



“PARALLEL” BORROWING: A Mechanism that Triggers Turkish Equity Markets

SPECIAL REPORT: CAPITAL MARKETS –TURKEY

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We have observed significant changes in the securitization processes within Turkey’s capital markets in the past couple of months. According to the data released monthly in the newsletters of the Turkish Capital Markets Board (CMB), an increasing level of dependence on a new “**borrowing instruments mechanism**” is observed. This mechanism enables all investors (ranging from investment companies to all speculative investors) to **trigger gains in Turkey’s equity markets, BIST100 (Istanbul Stock Exchange) specifically.**

Given Turkey’s current economic dynamics, triggering a surge in the Turkish banking sector’s non-performing loan ratios (which rose to a 5 year high of 3.2%), the banks in Turkey are increasingly becoming hesitant to provide loans. These dynamics add to the pressures on brokerage firms as they resort to finding alternative funding for their customers. There is an increasing amount of bond issuance and other borrowing instruments, as the Turkish CMB keeps the collateral requirements loose, which creates a “parallel borrowing system” for securitizations. Normally, the system in Turkey requires brokerage firms to finance “margin trading” using bank loans as their collateral. However, a new mechanism that the CMB has permitted allows brokerage firms to utilize “other borrowing instruments” as collateral as well. Using bank loans as collateral assigns the liability to the banks in the case of loss. However, when using “other borrowing instruments”, the liability falls either to the Turkish Private Pension Fund System (BES) or on to the portfolio management companies and investment funds, ultimately passing the cost on to the public. The fact that the CMB has allowed the issuance of these “registered borrowing instruments”, enables the investment companies to transfer their resources to this new “parallel borrowing mechanism”, and to be unaccountable in the case of losses. This feeds market uncertainty. In addition, we have observed **severe increases in the total amount of capital invested from this system into the Turkish equity markets, BIST100.** The volume, frequency, and incrementally increasing number of these trading activities are troublesome.

To explain what we call “parallel borrowing mechanism” and how this system works, refer to the chart below.





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Following borrowing instruments have recently been approved by the Turkish Capital Markets Board (CMB). The total nominal amount issued by the CMB has reached **2.3 billion dollars between December 2015 through March 2016**. There are also pending borrowing instruments, which are yet to be approved in the upcoming months.

Approved Capital Markets Borrowing Instruments		
Company	Nominal Issuance Ceiling/Amount	Type of Issuance & Approval Date
GEDİK YATIRIM MENKUL DEĞERLER A.S.	200.000.000 TL (71.4 million \$)	Bond-Public offering 03/23/2016
YAPI KREDİ YATIRIM MENKUL DEĞERLER A.S.	250.000.000 (89.2 million \$)	Bond-Qualified Investors 03/23/2016
AK YATIRIM MENKUL DEĞERLER A.S.	700.000.000 (250 million \$)	Bond-Qualified Investors 03/23/2016
NUROL YATIRIM BANK A.S.	160.000.000 (57.1 million \$)	Bond-Qualified Investors 03/23/2016
YAPI KREDİ YATIRIM MENKUL DEĞERLER A.S.	2.000.000.000 TL (714.2 million \$)	Bond-Qualified Investors 02/26/2016
NUROL YATIRIM BANK A.S.	60.000.000 TL (21.4 million \$)	Bond-Qualified Investors 02/04/2016
AK YATIRIM MENKUL DEĞERLER A.S.	500.000.000 TL (178.5 million \$)	Bond-Qualified Investors 03/23/2016
İŞ YATIRIM MENKUL DEĞERLER A.S.	2.500.000.000 TL (892.8 million \$)	Bond-Qualified Investors 12/17/2016
NUROL YATIRIM BANK A.S.	29.364.000 TL (10.5 million \$)	Bond-Qualified Investors 12/17/2016
TOTAL	6.399.364.000 TL (2.3 billion \$)	

*USD/TL conversion calculated at 1 Dollar (\$) equaling 2.8 Turkish Liras (TL)

Source: Turkish Capital Markets Board, March Newsletter,

<http://www.spk.gov.tr/apps/haftalikbulten/displaybulten.aspx?yil=2016&sayi=10&submenuheader=null>

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