

Turkey Updates Rules for Interest Free Activities by Financial Leasing, Factoring and Finance Companies

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The Turkish Banking, Regulation and Supervision Agency ("**Agency**") has amended rules for financial leasing, factoring and financing companies. The changes focus on Islamic financing, applying particularly to participation banks and interest-free financial institutions. Notable amendments address the specific disclosure of interest-free principles in articles of association and loan agreements, as well as requirements to follow these principles in practice.

Notable changes include:

- For companies which operate on an interest-free basis, any reference to "interest" in relevant rules for accounting practices and financial statements will be interpreted as "dividends".
- The articles of association for companies operating on an interest-free basis must now specifically state that operations are based on interest-free principles and the company should operate on such principles.
- Loan agreements made by companies operating on interest-free basis must now also comply with interest-free principles.
- The Agency can now prevent loans being included in equity capital calculations if:
 - The dividend rates applied to equity debts by companies operating on an interest free basis is not clearly stated in the agreement; or
 - The dividend rate is higher than the market standard.

Please see these links for the full texts of the amendment regulations, published in Official Gazette number 30217 on 21 October 2017 (only available in Turkish):

- [Amendment Regulation on the Regulation on Principles For Establishment and Operations of Financial Leasing, Factoring and Financing Companies](#)
- [Amendment Regulation on the Regulation on the Accounting Practices and Financial Statements of Financial Leasing, Factoring and Financing Companies](#)

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Related Attorneys

- [DR. E. SEYFİ MOROĞLU, LL.M.](#)
- [C. HAZAL BAYDAR, LL.M.](#)