

Geranti Bank

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Dear Sirs

We would like to comment on "Definitions of Four Categories of Financial Assets (Instruments)" on page 145 in "Exposure Draft of Proposed Amendments to IAS32, Financial Instruments: Recognition and Measurement".

In the Turkish securities and money markets, the Turkish Treasury is the major borrower. Very often the Treasury borrows from the market, especially from the private banks through issuance of government securities. The banks are encouraged to (almost forced to) participate in these borrowings as lenders. Recently, 10 commercial banks have signed agreements with Turkish Treasury as market maker banks. According to this agreement, each bank has committed to participate in auctions of the Turkish Treasury and purchase minimum 5% of the monthly security issuances. Accordingly, as in the past, securities portfolios will compose significant portion of the banks' total assets (30-40%) in the future.

A bank may partly trade these securities, but a major part is held to maturity. In accordance with IAS39, such loans to government can be classified as "loans and receivables originated by the enterprise".

Existing IAS39 - paragraph 11 - Definitions

Loans and receivables originated by the enterprise are financial assets that are created by the enterprise by providing money, goods, or services directly to a debtor, other than those that are originated with the intent to be sold immediately or in the short term, which should be classified as held for trading. Loans and receivables originated by the enterprise are not included in held-to-maturity investments but, rather, are classified separately under this Standard.

However,

Exposure Draft of Revised IAS39

Loans and receivables originated by the entity are financial assets with fixed or determinable payments that are not quoted in an active market and are created by the entity by providing money, goods, or services directly to a debtor, other than (i) those that are originated with the intention of sale immediately or in the short term, which shall be classified as held for trading, and (ii) those that the entity on initial recognition elects to designate as held for trading or available for sale.

According to the Exposure Draft, any securities classified or planned to be classified as “loans and receivables originated by the enterprise” will be required to reclassify if they are quoted in active markets. Being a typical character of an emerging market, securities can easily become illiquid/liquid depending on rapidly changing political and economic environment. Given that securities are material components of the banks’ balance sheets, such a significant change in structure of their balance sheet is quite restrictive for their ability to manage the securities portfolio. Further, it is certain that a bank will not be able to easily trade 30-40% of its balance sheet, a significant part will not be traded at all, even when they are quoted. Therefore, we believe that “Revised IAS39” should not prevent “quoted securities” being classified as “loans and receivables originated by the enterprise”.

Best Regards,

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Vice President

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