Client Alert | Turkey

New limitations by BRSA on Turkish banks' SWAP transactions against Turkish Lira short-selling

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In particular, as a precautionary measure, the Banking Regulation and Supervision Agency ("**BRSA**") restricted the total notional principal amount of Turkish banks' currency swap and swap-like transactions (spot and forward FX transactions) with foreign counterparties where on the initial exchange, local banks pay Turkish Lira and receive foreign currency to a maximum of 25% of the respective bank's regulatory capital. Unless the current excess is eliminated, no further swap and swap-like transactions (spot and forward FX transactions) are permitted and maturing transactions may not be renewed. The above mentioned ratio is to be calculated daily on a consolidated and individual basis.

Further precautionary measures were announced early this week by the Central Bank to comfort the money markets, where the Central Bank pledged to provide liquidity and cut reserve requirements for Turkish banks to help them manage their lira and foreign-currency liquidity. Additional measures were adopted by the BRSA today relaxing the reserve requirements for restructured debt. We will cover these measures under separate cover.

The threshold set by the banking regulator to lenders' swap transactions limits foreign swap counterparties' access to lira liquidity in the offshore swap market and makes it harder for them to borrow the currency from local lenders to conduct short-selling trades in Turkish Lira, which has been identified as an important exacerbating factor in the recent depreciation of the Turkish Lira. For ease of reference, please find below the link to the full announcement:

https://www.bddk.org.tr/WebSitesi/english/Announcements/Press_Releases/17182duyuru25ing.pdf

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