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Turkish Central Bank Unveils COVID-19 Measures Concerning Asset Backed Securities and Mortgage Covered Bonds

➢ Speed Read

*In an effort to contain the adverse impacts of the COVID-19 pandemic on financial markets, Turkish Central Bank (**Central Bank**) has announced further measures on 31 March 2020. These measures cover, amongst others, the authority conferred on Turkish banks to include asset backed securities (**ABS**) and mortgage covered bonds (**MCB**) in their collateral portfolio for Turkish Lira and FX transactions effectuated at the Central Bank (**Collateral Portfolio**).*

With this move, Turkish banks are being provided with alternative options to manage their liquidity during the unprecedented pandemic.

➢ Background

Following the first reported case of COVID-19 in Turkey, the Central Bank has introduced certain measures, in line with its counterparts around the world, to ease the liquidity pressure on Turkish banks. The latest wave of such measures, announced on 31 March 2020, contains, among others, the authority conferred on Turkish banks to include ABS and MCB in their Collateral Portfolio.

Further to Central Bank's announcement on 31 March 2020, the criteria to determine which ABS and MCB would qualify as being eligible to be included in a bank's collateral portfolio have been laid down under the Central Bank's Implementation Directions for Turkish Lira and FX Transactions (**Implementation Direction**) on 1 April 2020.

➢ Highlights

Pursuant to the Implementation Direction, in order to be eligible to be included in the Collateral Portfolio, the relevant ABS or MCB must have been issued by Turkish banks and assigned a national long-term credit rating of, at least, "BBB-" by a minimum of one credit rating agency. The relevant ABS or MCB shall cease to qualify as collateral one day prior to their maturity.

In addition to the above, the following limits have been introduced to the eligibility criteria:

(i) the issue size of the relevant ABS or MCB, as applicable, must not be less than TL250 million (circa USD27.5 million);

(ii) the aggregate value of ABS and/or MCB brought in as collateral shall not exceed 10% of the total value of the Collateral Portfolio of a given bank; and

(iii) if the relevant ABS or MCB are issued by a bank itself or, otherwise, such bank is the originator of, at least, 50% of the underlying asset pool/cover pool, such ABS or MCB, as the case may be, shall not be eligible to be included as collateral into the Collateral Portfolio.

For efficient functioning of the collateral system, the Implementation Direction requires Turkish banks to have, and use, securities accounts (**CSD Accounts**) held at Central Securities Depository (**CSD**) of Turkey and to notify the Central Bank's General Directorate of Markets (**Directorate**) of such accounts. The relevant ABS or MCB held at CSD Accounts must be deposited to Central Bank's securities accounts held at the CSD for collaterals (**Central Bank Account**). The Central Bank shall pass on the custody fees charged by the CSD in connection with ABS and MCB held at the Central Bank Account to the relevant Turkish bank.

One business day prior to the value date, details of the relevant ABS and/or MCB, such as ISIN, nominal value, interest rate, interest period, together with the documentation satisfactorily evidencing the credit rating obtained from a suitable credit rating agency and value date for transfer to Central Bank must be notified to the Directorate both in writing and by phone. Daily value of the relevant ABS and MCB shall be determined by the Central Bank and notified to the relevant Turkish bank, upon its inquiry.

In its announcement of 31 March 2020, the Central Bank noted that this new concept is expected to increase the liquidity of alike securities and support the capital market transactions, ultimately aiming to provide flexibility for Turkish Lira and FX liquidity management of the banks.

As a brand new concept, there is still lack of clarity on how much the banks would be interested in, and more importantly, could benefit from, this new alternative liquidity source introduced by the Central Bank. Also, the specifics seem to require further guidance from the Central Bank, particularly on the eligibility criteria side.

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