

## *Turkish Financial Regulators Introduce Limits on FX Swaps, Forwards and Options*

Date: May 2020

### Speed Read

*In an effort to ramp up the measures to tackle the direct and knock-on impacts of the COVID-19 pandemic, Banking Regulation and Supervision Authority (BRSA) and Capital Markets Board of Turkey (CMB) made official announcements on 12 April 2020 and 13 April 2020, respectively, introducing, among others, further limits over the cross currency swap transactions with foreign counterparties involving purchase of Turkish lira (TRY) and sale of hard currency at the maturity, and transactions that can be entered into with counterparts incorporated outside of Turkey (Measures).*

*According to the Measures, among others, the BRSA has reduced the existing swap limit of 10% to 1% for Turkish banks, whereas the CMB has, by aligning itself with the BRSA, put into effect the swap limits for capital markets institutions for the first time.*

*These measures are expected to increase the hard currency liquidity of Turkish banks, while eliminating the speculative transactions that can lower the value of TRY even further during the COVID-19 predicament.*

### Highlights

#### **A. Restricted Transactions I**

According to the Measures, a Turkish counterparty qualifying as a bank or a capital market institution that include institutions such as financial intermediaries, portfolio management companies shall not be able to enter into (i) a cross-currency swap, forward, option transaction involving purchase of TRY and sale of hard currency at the maturity or final exchange; or, (ii) any other transaction akin to the cross-currency swaps having the same financial effect (such as a spot sale of TRY and a forward repurchase of hard currency) (transactions in (i) and (ii) together as “**Restricted Transactions I**”) if the overall volume of these transactions exceed more than 1% of its most recent statutory equity capital (**1% Threshold**).

Prior to the Measures, for Turkish banks:

- the threshold for TRY/FX Cross-Currency Swaps applied as 10%; and
- when calculating the transactions falling within the scope of the aforesaid 10% Threshold, local banks had been given some sort of relief (**Maturity Relief**) by allowing them to take into account (i) 75% of a given Restricted Transaction I if the maturity of such transaction is between 90 to 360 days; and, (ii) 50% of a given Restricted Transaction I if the maturity of such transaction is 360 days or longer.

That said, with the Measures, the BRSA revoked the Maturity Relief and required Turkish banks to apply 1% Threshold for all transactions.

In the case of locally licensed capital market institutions other than Turkish banks, Restricted Transactions have been put into effect for the first time by the CMB and, accordingly, they will need to take into account 1% Threshold when engaging in a Restricted Transaction I with a foreign counterparty.

## B. Restricted Transactions II

Prior to the Measures, a Turkish counterparty qualifying as a “bank” was not be able to enter into (i) a cross-currency swap, forward, option transaction involving sale of TRY and purchase of hard currency at the maturity or final exchange and where there are 7 days or less for the maturity; or, (ii) any other transaction akin to the cross-currency swaps having the same financial effect (transactions in (i) and (ii) together as “**Restricted Transactions II**”) if the overall volume of these transactions exceed more than 10% of its most recent statutory equity capital.

With the Measures, volume of its Restricted Transactions II must not exceed the following percentages of a Turkish bank's or capital market institution's most recent statutory equity capital:

- 1%, where there are 7 days to the maturity;
- 2%, where there are 30 days to the maturity; and
- 10%, where there is 1 year to the maturity.

Please note that, for each of Restricted Transactions I and Restricted Transactions II, prior approval of the BRSA or the CMB, as applicable, would be required to discharge a transaction in any manner whatsoever before its maturity or, otherwise, extend its maturity.

## KEY INFORMATION

### Contacts



**Hakkı Gedik**

Turkey – Istanbul  
Tel +90 212 371 29 53  
Mobile +90 549 480 15 35  
[hakki.gedik@gedikeraksoy.com](mailto:hakki.gedik@gedikeraksoy.com)



**Umut Gürgey**

Turkey – Istanbul  
Tel +90 212 371 29 66  
Mobile +90 549 480 15 37  
[umut.gurgey@gedikeraksoy.com](mailto:umut.gurgey@gedikeraksoy.com)