

Share buybacks in Turkey

The Capital Markets Board ("**CMB**") issued the Communiqué on Share Buybacks (the "**Communiqué**") on 3 January 2014. The Communiqué regulates the procedures and principles for public companies' purchase of their own shares or acceptance of the pledges established over their shares. Share buybacks were previously regulated under CMB resolutions but is now regulated under secondary legislation.

Scope of application

The Communiqué is applicable to the following transactions, in addition to companies purchasing their own shares:

- purchase of shares of an affiliate by a company;
- purchase of company shares by a third party acting for the account of the company or an affiliate of the company;
- acceptance of a company shares' pledge by a third party acting for the account of such company.

Authorisation

A buyback program must be approved and an authorisation should be granted to the board of directors in a general assembly meeting. In order for an affiliate to buy back the shares of its parent, the buyback program is required to be approved by the general assembly of the parent company and the board of directors of the affiliate should adopt a resolution on buyback. However, if the affiliate is a public company, then the buyback program is also required to be approved by the general assembly meeting of the affiliate. In any event except for "close and material loss", CMB approval is required before

conducting the share buyback programme.

Notion of "a close and material loss"

Situations where the daily weighted average price of a company's shares is below its nominal value or depreciates more than 20%, within one month prior to the date of the board of directors' resolution are defined as "close and material loss."

In a case of a close and material loss, companies whose shares are traded on Borsa İstanbul A.Ş. ("**ISE**") may conduct buyback transactions by a board of directors' resolution until the first general assembly meeting. However, this is not applicable to affiliates' buybacks of shares of their parent companies.

Duration

The duration of a buyback program is a maximum of three years for companies whose shares are traded on the ISE and one year for companies whose shares are not traded on the ISE. The period may be extended up to five years for buyback programs for the employees of the companies or their affiliates. In the case of capital markets instruments which can be converted into shares or

replaced by shares, the period may be extended until the maturity date of that instrument. Bonds which can be converted into shares or replaced by shares have been defined under the Communiqué on Debt Instruments.

Rational limits

The Communiqué has introduced some limits regarding buyback transactions and shares that can be bought back. Nominal values of the shares which have been bought back (including the previous buybacks), shall not exceed ten per cent of the paid-up or issued capital of the company (any shares exceeding such ten per cent threshold must be transferred as soon as possible but no later than three years in any event). Furthermore, the total value of the shares which have been bought back shall not exceed the total amount of the resources which can be distributed as a dividend within the framework of the CMB regulations. The total number of total shares that can be bought back in one day by a company or its affiliates shall not exceed 25% of the average amounts of the share transactions conducted within the 20 days prior to the day of such a transaction.

Situations in which buyback transactions cannot be conducted

The Communiqué indicates the circumstances in which buyback or sellback transactions cannot be conducted. If the disclosure of insider information has been postponed by the company or during the period from the date of adoption of the general assembly's or board of directors' resolution on capital increase to the date on which the transactions in relation to the capital increase have been completed, a buyback transaction cannot be conducted.

Persons prohibited from the transaction

During the course of a buyback program approved by the general

assembly (or if a buyback decision has been adopted on the basis of the existence of "a close and material loss"), shareholders with management control of the company or persons having close relations with such shareholders are prohibited from selling shares on the ISE.

Between the commencement and ending dates of buybacks conducted in accordance with a program, or if a buyback decision has been adopted on the basis of the existence of "a close and material loss", persons having administrative responsibilities in a company and/or in its affiliates and persons having close relations with such responsible persons are prohibited from selling the shares on the ISE.

Rights regarding the shares bought back and disposal of such shares

Shares bought back shall not be taken into account for the general assembly meeting quorums of companies and these shares will not vest any shareholding rights other than the right to have dividends and the right to purchase new shares.

Shares bought back without complying with the Communiqué are required to be disposed within one year following the date of such a buyback. Shares that cannot be sold within this period shall be extinguished through capital decrease.

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