referred to in this Directive shall be tested once a year through a default management simulation to be conducted by the participation of the market participants to be designated by the CCP Default Management Committee.
- (2) The default management simulations can be on market basis, but also cover the single or multiple defaults to be experienced in more than one market. The default simulation scenarios shall be determined by the Department and approved by the CCP Default Management Committee.
- (3) The uncertainties which may cause execution difficulties in the processes during the conducted simulation shall be minimized through the revisions and additions to be made in this Directive.
- (4) The participants failing to provide the necessary contribution to the default management process during the simulation shall be warned.
- (5) The simulation results and the revisions suggested to be made in the legislation and procedures shall be submitted to the CCP Default Management Committee. The results shall be reported to the CCP Risk Committee and the Board of Directors.

#### **ARTICLE 26 - Termination of Takasbank's CCP activities**

- (1) If the CCP service provided by Takasbank is terminated for any reason, the existing positions and collaterals shall be ported to another institution to be commissioned as a central counterparty by the Board in accordance with the legislation or Takasbank shall continue, if deemed appropriate by the Board, its clearing and settlement and collateral management services without acting as a central counterparty.
- (2) In case of occurrence of any condition which would prevent Takasbank from continuing its clearing and settlement or central counterparty services, the positions and collaterals cannot be ported to another institution, then the collaterals and positions shall be liquidated in accordance with the principles to be stipulated by the Board.

#### **ARTICLE 27 - Temporary Article**

- (1) The execution of article 25 of this Directive shall begin in 2017 at the latest, following the establishment of the required infrastructure.

#### **ARTICLE 28 - Enforcement**

- (1) This Directive shall enter into force on the date of approval by the Board of Directors.

#### **ARTICLE 29 - Execution**

- (1) The provisions of this Procedure shall be executed by the General Manager.