

COMMUNIQUE ON MARGIN TRADING, SHORT SALES AND LENDING AND BORROWING OF SECURITIES

(Published in the Official Gazettes dated 27.12.1994 numbered 22154)

- 1- (Communique Serial: V, No: 45 on Amending the Communiqué On Margin Trading, Short Sales and Lending and Borrowing of Securities was published in the Official Gazette dated 31.05.2000 numbered 24065)

Serial: V
No: 18

SECTION ONE SUBJECT, SCOPE AND ABBREVIATIONS

ARTICLE 1- Principles of margin trading, short sales, lending and borrowing of securities by intermediary institutions are regulated by this Communiqué in accordance with paragraph (1), Article 22 of Capital Market Law No: 2499 amended by Law No: 3794.

Abbreviations

ARTICLE 2 – In this Communiqué; the mentioned terms have the following meanings;

Law:	Capital Market Law No: 2499 amended by Law No: 3794,
Board:	Capital Markets Board,
Stock Exchange:	Exchanges that capital market instruments shall be traded and other organised markets in which transactions subject to this Communiqué are permitted by the Board,
Intermediary Institutions:	Brokerage houses and banks;
Equity Capital:	Amount calculated by subtracting the losses from the sum of paid in capitals and reserves of intermediary institutions.

Scope

ARTICLE 3 – Principles of transactions related to margin trading, short sales and lending and borrowing by intermediary institutions shall be subject to provisions of this Communiqué.

SECTION TWO GENERAL PROVISIONS

Institutions to Undertake Margin Trading, Short Sales and Borrowing and Lending of Securities

ARTICLE 4 – Brokerage houses and banks having certificate of authorization for buying and selling of capital market instruments can undertake margin trading, short sales and lending and borrowing of securities with the permission of the Board.

Intermediary institutions authorised by the Board for margin trading, short sales and lending and borrowing of securities shall register their certificates of authorisation to the pertinent registry within 15 days following the receipt of these certificates. Registration shall be announced in Turkish Trade Registry Gazette and in at least two national daily newspapers. Any changes in this document shall be registered and announced in the same manner.

Eligible Securities and Transaction Limit

ARTICLE 5 – Securities among the securities traded on exchanges and other organised markets, to be subject to the transactions regulated by this Communiqué shall be included in the List of Securities Subject to Margin Trading and Short Sales and announced within the framework of pre-determined conditions by the authorised bodies of the related exchange.

If the Board deems necessary, it may request from the authorised body of the related exchange to take some securities out of the list.

The credit extended by the intermediary institutions from their own resources shall not exceed half of their equity capital and total amount of margin trading, short sales, lending and borrowing of securities shall not exceed two fold of their equity capital.

In calculation of the total amount, at a certain time, the sum of the credit extended by the intermediary institution and current market value of the borrowed securities with the purpose of short sales shall be taken into account.

If the intermediary institutions extend credit from their own resources, the amount of credit extended for a customer shall not exceed 10 % of their equity capital.

Equity capital shall be determined according to the accounting summary in the form of the balance sheet prepared at any time within the accounting year, in accordance with Communiqué Serial: XI, No: 1 of the Board.

If the Board deems necessary, it may decrease the transaction limits stated in this article considering the financial structure and transactions of the intermediary institution or may prohibit the intermediary institution from undertaking transactions subject to this Communiqué.

In this case, the Board may give a time to the intermediary institution to lower its transactions to the new limit or to liquidate.

Margin Account

ARTICLE 6 – The intermediary institutions are obliged to open a margin account in the name of real or legal persons that shall undertake margin trading and short sales transactions.

If the margin trading and short sales transactions of the customer occur at the same time, then separate accounts shall be opened for the two transaction types.

The margin account shall be processed and monitored separately from the other accounts of the customer at the intermediary institution.

SECTION THREE MARGIN TRADING

Margin Trading

ARTICLE 7 – Margin trading means purchase of securities within the framework of the agreement between the customer and the intermediary institution with the condition that a margin account has been opened in the name of the customer at an intermediary institution.

The intermediary institutions are authorised to obtain credits from banks and have them used as well as extend credits to their customers from their own resources with the condition that these transactions are limited with margin trading to be carried within the principles determined by this Communiqué.

Margin Trading Framework Agreement

ARTICLE 8 – When opening a margin account, it is obligatory to conclude a Margin Trading Framework Agreement with the customer consisting of at least the following provisions;

- Introductory information on intermediary institution,
- Introductory information on customer,
- Subject of the contract,
 - a) On the basis of securities,
 - b) On the basis of exchanges that transactions shall be undertaken,
- Principles of disclosure to customer by the intermediary institution,
- Determination of the fees and commissions to be paid to intermediary institution and payment terms,
- Principles regarding the authority of the intermediary institution to receive credit from the bank for the account of the customer,
- Principles regarding responsibilities of the customer for principal and interest payments of the credit used through the intermediary institution,
- Principles on lending of securities purchased through margin trading in the name of the customer to another individual or institution or using the securities purchased through margin trading in the name of the

customer as collateral in return for the credit obtained for the account of the customer, by the intermediary institution,

- Principles related to the amount, period, interest, interest accrual and collection periods of the credit used by the customer,
- if the equity amount in the customer's margin account falls below the ratios determined by provisions of the agreement, considering the minimum ratios determined in the Communiqué and if this amount has to be brought up to the required ratios, in case of failure to bring up the amount to the required ratios within the determined period, provision on converting the securities kept as collateral at the bank into cash in order to cover the difference,
- Principles on exercising the rights attending securities,
- Principles of withdrawal of cash from margin account,
- Principles to be applied in case of default of the customer on due date,
- Term of the contract and principles of termination.

In Margin Trading Framework Agreement, provisions not complying with regulations of the Board and legislation of Stock Exchange shall not be included and in cases with no applicable provision in the agreement, general provisions shall be implemented.

Initial Margin

ARTICLE 9 – In margin trading, the customer is obliged to deposit at least 50 % margin.

Margin represents the equity deposited in advance in the form of cash or securities amounting to the current market value of securities to be purchased through margin trading.

In each margin trading, the margin must be deposited by the customer to the Margin Account at the stage of opening of the account.

The intermediary institutions are authorised to accept as margin all or a certain percentage of current market value of securities at the initial or subsequent margin trading.

The Board is authorised to lower the margin requirement to zero (0) % or to increase it to one hundred (100) % collectively for all intermediary institutions or on the basis of intermediary institutions.

The Board shall take opinion of the Central Bank of Republic of Turkey when changing the margin requirement collectively for all intermediary institutions.

Valuation of Securities

ARTICLE 10 – Securities in margin account shall be valued by intermediary institutions taking into consideration the following principles:

- a) On the date of purchase, purchase prices and commissions of securities,
- b) In the following days, closing price of the securities at the previous session,
- c) If there was no transaction on the security at the previous session and no closing price can be obtained, the simple average of best bid and best ask at the last session, shall be used in valuation.

The value of securities determined within the framework of the above principles shall be considered as current market value in the implementation of the Communiqué.

Maintenance of Equity

ARTICLE 11 – During the course of margin trading, equity shall be calculated by deducting the loan amount and interest from the sum of the current market value of securities determined in accordance with the principles in Article 10 and total of dividends, interests and similar revenues paid for these securities.

In a margin account of a customer, at least 35 % of current market value of the purchased securities should be kept as equity during the course of margin transaction. Intermediary institutions may require a higher equity maintenance ratio in accordance with risk levels of purchased securities and financial status of the customer.

The customer may request a provision to be included in the agreement about the implementation of “automatic sales order” providing sales of securities at a rate higher than the equity maintenance ratio in order to stop his/her loss as well as determination of the principles of implementation.

Margin Call

ARTICLE 12 – The intermediary institutions are obliged to calculate the equity amount of their customers in the Margin Account for each working day.

If the equity ratio in Margin Account is below the equity maintenance ratio due to changes in current market values of securities, the intermediary institutions shall inform the customer on the date when the deficiency is observed about the margin deficiency so that the ratio shall be brought up in cash or /and as securities.

The amount or ratio of the margin call shall be freely determined within the framework of the provisions of the agreement between the intermediary institution and the customer considering the minimum ratios determined by the Communiqué.

Following the margin call, if the margin deficiency has not been eliminated within the period determined in the agreement not to exceed two working days, the intermediary institution is authorised to sell the securities and close the margin account.

Withdrawal of Cash from the Account and Re-Deposit

ARTICLE 13 – If the amount of equity at customer's account is found to be above the initial margin, the excess margin can be withdrawn as cash from the margin account or if agreed by the intermediary institution, can be used as equity in new margin transactions.

Exercise of Rights Attending Securities

ARTICLE 14 – The interest and dividend revenues from the securities that the customer had purchased through margin trading and deposited as equity, shall belong to the customer. If such a provision exists in the framework agreement, these revenues shall be collected by the intermediary institution in the name of the customer.

The voting rights attending the securities belong to the customers. Rights issues and bonus issues of shares deposited as equity or purchased in return for credit shall be exercised by the intermediary institution for the account of the customer.

Separation of Accounts

ARTICLE 15 – The minimum equity amount that should be deposited for margin trading, the margin deficiency and similar financial liabilities of the customer can not be covered by the securities and cash in other accounts of the customer at the intermediary institution. However, if there is a written instruction of the customer, the transfer between the accounts can be made.

Bank Credit

ARTICLE 16 – The extension of the credit by the bank is exclusively for margin trading purposes and can not be used for any other purpose.

The intermediary institutions shall not charge additional interest, commission or fee when providing the credit they have obtained from banks to their customers.

The bank shall receive the securities as collateral for the credit. The bank shall not sell these securities to another individual or institution, shall not use them as collateral or lend them.

In return for the credit, the bank may permit transactions by the customer on the securities received as collateral or the exchange of these with other securities.

In margin trading, the initial and terminal value date of the credit extended to the customer shall be determined by the intermediary institution based on the clearing date of the transaction.

Termination and Maturity of Credit

ARTICLE 17 – The margin trading agreement shall terminate with the sale of the securities subject to margin trading by the order of the customer or/and payment of the credit by the customer in cash.

In the following conditions, the loan shall mature.

- a) If the customer does not pay his/her debt despite the margin call by the intermediary institution;

- b) If the credit term determined by the agreement ends;
- c) If the security or securities subject to margin trading transaction is/are taken out of the list.

The credit extended for a security taken out of the list can continue with the condition that the security taken out of the list is exchanged with another security included in the list upon the proposal of the customer and approval of the bank.

Transaction Ban

ARTICLE 18 – An intermediary institution, intermediating in public offering of capital market instruments registered with the Board through public offering, can not undertake margin trading in these securities during the public offering period.

Custody of Securities

ARTICLE 19 – The securities purchased by margin trading or deposited as equity shall be kept in custody at Clearing and Custody Inc. in the name of the intermediary institution showing the customers separately or if the securities are given as collateral for the credit, in the name of the related bank.

SECTION FOUR SHORT SALES

Short Sales

ARTICLE 20 – Short sales mean sales of borrowed securities that are not actually owned.

For short sales, each customer must open a margin account at the intermediary institution and a short sales framework agreement must be concluded with each customer.

Initial Margin

ARTICLE 21 – Customers must deposit in advance at least 50 % of the current market value of the securities they are selling short, in cash or as securities with market value covering this ratio.

The Board is authorised to decrease the margin requirement to zero (0) % or increase it to one hundred (100) % collectively for all intermediary institutions or on the basis of intermediary institutions.

Securities purchased through margin trading can not be used as equity in short sales transactions.

In each short sale, the margin must be deposited to the margin account prior to clearing of securities or at the stage of opening of the account.

Short Sales Framework Agreement

ARTICLE 22 – At least, the following provisions shall be included in the agreement between the intermediary institution and the customer.

- Introductory information on the intermediary institution,
- Introductory information on the customer,
- Subject of the agreement,
- a) On the basis of securities,
- b) On the basis of exchanges that the transaction shall be undertaken,
- Provision on written transmission of short sales orders,
- Validity period of short sell orders,
- Settlement principles of executed orders
- Principles of disclosure to customer by the intermediary institution,
- Determination of the fees and commissions to be paid to intermediary institution and payment terms,
- Commissions and fees to be paid for borrowed securities,
- Principles on rights attending the securities subject to short sales,
- Principles on collaterals,
- Term of the agreement and principles of termination.

Notification of Short Sell Order

ARTICLE 23 – The customer is obliged to notify that the order placed to intermediary institution is a “short sell order”, in written. While transferring the order to the stock exchange, the intermediary institution shall state

clearly that the order is a short sell order. In execution of short sell orders on the stock exchange, the rules of the transaction shall be determined by the Management of Stock Exchange.

The information on short sales executed on Stock Exchange shall be published by the pertinent Stock Exchange.

Price Limit in Transactions

ARTICLE 24 – Short sale shall be effected above the price at which the last trade of a security subject to short sale is executed. However, short sale may be effected at the price at which the last trade executed, if such price is above the next preceding price.

At the opening of the session, the price at which the last trade is executed is the closing price of the previous session.

SECTION FIVE BORROWING AND LENDING OF SECURITIES

Borrowing and Lending of Securities

ARTICLE 25 – Borrowing and lending of securities means the lending of securities for a certain period to the borrower with the aim of short sale and the return of an equal number of the same type of securities to the lender, within the principles determined in the framework agreement.

Intermediary institutions can lend securities in their own account and name and securities in customers' account on the condition that it is authorised by the customer and securities belonging to other individuals and institutions having portfolio, to other individuals and institutions.

(Paragraph added by “Communiqué Serial: V, No: 45 on Amending the Communiqué on Margin Trading, Short Sales, Borrowing and Lending of Securities” published in the Official Gazette dated 31.5.2000 numbered 24065)

“Government Domestic Debt Instruments Market Makers” selected by the Undersecretariat of Treasury can undertake borrowing and lending transactions on the market to be established in Istanbul Stock Exchange Clearing and Custody Bank Inc. However, in the mentioned transactions, the “Government Domestic Debt Instruments Market Makers” must provide at least 100 % collateral to the lending party. Other banks can also lend Government Domestic Debt Instruments, but, can not engage in borrowing transaction.

Framework Agreement on Borrowing and Lending of Securities

ARTICLE 26 – In the agreement to be concluded on borrowing and lending of securities, at least the following provisions must be included:

- Introductory information on the intermediary institution,
- Introductory information on the borrower,
- If a fee or similar benefit had been collected by the lender, the amount, if any,
- The type and amount of collateral to be given in return for the borrowed securities,
- The period of borrowing / lending,
- Securities subject to borrowing / lending,
- Principles of exercise of rights attending the securities lent,
- Principles applicable in case of default of the borrower on due date
- Term of the agreement and conditions of termination.

In the framework agreement on borrowing and lending of securities, provisions not complying with the regulations of the Board and legislation of Stock Exchange shall not be included and in cases with no applicable provision in the agreement, general provisions shall be implemented.

Exercise of Rights Attending Borrowed Securities

ARTICLE 27 – Within the borrowing and lending period, if the issuing corporation pays dividend or interest for the borrowed securities prior to delivery of them, related payments shall be made to the lender by the borrower within the framework of the provisions of the agreement.

Prior to delivery of shares sold short to the lender, if rights issues and bonus issues of shares due to capital increase by the issuing corporation occur, the obligations of parties shall be determined freely within the framework of the provisions of the agreement.

Collateral for Borrowed Securities

ARTICLE 28 – The intermediary institution shall provide a collateral to the lending individual or institution in return for the securities that are borrowed by the intermediary institution in its customer's account, in an amount freely determined by them.

The difference between the amount of collateral and current market value of securities shall be monitored daily by the intermediary institution. If the amount of collateral is below 80 % of current market value of securities, the related customer shall be notified by the intermediary institution in the same day so that the difference between the amount of collateral and current market value of securities is covered. The customer shall make payment on the date of receipt of the notification. If the customer defaults, the amount of collateral and the equity at customer's margin account shall be used to purchase the securities sold short on the market in order to cover open position and the difference shall be compensated.

Termination and Maturity of Borrowing and Lending

ARTICLE 29 – Borrowing transaction shall terminate with the purchase of borrowed securities subject to short sales by the order of customer.

In the following situations, the loan generated by borrowing transaction shall mature.

- a) If the customer fails to pay his/her debt, despite the call by the intermediary institution to bring up the collateral,
- b) Termination of borrowing period determined by the agreement,
- c) Taking out of the security or securities subject to short sales from the related list.

SECTION SIX OTHER PROVISIONS

Obligations of Intermediary Institutions

ARTICLE 30 – With regard to short sales, margin trading, borrowing and lending of securities, the intermediary institutions must submit the following to the Board in at most 7 days following the pertinent month in accordance with the samples whose form and content to be determined by the Board together with a letter. In this letter, information about the statements that can not be prepared since there is not any transaction shall be provided as well.

- a) Information on equity related to short sales and types and amounts of securities sold short and information on individual or institution from whom the securities had been borrowed,
- b) Information on the type and amount of securities taken in return for equity and credit, information on the amount of credit extended by banks and the amount of the securities that have been given as collateral to the banks, collected commissions and fees,

The Board may request other information, in addition to the listed above, from the intermediary institutions in the form and period to be determined by the Board.

Execution

ARTICLE 31 – The Board shall execute this Communiqué.

Effectiveness

ARTICLE 32 – This Communiqué shall be effective on the date of publication.