

Communiqué on Assed-backed and Mortgage-backed Securities is published on the Official Gazette

I. Introduction

Asset-backed securities can be defined as securities whose income payments and therefore their value is derived from and backed by a specified pool of underlying assets. The pool is a group of small and liquid assets, which cannot be sold individually. These assets are pooled into financial instruments for the purposes of allowing them to be sold to general investors. This process is named as *securitization* and enables to diversify the risk of investing in the underlying assets since each security represents a part of the total value of the separate pool of underlying assets.

The pools of underlying assets can be created from payments such as credits cards, mortgage loans and royalty payments. A mortgage-backed security is a kind of asset-backed security, which is secured by a mortgage, or a number of mortgages forming a pool.

II. Communiqué on Assed-backed and Mortgage-backed Securities

The Capital Markets Board (“CMB”)’s recent *Communiqué numbered Serial: III and No: 35 on Securities backed by Assets or Mortgage (“Communiqué”)* is published on the Official Gazette dated January 9th, 2014 and numbered 28877. This communiqué has the purpose of complying with the Law on Capital Markets numbered 6362. The Communiqué has also gathered a number of regulations into one for the purposes of simplifying the regulations; therefore one communiqué now regulates Asset-backed Securities and Mortgage-backed Securities together with asset financing funds and housing financing funds, which have similar structures.

III. Developments Introduced by the Communiqué

The recently published Communiqué introduces a number of changes and developments. Developments introduced by the Communiqué can be summarised as follows:

1. Banks, financial leasing and financing companies, mortgage financing companies and broadly authorized intermediary firms to become a fund incorporator. Legal person, institution or corporations are defined as the resource company.
2. It is also stipulated in the Communiqué that although fund incorporation application and application for the issuance of Asset or Mortgage backed securities are principally evaluated together, these applications can be evaluated separately upon the request of the incorporator.
3. Private placement is stated as an additional option to public offering and sale to the qualified investor; providing that minimum nominal unit value of Asset or Mortgage-backed Securities is TL 100.000.
4. Guidelines concerning the public offering of the Asset or Mortgage-backed Securities to be traded in the stock market, carrying out the issuance in a lump and drafting the admission document as a single document.
5. The issuance procedure has become faster by stipulating that more than one fund can be incorporated for the Asset or Mortgage-backed Securities to be issued without public offering; providing that the issuance is within the maximum limits determined by the CMB.
6. Underlying asset types are diversified; it is now possible to add assets arising from housing loans without mortgage guarantee. However, this type of assets should be guaranteed by another type of guarantee approved by the CMB.
7. Concerning the functioning of the fund;
 - a) A fund board consisting of 3 persons shall be appointed for each fund,
 - b) Fund board may assign their duties to the fund operation supervisor,
 - c) A bank or broadly authorized intermediary institution, who bear the requirements to be incorporator, may become fund operation supervisor,

- d) The service provider shall manage daily operation of the assets located in the fund pool.
8. Incorporator and/or Resource Company have the 5 per cent risk-holding obligation parallel to foreign implications.
9. Sanctions to be implied by the CMB are regulated in case the fund has difficulty in repayment and in case the incorporator's activity license is cancelled.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.