

The Legal Respondent of the CCP Service and Member and Investor Information Note on the Risks that may be Encountered

There are 2 major models utilized in the Central Counterparty Services provided by central clearing agencies. In the first model named as “Principal model” clearing agencies’ legal respondents are the members. All of the transactions belonging to clients (investors) are guaranteed to the central clearing agency. In the second model named as “Agency model”, large corporate clients (investors) may be accepted as legal respondents, however these clients’ (investors) all transactions are guaranteed to the clearing agency. In other words, if the clients do not fulfill their direct obligations to the clearing agency, the members in accordance with the guarantee, shall fulfill such obligations to the clearing agency.

Takasbank offers CCP service via the “principal” model. In the CCP service-enabled markets Takasbank’s legal respondent is the CCP member. Takasbank is not held responsible for CCP members’ obligations to their clients (investors). Takasbank, in CCP service, does not directly face members’ clients (investors), hence cannot establish a trade upon direct instruction from the members’ clients. (Investor)

Takasbank assigns CCP members by taking into consideration their strength to fulfill financial and operational obligations against Takasbank, CCP members are allocated risk limits based on their credit rating, the risks that might arise within the limit is guaranteed with collateral based on the assumption that each member admitted as CCP member shall 100% default. The established system aims to restrict the CCP members’ settlement risk and entirely cover such risks, it does not mean that the CCP members’ ability to fulfill their obligations to the CCP members’ clients or other person or organizations is monitored or known.

The risks that might arise are guaranteed by the members through 2 methods:

(i) Transaction (initial+ variation) margin; (ii) guarantee funds.

Guarantee funds are established to distribute the loss, which arises in the event of default in CCP market, to the solvent CCP members, when required. The assets that shall be deposited into the guarantee funds should not be regarded as still being freely in the disposition of the owner with a certainty of being returned back. The assets that shall be deposited into the guarantee funds by the members should be met from their proprietary portfolio and client collateral should not be deposited into the guarantee fund. Takasbank tries to protect both its capital allocated and committed to CCP services and the guarantee fund which has been established with the participation of the CCP members.

The transaction collateral is held in the member’s account with Takasbank and segregated as portfolio and client accounts. The collateral belonging to clients is followed both in the member’s portfolio collateral account and other members’ collateral accounts. The collateral associated with the member’s portfolio account may be used to meet margin shortfall in the client accounts. The

collateral in the client account is not allowed to use neither for the portfolio or other members' collateral shortfalls. Hence, the client collateral in the individual account with Takasbank is protected both from the members' and the other clients' default and incompetency unless the Capital Markets Law is violated by actions such as use of the collateral outside client's knowledge or without its instruction. However it should not be forgotten that the member is in disposition of the individual clients' account with Takasbank, moreover there is no way that it may be acknowledged by Takasbank whether the client collateral has been in whole deposited in client account with Takasbank in line with client instruction. Takasbank CCP Member's power to withdraw collateral from individual client account is restricted with the collateral (risk) amount that client has to hold. Therefore, the collateral over the liabilities in the individual client accounts may not freely be withdrawn by the member. The member's right of disposition/ possession over the account is restricted only in case of default, in such case unless specifically allowed, the member may not transact on behalf of the accounts.

The investors' monitoring of position (risk) and collateral amount in the individual account associated with the CCP member through remote query facility provided by Takasbank is considered as in their favor .

The assets entrusted to Takasbank as collateral (initial+ variation) or guarantee fund contribution are taken under protection in reliance upon Capital Markets Law No 6363, Article 73/2. It is assessed that the Law's 73/2 Article protects the collateral and guarantee fund assets both from Takasbank's liquidation, bankruptcy and pursuit of its debtors and liquidation, bankruptcy and pursuit of the debtors of the custody agency to where they have been transferred for the purpose of remuneration.

Migration of the collateral and positions followed in the individual client accounts associated with any CCP member to other CCP members is subject to two different processes; (i) pre-default and (ii) post-default

In the pre-default migration, positions belonging to the client and their related collateral accounts are migrated to the accounts that shall be opened by the transferee member by Takasbank, upon the consent of the transferor member who shall make the transfer upon the written request from the client and the acceptance of the transferee member. Takasbank, carries out the migration taking into account the transferee member's compliance with limit and position restrictions.

In the event of default in the Central Counterparty Service enabled markets, if the member and Takasbank have previously determined the transferee CCP member between themselves with the intention to migrate the positions held in the individual accounts associated with the defaulted member and their related collateral to another solvent member, the migration may be carried out without the repeated approval and consent of the defaulted member. In case of failing to complete the migration within 24 hours, other measures may be taken.

If no determination has been made with respect to the transferee member, the migration process may be carried out indefinitely upon an agreement being reached between the defaulted

member (those who represent the legal entity and are authorized to bind the company) and a CCP member desiring to be the transferee, or such a member being found by the clients or Takasbank. However in this regard, the exploration of migration alternatives should not create an impediment for Takasbank to close out positions by expending the relevant collateral. In this process, the instruction that shall be provided by Capital Markets Board to the default member shall also be crucial. Since in CCP services, Takasbank's legal respondent is the member, in case of the absence of a prior determination with respect to the migration, the establishment of a transaction without seeking for the member or liquidation office's consent, in accordance with client demand, is possible through Capital Markets Boards' instructions on the matter.

Takasbank may obstruct the withdrawal of collateral by the transferee member until the reconciliation is reached between Takasbank and defaulted member's records with respect to migrated transactions' positions and collateral.

The CCP members, should take into account that the default of customer origin is regarded as the member's default by Takasbank (for CCP, the legally defaulted is the CCP member) and due to the recurring defaults of customer origin even if these defaults have been ended within the deadline, they might be subjected to disciplinary penalties and even their CCP membership may be terminated. Consequently, it is in CCP' members' advantage not to intermediate for client transactions with a high default possibility or closely monitor the client causing default frequently and the transactions.

Aside from the guarantee funds, Takasbank is equipped with the efficient recovery tools such as variation margin cuts (profit distribution in organized derivatives markets), obligatory transfer or termination of positions and these tools could be utilized to fund losses. Under extraordinary circumstances or default of the member to whom the investors' accounts are linked, these tools could hinder profit realization or prevent the profitable positions being kept until maturity. The members are alleged to inform their clients about the outcomes of the precautions to be taken by Takasbank as a result of the default of member itself or under extraordinary circumstances and to arrange their customer contracts in line with the CCP membership contracts they signed with Takasbank.