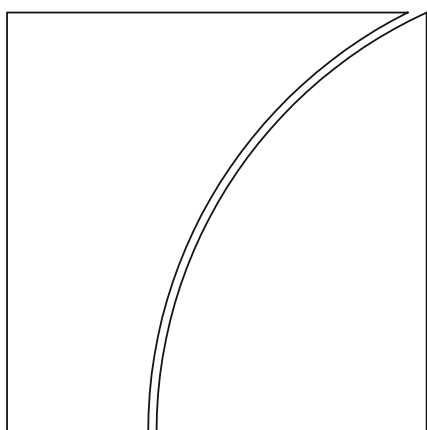


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III LCR regulations –Turkey

March 2016



BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available on the BIS website (www.bis.org).

© *Bank for International Settlements 2016. All rights reserved. Brief excerpts may be reproduced or translated provided the source is stated.*

ISBN 978-92-9197-468-9 (print)

ISBN 978-92-9197-467-2 (online)

Contents

Preface	2
Executive summary	4
Response from the Turkish authorities.....	5
1 Assessment context and main findings	6
1.1 Context.....	6
1.2 Structure, enforceability and binding nature of prudential regulations.....	7
1.3 Scope of the assessment	7
1.4 Main findings.....	8
2 Detailed assessment findings.....	11
2.1 Scope of application and transitional arrangements	11
2.2 LCR	11
2.2.1 High-quality liquid assets (numerator)	11
2.2.2 Outflows (denominator).....	12
2.2.3 Inflows (denominator)	12
2.3 LCR disclosure requirements.....	12
2.4 Observations and other findings specific to the implementation practices in Turkey.....	13
Annexes	15
Annex 1: RCAP Assessment Team and Review Team	15
Annex 2: Local regulations issued by Turkish authorities for implementing Basel LCR standards	16
Annex 3: List of LCR standards under the Basel framework used for the assessment	17
Annex 4: Details of the RCAP assessment process	18
Annex 5: List of rectifications by the Turkish authorities.....	19
Annex 6: Assessment of bindingness of regulatory documents	21
Annex 7: Key liquidity indicators of the Turkish banking system.....	23
Annex 8: Materiality assessment	25
Annex 9: Turkey's implementation of the liquidity monitoring tools	27
Annex 10: Turkey's implementation of the <i>Principles for sound liquidity risk management and supervision</i>	30
Annex 11: Areas for further guidance from the Basel Committee	33
Annex 12: List of issues for follow-up RCAP assessments	34
Annex 13: Areas where Turkish LCR rules are stricter than the Basel standards	35
Annex 14: Implementation of LCR elements subject to prudential judgment or discretion in Turkey.....	36

Glossary

ALA	Alternative liquidity approaches
ALC	Asset lease companies
BCBS	Basel Committee on Banking Supervision
BRSA	Banking Regulation and Supervision Agency of Turkey
CBRT	Central Bank of the Republic of Turkey
CDS	Credit default swap
FAQ	Frequently asked question
FX LCR	Foreign currency LCR
GLRM	Guideline for Liquidity Risk Management
HQLA	High-quality liquid assets
LCR	Liquidity Coverage Ratio
RCAP	Regulatory Consistency Assessment Programme
RCLF	Restricted committed liquidity facility
RLAR	Regulation on Liquidity Adequacy Ratio
RLCR	Regulation on Calculation of Liquidity Coverage Ratio
SIG	Supervision and Implementation Group of the Basel Committee
TRY	Turkish lira

Preface

The Basel Committee on Banking Supervision sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess, and evaluate its members' implementation of the Basel framework.

This report presents the findings of the RCAP Assessment Team on the domestic adoption of the Basel Liquidity Coverage Ratio (LCR) standard in Turkey and its consistency with the minimum requirements of the Basel III framework. The assessment focuses on the adoption of Basel standards applied to the Turkish banks that are internationally or regionally active and of significance to its domestic financial stability.

The RCAP Assessment Team was led by Mr Julio Durán, Director General of the Bank of Spain. The Assessment Team comprised seven technical experts drawn from Belgium, Brazil, China, Indonesia, Korea, Saudi Arabia and the United States (Annex 1). The main counterpart for the assessment was the Banking Regulation and Supervision Agency of Turkey (BRSA). The overall work was coordinated by the Basel Committee Secretariat with support from staff from the Bank of Spain.

The assessment relied upon the data, information and materiality computations provided by the BRSA up to 20 January 2016. The assessment findings are based primarily on an understanding of the current processes in Turkey as explained by the counterpart staff and the expert view of the Assessment Team on the documents and data reviewed.

Starting in May 2015, the assessment consisted of three phases: (i) completion of an RCAP questionnaire (a self-assessment) by the BRSA; (ii) an off- and on-site assessment phase (September to December 2015); and (iii) a post-assessment review phase (January to March 2016). The second phase included an on-site visit for discussions with the BRSA, representatives of Turkish banks and an audit firm. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel liquidity standards in Turkey. The third phase consisted of a two-stage technical review of the assessment findings: first by a separate RCAP Review Team and feedback from the Basel Committee's Supervision and Implementation Group; and, second, by the RCAP Peer Review Board and the Basel Committee. This two-step review process is a key instrument of the RCAP process to ensure quality control and the integrity of the assessment findings. The focus of the assessment was on the consistency and completeness of the domestic regulations in Turkey with the Basel minimum requirements. Issues relating to adequacy of prudential outcomes, liquidity levels of individual banks, or the BRSA's supervisory effectiveness were not in the scope of this RCAP assessment exercise.

Where domestic regulations and provisions were identified not to conform with the Basel framework, those deviations were evaluated for their current and potential impact (or, non-impact) on the reported liquidity coverage ratios for a sample of internationally active Turkish banks. Some findings were evaluated on a qualitative basis. The assessment outcome was based on the materiality of findings and use of expert judgment.

The report has three sections and a set of annexes: (i) an executive summary with a statement from the Turkish authorities on the material findings; (ii) the context, scope and methodology, and the main set of assessment findings; and (iii) details of the deviations and their materiality along with other assessment-related observations.

The RCAP Assessment Team acknowledges the professional cooperation received from the BRSA throughout the assessment process. In particular, the team sincerely thanks the staff of the BRSA for playing an instrumental role in coordinating the assessment exercise. The Assessment Team would also like to thank the representatives of Turkish banks that provided data and information to the Assessment

Team. The series of comprehensive briefings and clarifications provided by the BRSA helped the RCAP assessors to arrive at their expert assessment. The Assessment Team is hopeful that the RCAP assessment exercise will contribute to the sound initiatives that have been undertaken by the BRSA and to further strengthening the prudential effectiveness and full implementation of the recent reform measures in Turkey.

Executive summary

The Turkish framework for LCR requirements was issued in March 2014 through the publication of the Regulation on Calculation of the Liquidity Coverage Ratio of Banks and a set of supplementary Guidelines (see Annex 2). The requirements were amended and updated in August 2015 and in January 2016. The LCR applies to all commercial banking institutions and state-owned institutions in Turkey.

In September 2015, the BRSA submitted an extensive self-assessment of the domestic LCR rules. Based on the self-assessment, the RCAP Assessment Team identified a number of variations in the LCR rules from the Basel framework. The BRSA used the RCAP findings to amend the rule to the extent feasible and consistent with Turkish national interests. This resulted in a further strengthening of the Turkish liquidity regime.

Overall, as on 20 January 2016, the cut-off date of the assessment, the final LCR regulations in Turkey are assessed as compliant with the minimum Basel LCR standard. All graded components of the LCR framework, including the high-quality liquid assets, the liquidity inflows and outflows and disclosure requirements, are assessed as compliant. The amendments issued by the BRSA in January 2016 improved the level of compliance with the Basel minimum standards.

The Assessment Team compliments the BRSA for their implementation of and alignment with the Basel LCR framework. The BRSA and Turkish banks now face the challenge of implementing the LCR standard in practice (see Annex 7 for the key liquidity indicators of the Turkish banking system). The BRSA has developed and implemented the necessary reporting templates and systems. However, the achievement of the intended prudential outcomes and effective implementation, monitoring and supervision of these requirements was not in the scope of the assessment.

In addition to the formal assessment of the LCR standard and disclosure requirements, this report contains annexes that summarise the BRSA's implementation of the LCR monitoring tools and the Basel Principles for sound liquidity risk management (see Annexes 9 and 10). Further, a summary is provided of the key national discretions and approaches that the BRSA has adopted in its implementation of the LCR standard (Annex 14). These annexes help to clarify how national authorities implement certain aspects of the Basel standards that are not in scope of the formal RCAP-LCR assessment at this point of time. Over time, the information detailed in these annexes will provide a basis for designing best practice and additional supervisory guidance that will benefit the regulatory community and the banking industry to raise consistency of the implementation of the LCR and to improve its effectiveness in practice.

Response from the Turkish authorities

The Banking Regulation and Supervision Agency (BRSA), in collaboration with the Central Bank of the Republic of Turkey (CBRT), welcomes this opportunity to respond to the findings and comments of the RCAP Assessment Team on the implementation of Basel III Liquidity Coverage Ratio regulations in Turkey. We wish to express our sincere thanks to the Assessment Team, under the leadership of Mr Julio Durán, for conducting the comprehensive and thorough review during which very fruitful discussions were held, and insights and knowledge were shared. We also would like to acknowledge and appreciate the team's expertise and professionalism with which the assessment of Basel III LCR regulatory framework in Turkey was completed.

We are pleased that Turkey has received an overall compliant rating as well as a compliant rating for each of the underlying components of its LCR framework from this comprehensive and thorough assessment process.

Based on its self-assessment and as identified by the RCAP Assessment Team, the BRSA, in close coordination with the CBRT, has carried out a number of modifications in the existing regulations before the cut-off date of 20 January 2016. We believe that these modifications will further strengthen the implementation of the Basel III LCR framework in Turkey.

Empowered by the Turkish Banking Law to introduce banking regulations that are in line with relevant international principles and standards, the BRSA supports the BCBS's global regulatory reform efforts to build a more resilient and sound banking system. Within this perspective, we support the RCAP process and find it a useful exercise as it promotes a level playing field amongst Basel Committee member jurisdictions, reduces regulatory arbitrage and promotes global financial stability.

1 Assessment context and main findings

1.1 Context

Status of implementation

The Banking Regulation and Supervision Agency (BRSA) is the sole regulatory and supervisory authority for banks in Turkey. In March 2014, the BRSA issued the LCR requirements through the Regulation on Calculation of Liquidity Coverage Ratio of Banks (RLCR).¹ A revised version of RLCR was published in August 2015 and subsequent amendments were issued in January 2016. Additional supplementary guidance is provided in the Guideline for Liquidity Risk Management (GLRM), which contains liquidity risk management guidance as well as related instructions for the calculation of the LCR. The Basel standard allows jurisdictions that have a structural shortfall in high-quality liquid assets to implement Alternative Liquidity Approaches (ALA). Following a review of the availability of high-quality liquid assets for Turkish banks, the BRSA and the Central Bank of Turkey decided not to implement the ALA. Nevertheless, for participating banks – ie banks operating according to the principles of Islamic banking (sharia law) – the BRSA Board has been authorised to determine supplementary high-quality liquid assets. At the time of the assessment, this discretion was not applied.

In accordance with the transitional arrangements stipulated in the Basel standard, the BRSA adopted a stepwise implementation approach, starting with a minimum LCR requirement of 60% in 2015. Thereafter, the minimum will be raised annually by 10 percentage points until it reaches 100% in 2019.

In addition to the minimum LCR requirement, the BRSA also requires banks to meet a foreign currency LCR (FX LCR). The FX LCR is based on a bank's total net outflows in foreign currency. As for the domestic LCR, the minimum FX LCR requirement is implemented in a gradual manner, starting at 40% in 2015 and rising annually by 10 percentage points until it reaches 80% in 2019.

Regulatory system and model of supervision

All banks established in Turkey (including branches of foreign banks in Turkey) are subject to the above-mentioned liquidity regulations and guidelines. For purposes of the assessment, the RCAP Assessment Team focused on the seven largest, internationally active Turkish banks (see below).

As the supervisory authority, the BRSA Board is entitled to take mitigating measures in case of a liquidity shortfall. For example, the BRSA may temporarily exempt banks from the minimum LCR requirements, in line with the Basel principles around the use of the liquidity buffer.

In addition to the supervision of minimum liquidity requirements, the BRSA monitors the banks' liquidity buffers through the Basel liquidity monitoring tools (Annex 9). The quality of the banks' liquidity risk management is further assessed against the principles for sound liquidity risk management and involves both on-site and off-site assessments (Annex 10). The BRSA is in the process of implementing the Basel monitoring tools for intraday liquidity management and expects to complete this in the course of 2016.

¹ The Assessment Team relied on English translations provided by the BRSA of the domestic regulations and regulatory documents. The team assessed the appropriateness of the English translation of the Turkish rules through comparison with selected parts of the original text in Turkish. For those sections, the translation was generally found to be appropriate.

1.2 Structure, enforceability and binding nature of prudential regulations

The BRSA's liquidity regulation is subject to the same regulatory policymaking process as the risk-based capital regulations. The following table provides an overview of the legal hierarchy of prudential regulations in Turkey. The structure and binding nature of prudential regulations in Turkey are outlined in greater detail in the RCAP assessment report on the Turkish risk-based capital requirements for banks.² The team finds that the Turkish regulatory instruments, including Regulations, Communiqués, Guidelines and Board Resolutions, meet the RCAP criteria of being enforceable and binding in practice (see also Annex 6).

Hierarchy of Turkish laws and regulatory instruments		Table 1
Laws that empower the BRSA as banking supervisor	The Banks Act of 1999 (no 4389), by the Turkish Grand National Assembly, establishes the BRSA as sole supervisor and regulator of Turkish banks and specifies that the BRSA "shall use the powers assigned thereto in this Law and the applicable legislation through regulatory transactions to be made and specific decisions to be taken by the Board." The Banking Law of 2005 (no 5411) grants the BRSA significant powers in issuing regulations and communiques and Board decisions to regulate the banks.	
Supervisory regulatory instruments issued by the BRSA derived from the above laws (various)	Regulations contain Board decisions for enforcement of the Law.	
	Communiqués can be used for introducing new rules and providing detailed examples regarding the provisions that are given in the regulations. The legal enforceability is the same as that of the Regulations.	
	Guidelines and other Board Resolutions are used to define best practice and to inform banks on the evaluation criteria to be considered in audits by the BRSA.	

1.3 Scope of the assessment

The assessment was made of the LCR requirements as applicable to internationally active banks in Turkey. In evaluating the materiality of the findings, the quantification was limited to a sample of seven banks subject to the RCAP review (see Annex 8). These banks hold more than 70% of the assets in the Turkish banking system.

Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the four key components of the Basel framework for the LCR and overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.³

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact (or no-impact) on liquidity ratios of the banks. The quantification was, however, limited to the agreed population of internationally active banks. Wherever relevant and feasible, the

² <http://www.bis.org/bcbs/implementation/I2.htm>

³ This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable (N/A). See www.bis.org/publ/bcbs264.htm for further details.

Assessment Team, together with Turkish authorities, attempted to quantify the impact based on data collected from Turkish banks in the agreed sample of banks. The non-quantifiable aspects of identified deviations were discussed and reviewed in the context of the prevailing regulatory practices and processes with the Turkish authorities.

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the assessment team. In doing so, the assessment team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Section 2 and Annex 8.

In a number of areas, the Turkish rules go beyond the minimum Basel standards. Although these elements provide for a more rigorous implementation of the Basel framework in some aspects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 13 for a listing of areas of super-equivalence).

1.4 Main findings

A summary of the main findings is given below. Overall, the Assessment Team finds the LCR regulation issued in January 2016 to be compliant with the Basel standard. All components assessed by the RCAP Assessment Team are also assessed as compliant with the minimum Basel standard. More detail is provided in the main findings section below.

Summary assessment grading

Table 2

Key components of the Basel LCR framework	Grade
Overall grade:	C
Definition of high-quality liquid assets (numerator)	C
Definition of net outflows (denominator)	C
Definition of net inflows (denominator)	C
LCR disclosure requirements	C

Compliance assessment scale (see Section 1.3 for more information on the definition of the grades): C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

Main findings by component

General comments – scope of application and transitional arrangements

The Turkish LCR requirements are applicable to all commercial banks. Turkish banks have to comply with the LCR minimum requirements on an ongoing basis and report any non-compliance as well as their recovery plans immediately to the BRSA. The BRSA has approved the phasing-in of the LCR requirements although lower ratios may be applicable to development and investment banks. Development and investment banks are not internationally active, and therefore outside the relevant scope of this RCAP assessment. The BRSA has not yet decided on the minimum level of the ratios for these banks at the time of the assessment.

The Basel framework allows banks to draw on the liquidity buffer in periods of stress. The BRSA has defined “period of stress” as a period of financial systemic stress event where several banks face difficulties as determined by the BRSA and the CBRT. Banks cannot use their liquidity buffer unless the BRSA explicitly grants its use by declaring a period of stress. The decision requires prior approval by the

CBRT. The BRSA has confirmed that it will not consider idiosyncratic stress events (eg when a single bank faces difficulties) as a period of stress. The Assessment Team considers this implementation consistent with the minimum set by the Basel standard. Having said that, the team considers that jurisdictions may differ in their application of the use of HQLA in times of stress. While the Basel standard provides some high-level guidance for supervisors in the case a bank falls below the minimum LCR requirement, the team would recommend that the Basel Committee reviews the need for additional supervisory guidance, in particular for dealing with idiosyncratic stress events (Annex 11).

High-quality liquid assets (numerator)

The principles regarding high-quality liquid assets under the Turkish rules are compliant with the Basel III standards. The team identified one non-material finding. The Basel standard requires the banks to be able to determine the composition of its HQLA pool on a daily basis. The RLCR does not contain any requirement for banks to monitor HQLA composition on a daily basis. However, the supervisory reporting relies on daily averages for non-consolidated reports and, starting from 2017, for consolidated reports. Due to the largely domestic nature of banking activities in Turkey, this divergence is deemed to be non-material.

The team also discussed more generally with the BRSA the adoption of the LCR standard in its regulatory framework. The team found that the BRSA does not include some of the LCR minimum requirements in the RLCR, but includes them in the GLRM. Examples include the fundamental characteristics (eg low risk, low correlation with risky assets, low volatility etc); insufficiency of central bank eligibility as the basis for HQLA classification; the requirement to monetise a representative portion of HQLA; and the diversification requirement for the stock of HQLA. These requirements need to be satisfied for an asset to be considered as HQLA under the Basel LCR standard. The BRSA explained that these requirements are of a more principle-based nature and have therefore been implemented in the Guideline rather than the Regulation. Similarly, the GLRM also includes the Basel Principles for sound liquidity risk management and supervision.

The team assessed the bindingness of the Guidelines and concluded that they are binding from a legal and practical point of view (as explained in Section 1.2 and Annex 6 of this report and in more detail in the RCAP Capital report).⁴ In this context, the Assessment Team noted that Guidelines contain a proportionality provision that is entirely within the prerogative of the BRSA and not a discretionary option for banks. The BRSA indicated that it will not grant the proportionality treatment to the large, internationally active Turkish banks, and this understanding was confirmed by the banks as well as a global accounting firm operating in Turkey.

Outflows (denominator)

The principles regarding the liquidity outflows under the Turkish rules are compliant with the Basel III standards. The outflow rates applicable to various items are in line with Basel standards, and in some cases, more stringent.

The team discussed more generally with the BRSA the implementation of run-off rates for less stable deposits. The Basel standard stipulates that the supervisors are expected to develop additional buckets for "less stable" deposits that would be subject to a run-off rates that are at least 10% or more. While the Basel standard does not explicitly request additional buckets, it specifically mentions foreign currency deposits to be considered as "less stable" if there is a reason to believe that they are more volatile. The BRSA initially implemented a run-off rate of 5% for these foreign currency deposits.

Given the relative importance of foreign currency deposits (representing nearly 45% of bank deposits as of September 2015) and the recent volatility of Turkish lira against most of the relevant

⁴ <http://www.bis.org/bcbs/implementation/I2.htm>

currencies, the team discussed in depth with BRSA the implementation of run-off rates. After discussions with the Assessment Team and a review of the analysis underpinning its implementation, the BRSA decided to apply a uniform run-off rate of 10% to all foreign currency deposits for the time being and to conduct further comprehensive analysis of the historical outflows. The team considers the implementation of 10% run-off rates for foreign currency deposits is a more conservative approach in case of limited available analysis.

Inflows (denominator)

The regulatory implementation of the liquidity inflows in the Turkish rules is assessed as compliant with the Basel standards. Similar as for the HQLA requirements, the BRSA has implemented certain minimum requirements that are of a more principle-based nature in the GLRM.

Disclosure requirements

The Turkish regulation is compliant with the LCR disclosure requirement by Basel. Basel requires disclosure of the LCR information on a consolidated basis and presented in a single currency. The BRSA requires this and is even more rigorous by requiring banks to disclose FX LCR as well. The BRSA has explicit requirements on the disclosure of simple averages of daily observations after 2017 as required by Basel. The BRSA's LCR disclosure requirements entered into force on 31 December 2015.

2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the Liquidity Coverage Ratio (LCR) of the Basel framework are detailed below. The focus of Sections 2.1 to 2.3 is on findings that were assessed to be deviating from the Basel minimum standards and their materiality. Section 2.6 lists some observations and other findings specific to the implementation practices in Turkey. Observations do not indicate sub-equivalence, but are considered compliant with the Basel standard.

2.1 Scope of application and transitional arrangements

Summary	The LCR requirements are applicable to all commercial banks. Turkish banks have to comply with the LCR minimum requirements on an ongoing basis and report any non-compliance as well as their recovery plans immediately to the BRSA. The BRSA has approved the phasing-in of the LCR requirements although lower ratios may be applicable to development and investment banks. Development and investment banks are small banks and not internationally active, and therefore outside the relevant scope of this RCAP assessment. The BRSA has not yet decided on the minimum level of the ratios for these banks at the time of the assessment. The Basel framework allows banks to draw on the liquidity buffer in periods of stress. The BRSA has defined a “period of stress” as a period of financial systemic stress event where several banks face difficulties as determined by the BRSA and the CBRT. The Assessment Team finds this in line with the minimum set by the Basel standard, but recommends that the Basel Committee reviews the need for additional supervisory guidance, in particular for dealing with idiosyncratic stress events (Annex 11). This to clarify the expectations by the Committee regarding the implementation of the use of HQLA in times of stress. The authorities have also introduced rectifications to ensure that for a cross-border group, the home parameters would be applicable within the entire consolidation parameter and that the BRSA can allow the application of host parameters for retail and small business deposits only when they are more conservative than the home parameters.
---------	---

2.2 LCR

2.2.1 High-quality liquid assets (numerator)

Section grade	Compliant
Summary	The principles regarding the high-quality liquid assets under the Turkish rules are compliant with the Basel III standards. The team also discussed more generally with the BRSA the adoption of the LCR standard in its regulatory framework. The team found that the BRSA does not include some of the LCR minimum requirements in the RLCR, but includes them in the GLRM. Examples include the fundamental characteristics (eg low risk, low correlation with risky assets, low volatility etc); insufficiency of central bank eligibility as the basis for HQLA classification; the requirement to monetise a representative portion of HQLA; and the diversification requirement for the stock of HQLA. These requirements need to be satisfied for an asset to be considered as HQLA under the Basel LCR standard. The BRSA explained that these requirements are of a more principle-based nature and have therefore been implemented in the Guideline rather than the Regulation. Similarly, the GLRM also includes the Basel Principles for sound liquidity risk management and supervision. The team assessed the bindingness of the Guidelines and concluded that they are binding from a legal and practical point of view (as explained in Section 1.2 and Annex 6 of this report and also in more detail in the RCAP Capital report). In this context, the Assessment Team noted that Guidelines contain a proportionality provision that is entirely within the prerogative of the BRSA and not a discretionary

	option for banks. The BRSA indicated that it will not grant the proportionality treatment to the large, internationally active Turkish banks, and this understanding was confirmed by the banks as well as a global accounting firm operating in Turkey In the course of the assessment, the BRSA made a number of rectifications to ensure that the rules cover all of the relevant mandatory criteria for the HQLA (eg fundamental characteristics and operational requirements) and exclude the inappropriate recognition of certain types of assets as HQLA. In particular, overnight deposits to other banks via the interbank money market through the Central Bank of the Republic of Turkey (CBRT) were removed from the list of assets eligible as Level 1. Moreover, the authorities removed the issuances of one asset lease company from the list of securities that could be eligible as Level 1 assets.
--	---

2.2.2 Outflows (denominator)

Section grade	Compliant
Summary	The principles regarding the liquidity outflows under the Turkish rules are assessed as compliant with the Basel III standards. The outflow rates applicable to various items are in line with Basel standards, and in some cases, more stringent. The team discussed more generally with the BRSA the implementation of run-off rates for less stable deposits. The Basel standard stipulates that the supervisors are expected to develop additional buckets for "less stable" deposits that would be subject to run-off rates that are at least 10% or more. While the Basel standard does not explicitly request additional buckets, it specifically mentions foreign currency deposits to be considered as "less stable" if there is a reason to believe that they are more volatile. The BRSA initially implemented a run-off rate of 5% for these foreign currency deposits. Given the relative importance of foreign currency deposits in Turkey (representing nearly 45% of bank deposits as of September 2015), the team discussed in depth the implementation of run-off rates with the BRSA. Following the discussions with the Assessment Team and after further review of the analysis underpinning its implementation, the BRSA decided to apply a uniform run-off rate of 10% to all foreign currency deposits for the time being. The BRSA indicated its intention to do a comprehensive analysis of the historical outflows of foreign currency deposits to further review the run-off rates. The team considers the implementation of run-off rates for foreign currency deposits of 10% in line with the minimum Basel standard. Additional rectifications were also made on other issues, in particular with regard to supervisory authorisation procedures to recognise certain types of deposits as operational, outflow rates applicable to certain types of secured financing transactions and the definitions of credit and liquidity facilities.

2.2.3 Inflows (denominator)

Section grade	Compliant
Summary	The principles regarding the liquidity inflows under the Turkish rules are compliant with the Basel III standards. The authorities have also made several rectifications to ensure that the RLCR is in line with the Basel text regarding the treatment of the inflows from the release of HQLA balances held in segregated accounts.

2.3 LCR disclosure requirements

Section grade	Compliant
Summary	The Turkish regulation is compliant with the LCR disclosure requirement by Basel. Basel requires disclosure of the LCR information on a consolidated basis and presented in a single currency. The BRSA requires this and is even more rigorous by requiring banks to disclose FX LCR as well. The BRSA's LCR disclosure requirements entered into force on 31 December 2015.

2.4 Observations and other findings specific to the implementation practices in Turkey

The following observations highlight certain special features of the regulatory implementation of the Basel standards in Turkey. These are presented for contextual and informational purposes. Observations are considered compliant with the Basel standard and do not have a bearing on the assessment outcome.

2.4.1 High-quality liquid assets (numerator)

Basel paragraph no	Basel III LCR paragraph 50(c) – Treatment of asset lease companies
Reference in domestic regulation	-
Observation	Asset lease companies (ALC) play an important role in the financing of Islamic financing and participation banks in Turkey. ALCs are a form of special purpose vehicle (SPV) that issue lease certificates to investors. The lease certificates are sharia-compliant. Most ALCs are privately owned entities, except for one, which is fully owned by the Turkish Treasury. Whilst this ALC owned by the Turkish treasury could in principle qualify for a discretionary credit risk weight of 0% (Basel II paragraph 54), it would not qualify for Level 1 HQLA, as it does not meet the minimum requirements for the external credit rating (Basel LCR paragraph 50(c)). As mentioned above, in response to the findings of the Assessment Team the BRSA decided to remove the issuances of this ALC from the list of securities that could be eligible as Level 1 HQLA, which rectified the initial assessment finding (see also Annex 5).
Basel paragraph no	Basel III LCR paragraph 50(b) – Central Bank reserves
Reference in domestic regulation	RLCR Article 6(b)) and Annex 1 A.1.3.3
Observation	The Basel standard requires that the supervisors should discuss and agree with the relevant central bank the extent to which central bank reserves should count towards the stock of liquid assets, ie the extent to which banks are able to draw down reserves in times of stress. Consistent with the Basel standard, the Turkish regulation permits banks to include central bank reserves only to the extent that the central bank policies allow them to be drawn down in times of stress. The BRSA confirmed to the Assessment Team that in line with footnote 13 of the Basel LCR standard they agreed with the Central Bank on the following treatment of central bank reserves: • The Turkish lira component of the required reserves can be included as Level 1 HQLA without any haircut. • For the foreign exchange component of the required reserves, a distinction is made between reserves that are maintained on “average basis” and reserves that are held in “blocked accounts”. Regarding the reserves that are held on “average basis” banks may withdraw the funds during the reserve maintenance period (RMP) as long as, by the end of that period, they meet the required level on average (ie calculated for the whole RMP). The BRSA and CBRT agreed to allow Turkish banks to include these reserves into Level 1 HQLA without any haircut. At present, these reserves form approximately 25% of the foreign exchange reserve requirements. The remaining part of the foreign exchange reserve requirements is maintained in blocked accounts. This means that banks meet the reserve requirement on the first day of RMP and cannot withdraw the amount till the end of the RMP which is 14 days. However, the CBRT has the right to change the reserve requirements and their implementation at any time, so as to allow the banks to use the reserve in times of stress. The BRSA agreed with the CBRT to allow banks to include 50% of the blocked accounts in Level 1 HQLA. It is the view of the team that the Basel standard allows for substantial discretion to include central bank reserves in Level 1 HQLA. This is partly driven to ensure a level playing field with jurisdictions where central banks do not apply any reserve

	requirements. The team considers that the Turkish treatment of central bank reserves is consistent with the Basel minimum standard.
--	---

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Julio Durán	Bank of Spain
----------------	---------------

Assessment Team members

Mr Emrah Arbak	National Bank of Belgium
Ms Fernanda Bandeira	Central Bank of Brazil
Mr JungRyul Kim	Financial Supervisory Service
Mr Kevin Korzeniewski	Office of the Comptroller of the Currency
Mr Qaiser Noor	Saudi Arabian Monetary Authority
Mr Irman Robinson Pardede	Bank Indonesia
Mr Guanglong Wang	China Banking Regulatory Commission

Supporting members

Ms Tatiana Alonso	Bank of Spain
Mr Jesús Ibañez	Bank of Spain
Mr Maarten Hendriks	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Mr Kim Leng Chua	Monetary Authority of Singapore
Mr Neil Esho	Basel Committee Secretariat
Mr Alexandre Kurth	FINMA
Ms Karin Lundberg	Finansinspektionen

Annex 2: Local regulations issued by Turkish authorities for implementing Basel LCR standards

Overview of issuance dates of important Turkish liquidity regulations

Table 3

Domestic regulations	Name of the document, version and date
Banking Law	Banking Law 5411 Article 46 Issued: November 2005
Regulation	Regulation on Calculation of Liquidity Coverage Ratio of Banks; Issued: March 2014 Revised: August 2015 and January 2016
Communiqué	Communiqué on Public Disclosures Issued: August 2015 Revised: October 2015 and January 2016
Guideline	Guideline for Liquidity Risk Management Issued: March 2015 Revised: January 2016
Guideline	Guideline on the Assessment Criteria Considered in the Supervisory Review Process Issued: March 2015 Revised: January 2016
Guideline	Guideline on the Management of Concentration Risk Issued: March 2015 Revised: January 2016

Hierarchy of Turkish laws and regulatory instruments

Table 4

Level of rules (in legal terms)	Type
Banking Law 5411	Law Enacted by Parliament
Regulations	Legislation Approved and Issued by Board of BRSA
Communiqués	Legislation Approved and Issued by Board of BRSA
Board Resolutions/Guidelines	Legislation Approved and Issued by Board of BRSA

Annex 3: List of LCR standards under the Basel framework used for the assessment

Basel documents in scope of the assessment

- (i) *The Liquidity Coverage Ratio* (January 2013), including the *Frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio* (April 2014);
- (ii) *Liquidity Coverage Ratio disclosure standards* (January 2014);

Basel documents reviewed for information purposes

- (iii) *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (January 2013) (part of liquidity risk monitoring tools);
- (iv) *Monitoring tools for intraday liquidity management* (April 2013); and,
- (iv) *Principles for sound liquidity risk management and supervision* (September 2008).

Annex 4: Details of the RCAP assessment process

A. Off-site evaluation

- (i) Completion of a self-assessment questionnaire by the Turkish authorities
- (ii) Evaluation of the self-assessment by the RCAP Assessment Team
- (iii) Independent comparison and evaluation of the domestic regulations issued by the Turkish authorities with corresponding Basel III standards issued by the BCBS
- (iv) Identification of observations
- (v) Refinement of the list of observations based on clarifications provided by the Turkish authorities
- (vi) Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment
- (vii) Forwarding of the list of observations to the Turkish authorities

B. On-site assessment

- (viii) Discussion of individual observations with the Turkish authorities
- (ix) Meeting with selected Turkish banks, accounting firms and a credit ratings agency
- (x) Discussion with the Turkish authorities and revision of findings to reflect additional information received
- (xi) Assignment of component grades and overall grade
- (xii) Submission of the detailed findings to the Turkish authorities with grades
- (xiii) Receipt of comments on the detailed findings from the Turkish authorities

C. Review and finalisation of the RCAP report

- (xiv) Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to the Turkish authorities for comments
- (xv) Review of the Turkish authorities' comments by the RCAP Assessment Team
- (xvi) Review of the draft report by the RCAP Review Team
- (xvii) Reporting of findings to SIG by the team leader
- (xviii) Review of the draft report by the Peer Review Board
- (xix) Approval of the report by the Basel Committee and publication

Annex 5: List of rectifications by the Turkish authorities

Basel Paragraph	Reference to Turkish document and paragraph	Brief description of the forthcoming correction
LCR requirements		
10	Article 4(5) of RLCR	The scope of the Board's right to determine different LCR ratios for different banks is limited only by development and investment banks. These banks are small in size and are not internationally active.
11,17	Article 4(6) of RLCR	The actions that will be taken at the time of liquidity stress in financial system as a whole are explicitly determined.
31	Article 5(2)(d) of RLCR	The restrictions that prohibit banks to use, sell, freely transfer, and liquidate the assets are explicitly stated as legal, regulatory, contractual and operational restrictions.
35	Paragraph 155 of GLRM	The GLRM is amended to require banks to have the ability to determine the composition of its stock on a daily basis.
50	Article 6(1)(b) and Article 6(1)(ç) of RLCR	Overnight deposits to Central Bank of the Republic of Turkey (CBRT) via the interbank money market (which has been inactive since 2002) is removed from the list of assets eligible as Level 1 assets. The issuances by the asset lease company that is established under the Law on Regulating Public Finance and Debt Management no 4749 are removed from the list of eligible Level 1 assets.
79, 81	Article 13(1) of RLCR	Run-off rate for foreign currency retail stable deposits is increased.
93	Article 15(3) and Article 15(4)(ç) of RLCR	BRSA approval is required to classify deposits as operational and concentration risk of deposits is taken into account in this classification.
114, 115	Annex 1 and Annex 2 of RLCR	Secured funding from sovereign, central banks and public sector entities having a risk weight of 20% or less are distinguished explicitly according to the country in which banks' branches and subsidiaries are legally incorporated.
126	Article 27(2) and 27(3) of RLCR	Definitions of credit and liquidity facilities are clarified in line with the Basel III LCR standard.
155	Article 29(8) of RLCR	The treatment for segregated accounts is incorporated into the RLCR in line with the Basel III LCR standard.
169	Article 16(3) of RLCR	The use of home and host parameters for a cross-border group is clarified in line with Basel III LCR standard.
172	Paragraph 163 of GLRM	Related paragraph is revised to ensure that a banking group have processes in place to capture all liquidity transfer restrictions to the extent practicable, and to monitor the rules and regulations in the jurisdictions in which the group operates and assess their liquidity implications for the group as a whole.
LCR disclosure requirements		
13	Article 4(3) of RLCR Article 13(2) of CPD Temporary Article 2	For the LCR calculation, reporting and disclosure the term "each business day" is changed to "each day" in the RLCR. Footnote of "Liquidity coverage ratio template" is revised to indicate explicitly that simple averages of daily observations are used for disclosure purposes.

Basel Paragraph	Reference to Turkish document and paragraph	Brief description of the forthcoming correction
		With the amendment, it has been clearly stated that for consolidated disclosure purposes until 1/1/2017 banks should use simple average of data calculated on the last days of last three months.

Annex 6: Assessment of bindingness of regulatory documents

The following table summarises the assessment of the seven criteria used by the Assessment Team to determine the eligibility of Turkish regulatory documents. The Assessment Team concluded that the regulatory instruments issued and used by the BRSA as set out in Annex 2 are eligible for the RCAP assessment.

Criterion	Assessment
(1) The instruments used are part of a well defined, clear and transparent hierarchy of legal and regulatory framework.	The BRSA is a public legal entity with administrative and financial autonomy. The BRSA's independence gives autonomy in three main areas: (i) autonomy in regulation and supervision, (ii) autonomy in Agency administration, and (iii) autonomy in using financial resources. According to Banking Law Article 93, the BRSA "shall use the powers assigned thereto in this Law and the applicable legislation through regulatory transactions to be made and specific decisions to be taken by the Board." In this context, the BRSA has issued Regulations, Communiqués and Guidelines in order to implement the Banking Law. Additionally, the Board has the right to issue decisions depending on the Banking Law. All banking legislation issued by the BRSA is legally binding for relevant financial institutions.
(2) They are public and easily accessible	All banking legislation issued by the BRSA is published in the legislation section of the BRSA website.
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	All banking legislation issued by the BRSA is based on powers provided in the Banking Law. Therefore, it is viewed as legally binding by banks and supervisors.
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	All banking legislation issued by the BRSA is based on the authority given by the Banking Law, it is therefore upheld if challenged and has been recognised by the courts on numerous occasions.
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	Various articles in the Banking Law authorise the BRSA to issue regulations for the sound implementation of the Law. Non-compliance with the Banking Law, Regulations, Communiqués, Guidelines and other Board Resolutions can entail administrative fines and other penalties (such as imprisonment or judicial fines) as provided for in Section 14 of the Banking Law. According to Articles 67–71 of the Banking Law, the transactions and practices of banks violating the legislative instruments above could trigger corrective, rehabilitating and restrictive measures and could result in the revocation of operating licences or transfer of the bank to the Saving Deposits Investment Fund. Article 148 of the Banking Law sets out the administrative fines for violations of restrictions, decisions and legislation issued by the BRSA under this Law. Therefore, all the legislation adopted by the Board carry the same practical effect as for the primary law or regulation.
(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	The banking legislation is written in a clear manner and complies with the Basel provisions both in substance and spirit.

(7) The substance of the instrument is expected to remain in force for the foreseeable future	The various regulatory instruments are in force, and are kept up to date according to the changes in relevant international standards.
---	--

Annex 7: Key liquidity indicators of the Turkish banking system

Data as of September 2015

Table 5

Size of banking sector (TRY billion)		
Total assets all banks operating in the jurisdiction (including off-balance sheet assets)	3,582	
Total assets of all locally incorporated internationally active banks (7 RCAP Banks)	2,486	
Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied	3,582	
Number of banks		
Number of banks operating in the jurisdiction (excl. local representative offices)	52	
Number of Global Systemically Important Banks (G-SIBs)	N/A	
Number of Domestic Systemically Important Banks (D-SIBs) ⁵	N/A	
Number of banks which are internationally active banks ⁶	7	
Number of banks required to implement Basel III liquidity standards ⁷	52	
Number of banks required to implement domestic liquidity standards ⁸	13	
<i>Breakdown of LCR for seven RCAP sample banks (TRY million)</i>	<i>Unweighted</i>	<i>Weighted</i>
<i>Total HQLA</i>	<i>342,177</i>	<i>277,943</i>
Level 1 HQLA	311,043	277,350
Level 2A HQLA	30	25
Level 2B HQLA	1,134	567
ALA HQLA	-	-
Total cash outflows	1,729,644	430,770
Retail and small business stable deposits	232,246	11,612
Retail and small business less stable deposits	357,961	35,796
Wholesale unsecured operational deposits	49,020	12,255
Wholesale unsecured non-operational funding	335,512	193,797
Secured funding	97,082	515
Debt issued instruments (incl. credit and liquidity facilities)	313,779	34,591
Other contractual outflows	236,847	115,824
Contingent funding obligations	85,029	4,251
Total cash inflows	204,608	166,491
Secured lending	100	55

⁵ Draft regulation is in preparation for domestically systemic important banks (D-SIBs) for planned publication by the end of January 2016. The list of D-SIBs will be disclosed directly after the publication of the regulation.

⁶ There is no formal definition of an internationally active bank in Turkey. Given their importance in terms of fields of activity, asset size and the number of subsidiaries and branches both in Turkey and abroad, a total of seven banks are regarded as internationally active.

⁷ All banks established in Turkey (including branches of foreign banks in Turkey) are subject to the Basel III regulations. Development and investment banks have been obliged to report according to Regulation on LCR and required LCRs will be determined for them in 2016.

⁸ Development and investment banks are also subject to the Regulation on Measurement and Assessment of Liquidity Adequacy of Banks, which has been in force since 2006.

Fully performing unsecured loans	112,616	77,450
Other cash inflows	91,892	88,985
Liquidity Coverage Ratio (%)		105.2%

Annex 8: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings. As a general principle, and mirroring the established RCAP assessment methodology for risk-based capital standards, a distinction is made between quantifiable and non-quantifiable findings. Thus, the RCAP LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, teams also take into account the dynamic nature of liquidity risks and seek to assess the materiality of any deviations at different points in time.

In line with underlying RCAP principles, the materiality assessment for quantifiable gaps is based on a determination of the cumulative impact of the identified deviations on the reported LCR ratios of banks in the RCAP sample (see below). For non-quantifiable gaps, the team relies on expert judgment only. Following this approach, an attempt was made to determine whether findings are “not material”, “material” or “potentially material”.

In the case of the Turkey LCR assessment, no quantifiable or non-quantifiable gaps remain following the amendments published in January 2016 by the BRSA. The following table summarises the number of deviations according to their materiality.

Number of gaps/differences by component			Table 6
Component	Non-material	Material	Potentially material
Definition of HQLA (numerator)	0	0	0
Outflows (denominator)	0	0	0
Inflows (denominator)	0	0	0
LCR disclosure requirements	0	0	0

Note: materiality is defined based on quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

RCAP sample of banks

The following Turkish banks were selected for testing the materiality of quantifiable deviations. Together these banks hold approximately 70% of the total assets of the Turkish banking system.⁹ The sample covers the internationally active banks, and is a fair representation of the various types of banks operating in Turkey.

Banking group	Share of banks' assets in the total Turkish banking sector assets* (%)
1. T.C. Ziraat Bankası	13.8
2. Türkiye İş Bankası	11.8
3. Türkiye Garanti Bankası	10.7
4. Akbank	9.9

⁹ For this purpose, banking assets include both on- and off-balance sheet assets.

5. Yapı Kredi Bankası	9.6
6. Türkiye Vakıflar Bankası	7.2
7. Türkiye Halk Bankası	7.1
Total	70.1

Source: BRSA.* Total banking sector assets include both on- and off-balance sheet assets.

Annex 9: Turkey's implementation of the liquidity monitoring tools

Basel liquidity monitoring tools

General monitoring

In addition to the minimum standard for the LCR, the Basel LCR framework also outlines the metrics to be used to monitor liquidity risks ("the monitoring tools"). The monitoring tools capture specific information related to a bank's cash flows, balance sheet structure, available unencumbered collateral and certain market indicators. The monitoring tools supplement the LCR standard and are a cornerstone for supervisors in assessing the liquidity risk of a bank. This annex provides a qualitative overview of the implementation of the monitoring tools in Turkey.

Before developing the RLCR in Turkey in line with the Basel III LCR standard, the BRSA introduced its Regulation on Liquidity Adequacy Ratio (RLAR) for banks and developed and prescribed certain monitoring tools for liquidity risk. Moreover, before the implementation of the RLAR, the BRSA had already required banks to submit data to monitor their liquidity risks. Some of those tools have remained the same, some of them were revised later and a new monitoring tool was introduced in 2013.

A list of the monitoring tools prescribed in the BCBS January 2013 document and the most important corresponding monitoring tools prescribed by the BRSA are set out below:

No	BCBS monitoring tool	BRSA's corresponding reporting template	Effective since	Frequency of preparation	Frequency of submission to the BRSA
1	Contractual maturity mismatch	Statement of liquidity risk analysis – According to cash flow	6 December 2013	Weekly	Within three business days
2	Concentration of funding	Statement of deposits – According to the size, type, number of customers	Introduced in 2006, revised in 2010, last revision 1 March 2013	Monthly	Within 18 business days
		Statement of securities issuances	Introduced in 2002, revised in 2014	Monthly	Within 18 business days
		Statement of repo transactions	27 December 2002	Weekly	Within three business days
		Statement of cross-border liabilities	27 December 2002	Weekly	Within three business days
3	Available unencumbered assets	Statement of securities – detailed	Introduced in 2002, revised in 2007	Daily	Daily
		Statement of securities – weekly	27 December 2002	Weekly	Within three business days
4	LCR by significant currency	FX LCR	1 January 2014	Weekly	Within three business days

How are those reporting templates used by supervisors?

First, the BRSA develops the related monitoring tools and provides guidance on how to complete the related templates. As part of their liquidity risk management mechanism and implementation, banks are

required to calculate the parameters prescribed in those reporting templates, to submit them to the BRSA within a given time frame and at a prescribed frequency that enables the BRSA to monitor banks' liquidity risk exposures. Both on- and off-site, BRSA supervisors periodically analyse these tools, and examine the systems and procedures for preparation of these templates, as well as the quality of the data provided etc, to gain a more complete picture of each bank's liquidity profile.

The reporting of inaccurate information, delays in submitting data or failure to submit them trigger the use of supervisory actions.

Brief explanation of the implementation of liquidity risk-related reporting templates

I. Reporting and monitoring of contractual maturity mismatch

The BRSA requires banks to have an indicator showing future contractual cash inflows and outflows. Similar to the Basel III LCR monitoring tool, this metric requires banks to calculate all future contractual cash inflows and outflows, including those from contingent liabilities. The aim of the "Statement of liquidity risk analysis – According to cash flow" is to capture the contractual mismatches per various time buckets including contingent liquidity risk items (ie off-balance sheet positions). Information on possible cash flows arising from derivatives such as swaps and options is also included in the template.

The BRSA's reporting requirement does not let banks make assumptions on rollovers for their existing liabilities and assets. In addition, banks are expected to record all cash inflows and outflows related to the securities. Assets and liabilities with non-defined or open maturities are reported separately.

Banks are required to classify their on- and off-balance sheet items into 10 time buckets showing inflows and outflows. These time buckets are (i) on demand, (ii) one to seven days, (iii) eight days to a month, (iv) over one month and up to three months, (v) over three months and up to six months, (vi) over six months and up to nine months, (vii) over nine months and up to one year, (viii) over one year and up to two years, (ix) over two years and up to five years, and (x) beyond five years.

II. Reporting and monitoring of funding concentration

This metric is meant to identify sources of wholesale funding that are of such significance that their withdrawal could trigger liquidity problems.

The "Statement of deposits – According to the amount, type, number of customers" requires banks to report their deposit customer composition in terms of the deposit amounts (TRY 0-10,000, TRY 10,000–50,000, TRY 50,000–100,000, TRY 100,000–250,000, TRY 250,000–500,000, TRY 500,000–1,000,000, over TRY 1,000,000), maturity, type of customer (whether retail or wholesale), location of the customer (whether domestic or foreign), currency type and concentration of customers. In the assessment of deposit concentration, the BRSA analyses the data received on a monthly basis from the banks regarding all depositors.

In addition, cross-border liabilities, repo transactions and securities issuances are closely monitored through the reporting templates "Statement of cross-border liabilities", "Statement of securities issuances" and "Statement of repo transactions", respectively.

III. Reporting and monitoring of available unencumbered assets

This Basel monitoring tool is designed to provide supervisors with data on the quantity and key characteristics, including currency denomination and location, of banks' available unencumbered assets that could potentially be used as collateral to raise additional HQLA.

The "Statement of securities – weekly" and the "Statement of securities – detailed" are designed to collect information regarding the quantity, valuation method, issuer, issuance date, values (including fair value, book value) and key characteristics (including currency denomination and location) of banks' available unencumbered assets.

IV. Reporting and monitoring of LCR by foreign currency

The BRSA requires banks to calculate, report and disclose both consolidated and solo FX LCRs. Besides, the BRSA requires banks to submit their assets, liabilities and off balance sheet items (including contingent liabilities) in terms of each foreign currency on a monthly basis.

V. Market-related monitoring tools

For the market-related monitoring tools, as proposed by the Basel standard, both the BRSA and the CBRT use several market information sources as early warning indicators in monitoring potential liquidity difficulties at banks. Market information and information on the financial sector are monitored by the BRSA and CBRT through daily, weekly and monthly reports. For instance, the BRSA's Economic Research Department prepares internal daily reports on equity prices, debt markets, foreign exchange markets, commodities markets etc.

As for bank-specific information, the BRSA's Off-site Supervision Department prepares regular reports on banks liquidity position, conducts liquidity stress tests, and shares these with on-site supervisors. In addition, banks are required to monitor market-related information on equity prices, CDS spreads, money-market trading prices, the terms for rollovers and prices for various funding maturities according to the GLRM.

Basel guidance on monitoring tools for intraday liquidity management

The BCBS issued guidance on monitoring tools for intraday liquidity management in April 2013. In compliance with the requirements of this guidance, the BRSA has initiated a study and consulted the industry in 2015 on its proposal for implementation in Turkey. The draft templates and guideline reflect the aim of enhancing the monitoring of banks' intraday liquidity risk and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. Throughout 2015, meetings have taken place between the BRSA, the CBRT and the banks to discuss the implementation of this new reporting requirement. The BRSA's goal is to implement the intraday liquidity management in Turkey before the end of 2016, prior to the BCBS-specified deadline of January 2017.

Annex 10: Turkey's implementation of the *Principles for sound liquidity risk management and supervision*

This annex outlines the implementation of the Basel Committee's *Principles for sound liquidity risk management and supervision* (Sound Principles) in the Turkish regulation. The principles are not part of the formal RCAP assessment, and no grade is assigned. This annex serves for information purposes only.

The BRSA's comprehensive "Guideline for Liquidity Risk Management" covers Sound Principles 1 through 12. The Principle on Public Disclosure (Principle 13) is covered in the "Communiqué on Financial Statements to be Disclosed to the Public by Banks and Explanations and Footnotes Thereof", while the Principles on the Role of Supervisors (Principles 14–17) are covered in the "Guideline on the Assessment Criteria Considered in the Supervisory Review Process".

Each bank should manage liquidity risk activities in line with these legislative tools. The "Guideline for Liquidity Risk Management" contains instructions on the liquidity risk management framework, organisational structure in liquidity risk management, strategy, policy and procedures of liquidity risk, liquidity risk management process and contingency and business continuity plan. The "Communiqué on Financial Statements to be Disclosed to the Public by Banks and Explanations and Footnotes Thereof" provides for liquidity risk disclosure requirements and the "Guideline on the Assessment Criteria Considered in the Supervisory Review Process" sets out the BRSA's role in assessment of bank's liquidity risk. The implementation of the Sound Principles in Turkey is summarised below.

Fundamental principle for the management and supervision of liquidity risk – Principle 1

The first principle states the overall purpose that banks are responsible for having processes in place to actively monitor and manage liquidity risk. The BRSA's requirements for banks under this principle are:

- (i) Banks should establish an independent liquidity risk management framework that is well integrated into the bank-wide risk management process. This framework should include liquidity risk strategy, policy and procedures.
- (ii) Senior management should establish this framework and the board of directors should approve and review it periodically.
- (iii) Banks should establish a liquidity risk management framework so that they can safeguard their business under periods of liquidity stress, the source of which may be bank-specific or market-wide, and so that they can meet their daily liquidity needs.
- (iv) Banks should establish a liquidity cushion including a robust liquidity source that may be accessed even under liquidity stress conditions.
- (v) Banks should develop policies using conservative assumptions about the liquidity of assets and their access to funding during the periods of liquidity stress.
- (vi) Banks should take measures in order to prevent implementations that may decrease the credibility and efficiency of liquidity risk management and control functions through competitive pressures.
- (vii) Neither a low incidence of liquidity stress events, nor the prospect of intervention by the central bank or the deposit guarantee system should prevent banks from taking a conservative approach to liquidity risk management.

Governance of liquidity risk management – Principles 2–4

The BRSA's requirements for banks under this principle are summarised below:

Both the board of directors and senior management have their own distinct responsibilities in liquidity risk management. The board of directors is responsible for determining the liquidity risk appetite concerning the types and magnitude of liquidity risk and establishing the appropriate organisational structure for managing that risk. After approval by the board of directors, senior management is responsible for setting and implementing the liquidity risk management strategies, as well as policies and procedures for controlling the liquidity risk appetite set by the board of directors. Senior management should consider the liquidity costs, as well as the risks and advantages in the liquidity transfer pricing system necessary for the allocation of funds between different business lines. The liquidity risk management process should be subject to independent reviews and audits to ensure its continued effectiveness in the face of new risks arising from the constantly changing operating environment or risk level. In addition, senior management and the board of directors should have an adequate understanding of the close links between funding liquidity risk and market liquidity risk as well as how other risks interact with liquidity risk and affect the liquidity risk management strategy.

Measurement and management of liquidity risk – Principles 5–12

The BRSA's requirements for banks under this principle are summarised below:

The GLRM prescribes that a bank should have a sound process for liquidity risk identification, measurement, monitoring, control, cash flow and foreign currency liquidity management. A liquidity strategy to diversify funding sources and maturities should be established. The ability to quickly source funds from each provider should be regularly monitored. Stress testing shall be sufficiently robust to identify events or influences that may have a material impact on the bank's liquidity risk, and the outcomes of these tests must be used to adjust liquidity risk management strategies, policies and positions and to develop effective contingency plans and to build up a cushion of unencumbered, high-quality liquid assets. Liquidity risk exposures and funding needs should be monitored and controlled also in consolidated entities in terms of related currencies by taking into account limitations on transferability of liquidity. The necessary procedures must be established to manage intraday liquidity positions and risks under both normal and stressed economic conditions. Collateral positions, differentiating between encumbered and unencumbered assets, legal entities and physical locations should be actively monitored. Formal contingency funding plans should be established that outline policies to manage a range of stress environments and to establish clear roles and responsibilities.

Public disclosure – Principle 13

The disclosure requirements for liquidity risk are set out in the "Communiqué on Financial Statements to be Disclosed to the Public by Banks and Explanations and Footnotes Thereof". Banks should disclose qualitative and quantitative information on liquidity risk in their financial statements to enable market participants to make an informed judgment about the soundness of institutions' liquidity risk management frameworks and liquidity positions.

The role of supervisors – Principles 14–17

The BRSA's role in assessing banks' liquidity risks is set out in the "Guideline on the Assessment Criteria Considered in the Supervisory Review Process". In this guideline, the BRSA reviews banks' liquidity adequacy and assesses the quality of their liquidity management. BRSA regularly performs on- and off-site assessments of a bank's overall liquidity risk management framework and position to determine whether the bank has an adequate level of resilience to liquidity stress given the bank's role in the financial system.

During its off-site supervisions, the BRSA uses prudential reports, internal reports and market information in supervisory stress tests to assess banks' resilience to liquidity stress. The BRSA reviews not only regulatory ratios and limits but also internal liquidity assessments. When a deficiency in a bank's liquidity risk management processes or liquidity position is detected, the BRSA immediately urges the bank to take effective and timely remedial action.

The BRSA communicates with other national/international supervisors and public finance authorities to facilitate effective cooperation regarding the supervision and oversight of liquidity risk management.

Annex 11: Areas for further guidance from the Basel Committee

Use of HQLA in times of stress

The Basel standard specifies that banks may use their stock of HQLA in periods of stress, which can be either idiosyncratic or systemic stress events. In its implementation of the LCR standard, the BRSA has defined “period of stress” as a period of systemic financial stress where several banks face difficulties as determined by the BRSA and the CBRT. Banks cannot use their liquidity buffer unless the BRSA explicitly permits its use by declaring a period of stress. Further, the BRSA indicated that it will not consider idiosyncratic stress events (eg when a single bank faces difficulties) as a period of stress.

The Assessment Team considers that the Turkish implementation is in line with the minimum set by the Basel standard, but believes that there may be room for interpretation with regard to the definition of “period of stress” and the degree of discretion that jurisdictions can apply regarding the use of HQLA. While the Basel standard provides some high-level guidance for supervisors on this point, the team would recommend that the Basel Committee reviews the need for additional supervisory guidance, in particular for allowing banks to use HQLA in periods of idiosyncratic stress.

Annex 12: List of issues for follow-up RCAP assessments

The Assessment Team did not identify any specific issues for a future follow-up RCAP assessments of Turkey.

Annex 13: Areas where Turkish LCR rules are stricter than the Basel standards

In several places, the Turkish authorities have adopted a stricter approach than the minimum standards prescribed by Basel or they have simplified or generalised an approach in a way that does not necessarily result in stricter requirements under all circumstances but never results in less rigorous requirements than the Basel standards. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigants for the overall assessment of compliance.

1. Inflow rate for other contractual cash inflows under Basel paragraph 160

The Basel standard allows supervisors to determine inflow percentages for other contractual cash inflows, as appropriate for each type of inflow. The BRSA has set 0% inflow rate for other contractual cash inflows.

2. Scope of application under Basel paragraph 164

Even though Basel standards require the LCR standard and monitoring tools to be applied to internationally active banks, BRSA requires RLCR provisions to be applied by all banks.

3. Expectation of LCR to be met only on a consolidated basis and reported only in a common currency under Basel paragraph 42 and 173

The BRSA requires banks to calculate, report and disclose the FX LCR on both a solo and consolidated basis as a regulatory standard ratio. Moreover, the total LCR is also calculated, reported and disclosed on solo basis.

Annex 14: Implementation of LCR elements subject to prudential judgment or discretion in Turkey

The following tables outline elements of LCR implementation that are subject to prudential judgment and national discretion. The information provided helps the Basel Committee to identify implementation issues where clarifications and (additional) FAQs could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on risk-weighted asset variation for the capital standards.

Elements requiring judgment (non-comprehensive list)		Table 7
Basel paragraph	Description	Implementation by the BRSA
24(f)	Treatment of the concept of “large, deep and active markets”	The BRSA considers an asset as being traded in large, deep and active markets if the asset has low bid-ask spreads, high trading volumes, and a large and diverse number of market participants, which reduces market concentration. Moreover, banks should not assume that a liquid market will exist for a given asset in all stress scenarios simply because such a market exists in normal times.
50	Treatment of the concept of “reliable source of liquidity”	The BRSA requires that, even during a liquidity stress environment, an asset should be a reliable source of liquidity in order to be included in HQLA. The BRSA also considers “flight to quality in a systemic crisis” a characteristic of “being a reliable source of liquidity”.
52	Treatment of the concept of “relevant period of significant liquidity stress”	The BRSA considers the relevant period of significant liquidity stress as periods with similar characteristics to those of the 2000–01 financial crisis in Turkey and the 2007–08 global financial crisis.
74–84	Retail deposits are divided into “stable” and “less stable”	Effective and fully insured deposits of a natural person which are not subject to commercial transactions and (i) they are in the transactional accounts or (ii) the depositors have other established relationships with the bank that make deposit withdrawal highly unlikely are classified under unsecured borrowing as stable deposits. A retail deposit shall be considered to be part of an established relationship where the depositor meets at least one of the following criteria: (a) Opened a deposit account at the bank at least 12 months ago, (b) Has a borrowing relationship with the credit institution where the loans’ maturity is undefined or open, (c) Has a borrowing relationship with the credit institution for long-term loans of at least 12 months duration, or (d) Has at least one other active product, other than a loan or deposit, with the credit institution. Any amount in excess of the deposit insurance limit for a retail deposit is to be treated as “less stable”. If a bank is not able to readily identify which retail deposits would

		qualify as “stable” according to the above definition, it should place the full amount in the “less stable” bucket. Foreign currency retail deposits should be considered as less stable even if they are fully insured.
83, 86	Treatment of the possibility of early withdrawal of funding with maturity above 30 days (para 83 – retail deposits; para 86 – wholesale funding)	The BRSA requires the same conditions as set out by the Basel III LCR standard. These are set out by paragraph 5 of Article 12 of the RLCR.
90–91	Definition of exposure to small business customers is based on a nominal euro amount (EUR 1 million)	SMEs that qualify for retail treatment are identified according to point (c) of second paragraph of Article 6 of the Regulation on Measurement and Evaluation of Capital Adequacy of Banks, which states that the “total consolidated amount of exposure to obligor customer or obligor risk group and undertaking should not exceed TRY 2.75 million”.
94–103	Deposits subject to “operational” relationships”	If banks are unable to determine whether the deposit is operational or the BRSA’s approval is not given after the evaluations to banks that are conducting these operational activities at the level indicated in the RLCR, then the entire deposit should be considered non-operational. In the RLCR, qualifying operational deposits generated by such an activity are ones where: (a) The deposits are by-products of the underlying services provided by the banking organisation and not sought out in the wholesale market in the sole interest of offering interest income. (b) The deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer to leave any excess funds on these accounts. (c) The active relationship with the depositor has existed for at least 12 months. (d) The level of concentration risk (if a significant portion of deposits are provided by a small proportion of customers) must not be high. Qualifying activities in Article 15 of the RLCR refer to clearing, custody or cash management activities that meet the conditions given in the Basel III LCR standard. Banks must determine the methodology for identifying excess deposits to fulfil clearing, custody and cash management activities and these excess deposits must be excluded from the operational deposits category. If the deposit under consideration stems from a correspondent banking relationship or from the provision of prime brokerage services, it shall not be treated as an operational deposit.
131(f)	Definition of other financial institutions and other legal entities	Other financial institutions include institutions which have been established to perform insurance, private pension fund or capital market activities or to engage in a minimum one of the fields of activity set out in the Banking Law no 5411, and financial holding companies. In the implementation of 131 (g), “Other legal entities” refers to Special Purpose Entities as defined under the Capital Market Board’s regulation.

Elements left to national discretion (non-comprehensive list)

Table 8

Basel paragraph	Description	Implementation by the BRSA
5	These two standards [the LCR and NSFR] comprise mainly specific parameters, which are internationally "harmonised" with prescribed values. <i>Certain parameters, however, contain elements of national discretion to reflect jurisdiction-specific conditions. In these cases, the parameters should be transparent and clearly outlined in the regulations of each jurisdiction to provide clarity both within the jurisdiction and internationally.</i>	The elements of national discretion are transparent and clearly outlined in the RLCR and its annexes, which are available on the website of the BRSA to provide clarity both within the jurisdiction and internationally.
8	Use of phase-in options	The BRSA uses the phase-in transitional arrangement proposed by Basel Committee to implement the total LCR starting from 1 January 2015, with a 60% minimum requirement set for the year 2015, followed by increments of 10% per annum until 100% is reached by 1 January 2019, and to implement the FX LCR starting from 1 January 2015, with a 40% minimum requirement set for the year 2015, followed by increments of 10% per annum until 80% is reached by 1 January 2019.
11	The Committee also reaffirms its view that, during periods of stress, it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Supervisors will subsequently assess this situation and will give guidance on usability according to circumstances. <i>Furthermore, individual countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule for their national banking systems, consistent with the design of their broader economic restructuring programme.</i>	If there is liquidity stress in financial system as a whole as determined by the assessments of the CBRT and the BRSA, after obtaining the approval of the CBRT, the BRSA may allow banks to use their stock of HQLA, thereby potentially allowing the LCR to fall below the minimum.
50(b)	Eligibility of central bank reserves	Sight account and time accounts held at central bank including required reserves to the extent that the central banks' policies allow them to be drawn down in times of stress are included in Level 1 assets.
50(c)	Marketable securities that are assigned a 0% risk weight under the Basel II Standardised Approach for credit risk	The BRSA has fully implemented this on the lines of the Basel standard as contained in paragraph 50(c), (d), and (e). Turkish sovereign securities are included in Level 1 assets according to the provision of Basel paragraph 50(d) and (e).
53–54	Eligible Level 2B assets	The BRSA has allowed banks to include the items in the Level 2B assets stated in Article 8 of RLCR, provided that they possess the main characteristics of an HQLA as stated in the Basel III LCR standard.

54a	Provision relating to the use of restricted contractual committed liquidity facilities (RCLF) ¹⁰	N/A
55(f)	Treatment for jurisdictions with insufficient HQLA (subject to separate peer review process)	N/A
68	Treatment of sharia-compliant banks	No special treatment is given to participation banks.
78	Treatment of deposit insurance	The BRSA requires banks to implement a 5% outflow rate rather than a 3% outflow rate for stable retail deposits. The Turkish regulations on deposit insurance meets the requirements set out in the Basel III LCR standard.
79(f)	Categories and run-off rates for less stable deposits	The BRSA has currently set a 10% outflow rate for "less stable deposits". Moreover, foreign currency retail deposits should be considered as less stable deposits with an outflow rate of 10%. If a bank is not able to readily identify which retail deposits would qualify as "stable" according to the definition in the RLCR, it should place the full amount in the "less stable" buckets.
123	Market valuation changes on derivative transactions	Article 26 of the RLCR is in line with Basel III LCR paragraph 123.
134–140	Run-off rates for other contingent funding liabilities	The BRSA has set an outflow rate of 5% for all items in other contingent funding liabilities.
160	Weight assigned to other contractual inflows	The BRSA has set an inflow rate of 0% for other contractual inflows.
164–165	Determination of scope of application of LCR (whether to apply beyond "internationally active banks" etc) and scope of consolidation of entities within a banking group	The RLCR is applied to all banks on both solo and consolidated basis.
168–170	Differences in home/host liquidity requirements due to national discretions	When calculating the LCR on a consolidated basis, a cross-border banking group should apply the liquidity parameters adopted in the home jurisdiction to all legal entities being consolidated except for the treatment of retail/small business deposits that should follow the relevant parameters adopted in host jurisdictions in which the entities (branch or subsidiary) operate. Home requirements for retail and small business deposits should apply to the relevant legal entities (including branches of those entities) operating in host jurisdictions if: (i) there are no host requirements for retail and small business deposits in the particular jurisdictions; (ii) those entities operate in host jurisdictions that have not implemented the LCR; or (iii) the home supervisor decides that home requirements should be used that are stricter than the host requirements.
Annex 2	Principles for assessing eligibility for Alternative Liquidity Approaches (ALA)	N/A

¹⁰ See www.bis.org/publ/bcbs274.htm.