

Amendments to the Regulation on Credit Transactions of Banks

3 Sep 2021

Regulation Amending the Regulation on Credit Transactions of Banks ("**Amendment Regulation**") issued by the Banking Regulation and Supervision Agency ("**BRSA**") has been published on 8 July 2021, in the Official Gazette numbered 31535 and entered into force of even date.

Amendment Regulation made regulations regarding the resolutions of troubled assets.

Notable provisions of the Amendment Regulation include:

- The definition of "troubled assets" and the concept of "resolution of troubled assets" have introduced to the Regulation on Credit Transactions of Banks.
- Banks will conduct management and minimization activities for troubled assets within the scope of resolution of troubled assets.
- The following steps shall be followed in the determination of the risk group.
 - It is determined whether the partnerships, in which a real person and its spouse and children hold the managerial position, will be included in the risk group of the relevant real person.
 - It is determined whether the partnerships, in which a member of the board of directors, general manager, assistant general manager or equivalent positions and their spouses and children, will be included in the bank's risk group.
 - The following issues are questioned while determining the risk group of real persons mentioned in the first two steps:
 - a. Do they have privileged shares in the partnerships they are involved in?
 - b. Is there a control, warranty, guarantee (etc.) relationship between the partnerships in which they work?
 - c. Existence of a control relationship or a surety, guarantee or similar relationship between the partnerships in which they serve.
- Within the scope of Amendment Regulation, independent audit report has been added to the scope of documents which must be required by banks. With the latest amendment, the documents to be requested from the customers by the banks during the loan allocation phase are as follows:
 - The up-to-date financial statements audited by independent auditors and independent audit reports of the customer and, if exists of each of its subsidiaries and jointly controlling enterprises.
 - Analysis table containing the assurance report of the independent audit firm
 - Corporate governance principles compliance report if the customer is subject to the Corporate Governance Communiqué
- The banks, meeting the requirements mentioned under Amendment Regulation, must set a troubled asset strategy and establish resolution units by 31 December 2021. Accordingly,

- Banks, whose non-performing loan ratios are equivalent to or higher than five-thousandths of the banking sector's gross non-performing loan ratios, are obliged to set a troubled asset strategy and to establish resolution units.
 - BRSA may request the banks, which do not fulfill the above stated requirements, to set a strategy for troubled assets and to establish resolution units.
- Resolution units will be independent from credit allocation units and will perform the activities for the resolution of troubled assets.
 - The troubled assets strategy shall (i) be made for a three-year period, (ii) include targets regarding the resolution of troubled assets and (iii) include supporting operational plans.
 - Banks are obliged to make an annual evaluation of the troubled assets strategy and submit the outcomes to the board of director.
 - Troubled assets strategies and operational plans shall be approved by board of directors and shall be sent to the BRSA by the end of September of each year.

The full text of the Amendment Regulation is available at this [link](#). (Only available in Turkish)

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