

Briefing Note

Capital Markets

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Short Selling in Turkish Capital Markets

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Short selling, which is a key transaction for deep and efficient capital markets, has in recent years been subject to certain temporary restrictions for maintaining market stability in Türkiye. This briefing note outlines the general framework of short selling in Türkiye, in which such temporary restrictions are being gradually lifted, its current regulatory status, the assets that may be subject thereto and the applicable requirements.

1. Definition and Purpose

Short selling is regulated under the Communiqué on Margin Trading, Short Selling, and Lending and Borrowing of Capital Market Instruments (Serial: V, No: 65) (“**Communiqué**”) issued by Capital Markets Board of Türkiye (“**CMB**”).

Fundamentally, short selling refers to the act of selling or placing a sell order for capital market instruments that are not owned by the seller, based on the expectation that the price of those instruments will fall. In essence, short selling is an investment strategy designed to profit from the anticipated decline in the price of a capital market instrument.

Likewise, fulfilling a clearing and settlement liability arising from sale by borrowing the relevant securities also constitutes a short selling. In such scenario, the investor is expected to repurchase the instrument later and return to the lender; keeping the price difference as profit.

Following transactions are also deemed as short selling:

1. As per Article 24 of the Communiqué, placement of a sell order in cases where the capital market instruments subject to sale are not available in the client's account at the intermediary institution at the time the order is placed; unless the client declares, either in writing or through any permitted communication channel, that they are in a position to deliver the instruments being sold and that such instruments will be delivered to the intermediary institution by the settlement date.
2. Intraday sale positions without holding the capital market instrument and closed on the same day -*as highlighted by CMB from time to time in its resolutions*-.

On the other hand, placement of a sell order for a capital market instrument in circumstances where the instrument has been purchased or a binding purchase contract has been concluded, but delivery has not yet taken place, shall not constitute a short sale.

| 2. Parties and Contractual Requirements

In order to conduct short selling transactions, clients must sign a “*short selling framework agreement*” with an intermediary institution, in at least two copies and kept by both parties. This agreement forms the basis of the relationship between the client and the intermediary institution and governs the fundamental rules applicable to short-selling transactions, but must not include:

- any provisions contrary to the capital markets legislation,
- clauses granting unilateral extraordinary rights in favor of the intermediary institution, or
- provisions assigning the burden of proof for sale orders to the client.

Intermediary institutions authorized to perform intermediary services for the trading of capital market instruments may engage in short selling transactions without obtaining an additional permission from CMB; but must provide the necessary technical infrastructure to ensure that short selling transactions are conducted safely and employ

qualified and experienced personnel to manage framework agreements and monitor margins effectively.

Although the primarily clients are required to notify the intermediary institution about the transaction being a short selling; intermediary institutions are also liable for flagging the transaction while transmitting the order to Borsa İstanbul A.Ş..

| 3. Restrictions and Transaction Limits

Short selling is prohibited for certain persons and institutions. In particular:

- members of the Board of Directors of the issuing company,
- senior executives of the issuing company,
- shareholders holding 10% or more of the issuing company's capital,
- their spouses, children under custody, and any persons acting in concert with them,

are not allowed to conduct short selling in the securities of that issuer.

In terms of transaction limits, the total value of shares sold short by intermediary institutions on behalf of clients and/or on their own accounts may not exceed twice the average shareholders' equity of the institution, calculated based on the last three month-end figures.

CMB may, when deemed necessary, increase or decrease this limit with the opinion of the Central Bank of the Republic of Türkiye, or even suspend the activities of an intermediary institution.

| 4. Eligible Assets and Equity Requirements

Short selling can only be conducted for capital market instruments traded on stock exchanges or other organized markets. These instruments are categorized by market capitalization, liquidity, number of shares in free float, and other relevant criteria. The list is submitted to the CMB for approval and subsequently published.

To initiate short selling, the client must deposit an initial margin of at least 50% of the transaction value. This margin represents either cash or securities equivalent to the current market value of the securities to be short selling. Throughout the transactions, the maintenance margin must not fall below 35%.

The intermediary institution is responsible for verifying the accuracy of such declarations, obtaining necessary documentation, and keeping them properly on record.

| 5. Current Status

CMB may impose a temporary short selling ban on specific stocks or on the entire market when deemed necessary. Such bans are typically introduced during periods of excessive volatility, sharp market declines, or when market stability and investor confidence are at risk.

Following the earthquakes occurred in the Southeast of Türkiye in February 2023, CMB introduced a market-wide short selling ban. On 5 December 2024, this ban was partially lifted, permitting short selling of shares included in the BIST50 index.

Subsequently, CMB imposed a new short selling ban on 23 March 2025, which had been extended several times and ultimately expired on 29 August 2025.

Accordingly, the regime established under the CMB's decision dated 5 December 2024 is applicable as of September 2025. Short selling may therefore be conducted only with respect to shares constituting the BIST50 index.

| 6. Conclusion

Short selling plays a vital role in enhancing market liquidity and contributing to efficient price formation. Nevertheless, in times of heightened uncertainty, temporary restrictions serve as an important safeguard for market stability and investor confidence.

CMB's recent actions demonstrate a balanced regulatory approach that aligns with international standards while maintaining robust investor protection and market integrity in the Turkish capital markets.

Should you have any queries on the matters above, please do not hesitate to contact us.

Yours faithfully,

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