

# PRIMARY DEALERSHIP CONTRACT

## Parties of the Contract

### Clause.1)

This contract is between the Undersecretariat of Treasury (hereafter named shortly as Undersecretariat), resident at İnönü Bulvarı No: 36 06510 Emek / Ankara, and ....., resident at ..... (hereafter named shortly as Primary Dealer).

## Scope of the Contract

### Clause.2)

The contract comprises only Primary Dealership activities on Government Domestic Borrowing Securities.

## Definitions

### Clause.3)

- (1) **Primary Market:** The market where Government Securities are initially issued by the Undersecretariat.
- (2) **Switching:** The switching of existing securities with the security which is going to be issued.
- (3) **GDBS:** Government Domestic Borrowing Security issued by the Undersecretariat of Treasury.
- (4) **Auction:** Government Domestic Borrowing Security Auctions
- (5) **Auction Limit:** The minimum and maximum net volume to be issued at an auction including non-competitive bids or net volume to be bought back.
- (6) **Option Bids (Post-auction bids):** The bids given after the auctions to purchase the auctioned securities from the average price of the auction or the price determined at the auction.
- (7) **Secondary Market:** The market where previously issued Government Securities are sold and purchased.

- (8) **Zero-coupon Security (Discounted Security):** The kind of security, interest of which is paid at maturity together with the principal.
- (9) **Coupon Security:** The kind of security, interest of which is paid at coupon periods while the principal is paid at maturity.
- (10) **The Undersecretariat:** The Undersecretariat of Treasury
- (11) **Benchmark Issue:** The securities determined by the Undersecretariat of Treasury for the quotation obligation of primary dealers in the secondary market.
- (12) **Retail Sale:** Issuance of Government Domestic Borrowing Securities which are not traded in the secondary market to individual investors and other small scale investors through directly Undersecretariat of Treasury and / or through intermediary / intermediaries determined by Undersecretariat of Treasury,
- (13) **Primary Dealer:** The bank that has signed this agreement and has rights and obligations in primary and secondary market.
- (14) **Primary Dealership Consultation Board:** The consultative Board which will be held at least once in a month and composed of representatives from each Primary Dealer, the Undersecretariat of Treasury and other related Public Institutions.
- (15) **Non-Competitive Bid:** The bid submitted on auction day till 11:30<sup>1</sup> to purchase the auctioned security from the average price of the auction or the price determined at the auction.
- (16) **TAP:** The issuance method by which Government Securities are tendered at pre-determined prices via Central Bank.
- (17) **Turkish Primary Dealer:** The title which can be used by Primary Dealer.

## **General Issues Regarding the Primary Dealership System**

### **Clause.4)**

- (1) The Undersecretariat determines and announces the Primary Dealer selection criteria.
- (2) The primary dealership system consists of four three-month periods; January-March, April-June, July-September and October-December.
- (3) The banks that want to take part in the Primary Dealership System should apply to the Undersecretariat at least one month prior from the beginning of each three-month period by written form.
- (4) The Undersecretariat determines and announces the Primary Dealers.

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<sup>1</sup> Last bidding time for non-competitive bids was 10:30 before 14.11.2016

## The Rights of the Primary Dealer

### Clause.5)

- (1) The Primary Dealer has the right to use the title of “Turkish Primary Dealer”.
- (2) The Primary Dealer is exempt from the collateral requirement for participation in auctions. However, in case the Primary Dealer fails to meet its obligations after an auction, it will be subject to the sanctions in accordance with the Clause 11 of “Principles of Participation In the Auctions of Government Domestic Borrowing Securities<sup>2</sup>”. In case of a change in the aforementioned clause of Principles of Participation document, the changes will also apply to this contract.
- (3) The Primary Dealer has the right to submit non-competitive bids before the auctions. In the auctions that has been declared an upper limit, the total amount to be issued via accepting non-competitive bids can not be more than 30% of the upper limit of the auction. The volume of the non-competitive bid of any single Primary Dealer can not be more than the total limit of issuance through the non-competitive bid system. When there is no upper limit specified for the auction, the Undersecretariat can accept non-competitive bids at any volume, without declaring a ratio.
- (4) The Primary Dealer has the right to submit option bids after an auction till 14.00 p.m. on the value date. The amount to be issued via accepting option bids will be calculated in two different ways according to the auction method used.
  - a. In the uniform price auction system, the amount to be issued to each Primary Dealer via accepting option bids will be 20% of the net amount purchased by the Primary Dealer in the auction, excluding non-competitive sales.
  - b. In the multiple price auction system, the amount to be issued at average price to each Primary Dealer via accepting option bids will be 40% of total the net bids given above the average price in the auction, excluding non-competitive sales and the amounts issued at average price.
- (5) The Undersecretariat conducts cash operations in the money market with Primary Dealers.
- (6) The Primary Dealer has the exclusive right to participate in “TAP” sales.
- (7) The Primary Dealer has the exclusive right to serve as an intermediary in “public offerings”.
- (8) The Primary Dealer has the exclusive right to participate in Buy-back and Switching auctions.

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<sup>2</sup> It is published on Undersecretariat website ([www.treasury.gov.tr](http://www.treasury.gov.tr) > Public Finance > Information for Investors)

- (9) The Primary Dealers has right to participate in the Primary Dealership Consultation Board with two representatives.
- (10) The Primary Dealer has right to borrow and lend securities at the Securities Lending Market established at the Central Bank.

## **The Obligations of the Primary Dealer**

### **Clause.6)**

(1) Primary Dealer shall;

- a. Purchase on the net basis at least the amount calculated from the multiplication of the amount issued or programmed to be issued via Treasury auctions by 0.6 and then division of this number to number of Primary Dealers in every 3 month period stated in Clause.4,
- b. Purchase monthly on the net basis at least the amount calculated from multiplication of the securities issued or programmed to be issued via Treasury auctions by 0.36 and then division of this number to number of Primary Dealers,

from the primary market.

- (2) The calculation of the obligation will be based on the lower amount, out of the programmed borrowing amounts announced in the borrowing strategy and realized borrowing amount via Treasury auction. The purchases through Primary Dealers' non-competitive bids will be taken into account, while the purchases through option bids will not be taken into account during the calculation of obligations. The Primary Dealer can deduct the over purchased amount in one month from the obligation of the following month.
- (3) In every 3 month period stated in Clause.4 (2), the obligations stated above in Clause.6 (1) are recalculated, taking into the consideration the entries to and exits from the system and these obligations are fulfilled by the Primary Dealers without any notice from the Undersecretariat.
- (4) The obligation of the Primary Dealer will be calculated by using the coefficients given below to weight the purchased amounts according to borrowing maturities<sup>3</sup>. While

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<sup>3</sup> The coefficients are modified as above with the charter amendment dated 20.12.2013.

deducting the over purchased amount in one month from the obligation of the following month, non weighted purchased amounts are taken into consideration.

<b>Borrowing Maturity</b>	<b>Coefficient</b>
0-3 Years (3 years included)	1.00
3-5 Years (5 years included)	1.25
5-10 Years (10 years excluded)	1.50
+ 10 Years	1.75

(5) The Primary Dealer is obliged to enhance liquidity in the secondary market. To achieve this, the Primary Dealer shall, on every trading day quote bid and offer prices continuously for benchmark securities specified in the Clause 8 of this contract for at least three month period at the Borsa Istanbul (BIST) Debt Securities Market (DSM). The quotations shall meet the following criteria:

- a. The quotations shall be given on every trading day of BIST, between 9.45-12:00 and 13.30 - 17:15<sup>4</sup>
- b. The minimum size of quotations shall be 5 million TL in nominal terms.
- c. Bids and offers will be quoted in terms of prices for coupon-securities and the maximum spreads between bid and offer quotations are as follows.

<b>Maturity Interval<sup>5</sup> (For Bid and Offer Quotations)</b>	<b>Maximum Spread Between Bid and Offer Quotations (Kurus)</b>
0-2 Years (2 years included)	20
2-5 Years (5 years included)	30
5-10 Years (10 years included)	40
+10 years	50

<sup>4</sup> The period for quotations are modified as above with the charter amendment dated 14.11.2016

<sup>5</sup> Maturity refers to days to maturity. 1 year refers to 364 days.

For zero-coupon securities, the quotations will be given in terms of simple-annual interest yield, meeting the maximum spread requirements depicted in the following table:

Interest Rate Interval (For Bid Quotations)	Maximum Spread Between Bid and Offer Rates (Basis Points)
9.99 % and below	0.13
10.00 % - 19.99 %	0.25
20.00 % and above	0.50

- d. If the quotation sizes descend below 5 million TL as a result of a transaction or the quotations are called back for any reason, the Primary Dealer will renew the quotations in 5 minutes.
  - d. The quotations shall be submitted with the “PY” code.
  - e. In the calculation of the violations of quotation obligations, the average of the violations of all Primary Dealers in terms of number and duration are calculated separately. The Primary Dealer violates the obligation if both of the violations of Primary Dealer are above the average of the violations of all Primary Dealers. If the monthly average violation in terms of number is below 1, monthly average violations in terms of number are assumed to be 1.
  - f. Primary Dealer is responsible for submitting detailed information on technical problems while accessing to the OTASS<sup>6</sup> terminal during quotation process in the BIST DSM for benchmark securities. The information shall be submitted in 3 (three) working days to the BIST DSM and to the Undersecretariat.
- (6) The Primary Dealer shall prepare research, reports, surveys, financial data and other related information requested by the Undersecretariat about general economy and financial markets, with the time specified. These reports will be kept confidential by the Undersecretariat if requested by the Primary Dealer.
- (7) The Primary Dealer shall not distort competition in the primary market by negotiating and acting coordinated with the other primary dealers and/or participants.

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<sup>6</sup> BIST Automatic Bond Buy and Sell System

## **The Obligations of the Undersecretariat**

### **Clause.7)**

- (1) The rights stated in Clause.5 will be valid only for Primary Dealers.
- (2) In reference auction, the volume of security issued to a single participant will not be more than 25% of the sales amount.
- (3) If the total non-competitive bids in an auction exceed %30 of the upper limit announced for the auction, the 30% of the upper limit will be distributed to the bidders on pro-rata basis. The covered volume of non competitive bids will be announced till 12.00 a.m.<sup>7</sup> on the auction day. If there is no upper limit specified for the auction, the Undersecretariat may accept non-competitive bids at any volume. This amount will be allocated on pro-rata basis.
- (4) The Undersecretariat announces the annual borrowing programme and monthly domestic borrowing strategies.
- (5) The Undersecretariat may consult the Primary Dealers on issues of borrowing policy and new borrowing instruments.
- (6) The Undersecretariat informs the Primary Dealership Consultation Board on budget, financing programs, borrowing strategy and other topics related to the economy.

### **Benchmark Issues**

### **Clause.8)**

- (1) The Undersecretariat designates 9 benchmark securities, by taking into account the total issue size, the maturity and the trading volume in the secondary markets.
- (2) The Primary Dealer has to select 6 benchmark securities out of 9 benchmark securities designated by the Undersecretariat consisting at least 4 fixed rate, 1 floating rate and 1 CPI indexed security.
- (3) By informing the Undersecretariat 1 week before, the primary dealer can change the set of benchmark securities for the following 3 month period.
- (4) The securities lose their benchmark qualifications when 182 days remain to their maturity. If necessary, by majority vote of Primary Dealers and the approval of the Undersecretariat the benchmark securities can be changed.

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<sup>7</sup> Announcement time for the results of non-competitive bids was 11:00 a.m. before 14.11.2016

- (5) The Undersecretariat keeps the right to lift the quotation liability of the Primary Dealer for a temporary period and to increase the maximum spreads designated in Clause.6 of this contract.

### **Primary Dealership Consultation Board**

#### **Clause.9)**

- (1) The Undersecretariat organizes meeting with Primary Dealers at least once in a month and may invite representatives of other institutions according to topic of the meeting.
- (2) The Undersecretariat determines the agenda and date for the Primary Dealership Consultation Board and announces those to the participants.
- (3) Upon the request of the Undersecretariat, Primary Dealers inform the Primary Dealership Consultation Board on current economic issues.
- (4) In case of any sudden and important developments in the market, the Primary Dealer Consultation Board will be called for extraordinary meeting

### **Auditing**

#### **Clause.10)**

- (1) The Undersecretariat has right to get the Primary Dealer audited to ensure the execution of the obligations undertaken by this contract. The expenses of the audit will be covered by the Primary Dealer. The procedures and standards of the audit are determined by the Undersecretariat.

### **Suspension and Annulment of Contract**

#### **Clause. 11)**

- (1) The Undersecretariat assesses once in a year whether the Primary Dealers fulfil the specified criteria or not and terminates the contract of those that do not meet the specified criteria.
- (2) Official notifications will be sent to the Primary Dealer if it fails to fulfil its obligations, without any valid reason, in accordance with the Clause.6 in this contract. However,



official notification will not be sent to the Primary Dealer in case the number of the quotation violations of Primary Dealers is at most 2 and total duration is at most 1 minute in relevant month.

- (3) The maximum bid and offer spread stated in the fifth article of Clause 6 is valid for all different value dated quotations throughout the maturity intervals mentioned in the article. However, the breaches in the first working day of the new maturity interval will be evaluated by the Undersecretariat, unless the bid and offer spreads are not wider than the one valid for the preceding maturity interval.
- (4) In case data which is requested within the terms of Clause.6 (6) is not reported to the Undersecretariat in due time, this delay will be declared to authorized representative(s) of Primary Dealer which is / are submitted to the Undersecretariat within the context of Clause 14 via e-mail. Official notifications will be sent to the Primary Dealer that is informed via e-mail two times because of not reporting data requested in due time in case of third delay .
- (5) In the sixth breach of obligations, the contract is suspended for a month. The Primary Dealer has to meet all the obligations in suspension period. In the case of any violation of obligations except technical reasons during the suspension period, the contract is annulled. The numbers of breaches for the obligations are set for one calendar year. However, the number of breaches for Primary Dealers that join in April, July and October is 4, 3 and 2 respectively.
- (6) The contract can be suspended only for once during the contract period. The Primary Dealer, whose contract continues after suspension, is warned by official notification if it fails to fulfil obligations. At the first repeat of breach, the contract is annulled, immediately.
- (7) The banks taken over by the Banking Regulation and Supervision Agency and managed under the administration of Saving Deposits Insurance Fund during the contract period lose Primary Dealer status.
- (8) In the case of detection of a violation of the Clause.6 (7) according to Clause.10, Primary Dealer's contract is annulled, immediately.
- (9) In the case of suspension or cease of the contract, the situation is announced to the public by the Undersecretariat.
- (10) The Primary Dealer can not use its official title of "Turkish Primary Dealer", in case of suspension, annulment and expiration of the contract, and as well as the rights stated in this contract.
- (11) The Primary Dealer can renounce Primary Dealership, by applying to the Undersecretariat at least 3 months in advance.

- (12) The Primary Dealer whose contract is annulled or who renounced Primary Dealership can not be a Primary Dealer for at least one year.

### **Merger and Acquisition**

#### **Clause.12)**

- (1) The Validity of “Primary Dealer” title is reassessed by the Undersecretariat when the Primary Dealer is acquired by; sold to or merged with another bank or when it changes its legal entity in accordance with a legal process during the contract period.

### **Duration**

#### **Clause.13)**

- (1) The length of contract is a calendar year.
- (2) The contract will be renewed with the fulfilment of the specified criteria and with no written notice from any party at least one month prior to end of the contract.

### **Contact Information**

#### **Clause.14)**

- (1) The Primary Dealer submits the name(s), title(s) and correspondence information of the authorized representative(s) to the Undersecretariat by the effective date of this contract. If the information of the representative(s) changes, the new information is submitted by written form to the Undersecretariat in 5 (five) working day.

### **Exceptions**

#### **Clause.15)**

- (1) The securities, yields of which are indexed to revenue of a public asset and/or public enterprises,
- (2) Retail sale transactions,

- (3) The amount issued to non-bank public institutions at average price or the price determined in the auction are out of scope of this contract.

## **Settlement of Disputes**

### **Clause.16)**

- (1) Both parties accept Ankara Courts as the legal venue.

## **Primary Dealership Portal**

### **Clause.17)**

- (1) A Primary Dealership Portal is established and managed by the Undersecretariat in order to monitor the rights and obligations of the Primary Dealers in this contract and to share data<sup>8</sup>.
- (2) A username and password are given to the Primary Dealers to access the Primary Dealership Portal. Each Primary Dealer is responsible for ensuring the necessary security for which the passwords and the information submitted to the banks via Portal are not shared by the third parties. In this context, the corporate user agreement is signed by the Primary Dealer.

This contract has been drawn up in two identical copies.

Ankara ..../...../2015

**The Undersecretariat of Treasury:**

**Primary Dealer:**

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<sup>8</sup> PD Portal has been established with the charter amendment dated on 08.08.2014.