

General Letter : 1535

Istanbul, 14/03/2019

Equities and Debt Securities Clearing & Settlement Department

Subject: Side Pocket Regulations

Related Parties: Banks

Brokerage Firms

Collective Investment Institutions

Portfolio Management Companies

Dear General Manager,

In order to protect rights and interests of the investment fund participation share owners, who have the provisioned private sector debt securities and Sukuks of 100 % in their portfolios and to operate liquidity risk more effectively due to such assets; within the Resolution numbered i-SPK.52.4 (dated 20/06/2014 and numbered 19/614 s.k.) agreed on the meeting of The Capital Markets Board dated 07/02/2019 numbered 8/184, ‘‘Principles Regarding the Provisioned Private Sector Debt Securities and Sukuks and Form of the Side Pocket’’ added as an article to ‘‘Guidebook Regarding the Investment Funds’’ (Fund Guidebook) numbered 12.4 is announced in the bulletin of the Board dated 07/02/2019 and numbered 2019/8.

Regarding the private sector debt securities and the Sukuks in the fund portfolio, in the framework of the Guidebook’s article 5.1.2. and the TCMA regulations, making a provision of 100 % at once or gradually, in the event that fund total value of the subjected asset amount exceeds to 5 % upon making a provision of 100% or the following dates; as of the publication date of the announcement text regarding the liquidation; the subjected asset will be separated from fund portfolio and the separated account (side pocket) will be opened apart from the fund’s current custody account in the presence of Takasbank and principles taken place in the Fund Guidebook’s article numbered 12.4 are expressed to come into effect by the announcement of the Bank.

In this scope, ‘‘Regarding the Principles of Making Provision for the Private Debt Securities, Sukuks and Forming Side Pocket Procedure’’ has been published in the website of the Bank in the section Rules & Regulations.

Revision process of notifications regarding the 3rd article of the subjected Procedure entitled ‘‘Notification of Provisioned Assets’’ are in progress, and when the development is completed, it will be announced to you with an additional announcement.

Kindly submitted for your information.

Sincerely Yours,

TAKASBANK

ISTANBUL SETTLEMENT AND CUSTODY BANK INC.

Gökhan ELİBOL
Executive Vice President

Mahmut KAYACIK
CEO
Board Member

Appendix:

- 1- REGARDING THE PRINCIPLES OF MAKING PROVISION FOR THE PRIVATE DEBT SECURITIES AND SUKUKS AND FORMING SIDE POCKET PROCEDURE (4 pages)

REGARDING THE PRINCIPLES OF MAKING PROVISION FOR THE PRIVATE DEBT SECURITIES AND SUKUKS AND FORMING SIDE POCKET PROCEDURE

CHAPTER ONE

Purpose, Scope, Basis, Definitions and Abbreviations

ARTICLE 1- Purpose

- (1) The purpose of this Procedure is to regulate the principles and procedures regarding the operation of the making a provision for the private sector debt securities (PSDS) and Sukuks and forming a Side Pocket.
- (2) The operations executed in the presence of Istanbul Settlement and Custody Bank Incorporation are in the scope of the Procedure, and the operations executed in the presence of The Central Registry Agency Inc. (CRA) are indicated for information.

ARTICLE 2- Basis

- (1) This Procedure has been prepared within the Resolution numbered i-SPK.52.4 agreed on the meeting of The Capital Markets Board dated 07/02/2019 numbered 8/184, the statements added as an article to ‘‘Principles Guidebook of the Regarding the Investment Fund’’ numbered 12.4.

ARTICLE 3- Definitions and Abbreviations

- (1) The following terms used in this Procedure shall bear the following meanings;
 1. Sukuks: Lease certificate
 2. Board: The Capital Markets Board.
 3. Sukuks: Lease certificate
 4. CRA: The Central Registry Agency Inc.
 5. PSDS: The private sector debt securities.
 6. Portfolio Custody: Portfolio Custody of the investment fund notified by the founder.
 7. The Guidebook: the guidebook Regarding the Investment Fund.
 8. Takasbank: Istanbul Settlement and Custody Bank Incorporation operating at Reşitpaşa Mahallesi, Borsa Istanbul Caddesi, No:4 Emirgan, Sarıyer, 34467 Istanbul /Turkey.
 9. TCMA: Turkish Capital Market Association
 10. Side Pocket: the account to have formed in the framework of the principles in the article numbered 12.4 of the Guidebook.

CHAPTER TWO

Notification of the Provisioned Assets

ARTICLE 4- Notification of the Provisioned Assets to Takasbank

(1) In the event of making provision for the private sector debt securities and the Sukuks in the investment fund portfolio, in scope of the article 5.1.2 of the Guidebook and the TCMA regulations;

(a) The subjected assets cannot be excluded from the fund portfolio value table,

(b) The provisioned amount is deducted from the assets' marketing value and as shown in the portfolio value table.

(2) The account notification is made for the provisioned PSDS and the Sukuks on the basis of ISIN. How the way of notification to be made will be announced to the Founder by the Takasbank.

The notification amount, in terms of the ISIN information of the subjected security, will be shown in the Portfolio Balance Report as a negative data and the provisioned amount is shown in the fund portfolio table.

(3) The Founder is responsible for making notification in the correct way and on time.

CHAPTER THREE

Opening of Side Pocket and the Related Operations

ARTICLE 5- Opening Side Pocket Process and the Related Operations

(1) In the event of providing the necessary conditions to open side pocket within the frame of article 5.1.2 of the Guidebook

a) Written request is made by the Founder to Takasbank in order to open side pocket,

b) The separated account (side pocket) is opened apart from the fund's current custody account in the presence of Takasbank,

c) The subjected asset is separated from the fund portfolio and deducted from the fund portfolio value table, upon making provision of 100 % date share owners, the subjected asset is associated with investment fund participation which is already in the fund and kept in the side pocket.

- After written request, which is signed by authorized person of the Founder, including the information of providing the necessary conditions in order to form the side pocket reached out our Bank, the subjected security would be started to keep in this side pocket by separating from fund portfolio and by associating with investment fund participation (In terms of the code of practice determined by CRA), which is in the fund upon making provision of 100 %

date, share owners, transferring from related fund/funds accounts to the new account (relationship between the new account and the old fund on the title could be comprehensible) is in the relation between to be opened by us under Takasbank in the presence of both Takasbank and CRA

- Regarding the assets in the side pocket, the participation share owner ratio, at the date of making provision for the subjected the assets specified by CRA, would be considered in event of redemption and coupon payment is made by the issuer. The subjected amount would be sent to us for the purpose of making payment to the participation share owners associated with the side pocket, for the purpose of transferring to the investment companies which have the related accounts. The sent amount is transferred by our Bank to the investment companies
- The side pocket would be closed in the presence of Takasbank and CRA upon written request of the portfolio custody of related fund in case of nonpayment to the share owners or finalization of no collection in the framework of the related regulation, regarding the asset in the account

CHAPTER FOUR

Obligation of Giving Information

ARTICLE 6- Obligation of Giving Information

- (1) Every kind of information is notified to portfolio custody, CRA and Takasbank by the Founder of the fund to execute the operational process of opening Side Pocket.
- (2) In the event of the suspension or cancellation of Founder's official authorization, requirements which are obliged to be fulfilled by Founder are performed by Fund Portfolio Custody.

CHAPTER FIVE

Responsibility

ARTICLE 7- Responsibility

- (1) Fund Founder, portfolio custody and the investment institutions where the accounts of the fund participation shareholders are have to abide by the rules referred in this Procedure formed by Takasbank.

CHAPTER SIX

Miscellaneous and Final Provisions

ARTICLE 8- Enforcement

(1) The procedure shall enter into force on the date of its publication.

ARTICLE 9- Execution

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