

## "Too big to fail" - in Turkey

The concept of "systemically important banks" became the focus of bank reform following the events of 2008, when the failure of several big banks led to a worldwide economic crisis.

March 1, 2016

A new banking regulation, "Systemically Important Banks" (the Regulation), has come into force upon its publication in the Turkish Trade Registry Gazette on 23 February 2016. The purpose of the Regulation is to determine (i) the "systemically important banks" whose operations are vital for the Turkish financial system, (ii) the amount of additional capital buffer these banks will be required to reserve, (iii) how these banks should behave if they are unable to reserve the required additional capital and (iv) other related obligations.

The concept of "systemically important banks" became the focus of bank reform following the events of 2008, when the failure of several big banks led to a worldwide economic crisis. Consequently, the Basel Committee on Banking Supervision established criteria for identifying such banks and their obligation to reserve additional capital. The criteria included a bank's size, its level of integration into the financial system, its complexity and the difficulty of its replacement. The Regulation is Turkey's attempt to introduce these criteria into Turkish law.

The Regulation sets out the methods for calculating the risks particular banks pose to the financial system – about which each bank is given a "score" – so as to identify those which are "systemically important" and envisages assigning banks qualifying as such to three different categories. Banks in the same category are subject to the same regulatory obligations. However, the Turkish Banking Regulation and Supervision Agency (BRSA) reserves the right to re-categorize banks, including designating a bank as "systemically important" even when its score would otherwise not warrant such, or revising the banks' scores. Having said that, the methods, categories and scores set out in the Regulation are initially to be kept unchanged for three years following the first calculation.

In addition to these three categories, the Regulation envisages a fourth category which is to be kept empty initially. This fourth category is reserved for banks whose scores are on the rise, with the idea being to identify and monitor those banks which might eventually pose a greater risk to the economy .

The method for determining the final score takes the weighted average of the following:

- 40% of the bank's size score
- 20% of the bank's integration score
- 20% of the bank's complexity score

### Key contact



**Müfit Arapoğlu**  
Partner, Istanbul  
D +90 212 329 30 80  
marapoglu@baseak.com

- 20% of the bank's difficulty in being replaced score.

The sub-scores mentioned above are determined by a series of calculations which involve the addition of certain items listed in an Annex of the Regulation, finding the benchmark score by comparing it to the scores of other banks and determining the subject bank's score by taking the weighted average of the items listed in the Annex.

The scores are to be calculated each year based on the preceding year's last month of consolidated data. The "systemically important" status is relevant for the year after the year the score is calculated. In other words, banks deemed "systemically important" must reserve an additional capital buffer in the year following the year they are first identified as such. Banks must be in compliance with the Regulation as of 31 March 2016.

Several precautions must be taken by banks unable to reserve the required additional capital buffer. For example, such banks may be precluded from paying dividends and, in any event, will be required to present to the BRSA a yearly plan for fulfilling the obligation to reserve additional core capital.<sup>[i]</sup>

---

<sup>[i]</sup> This note does not deal with all topics or cover every aspect of the topics of the original regulation. It does not aim to provide legal or other advice. If you require legal advice, or further details, please contact us.