



BANKING
REGULATION AND SUPERVISION
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PRESS RELEASE

As it is known, studies on International Convergence of Capital Measurement and Capital Standards carried out by the Basel Banking Committee are finalized with a comprehensive document which was published in June 2006. This study, which is also known as Basel II in public, is concluded in the Acquis Communautaire by the Directives (CRD) dated June 14, 2006 Nr. 2006/48 and 2006/49 of the European Parliament and Council.

It is foreseen by our Agency that the obligation of practice of Basel II by the banks operating in Turkey as well shall be initiated within the framework of a program and a related road map is announced to public. As the studies within this concept are included in the Acquis Communautaire in this process, it is seen that our Agency's practices are obliged to be carried out by taking the Acquis Communautaire as a basis.

Similarly to Basel-II document, in the EU's related directives (CRD), it is foreseen that the banks shall calculate their capital adequacy by including operational risks in addition to loan and market risks, and that the rating results, not the quality of guarantee, shall be taken into consideration in determining loan risk, and finally that the member countries shall complete their legislations by the end of 2006 and shall put into practice as of January 01, 2007. **However, it is observed that many EU countries did not accomplish this process.**

The calculation of capital adequacy in the Turkish banking system is still made based on the "Regulation on the Calculation and Evaluation of Capital Adequacy of Banks" published in the Official Gazette dated November 01, 2006. In the mentioned Regulation, advanced technologic infrastructures of our banks, their competency and the notable progress of their capital adequacy levels are taken into consideration and it is foreseen that the practice related to the calculation of capital adequacy by also including the operational risk, which is one of the two fundamental changes brought by the CRD, shall be put in action as of June 2007. Therefore, capital adequacy calculation partially compatible with the CRD is started approximately 6 months before the date determined in the road map announced by our Agency.

The calculation of rating based loan risk necessitates real sector companies to prepare financial statements consistent with the international accounting and financial reporting standards. Turkish Accounting Standards Board which started operating by convening its first meeting on March 7,

2002 completed the publication of Turkish Accounting and Financial Reporting Standards consistent with the said standards. However, the new **Draft Turkish Commercial Law** including the provisions to oblige the said standards to be implemented **did not become law**. As a matter of fact, **it is also demanded by the representatives of the real sector establishments that the said rating implementation to be postponed by justifying this situation.**

On the other hand, it will come up to the agenda that whether FX denominated government securities or receivables from the Central Bank of the Republic of Turkey of banks to which 0% risk weight is implemented recently in the calculation of loan risk shall be risked depending on the country credit risk. The said case will oblige the banks to allocate directly more capital for the asset items within this framework, and accordingly it will effect the monetary and finance policies. The majority of the banks' top managements have also demanded the postponement of the implementation within this scope by declaring the above-mentioned reasons.

By considering the demands made, it is concluded that the implementation relating to the rating based loan risk measurement which will be taken as a basis in banks' capital adequacy calculation, shall be delayed to the beginning of 2009 and rating base accounting shall only be made as an indicator.