

INCREASED RISK WEIGHT FOR COMMERCIAL CASH LOANS BASED ON DERIVATIVE TRANSACTIONS WITH FOREIGN RESIDENTS

Pursuant to the new resolution published by the Banking Regulation and Supervision Agency, risk weight of the commercial cash loans is increased regarding the non-financial institution residents in Turkey that enter into derivative transactions with the non-residents for the purpose of effective functioning of the loan system.

Banking Regulation and Supervision Agency has published the Resolution No. 10248 (the “**Resolution**”)¹ on June 23, 2022, which amended the risk weight certain commercial cash loans in order to ensure that the Turkish Lira and foreign currency resources held by the banks, are extended in a manner that would be expedient to the purpose of satisfying the financing requirements of those which need financing.

Pursuant to the Resolution, in case Turkish residents who are not banks or financial institutions, enter into derivative transactions with residents abroad after June 23, 2022, the risk weight of commercial cash loans in Turkish Lira or foreign currency borrowed by such persons after June 23, 2022 will be applied as 500% (five hundred percent) by banks as part of their capital adequacy calculations. As part of the calculations, the credit risk mitigation techniques, credit ratings and real estate mortgages will be disregarded, independent from the approach used for calculating the amount serving as the basis for the credit risk.

¹ An English translation is attached as Annex-1 to this Legal Alert.

Resolution of the Banking Regulation and Supervision Board

Resolution Number: 10248

Resolution Date: 23.06.2022

In consequence of examination of the letter, dated 21.06.2022 and numbered E-24049440-010.03-53929, and the appendices thereto during the meeting, held on 23.06.2022, of the Board, it is hereby resolved that;

For the purpose of ensuring that the TRY and FX resources, held by the banks, are extended in a manner that would be expedient to the purpose of satisfying the financing requirements of those which need financing and ensuring the effective functioning of the loan system;

- **A risk weight of five hundred percent be applied for any commercial cash loan in TRY and FX**, which would be extended to such persons following the date of adoption of this Resolution, **in case of execution of any derivative trading with any non-resident person** by any resident person other than banks and financial institutions **following the date of adoption of this Resolution**, without taking into account the credit risk mitigation techniques, credit ratings and real estate mortgage and independent from the approach used for calculating the amount, serving as the basis for the credit risk (standardized approach or the approaches based on internal rating), in respect of calculation of the capital adequacy ratio as per the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" which has been promulgated on the Official Journal, dated 23.10.2015 and bearing the issue number 29511 thereon; and also that

- This Resolution be announced to the Organization Associations and be issued on the website of the Agency.

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