

**DIRECTIVE ON PRINCIPLES  
REGARDING CLEARING AND CENTRAL COUNTERPARTY SERVICES  
TO BE PROVIDED BY ISTANBUL SETTLEMENT AND CUSTODY BANK INC FOR  
TRANSACTIONS EXECUTED IN OVER-THE-COUNTER DERIVATIVES MARKETS  
CHAPTER ONE**

**General Provisions**

**Purpose**

**ARTICLE 1 -** (1) The purpose of this Directive is to regulate the principles and procedures regarding membership, risk management and collateral, clearing and settlement, default, discipline, revenue and other issues in relation to the clearing and central counterparty services to be provided by Istanbul Clearing, Settlement and Custody Bank Inc. for over-the-counter derivatives transactions.

**Scope**

**ARTICLE 2 -** (1) This Directive covers the matters regarding membership, risk management and collateral, clearing and settlement, default, discipline, revenues and other issues related with the clearing and central counterparty services to be provided by Istanbul Clearing, Settlement and Custody Bank Inc. for over-the-counter derivatives transactions.

**Basis**

**ARTICLE 3 -** (1) This Directive has been prepared on the basis of articles 77, 78, and 79 of the Capital Markets Law no. 6362 published in the Official Gazette no. 28513 dated 30 December 2012; Istanbul Settlement and Custody Bank Inc. Central Clearing and Settlement Regulation published in the Official Gazette no. 28711 dated 18 July 2013; and Istanbul Settlement and Custody Bank Inc. Central Counterparty Regulation published in the Official Gazette no. 28735 dated 14 August 2013.

**Definitions and Abbreviations**

**ARTICLE 4 -** (1) For the purposes of this Directive, the following terms shall bear the following meanings:

- a) **Gross margining:** means the mechanism whereby the amount of the margin that the CCP members are required to post on behalf of their customers for customers' positions is the sum of the margin requirements individually calculated for each customer without netting of customer positions with each other;
- b) **Appraised Collateral:** means the amount calculated by applying collateral valuation haircuts, group limits and lower group limits to the total collateral deposited;
- c) **Variation Margin:** means the daily change in the netted value in TL of the debt or credit/receivable amount calculated by discounting the projected cash flows of over-the-counter derivatives transactions in the future periods;
- ç) **GDDS (Government Domestic Debt Securities):** means the government domestic debt securities issued by the Republic of Turkey Ministry of Treasury and Finance;
- d) **Direct CCP Member:** means the member authorized to execute their own and/or their customers' clearing and settlement transactions only;
- e) **EFT:** means the Electronic Funds Transfer System;

- f) **General CCP Member:** means the member authorized to execute the clearing and settlement transactions of trading institutions as well as their own and/or their customers' clearing and settlement transactions;
- g) **General Manager** : means the General Manager of Istanbul Clearing, Settlement and Custody Bank Inc.;
- ğ) **General Regulation:** means the General Regulation on Establishment and Operating Principles of the Central Clearing and Settlement Institutions published in the Official Gazette no. 28662 dated 30 May 2013;
- h) **Law** : means the Capital Markets Law no. 6362 published in the Official Gazette no. 28513 dated 30 December 2012;
- ı) **Board:** means the Capital Markets Board;
- i) **CCP:** means the central counterparty;
- j) **Central Counterparty Regulation:** means Istanbul Clearing, Settlement and Custody Bank Inc. Central Counterparty Regulation published in the Official Gazette no. 28735 dated 14 August 2013;
- k) **Central Clearing and Settlement Regulation:** means Istanbul Clearing, Settlement and Custody Bank Inc. Central Clearing and Settlement Regulation published in the Official Gazette no. 28711 dated 18 July 2013;
- l) **Cash Flow Margining Method:** means the method considering the securities based on the same yield as a portfolio and using the metric of change in "net present value" and taking the changes in value of the positions into account for margining purposes;
- m) **Portfolio-based margining:** means the calculation of the amounts of margins to be collected by Takasbank from CCP members by taking into consideration the risk-mitigating effects of the correlations between the assets in the same account;
- n) **Position:** means the systematic record forming the basis of debt and credit/receivable amounts arising from transactions executed and to be calculated over the amount of underlying assets;
- o) **Procedure** : means the implementation principles comprising the procedures for operating and practices in accordance with the rules and principles stipulated in the Directive and approved by the General Manager;
- ö) **System:** means Takasbank system established for clearing and risk management of over-the-counter derivatives transactions;
- p) **Contract Value:** means the amount of debt or credit/receivable calculated by discounting the projected cash flows of over-the-counter derivative transactions for the future periods;
- r) **Financing cost related with the contract value:** means the amount required to be paid by the party receiving the variation margin to the party paying such variation margin, which is calculated over the interest rate determined by Takasbank;

- s) **Contract novation method:** means the conclusion of individual contracts by Takasbank with the parties through cancellation of the contract previously signed between the parties in accordance with the principles specified in the market directives in relation to the transactions executed in the market or over the capital market instruments for which CCP service is provided, and, in any event, before completion of settlement;
- ş) **Clearing and Settlement** : means all of the processes allowing for transfer of cash between the parties within the framework of the margins/collaterals deposited and through fulfilment by the members of the obligations arising in relation to the transactions executed within the period and under the terms and conditions designated by Takasbank;
- t) **Takasbank** : means Istanbul Clearing, Settlement and Custody Bank Inc. (İstanbul Takas ve Saklama Bankası Anonim Şirketi);
- u) **Collateral accounts:** means the accounts opened with Takasbank on behalf of CCP members and used for monitoring the collaterals that should be maintained by the members due to the positions pertaining to their own portfolios or the positions of their customers;
- ü) **CBRT** : means the Central Bank of the Republic of Turkey (Türkiye Cumhuriyet Merkez Bankası Anonim Şirketi);
- v) **Default Management Group:** means the group established with the participation of Takasbank specialists and the subject-matter employees of the members designated by Takasbank in order to take part in the default management process;
- y) **Member** : means the CCP members that are allowed to be a party to the clearing services provided by Takasbank as the central counterparty, within the framework of article 6 of the Central Counterparty Regulation;
- z) **Directive** : means the Directive on Principles regarding Clearing and Central Counterparty Services to be provided by Istanbul Settlement and Custody Bank Inc. for Transactions executed in Over-The-Counter Derivatives Markets, which has been adopted by the Board of Directors and approved by the Board;
- aa) **Board of Directors:** means the Board of Directors of Takasbank.

## CHAPTER TWO

### Guidelines for Membership

#### Membership

- ARTICLE 5 -** (1) The banks satisfying the conditions set forth in article 8 of the Directive may become a member to the CCP service to be provided by Takasbank for over the counter derivative transactions provided that they are authorized by the Board of Directors.
- (2) CBRT is the natural member of the CCP service to be provided by Takasbank in the System, without requiring any application and assessment.

## Membership Types

**ARTICLE 6 -** (1) Members are divided into two groups: direct central counterparty member and general central counterparty member.

(2) Direct central counterparty members are authorized to perform only the clearing and settlement transactions of themselves and/or of their clients.

(3) General central counterparty members are authorized to perform the clearing and settlement transactions of other trading institutions in addition to the clearing and settlement transactions of themselves and/or of their clients.

(4) The general and direct central counterparty membership classification is made by taking the amount of equity capital held by the Member, the adequacy of its internal systems and technical infrastructure into consideration as well as other internal rating, financial analysis and intelligence studies carried out by Takasbank.

## Transition between membership types

**ARTICLE 7 -** (1) The membership status of the general and direct central counterparty members may be changed by pursuing compliance of the members with the conditions set forth by Takasbank. In this context, a direct central counterparty member may be accepted later as a general central counterparty member or a general central counterparty member may also be accepted later as a direct central counterparty member.

(2) General central counterparty members may make an application to become a direct central counterparty member. The applications filed by the general central counterparty members in this direction may be accepted by Takasbank provided that all rights, obligations and accounts, if any, relating to the trading institutions of whose clearing and settlement transactions executed are transferred or settled completely.

(3) The applications for general clearing membership by the direct clearing members who meet the eligibility requirements for the general clearing membership shall be finalized by Takasbank in 2 months.

(4) In case the members who lose the eligibility requirements for general central counterparty membership again fail to meet the relevant criteria within the time period set by the Board of Directors, they may be authorized as a direct central counterparty member from the date the loss of eligibility is notified to them by Takasbank provided that they satisfy the conditions set out in the first paragraph of article 8 of the Directive. In this case, the transfer or liquidation of all rights, obligations and accounts, if any, relating to the trading institutions whose clearing and settlement transactions are executed should have been completed. If there has been a failure to fulfill such obligation then, the provisions of article 13 of the Directive shall apply to the relevant member.

(5) In case of transition between membership types, the situation is published and announced on Takasbank website following the decision given in relation to such transition.

**ARTICLE 8 - CCP Membership conditions** (1) The determination and assessment of the satisfaction of the membership conditions belong to Takasbank, and at least the following conditions must have been met for membership:

- a) The conditions for membership of the Central Clearing and Settlement Regulation must have been met,
- b) The CCP service-related agreements and/or letters of undertaking whose content is determined by Takasbank must have been signed and submitted to Takasbank,
- c) Their financial structure must be at a level to fulfill their commitments towards Takasbank,
- ç) Other information and documents to be requested by Takasbank must have been submitted.

d) The declaration in the format compatible with the template set by Takasbank for their data processing, risk management, internal control and internal audit systems must have been approved by the Board of Directors of the Members submitted.

(2) To be able to become a Direct CCP Member;

- i. Holding the limited or general custody service license pursuant to the relevant legislation,
- ii. Banks to hold 50.000.000 TL as the minimum amount of equity capital,
- iii. Receiving at least D rating note as a result of the internal rating study conducted by Takasbank,

(3) To be able to become a General CCP Member:

i. Holding the operating permit related to general custody service, which enables the member to provide the custody of positions and collateral arising from the transactions pursuant to the relevant legislation,

ii. Banks to hold 500.000.000 TL as the minimum amount of equity capital,

iii. Receiving at least B rating note as a result of the internal rating study conducted by Takasbank within the scope of fourth paragraph.

(4) In the context of internal rating study conducted by Takasbank to determine the rating note of the company, the financial statements of such company, its activity report, company introductory information form, company key information form, its transaction volumes in the markets, custody balances denominated in TL, default and intelligence information concerning the company, and the credit ratings received from the rating agencies, if any, and the market intelligence information as well as the news featured in visual and printed media are used. Takasbank announces the general features of the parameters considered in its internal rating methodology as well as the effects of these parameters on the rating notes, on its web site.

(5) Takasbank is authorized to determine the minimum criteria it would seek for technical infrastructure, data processing, risk management, internal control and internal audit systems with a procedure, to allot time for compliance to institutions who fail to meet the prescribed criteria, to get commitment and to check whether the criteria have been met.

(6) The Board of Directors is authorized to increase the minimum amount of equity capital or to decrease it up to its previous level by taking the relevant capital markets and banking regulations as well as the market conditions into consideration.

### **Membership application and admission**

**ARTICLE 9 -** (1) The institutions to be applied for membership are required to submit their application request addressed to the Takasbank Head Office together with a letter accompanied by the information and documents affirming the fulfillment of the conditions prescribed for membership in this Directive and send the information and documents referred to in article 10 of the Central Counterparty Regulation as well as the following documents by appending them to the said letter to Takasbank. The institutions being a member to BİAŞ Debt Securities Market or BİAŞ SWAP Market are only required to fulfill the obligations referred to in the item (c) among the following obligations given in this paragraph.

- a) Membership application form,
- b) Authorization certificate (notarized copy),
- c) Membership Agreement and Pre-Agreement Information Form,

- c) Letter of Undertaking for Cash, Assets, Collateral, Real Time Gross Settlement Delivery versus Payment (RTGS DvP) and Electronic Funds Transfer (EFT) Instruction,
  - d) Implementation Agreement Relating to the Customer Instructions to be delivered to Istanbul Settlement and Custody Bank Inc. via Fax Machine,
  - e) Other documents that may be required by Takasbank in accordance with the relevant legislation.
- (2) For the membership applications to be eligible for assessment by Takasbank, the information and documents stated in the first paragraph of this article as well as other documents that may be requested by Takasbank must have been completed. The applications shall be assessed by Takasbank in terms of whether the conditions specified in article 8 have been met or not. The final decision made by Takasbank on the application shall be notified to those concerned in writing in 2 months.
- (3) In order to commence its operations with Takasbank, the institution whose membership application is accepted, should;
- a) Pay the membership entrance fee,
  - b) Deposit the membership collateral,
  - c) Pay the Guarantee Fund contribution amount, and
  - c) Authorize the personnel who will conduct the transactions on behalf of the Member in Takasbank system, within 1 month from the date the notice for the approval of its membership application was served. . Otherwise, the membership right granted to the relevant institution shall be cancelled. The date on which such obligations are fulfilled shall be deemed to be the date that the institution has become a member of the central counterparty service provided to the Market, and the Member shall be entitled to execute transaction after this date accordingly.

### **General obligations of the members**

**ARTICLE 10 -** (1) The Members are obliged to comply with the following issues:

- a) Act in accordance with all rules and principles stipulated by this Directive and other relevant legislation for the market clearing and settlement transactions and the central counterparty service,
- b) Behave in accordance with the principles of honesty and good faith towards their customers and other members,
- c) Deposit the guarantee fund contributions stipulated by Takasbank,
- c) Take all necessary measures to ensure sustainability of the internal control, risk management and internal audit mechanisms required to become a CCP member,
- d) Cover the collateral to be deposited for the portfolio accounts entirely from the assets under their possession,
- e) Cover the collateral to be deposited for the positions of their customers from their own collateral or from those on which they have gained the right of disposition through the transfer of ownership agreements compatible with the Law,
- f) If the collateral deposited for the customer positions have been obtained from the customers or other persons and entities through transfer of ownership agreements, establish a sound recording and monitoring system which would ensure safekeeping of transfer of ownership

agreements and matching of the customers, persons and entities from which the collateral have been obtained with the collateral deposited in the relevant position accounts.

- g) Act in accordance with all rules and principles stipulated in the Law and other relevant regulations related to the monitoring and safekeeping of customer assets and collateral.
- ğ) Fulfil the dues, fees, commissions and other obligations requested by Takasbank within their time period.
- h) Adapt the system revisions to be made by Takasbank within the prescribed time periods and participate in the tests.
- ı) Establish constant reconciliation between the position and collateral accounts at Takasbank and the records of the portfolio and customer accounts at itself.
- i) Deposit the collateral and the guarantee fund contributions to the relevant margin accounts at Takasbank.
- j) Furnish any information and document to be requested on issues deemed necessary by Takasbank and the Board in relation to their business and transactions within the scope of this Directive, and provide all type of support in the investigations to be carried out by those commissioned by Takasbank and the Board.
- k) In addition to the books and records they are required to keep legally, keep other records determined by Takasbank, issue the information and documents in due form; and convey them to Takasbank in a periodic manner or at times requested by Takasbank, and maintain such documents and records for a period of 1 year.
- l) Fulfill other obligations under this Directive in a complete manner and within their time period.

If any Member foresees that it will be unable to either partially or wholly fulfill its obligations, this Member is obliged to notify such situation immediately to the Board and other relevant public entity and institutions together with all substantiating information and documents describing its reasons thereof. Such notification shall not constitute an impediment for Takasbank to take the necessary measures stipulated in this Directive.

### **Responsibilities of the General Central Counterparty Members**

**ARTICLE 11 -** (1) The general central counterparty member executing the custody and settlement operations of a trading institution shall be unconditionally responsible towards Takasbank for fulfilling the obligations related to the transactions conducted by the relevant institution through itself. The general central counterparty member executing the custody and settlement operations and the trading institution of whose custody and settlement operations are conducted by that member shall be jointly and severally liable towards Takasbank for the obligations arising from the trading institution's transactions of itself and of its customers that are executed through the relevant general central counterparty member.

(2) A general central counterparty member shall be responsible for tracking whether the obligations set forth in article 12 have been actually fulfilled by the trading institutions whose custody and settlement operations are executed by that member; taking all necessary measures in cases where it is determined that such obligations have not been fulfilled; and acting in accordance with the provisions set forth in the third paragraph of the same article in cases where it is also determined that such obligations have still not been fulfilled despite the measures.

(3) The general central counterparty member shall be relieved from its responsibilities specified in the second paragraph of this article provided that all rights, obligations and accounts of the relevant trading

institution towards Takasbank resulting from its transactions accepted for clearing are transferred to another general central counterparty member or winded-up.

### **Responsibilities of the Trading Institutions**

**ARTICLE 12 -** (1) Positions and collaterals of the trading institutions are monitored in the exclusively opened sub-accounts connected to the general central counterparty members.

(2) The trading institutions shall be liable for complying with the following issues:

- a) Adhere to the arrangements under in this Directive related to the collateralization procedures and monitoring of the customer positions and collaterals held both with them and with the relevant general central counterparty member,
  - b) Act in accordance with all rules and principles determined in the Law and other relevant regulations related to the monitoring and custody of customer assets and collaterals ,
  - c) Constitute a continuous reconciliation between the accounts of their customers held with the general central counterparty member to whom they are affiliated to and the records related to the customer positions and collaterals held with them,
  - ç) Ensure that their customers are informed in an accurate and complete manner about the fact that the power of disposition on the collateral accounts of their customers opened with the general central counterparty member belongs to the relevant general central counterparty member and this power is restricted by Takasbank as to be limited only to the collateral required to be held,
  - d) Furnish all types of information and documents that may be requested on issues deemed necessary by the relevant general central counterparty member, Takasbank and the Board related to their business and transactions within the scope of this Directive, and provide all types of support in the investigations to be carried out by those authorized by Takasbank and the Board
- (3) If it is determined by the relevant general central counterparty member that a trading institution has failed to fulfill the obligations referred to in the second paragraph of this article either partially or completely, than this situation shall be notified immediately to Takasbank together with all information and documents substantiating non-fulfillment of such obligations; and all measures shall be taken to rectify these discrepancies thereof.
- (4) In cases where the relevant trading institution has failed to fulfill its obligations despite all measures taken by the general central counterparty member, the positions and collaterals of the customers of the trading institution, upon request of the relevant general central counterparty member to Takasbank, shall be transferred to the relevant general central counterparty member making the request in accordance with the agreement between each other. The trading institution shall provide the ownership information related to the transferred customer positions and collaterals to the Member who takes over them. The Board, the Exchange and the relevant public authority shall be notified by Takasbank within 1 business day about the transfer operation made by the relevant general central counterparty member together with its reasons thereof.
- (5) The provisions stipulated in other regulations for the trading institutions to which they are subject to shall be reserved.



### **Restricting the member activities**

**ARTICLE 13 -** (1) The activities of the members under this Directive may be restricted by Takasbank in the following situations.

- a) Removal of membership or suspension of activities in the markets or capital market instruments in which the clearing and settlement service is provided pursuant to article 13 of the Central Clearing and Settlement Regulation or article 14 of Central Counterparty Regulation,
  - b) Failure to fulfill the obligations stipulated in the Directive, the Procedure and the membership agreement,
  - c) Identification of any unfavorable situation for the member such as protest, seizure, provisional injunction, etc., or temporary or permanent suspension of its activities, cancellation of its relevant operating permit, prohibition to conduct any transaction for the capital market instruments traded in any market at BIAS for any reason, decision rendered on its gradual liquidation or bankruptcy or receipt of any negative intelligence about it,
  - ç) Determination of the fact that the credit worthiness of the Member is either impaired or does not exist as a result of the intelligence, financial analysis and/or rating study periodically conducted by Takasbank.
- (2) The Members cannot trade on the accounts belonging to those who have been banned from trading by the Board and have similar limitations thereof .
- (3) If any situation referred to in this article occurs, Takasbank may resolve the outstanding positions of the Member to be liquidated either in part or in whole .
- (4) If the Member's activities are restricted for reasons referred to in this article, the situation shall be notified to the Board and the relevant public authority .

### **Terminating the membership**

**ARTICLE 14 -** (1) The CCP membership may be terminated by the Board of Directors' decision in the event of the following situations ;

- a) Determination by Takasbank that any one of the CCP membership conditions set forth in this Directive and other relevant regulations has been lost,
  - b) Determination by Takasbank that risks of significant nature that would jeopardize the secure and uninterrupted functioning of the CCP system have arisen due to failure to fulfill the obligations stipulated in this Directive or other relevant regulations,
  - c) Failure of the CCP members whose activities have been restricted in accordance with the provisions of the second paragraph of article 14 of the CCP Regulation to fulfil their relevant obligations within the six months' period granted to them pursuant to the sixth paragraph of the same article,
  - ç) Upon the CCP member's own request.
- (2) Those intending to terminate their CCP membership in accordance with the item (ç) of the first paragraph of this article shall notify Takasbank of the situation in writing. However, the relevant member intending to terminate its CCP membership must have fulfilled all of its obligations under the Directive and other relevant regulations. In such cases, the Board of Directors may consent the termination of the CCP membership. If the request for termination of the membership is submitted without fulfilling all obligations under the Directive and other regulations, the member shall be given a period of 30 days for fulfilling such obligations. The member that fulfills such obligations within

the period of time granted shall notify Takasbank of such case in writing, and the request for termination by the member shall be addressed at the next meeting of the Board of Directors following such notification. Members who fail to fulfill such obligations within a period of 30 days may only apply for terminating their membership once they have closed all their positions.

- (3) Even in the case of termination of the CCP membership, the obligations of such institution against Takasbank under this Directive and other relevant regulations in relation to the transactions conducted until the date of the Board of Directors' decision regarding the termination of membership shall prevail.
- (4) The Board and the other relevant public entities and institutions must be immediately informed of the member whose CCP membership has been terminated .

## **CHAPTER THREE**

### **Clearing and Settlement and CCP Service Principles**

#### **Takasbank's liability**

**ARTICLE 15 -** (1) Takasbank is the central counterparty with the novation method for the transactions accepted for clearing. The said method involves the principle whereby Takasbank concludes individual contracts with the parties through cancellation of the contract signed between the parties, in accordance with the related regulations, and, in any event, before completion of settlement. Takasbank assumes, in its capacity as the central counterparty, the clearing and settlement obligations arising from the transactions conducted by the Members in accordance with the principles and procedures stipulated in this Directive and the legislation.

- (2) In the Contract novation method, Takasbank's liability towards the parties to the transaction starts from the time the transaction is accepted for clearing and ceases with the completion of clearing and settlement by the end of maturity period of the transaction. Should the limit allocated by Takasbank to the Member on a transaction basis in accordance with the fourth paragraph of article 5 of the Central Counterparty Regulation be exceeded, Takasbank shall, without prejudice to the provisions of article 22, not be liable for any loss arising out of the transactions it has refrained from.
- (3) For the transactions accepted for clearing, Takasbank deals only with the Members. Takasbank shall not be liable for the obligations of the Members to their customers .
- (4) In covering the liquidity needs and the losses to be incurred in case of any default, the provisions stipulated in Chapter Five of the Central Counterparty Regulation shall apply as to be limited to the liquidity conditions and constraints.

#### **Settlement Date and Period**

**ARTICLE 16 -** (1) The transactions accepted for clearing are subject to the clearing & settlement of variation margin and the clearing and settlement of the financing cost related with the contract value within the same day.

- (2) In determining the settlement periods, the business days on which the relevant currency can be exchanged are taken into consideration.
- (3) The settlement procedures to be applied on half-days shall be determined in the Procedure and announced to the members by Takasbank .
- (4) The obligations related to the transactions accepted for clearing shall be fulfilled within the hours designated in the Procedure. Otherwise the default provisions shall be applied.

(5) The settlement periods can be temporarily changed by the General Manager due to the problems arising from the clearing and settlement, custody, payment or market operating systems.

### **Currency**

**ARTICLE 17 -** (1) In the payment of obligations arising from the clearing and settlement transactions, the currency in which the transactions are conducted shall be used.

(2) Takasbank may also allow fulfillment of the obligations over any currency different from the currency in which the transactions are conducted in accordance with the principles stipulated in the Procedure.

### **Finality of Settlement**

**ARTICLE 18 -** (1) The settlement instructions and transactions and the payment operations arising from the transactions accepted for clearing can neither be revoked nor can be cancelled including the state of temporary or permanent suspension of the member activities and initiation of liquidation actions before the administrative and judicial authorities.

(2) A new transaction from the member is not accepted for clearing at the moment when suspension of the member's activities or any decision that may produce the same consequence has been notified to Takasbank.

(3) The settlement operations of all contracts accepted for clearing and transferred to the clearing and settlement system shall be concluded in accordance with the provisions of this Directive.

(4) Collateral established by the member by its available cash and security balances held at Takasbank shall be used to terminate its obligations .

(5) Early termination can be carried out after the agreement of the parties for the conducted transactions or in case of default at the request of the non-default party or by the decision of Takasbank. The assessment is made on a transaction basis.

### **Principles of clearing and settlement transactions**

**ARTICLE 19 -** (1) For all the transactions accepted for clearing and transferred to clearing system, Takasbank deals only with the Members

(2) Clearing and settlement rights and obligations related to debts and receivables are determined on a trading and associated custodian account basis and finalized using such accounts.

(3) The periodical reciprocal payment amounts related to each related contract subject to clearing are paid and completed on the payment days specified in the related agreement and according to the cut-off times specified in the Procedure.

(4) Members' obligations arising from their transactions subject to clearing are fulfilled through payment by the member using the trading and the associated custodian accounts opened with Takasbank until the cut-off times for settlement specified in the Procedure.

(5) In consideration of the obligations that are partially fulfilled, receivables are also partially paid in proportion with the debts closed/discharged on the settlement day.

**ARTICLE 20 - Clearing and settlement of the variation margins and the financing cost related to contract value** (1) The party for which a net positive "variation margin amount" is calculated by the end of the business day receives the related variation margin amount on the following business day. The party for which a net negative variation margin amount is calculated by the end of the business day

pays the related variation margin amount on the following business day. The cut-off times for payment and the other related principles are specified in the Procedure.

- (2) The party with a net positive contract value shall pay the financing cost of such amount after two business days; the party with a net negative contract value shall receive the financing cost of such amount after two business days. The cut-off times for payment and the other related principles are specified in the Procedure.
- (3) The principles regarding calculation of financing cost are specified in the Procedure.
- (4) If the overnight interest rate is negative, the party with a positive contract value shall also receive the financing cost amount after two business days.
- (5) The rights and obligations arising from the clearing and settlement of variation margins and contract value financing costs are determined on a trading and associated custodian account basis and finalized using such accounts.
- (6) The receivables related to the clearing and settlement of variation margins and contract value financing costs are distributed to the trading and associated custodian accounts at periodical intervals specified by Takasbank and to the extent allowed by the pool balance, starting from the lowest receivable amount.

## **CHAPTER FOUR**

### **Account Operations**

#### **Account structure and account types**

**ARTICLE 21 -** (1) Members are obliged to open trading and related depository accounts at Takasbank in which the positions accepted for clearing, risks and collaterals related to these positions are monitored.

- (2) In order to create the relevant accounts in the Takasbank system, first of all the identity information and other information related to these account holders must be defined in CRA. After CRA transmits the credentials of the opened accounts to Takasbank, the related accounts are opened at Takasbank.
- (3) Three different types of accounts can be opened with Takasbank; “Trading Account”, “Depository Account” and “Trading and Depository Account”
- (4) Trading Account is an account that no position and collateral can be monitored and it is used for transferring over-the-counter transactions to Takasbank. It is mandatory that a trading account opened at Takasbank is associated with a depository account and that this transaction is approved by the member to whom the depository account belongs. A trading account can only be associated with a depository account.
- (5) Depository Account is an account that the positions, the risks related to the positions and the collaterals can be monitored but no transaction can be conducted. A depository account can be associated with more than one trading account.
- (6) Trading and Depository Account is an account where the transactions can be executed and the positions, the risks related to the positions and the collaterals can also be monitored.
- (7) The related guarantee fund account is opened by Takasbank for the members.

## Segregation

**ARTICLE 22 -** (1) Two different types of accounts can be opened with Takasbank; a “Customer Account” and a “Portfolio Account”. Customer Account is an account where the transactions executed by the Member with its customers are monitored. Portfolio Account, on the other hand, is an account where the transactions executed by the Member for its own portfolio are monitored. The customer positions and collaterals are monitored separately from the Member’s own portfolio and collaterals. The positions and collaterals belonging to the Member’s own portfolio are monitored in a position account to be opened exclusively for the members along with related trading and collateral account and collateral account. Each member is required to have a portfolio account.

(2) It is essential that the Members monitor the customer positions on single-position and associated depository accounts to be opened in Takasbank system. The collaterals related to the customer positions monitored through single-position and associated depository accounts can only be used to liquidate obligations of the respective customer.

## Account Porting

**ARTICLE 23 -** (1) The positions monitored in the trading and associated depository accounts and the collateral associated with these positions can be ported by Takasbank between the CCP members upon instruction of the transferee and transferor CCP members, if deemed appropriate by Takasbank. In such a case, the transferor CCP member shall obtain the written consent of its customers whose positions and collateral are to be transferred.

(2) Takasbank’s right to refuse the account porting requests with respect to the soundness of clearing and settlement operations and the security of settlement shall be reserved

(3) If the positions monitored in the accounts of any member whose membership activities have been restricted or whose membership has been terminated due to default or for other reasons are transferred together with the collateral associated with these positions to another member, the porting transactions shall be conducted by Takasbank;

- a) If any pre-designation for the transferee member has been made in the agreement signed between the transferor Member and Takasbank; in accordance with the provisions stipulated in the agreement.
- b) If, although no pre-designation regarding the transferee member has been made in the agreement signed between transferor Member and Takasbank, the transferor member makes an agreement with the transferee member until the date on which the porting will be made; in accordance with the provisions stipulated in that agreement.
- c) If no designation has been made in line with the provisions of the item (a) and (b) of this paragraph, to the extent that Takasbank achieves to find a transferee Member.

(4) Should the account porting be made, the collateral held in the transferred accounts cannot be withdrawn until the reconciliation is achieved between the records of Takasbank and those at the member whose activities have been restricted or whose membership has been terminated. Provisions regarding any proceeding pursued by the administrative and judicial authorities shall be reserved.

(5) Accounts failed to be ported due to unable to find a member to take over the positions and collateral, or unavailability of sufficient time to do so or because of margin deficit, or those having any margin deficit after the liquidation of positions may be made subject to liquidation in accordance with the principles of Chapter Five of the Central Counterparty Regulation. The collateral balance to be occurred

after the liquidation of positions in the accounts failed to be ported due to unable to find a transferee member shall be returned pursuant to article 27 of the Central Counterparty Regulation.

## CHAPTER FIVE

### Risk Management and Collateralization Principles

**ARTICLE 24 - Risk management** (1) Risk management is performed by Takasbank using the Cash Flow Margining Method

- (2) Transactions executed by the member on its own behalf are followed under “Member” account; and the transactions executed on behalf of its customers are followed under customer accounts opened as trading and associated custodian account. Risk management is conducted on account basis.
- (3) The margin requirement for each account is calculated individually and the sufficiency of collaterals in each of the trading and associated custodian accounts is checked separately.
- (4) Pre- and post-clearing acceptance risk management processes are applied for over-the-counter derivatives for which clearing service is provided.
- (5) Within the scope of pre-clearing acceptance risk management processes, the rules regarding the contracts that may be accepted for clearing in relation to the accounts that do not have sufficient collaterals and the accounts for which there is a margin call are specified in the Procedure.
- (6) The open settlement positions, guarantee fund contributions and collaterals held in the accounts opened by members with Takasbank are subject to revision/updating at the times of calculation determined by Takasbank.
- (7) Intra-day and end-of-day risk management processes that will be applied by Takasbank, the contents of the model and/or parameters to be used in calculation of margins, related calculation methods, and the deadlines for covering the margin calls are described in the Procedure.
- (8) Default penalty is applied for the accounts for which the margin obligation is not fulfilled until the cut-off time specified in the Procedure; and the principles regarding distribution of settlement receivables in case of failure to complete the margin are specified in the Procedure.

### Risk limits

**ARTICLE 25 -** (1) Takasbank defines risk limits for its members in proportion with their solvency in their over-the-counter derivatives contracts.

- (2) The limit determined on an individual member basis is notified by Takasbank to the relevant member.
- (3) It is checked by the end of the day whether the total amount of margin required to be maintained for all positions taken by member exceeds the risk limit or not. The action to be taken in relation to any member exceeding the risk limit is specified in the Procedure.

## CHAPTER SIX

### Principles Regarding Collateral

#### Initial margin

**ARTICLE 26-** (1) An initial margin shall be requested from the Members regarding contracts accepted for clearing to cover the risks arising from the positions taken. The initial margin is received at the beginning to cover any exchange rate change that may occur in the Market during the period to be elapsed from the moment in which the default occurs to its resolution in the event the member falls into default. In determining the statistical parameters constituting the basis of the initial margin, the confidence levels and holding periods to be designated in the Procedure shall be used provided that they shall not be less than 99% and 2 days respectively. The historical data sets to be used in the volatility calculations should cover, at minimum, the last 12 months' period, if obtainable.

(2) In calculating the margin requirements in the Market, the portfolio-based collateralization method shall be used to ensure taking the risk mitigating effects of the reverse cash flows into account. When the margin requirement is calculated, no netting shall be made between the positions of different risk groups or currency pairs. The implementing principles for the collateralization method shall be explained in the procedure.

#### Assets eligible as collateral and guarantee fund contribution

**ARTICLE 27-** (1) The following assets can be used by the Members for the fulfillment of their margin obligations. Takasbank Board of Directors is authorized to also accept other assets designated in article 19 of the Central Counterparty Regulation as collateral or guarantee fund contribution and revise the group limits and sub-group limits.

- a) Cash in Turkish Lira,
- b) Convertible Currency (USD/EUR/GBP),
- c) Government Debt Securities,
- ç) Eurobond issued by the Ministry of Treasury and Finance of the Republic of Turkey,
- d) Lease Certificates issued by Asset Leasing Incorporation of the Undersecretariat of Treasury of the Republic of Turkey
- e) Mortgage-backed securities, mortgage-based securities, asset-backed securities and asset-based securities
- f) Government debt securities issued by G7 countries

(2) Takasbank may not accept as collateral or guarantee fund contribution the securities and guarantees that it considers to be associated with the member due to the specific correlation relations which may exist between the creditworthiness of the member and the value of assets it has received as collateral or may restrict their acceptance as collateral and guarantee fund contribution. The collateral implementing principles regarding the assets considered to be associated with the creditworthiness of the member shall be stipulated by the Procedure.

(3) For the assets it has accepted as collateral or guarantee fund contribution, Takasbank may apply concentration limits in accordance with article 43 of the Central Counterparty Regulation for any single market or the sum of all markets to which it provides CCP service. The implementing principles of the concentration limits shall be stipulated by the Procedure.

(4) Theoretical pricing formulas and methods that can be used in the valuation of assets accepted as collateral and guarantee fund contribution by Takasbank shall be published on Takasbank web site.

## Valuation haircuts

**ARTICLE 28-** (1) In calculating the valuation haircuts representing the deduction rates and to be applied to the collateral and guarantee fund contributions, the parametric, non-parametric or simulation-based statistical methods deemed appropriate by Takasbank shall be used. The designated method shall be specified in the market procedure. In determining the collateral valuation haircuts, the relevant asset's credit risk rated by Takasbank, its maturity, its volatility under extraordinary market conditions, its liquidity, and its currency risk, if any, shall be taken into account. The values announced by CBRT may also be considered in determining the valuation haircuts.

- (2) The statistical confidence level and the liquidation period to be used in the calculations to be made cannot be less than %99,75 and 2 business days respectively. The historical data to be used in the calculations must not be shorter than 12 months. The valuation haircuts for the assets for which there is insufficient data or no data at all shall be determined by taking the haircuts calculated for the assets with similar qualifications as reference.
- (3) The valuation haircuts reflecting the deduction ratios, which will be used in calculation of collateral values of the assets to be deposited as collaterals, are described in the Procedure.
- (4) Assets accepted as collaterals are subjected to valuation over the prices determined by Takasbank in order to ensure that they are valued at current market prices. The implementation principles regarding determination of collateral values are described in the Procedure. Collateral composition limits.

## Collateral Composition Limits

**ARTICLE 29-** (1) For other assets to be accepted as collateral apart from cash Turkish Lira and the composition limits thereof, the rates given in the following table shall be applied. Takasbank Board of Directors is authorized to set composition limits for the new assets to be accepted as collateral or make revision in the composition limits including those determined in this Directive.

Assets Eligible as Collateral	Group Limit	Sub-group Limit (As group limit percentage)
Cash in Turkish Lira	Max %100	-
Convertible Currency (USD/EUR/GBP)	Max %100	-
Government Debt Securities	Max %100	%35
Eurobond issued by the Ministry of Treasury and Finance of the Republic of Turkey	Max %100	%25
Lease Certificates issued by Asset Leasing Incorporation of the Undersecretariat of Treasury of the Republic of Turkey	Max %50	%25
Mortgage-backed securities, mortgage-based securities, asset-backed securities and asset-based securities	Max %50	%25
Governmentdebt securities issued by G7 countries	Max %50	%50

- (2) Group limits to be determined in composition limit rules, are calculated on the total deposited collateral.. While calculating evaluated collateral after the sub-group limits, total evaluated value that the relevant group limit applied is taken into consideration.



**ARTICLE 30- Title to collateral** (1) The title to collateral received pursuant to the CCP service shall transfer to Takasbank in accordance with the second paragraph of article 78 of the Law. Takasbank shall acquire the ownership right upon establishment of the contract and by transfer of the assets subject to collateral in compliance with the legal procedures.

- (2) In the event the receivables of Takasbank are required to be covered from collateral due to the default of the member or because of reasons stipulated in the provisions of the agreement or the relevant legislation, Takasbank shall be entitled to sell the asset subject to collateral on a best effort basis and over the best price and cover its receivables from the sale proceeds thereof or to offset the value of these instruments from the obligations of the debtor without being obliged to fulfill any precondition such as serving any notice or warning, allotting time, obtaining any permission or approval from the administrative or judicial authorities, turning the collateral into cash through auction or another way, etc.
- (3) Since title to collateral belongs to Takasbank pursuant to article 78 of the Law, the rights arising from the collateral shall also belong to Takasbank. Takasbank shall return the collateral together with the rights thereon at the due date in accordance with the provisions of article 27 of the Central Counterparty Regulation and upon request of the Member, provided that the obligations have been fulfilled.

#### **Margin call**

**ARTICLE 31-** (1) A margin call is issued to the member whose margin amount falls below the minimum margin level required to be maintained.

- (2) Members are required to fulfil their margin call obligations within the framework of the principles specified in the Procedure.
- (3) Members may fulfil their margin call obligations by depositing collateral for their relevant trading and associated custodian accounts and/or decreasing the value of margin/collateral required to be maintained. The processes such as depositing, withdrawal and valuation of collaterals, account updating and fulfilment of obligations are executed on trading and associated custodian account basis.
- (4) Margin calls are issued via member screens provided by Takasbank, electronic mail or by way of reporting. In such cases, the member is deemed to have received the call without any need for a further warning or notice.

#### **ARTICLE 32- Monitoring and management of collaterals**

- (1) During the stage of margining of transactions, customer-based gross margining method is applied. For positions included in single/individual accounts, portfolio-based net margining method is applied. The collaterals followed in the accounts associated with single customer positions may not be used to cover the collateral deficits caused by the accounts pertaining to the Member's own portfolio or by other customer accounts or for termination of default.
- (2) Pursuant to article 79 of the Law, the rights and powers of Takasbank on the asset values taken as collateral for the Market operations that it executes as a central counterparty cannot be limited in any way. Lack of power of disposition of the Member, for any reason, on the asset values given as collateral shall not prevent Takasbank from real right acquisition in good faith. Title or limited real right claims of third parties on the asset values given as collateral cannot be raised against Takasbank.
- (3) Devoting time for composition with creditors about the party supplying collateral, approval of its composition, devoting time for composition after bankruptcy, inclusion of its assets by abandonment into

the composition process, restructuring of its debts by an arrangement, its bankruptcy, postponement of its bankruptcy, or the relevant provisions of the Law regarding gradual liquidation or the proceeding procedures stipulated under the Execution and Bankruptcy Law No. 2004 cannot limit Takasbank's rights and powers on collaterals in any way.

(4) The principles and procedures on deposit, withdrawal and substitution of assets that could be accepted as collateral and the time periods in respect thereof, shall be stipulated in the Procedure..

**ARTICLE 33- Collateral deposit or withdrawal operations** (1) The principles and procedures on deposit, withdrawal and replacement of assets eligible as collateral and the time periods thereof shall be stipulated in the Procedure.

**ARTICLE 34- Interest accrual on cash collateral and guarantee fund contributions**(1) Cash Turkish Lira collateral and guarantee fund contributions deposited by the members are accrued interest over the amount remaining after deducting the portion to be set aside as compulsory reserve, with the best possible conditions by Takasbank in accordance with the principles stipulated in the Procedure by taking the credit risk and liquidity conditions into consideration. The accrual process is performed within the limits of Takasbank by way of depositing the amount subject to the interest to the banks as either deposit or depo and making it subject to a repo transaction. Takasbank can also place the cash collateral to the organized money markets for interest accrual purposes. Interest accrual may not be made in extraordinary market conditions. No interest shall be paid if the interest accrual is failed to be made by Takasbank due to the market conditions.

(2) The balance remaining after deducting the Bank and Insurance Transaction Tax (BITT) and other legal charges and the amount to be collected by Takasbank as "collateral monitoring and interest accrual fee" at a rate proposed by Takasbank and deemed appropriate by the Board from the gross interest amounts earned from accrual of interest on the amount of collateral and guarantee fund contributions remaining after setting aside the compulsory reserve obligation, if any, shall be credited to the relevant accounts as interest.

## CHAPTER SEVEN

### Principles Regarding the Guarantee Fund

#### Guarantee fund and its general principles

**ARTICLE 35-** (1) As part of the CCP service it will provide in the contracts, Takasbank establishes a guarantee fund created by the contribution amounts of the members as to be used for any loss that might be incurred in case of default of the members and exceed the collateral of the relevant members. Participation of the CCP members in the guarantee fund is mandatory.

(2) The guarantee fund contributions of the CCP members are composed of the guarantee fund contributions deposited and the additional guarantee fund contributions to be deposited if requested by Takasbank. Should the Guarantee Fund be used in accordance with the provisions of the CCP Regulation, the Directive and the Procedure, the CCP members may be asked to deposit additional contribution provided that it shall not exceed the deposited guarantee fund contribution amount. The members can be asked to deposit additional contribution at maximum four times in one-year period between 01 April and 31 March. The additional guarantee fund contribution that can be requested at once cannot exceed, for each member, the guarantee fund contribution amount calculated and required to be deposited for the month in which the defaults constituting the base of the request have occurred. The additional guarantee fund contribution amount can be requested either once as the entire balance of the deposited amount or at multiple times in tranches provided that it shall not exceed the aggregate of the deposited amount.

- (3) For the CCP member that has requested the termination of its membership and has notified Takasbank in writing that the member has fulfilled all obligations under the Directive and other regulations but whose request has not yet been approved by the Board of Directors or whose request for termination of its membership has been approved by the Board of Directors but has been allotted time for the return of its deposited guarantee fund contribution, the maximum guarantee fund obligation for which it may be liable on and after the date on which the member submitted its request for the termination of its membership shall be either two-fold of such member's the guarantee fund amount calculated at the day-end operations of the first business day in which the request was made in case of existence of no continuing default whose resolution still continues as of the request date, or shall otherwise be three-fold. If the member's request for termination of its membership is submitted without first fulfilling all its obligations under the Directive and other regulations, these rates shall be applied as three and four times. Institutions considered to have terminated or requested the termination of its CCP membership to avoid from any possible guarantee fund obligation may not be re-accepted to the CCP membership.
- (4) No recourse to the guarantee fund contributions of other Members can be made unless the trade margins of the defaulting Member, its guarantee fund contribution and the capital allocation made by Takasbank for the covered risks in the Market become inadequate.
- (5) In case of termination of the membership, the guarantee fund contribution shall be refunded in accordance with the provisions of article 33 of the Central Counterparty Regulation.
- (6) The assets in the guarantee fund cannot be used other than for their intended purpose.
- (7) Covering the contribution amounts to be deposited to the guarantee fund by the members out of the assets in their possession is essential
- (8) The guarantee fund is represented and administered by Takasbank.

### **Size of the guarantee fund and the contribution amount to be deposited by the members**

**ARTICLE 36-** (1) The size of the guarantee fund cannot be less than the greater of the funding need that would arise in case of joint default of the member with the highest open position and the members with the second and third highest open positions under the stress conditions. The funding need comprises of the portion of the members' risks calculated under the stress conditions and remaining out of the amount that can be covered by their trade margins. In estimating the risk under stress conditions through statistical methods, the statistical confidence level, the holding period and historical data stipulated in the Procedure shall be used as to be not less than 99.75%, 5 business days and 5 years respectively. Takasbank may set the minimum guarantee fund obligation as to be greater than the obligation calculated statistically by considering the market conditions, the margin concentrations and the adequacy of collateral management resources.

- (2) Calculation of the total size of the guarantee fund is renewed provided that it shall not be longer than 3 months, and the sufficiency of the existing guarantee fund is tested.
- (3) The contribution to be made by the members to the guarantee fund is composed of the fixed and the variable contributions calculated pro rata to the risks they carry.
- (4) The fixed contribution amount is determined at a level not to exceed the average amount found by dividing the required size of the guarantee fund to the number of members and announced in the Procedure.

- (5) The variable contribution amount is calculated by Takasbank by taking account of the average collateral amount that the member must maintain in the market and announced through the member screens.
- (6) The deposited guarantee fund contribution of a member cannot be less than the fixed contribution amount.
- (7) The length of data set to be used in calculating the size of the guarantee fund to be established and determining the average collateral amount constituting the basis for the members' variable contribution amounts is explained in the Procedure. In finding the aggregate guarantee fund contribution required to be deposited by each member, the guarantee fund risk value calculated by multiplying the average collateral amount of the members by a risk haircut to be determined shall be used.
- (8) Guarantee fund contribution obligations are calculated at the last business day of each month and updated at the first business day of the following month. The appreciated collateral amount corresponding to the guarantee fund contribution amount reflected to the accounts by Takasbank must be deposited to the accounts until the time period set forth in the Procedure. The default provisions shall be applied for the amounts failed to be deposited.
- (9) The members' guarantee fund contribution calculations can be made by Takasbank without waiting for the last business day of the month, by taking account of the risk status of the relevant members and the market conditions.

**ARTICLE 37- Assets eligible as contribution to the guarantee fund and the obligation to restore contribution amount** (1) Assets eligible as contribution to the guarantee fund and the composition limits thereof are given in the following table. Takasbank Board of Directors is authorized to revise the composition limits of the assets to be accepted as guarantee fund contribution according to the market conditions and set composition limits for the new assets.

<b>Assets Eligible to Guarantee Fund</b>	<b>Group Limit</b>	<b>Sub-group Limit (As group limit percentage)</b>
Cash in Turkish Lira	Max % 100	-
Convertible Currency (USD/EUR/GBP)	Max% 100	-
Government Debt Securities	Max% 100	% 35
Eurobond issued by the Ministry of Treasury and Finance of the Republic of Turkey	Max% 100	% 25
Lease Certificates issued by Asset Leasing Incorporation of the Undersecretariat of Treasury of the Republic of Turkey	Max% 50	% 25
Mortgage-backed securities, mortgage-based securities, asset-backed securities and asset-based securities	Max% 50	% 25
Government debt securities issued by G7 countries	Max% 50	% 50

- (2) The valuation haircuts representing the deduction rates to be used in calculating the collateral values of the assets to be deposited as guarantee fund contribution are explained in the Procedure.

- (3) Composition limits are calculated over the total contribution amounts deposited. In the calculation of lower composition limits, the total appraised portion of the related asset amount is taken into account.
- (4) Non-cash assets used as guarantee fund contribution are made subject to valuation at the end of the day over the prices determined by Takasbank to ensure their valuation at current market prices.
- (5) A call to restore contribution amount shall be issued to the accounts having a contribution deficit as a result of the end-of-day valuation. The contribution amounts must be restored until the end of the time period designated in the Procedure. The default provisions shall be applied for the amounts failed to be restored.
- (6) Non-cash assets in the Guarantee Fund can be replaced in accordance with the request of the Member.

#### **Principles for use of the guarantee fund**

**ARTICLE 38 -** (1) In default management, the non-defaulting members' non-cash contributions in the guarantee fund shall be started to be turned into cash when the funds available for use up to the item (d) of the first paragraph of article 36 of Takasbank Central Counterparty Regulation fail to be adequate and upon determination that the guarantee fund contributions deposited in cash will remain insufficient.

(2) The contribution amounts deposited to the guarantee fund by the members joined to the guarantee fund after the date on which the relevant default has occurred or the contribution amounts deposited by the existing members against the risks they assumed after the occurrence of the default shall not be used.

(3) In cases which necessitate resorting to the guarantee fund, withdrawal of any contribution from the guarantee fund shall not be allowed during the time period to be elapsed until the loss incurred due to such default is fully covered.

(4) The use of contribution amounts starts with the most liquid asset; and high convertibility to cash is taken as basis. Cash amounts derived from conversion into cash of non-cash collaterals in the guarantee fund, but not used, are returned to the members whose non-cash collaterals have been used on a pro-rata basis.

(5) In distributing the loss to be attributed to the guarantee fund to the non-defaulting members, the shares of the members in the guarantee fund shall be taken as the base.

(6) The members are obliged to re-deposit, within 3 business days, their deposited guarantee fund contribution amounts that have been used in accordance with the default management.

(7) If the loss to be attributed to the guarantee fund seems likely to exceed 50% of the fund size, the members may be asked to deposit the additional contributions they have committed. The members are obliged to deposit the additional contributions within 5 business days after the request. The additional contributions that have not been used either in part or at all for resolving the relevant default shall be returned. If they, albeit requested, are returned without being used for resolving the default, the request for additional guarantee fund contribution shall be deemed not to have been made.

(8) The additional guarantee fund contribution amount that can be requested from a member in one month's time period cannot exceed the member's guarantee fund contribution amount calculated and required to be deposited for that month.

(9) If the additional guarantee fund contributions requested from the members due to the default are used

either in part or in whole, the members shall be asked to restore their guarantee fund obligations to the amount being calculated pursuant to article 30. The guarantee fund contributions exceeding the maximum loss threshold that any Member would assume in the same month upon the default of other members shall only be used in the event of their own default until the end of the month. The standard guarantee fund contribution amounts to be requested from the members who have fulfilled their maximum additional guarantee fund contribution obligation within the one year period between the dates of 1 April-31 March shall only be used for their own default until such one year period is completed.

## **CHAPTER EIGHT**

### **Principles Regarding Default Processes**

#### **General principles**

**ARTICLE 39-** (1) Debts arising from the transactions conducted shall become due and payable in the following situations.

- a) Failure to fulfill the intra-day and end-of-day margin call obligations calculated by Takasbank within the time period prescribed in the Procedure.
  - b) Failure to fulfill the guarantee fund and additional guarantee fund contribution restoration obligations within their time periods.;
  - c) Failure to make the contract-related periodical payments and to fulfil the obligations to deposit variation collateral margin and the financing cost of contract value within due period;
  - ç) Decision by Takasbank for the liquidation of the member's obligations pursuant to article 9 of the Directive.
- (2) In case of failing to fulfill the obligations in accordance with the principles and procedures stipulated in the Procedure at the date on which the debt becomes due and payable, the Member shall fall into default without serving any further notice. If the member falls into default due to any debt of the member which became due and payable, all debts of the member shall become due and payable.
- (3) If Takasbank has incurred a loss exceeding the default interest due to failure to fulfil the debt in part or as a whole, this loss is compensated by the defaulting member.
- (4) In case of any default, Takasbank does not allow the defaulting member to withdraw its collaterals held in the respective accounts.
- (5) The Member can be allotted time by Takasbank to resolve its event of default until the business day following the default date at most to the hour set forth in the Procedure. In case of failing to resolve the event of default until the end of the allotted time period, Takasbank may trade in the organized and over-the-counter markets. To be able to execute the transaction, the trade margin and guarantee fund contribution amounts of the member can be used
- (6) The default provisions shall be applied in the event the collateral and guarantee fund obligations are failed to be fulfilled within the time periods set forth in the Procedure.
- (7) Default Management Group established with the participation of Takasbank specialists and the subject-matter employees of the members designated by Takasbank take part in the default management process.

(8) The principles regarding establishment and operation of the Default Management Group are specified in the Procedure.

### **Default penalty and grievance/compensation payment**

**ARTICLE 40-** (1) In case of defaults, Takasbank's financial liability is, without prejudice to the limits specified in article 36 of the Central Counterparty Regulation as well as market liquidity constraints, limited with payment of the debt on settlement date; and in case of non-payment of debt on settlement date, payment in accordance with the principles and procedures specified below depending on market conditions and Takasbank's liquidity facilities, and in addition, the grievance/ compensation payment to be calculated until the day of actual payment.

(2) If any event of default is not terminated until the end of the period granted by the Default Management Committee, Takasbank tries to source funds from organized and/or over-the-counter markets, showing best efforts with the member's blocked receivable and default management resources in order to ensure that the related receivable amount is paid to the related creditor until the end of the following business day.

(3) If the debt is closed out in full within the hours specified in the procedure, the settlement creditor is paid within the same day.

(4) In case of default, the default penalty is imposed pursuant to the provisions of article 38. An amount up to  $\frac{3}{4}$  of the default penalty collected is paid to the creditor member as grievance/compensation payment with respect to the undelivered part and for the period until the receipt by such creditor member of the receivable amount in full.

(5) If the penalty amount calculated remains below the minimum default penalty, the payment is made over the calculated amount.

(6) The debtor member is liable to pay such debt together with the default penalty to be calculated under article 38.

(7) Default penalty is collected together with the legal obligations from the members that fulfil their clearing/settlement, periodical payment debt, variation margin debt, financing cost related with contract value, initial margin and guarantee fund obligations after the specified cut-off times.

(8) In the calculation of default penalty, the period between the date of default and the date of fulfilment of the obligation is taken into account. However, the default penalty coefficient may vary for obligations fulfilled after the cut-off time specified on settlement date, but within the same day.

(9) The defaulting member shall be charged to a default penalty over the non-fulfilled obligation amount, which will be calculated over the highest of the weighted average overnight interest rates at BİAŞ Repo-Reverse Repo Market, CBRT Interbank Money Market or Takasbank Money Market based on the coefficients specified in the Procedure.

(10) Lower and upper limits may be applied for the default penalty to be collected. The related principles are specified in the Procedure.

(11) If Takasbank has incurred a loss exceeding the default penalty due to failure to fulfil the debt in part or as a whole, this loss is compensated by the defaulting member.

(12) If the defaulted obligation is denominated in a foreign currency, the related amount is calculated on the basis of the foreign exchange buying rate effective on the related value date as announced by the CBRT. In addition, in case of default in relation to the obligations denominated in foreign currency, Takasbank may decide for calculation of the default penalty over the coefficients that it may determine individually for each foreign currency.

(13) Other issues regarding default are specified in the Procedure.

### **Accrual, notification and collection**

**ARTICLE 41 -** (1) The accrued default interest shall be paid together with other legal liabilities within 1 business day following the accrual date.

(2) A notification shall be served to the member for the default interest being accrued. Upon delivery of the notification in the electronic environment, the member shall be deemed to have received it without the need for any further warning or notice.

(3) The default interest and other legal liabilities failed to be paid, albeit accrued, by the member within their time period shall be collected ex-officio by Takasbank from the free account of the member in the next business day. If they are failed to be collected, interest and other legal liabilities shall also be collected in accordance with the provisions of article 41 related to the default management process.

### **Objecting to default interest accruals**

**ARTICLE 42 -** (1) The default interest-accrued members may object at Takasbank based on the reasons that the default has occurred without its own fault due to problems arisen from the clearing and settlement, relevant central depository system or payment system or a material mistake has been made in the calculation of the default interest. The objection shall not inhibit the payment of default interest

(2) The objection must be made at the latest within 1 week after the default interest accrual date with a letter accompanied by the documents related to the objection.

(3) The defaulting member's objection shall be evaluated and resolved by the Default Committee Established within the structure of Takasbank in accordance with article 35 of the Regulation.

(4) If the objection made by the member is justified, the default interest shall not be applied, and if it has been collected, the relevant amount shall be refunded to the member.

(5) If the objection is declined, the decision shall be informed to the relevant member in writing with its justification.

**ARTICLE 43- Default management process** (1) The relevant default of the Member failing to close its settlement and/or collateral obligations on time and whose settlement debt has been failed to be closed as a result of the transactions conducted in the Market by Takasbank within the time periods set forth in the Directive shall be informed to the, the Board, Banking Regulation and Supervision Agency, The Central Bank of the Republic of Turkey and the relevant member pursuant to article 13 of the CCP Regulation, and all trading authorization of the member on its accounts shall be suspended.

(2) Takasbank may take one or more than one of the following measures, including but not limited to those, about the defaulting member in accordance with the relevant articles of the Central Counterparty Regulation. In using the default management tools, the reason of default and its impact on the markets shall be taken into account.

- a) Porting the open positions in the non-defaulting member accounts to a non-defaulting member either in whole or in part together with their collateral pursuant to article 26 of the Central Counterparty Regulation.
- b) Acting in accordance with article 37 of this Directive to make use of the guarantee fund contributions of the non-defaulting members.
- c) Porting the positions and collateral of the customers either ex officio when necessary or upon request of the customers to other members without seeking the consent of the defaulting member
- ç) Closing the positions in an ex-officio manner.



- d) Netting any debt, receivable, position, collateral, right and obligations existing with the same party
- (3) Netting any debt, receivable, position, collateral, right and obligations existing with the same party.  
Takasbank may organize a tender to close the open positions. The tender can be cancelled by Takasbank either in full or on portfolio or position basis. Participation to the tender is open to all Members and also to the customers through the Members, however; it is mandatory for the general central counterparty members. If all positions cannot be transferred as a result of the tenders to be opened, or if the tender is cancelled; then the remaining positions may be transferred compulsorily to the members by Takasbank. Certain factors, such as the risk limits of the members, the position amounts they took over in the tenders and the existence of the counter-positions of the positions to be taken over shall be taken into consideration for the determination of the members to whom the compulsorily transfer shall be made
- (4) In case of existence of the conditions referred to in article 48 of the Central Counterparty Regulation, Takasbank, without closing of the open positions, may make deductions from the profit distributions arising as a result of the account updating process, in order to allocate the losses originating from the defaulting Member.
- (5) Despite all efforts for the fulfillment of all obligations resulting from the open positions of the defaulting Member and the risk reduction thereof, if it is determined that the risk generating positions cannot be completely closed, such positions may be liquidated by cash settlement either partially or fully. Pursuant to the third paragraph of article 36 of the Central Counterparty Regulation; the prices of the counter-positions related to the positions to be liquidated shall be determined by taking the loss amount to be assumed by Takasbank into consideration.
- (6) The deficits that arise after application by Takasbank of the default provisions specified in this Directive and the provisions of Chapter Five of the Central Counterparty Regulation against the defaulting member and that cannot be covered using the defaulting member's collaterals and guarantee fund contributions are defined as the loss of Takasbank and other members and are assumed in the given order specified in the first paragraph of article 36 of the Central Counterparty Regulation. The collections that will be subsequently made from the defaulting member are distributed pursuant to the fifth paragraph of article 36 of the Central Counterparty Regulation.
- (7) If the capital that has been allocated in accordance with article 36 of the Central Counterparty Regulation against the risks being covered is used due to a default, then Takasbank shall restore the used amount 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 a default reoccurs within the period of one month to be lapsed until the restoration of the used capital, then the remaining portion of the allocated capital, if any, shall be used. The guarantee fund of the non-defaulting Members shall be used for the portion which cannot be covered. Restoration of the capital shall not necessitate the return of the guarantee fund contribution amounts being used.

## **CHAPTER NINE**

### **Final Provisions**

#### **Fees and commissions**

**ARTICLE 44 - (1)** For the fees and commissions to be charged by Takasbank to its Members in relation

to the services it provides under this Directive, the provisions of article 35 of the General Regulation shall apply.

(2) CBRT is exempt from the commission and fee to be collected.

#### **Exemptions and exceptions**

**ARTICLE 45 -** (1) Pursuant to the first paragraph of article 52 of the Central Counterparty Regulation, the Central Bank of the Republic of Turkey is the natural CCP member and it is not subject to the provisions of this Directive nor to the provisions of the Procedure to be issued in accordance with this Directive.

(2) The rules related to the functioning of the transactions to be conducted by CBRT in the Market shall be determined by a separate Protocol to be signed between Takasbank and CBRT.

(3) CBRT is not obliged to pay any default interest to the extent it fulfills its obligations for the transactions it has conducted in the Market within the same day.

(4) Transactions in Takasbank system can also be executed by Takasbank on behalf of CBRT.

#### **Disciplinary provisions**

**ARTICLE 46 -** (1) In addition to those contemplated in this Directive, the disciplinary provisions stipulated in the Chapter Seven of the Central Clearing and Settlement Regulation shall also be applied to the members failing to comply with the obligations stipulated in this Directive.

#### **Measures to be taken in extraordinary situations**

**ARTICLE 47- -** (1) Takasbank is authorized to determine and enforce the measures to be taken in case of presence of extraordinary situations where it foresees the clearing and settlement operations of the Market may be adversely affected. In such cases, Takasbank is entitled to take the measures referred to in article 48 of the Central Counterparty Regulation.

#### **Provisions to be applied in case of no provision in the Directive**

**ARTICLE 48 -** (1) In case of no provision in the Directive, the provisions of the Central Counterparty Regulation and the Central Clearing and Settlement Regulation shall be applied.

#### **Enforcement**

**ARTICLE 49 -** (1) The Directive shall enter into force on the date of its publication.

#### **Execution**

**ARTICLE 50-** (1) The provisions of the Directive shall be executed by the Board of Directors.