GENERAL FRAMEWORK

Investment institutions have to have relevant provisions in the Investment Account Agreements signed with their clients, in order to allow them to sell short. There are no restrictions for domestic or foreign clients.

In addition, the total value of the shares sold short must not exceed twice the last 3 months’ average equity of the investment company.

DEFINITION

According to the Capital Markets Board regulation, short selling is defined as selling, or giving a sale order, for capital market instruments that are not actually owned.

FLAGGING

Short-selling transactions are done at Borsa Istanbul. The brokerage firm should enter the order as a short-sale order. If the sale is executed without indicating that the transaction is a short-sale, the brokerage firm is fined.

Also, if the settlement is done through borrowed capital market instruments, this is accepted as an indication of an undisclosed short-sale.

The securities, transaction prices and volumes are announced at the end of the day on Borsa Istanbul’s website.

ELIGIBLE SECURITIES

Only the equities classified as Group A and B by Borsa Istanbul can be used for margin trading and short selling. These groups cover equities listed on Borsa Istanbul Equity Market, whose adjusted free float exceed TL 10 million.

UP-TICK RULE

The short sale should be executed at a price higher than the last trading price of a security. In other words, a limit order should be placed. The up-tick rule does not apply for the shares of the BIST-100 index companies.

RESTRICTED PARTIES

Related parties of a company can not short sell the securities of that company. These are defined as, the board members, executives, shareholders of the company owning at least 10% stake, their spouses, people acting jointly with them and people under their guardianship.

SETTLEMENT

If the naked short-sale is covered intra-day, there is nothing else to do, as settlement is done on a netting basis on T+2.

If the short-sale is not covered on the transaction date, the short-selling party should borrow the equities either from the OTC market, or from the Securities Lending and Borrowing Market and cover its settlement obligation on T+2.

SECURITIES LENDING MARKET

The Securities Lending Market is operated by the Istanbul Settlement and Custody Bank (Takasbank).

This is an organized market, where securities could be borrowed and lent for a certain period by providing collateral. Cash, treasury bills, government bonds, equities, investment funds, exchange traded funds, gold and letters of guarantee are accepted as collateral.

MARGINS

The customer has to deposit an initial margin in order to sell a security short. The collateral she/he has to deposit should be equal to the market value of the short-sale transaction. For example, if the client is willing to sell securities worth $1 million, s/he has to pledge collateral of $1 million.
In other words, the following margin ratio should be at least 50%:

\[
\text{Margin Ratio} = \frac{(\text{Market Value of the Collateral} + \text{Value of the Short-Sale on T+0} - \text{Market Value of the Short-Sale})}{\text{Market Value of the Collateral} + \text{Value of the Short-Sale on T+0}}
\]

Maintenance margin is 35%. If the margin ratio falls below the maintenance margin, the client has to deposit additional collateral to reach 50%, or close his/her position.

Cash, treasury bills, government bonds, equities, investment funds, exchange traded funds, and gold are accepted as collateral.

**SETTLEMENT FAILURES AND BUY-INS**

A party which fails to meet its obligations on T+2 until 16:30, is considered as having failed according to Borsa Istanbul regulations. Borsa Istanbul members have the option to settle their dues until 09:30 on T+3, by paying a default penalty interest equivalent to three times the prevailing highest money market O/N interest rate.

If settlement does not occur until 9:30 on T+3, Borsa Istanbul initiates a buy-in process on behalf of the failing member. The buy-in/sell-out transactions must settle by 16:30 on T+3. Price differences are paid by the failing member. In addition to the buy-in procedure, Borsa Istanbul imposes disciplinary measures against the failing member in case of repeated failures in the last 12 months.

If a client fails more than twice in three months, the brokerage firm is required to disclose the name of the client to Borsa Istanbul. Borsa Istanbul discloses the name of the client to its members. In the following 6 months, the client is not allowed for naked trades, i.e. s/he has to have cash or securities in his/her account on the transaction date.

**RELEVANT REGULATIONS**

Communiqué Serial 5, Number 65 Regarding Margin Trading, Securities Lending and Short-Selling
Borsa Istanbul Regulation
Takasbank Securities Lending Market Directive