

DIRECTIVE			
Subject	Directive On OTC Derivative Products Default Management Group Implementation Principles		
Relevant Department	Central Risk Management Team		
Document No	YNR.MRY.002	V:4.0	Restricted



DIRECTIVE ON OTC DERIVATIVE PRODUCTS DEFAULT MANAGEMENT GROUP IMPLEMENTATION PRINCIPLES

DOCUMENT HISTORY

Ver. No	Date	Prepared by/ Modified by	Approved by	Explanation
V1.0	26/11/2021	Central Counterparty Department	Board of Directors	Initial Publication

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DIRECTIVE ON OTC DERIVATIVE PRODUCTS DEFAULT MANAGEMENT GROUP IMPLEMENTATION PRINCIPLES

SECTION ONE

Purpose, Scope, Base, Definitions and Abbreviations

ARTICLE 1 - Purpose

- (1) The purpose of this Directive is to organise the principles and procedures regarding the group that will support the CCP Default Management Committee for the management of the default process in the over-the-counter (OTC) derivative instruments that Istanbul Settlement and Custody Bank serves as the Central Counterparty (CCP).

ARTICLE 2 - Scope

- (1) The selection of the group members, their duties and responsibilities, their term of office and departure from office, Committee's convening and decision-making principles and procedures fall within the scope of this Directive.

ARTICLE 3 - Base

- (1) This Directive has been prepared on the basis of Article 13 of General Regulation on Establishment and Working Principles of Central Clearing Institutions.

ARTICLE 4 - Definitions and Abbreviations

- (1) Terms used in the implementation of this Directive shall bear the following meanings;
- a) **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.
 - b) **Group:** Takasbank OTC Derivatives Default Management Group.
 - c) **Related Legislation:** Capital Markets Law, Regulation on the Establishment and Working Principles of Central Clearing Institutions, Istanbul Clearing and Custody Bank Central Clearing Regulation, Istanbul Clearing and Custody Bank Central Counterparty Regulation, other legislation related to market directives and procedures,
 - d) **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.
 - e) **CCP:** The Central Counterparty.
 - f) **CCP Default Management Committee:** The Committee assigned and authorized to manage the default process within the limits drawn by the relevant legislation and membership agreements,
 - g) **Market:** Over-the-Counter Derivatives Transactions where Takasbank provides clearing and Central Counterparty services,
 - h) **Takasbank:** Istanbul Takas ve Saklama Bankası A.Ş.

SECTION TWO

Structure, Working Principles, Duties and Authorities of the Management Group

ARTICLE 5 -Structure of OTC Derivatives Default Management Group

- (1) The Over-the-Counter Derivatives Default Management Group (Group) is established to support the CCP Default Management Committee in the default management processes of over-the-counter derivative instruments for which CCP service is provided.
- (2) Group members are;
 - a) Deputy General Manager responsible for CCP and Financial Services, Central Counterparty Department Director and the Director, to which the Derivatives Clearing Team is affiliated,
 - b) Three Principal Member Representatives and two Substitute Member Representatives who are employees of OTC Derivatives Market members
- (3) Deputy General Manager responsible for CCP and Financial Services is the Chairman of the Group, and the CCP Department Director is the group Deputy Chairman. In the absence of the Chairman, his deputy presides over the group; and in the absence of the Deputy Chairman, the Director to which the Derivatives Clearing Team is affiliated presides.
- (4) Takasbank or its member personnel, who is not a member of the Group, as well as independent market experts or professional consultants, who are approved by the Group Chairman, may also be included in the Group meetings to express their opinions in consultation.

ARTICLE 6 - Determination of Member Representatives and Requirements for Being a Representative

- (1) The method followed in the determination of Member Representatives to take charge in the Over-the-Counter Derivatives Default Management Group is:
 - a) Principal Member Representatives consist of one staff member each recommended by the authorized bodies of the first three members with the highest average contribution requirement for the OTC Derivatives Market guarantee fund in the one-year period prior to the calendar year in which the representatives are determined. If the members are unable to attend the Group meetings due to an excuse of the relevant personnel, they must declare an alternative name to replace them as the Alternative Principal Member Representative.
 - b) Substitute Member Representatives consist of one staff member each recommended by the third and fourth members, who have the highest average contribution requirement for the OTC Derivatives Market guarantee fund in the one-year period prior to the calendar year in which the representatives are determined. If the members are unable to attend the Group meetings due to an excuse of the relevant personnel, an alternative name to replace them as Alternative Substitute Member Representative is required.
 - c) In the event that the determined CCP members cannot notify a candidate member for the Group for any reason, the representatives are determined from among the candidates nominated by the other members in the order of the highest contribution requirement for the guarantee fund.
- (2) The Staff of the defaulting member cannot be assigned to the Group.
- (3) Member representatives to be assigned in the Over-the-Counter Derivatives Default Management Group must have a minimum of 5 years of professional or academic experience.

- (4) If Takasbank considers that any member representative is unable to fulfill the obligations required by his/her duty, the relevant representative's duty may be terminated. In this case, Takasbank notifies the related member in writing of the cancellation of the duty. For the vacant position, assignments are made according to the methods determined by this Implementation Principles Directive.

ARTICLE 7 - Tenure of the OTC Derivatives Default Management Group Members

- (1) Tenure of the OTC Derivatives Default Management Group representatives is two years.
- (2) An existing Member Representative may be re-recommended by the Member, provided that other conditions are met.
- (3) In the event that a representative working in the Group cannot continue to work due to resignation, retirement, dismissal or other reasons, the Group President may request the relevant member to appoint a new representative.

ARTICLE 8 - Duty, Authority and Responsibility

- (1) Over-the-Counter Derivatives Default Management Group acts as the enforcement authority of the decisions taken by the Default Management Committee in resolving defaults in over-the-counter derivative instruments and taking actions to reduce risks and economic impacts, as far as practicable.
- (2) Duties of OTC Derivatives Default Management Group are;
- To advise CCP Default Management Committee on the liquidation of OTC Derivatives positions and the methods that can be applied in the default management process,
 - Determining the positions or groupings that will be the subject of the auction, in case of a decision to organize an auction,
 - Evaluating the bids submitted to the auction,
 - Determining and analyzing the risk levels of portfolios after auction,
 - Be in attendance periodic default management tests,
 - Performing other duties assigned by the Group Chairman.
- (3) Group members are obliged to be honest and impartial in the decisions taken and the opinions considered, and to keep secrets that they may become aware of at the Group meetings, the disclosure of which is contrary to the legislation or professional ethics. Group members cannot use their business and transaction secrets to gain benefits for themselves, the member they are working with or any third party.
- (4) It is essential that the permanent members attend the group meetings, and those who cannot attend due to an excuse notify the group chairman in writing or by e-mail before the meeting. This situation is stated in the meeting minutes. In case the Principle Member Representative cannot attend the meeting, the Alternative Principle Member Representative determined during the formation of the Group attends the meetings. In the event that he/she cannot attend, the Substitute Member Representative is invited to the meetings.

ARTICLE 9- Meeting Frequency and Minutes

- (1) Meetings are held at Takasbank Head Office building. In conditions where it is not possible to meet physically, Group meetings can also be held remotely by any technological method.

- (2) The Group convenes immediately in case of default by a member holding an over-the-counter derivative instrument position. Ongoing meetings are held with sufficient frequency to ensure that the default management process is carried out effectively.
- (3) The Chairman manages the group meetings. The group convenes with the absolute majority of the members and the decisions are taken with the absolute majority of the attendees. In case of equality of votes, the decision is taken with the vote of the chairman of the meeting.
- (4) Meeting resolutions and results are determined and signed in a report or minutes with consecutive numbers.
- (5) Actions and recommendations, if any, regarding the default management process are reported by the Central Counterparty Department at the next Default Management Committee meeting, following the completion of the said process.
- (6) The Group's secretarial services are carried out by the Central Counterparty Department.
- (7) It is mandatory for the Group to participate in the periodic default management tests.
- (8) The Group may also meet for other purposes upon the invitation of the Chairman, except in cases of default.

SECTION THREE

Miscellaneous and Final Provisions

ARTICLE 10- Enforcement

- (1) This Implementation Principles Directive enters into force on the date it is approved by the Board of Directors.

ARTICLE 11 - Execution

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