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OMNIBUS LAW: LIMITATIONS ON DIVIDEND DISTRIBUTION

Law No. 7244 on Reducing the Effects of the Novel Coronavirus (COVID-19) Pandemic on Economic and Social Life and the Amendment of Certain Laws (the “**Omnibus Law**”) was published in the Official Gazette last Friday, 17 April 2020. The Omnibus Law, through amendments to the Turkish Commercial Code, introduces certain limitations on capital companies’ dividend distributions. These limitations are aimed at preventing capital companies from reducing their resources by the distribution of cash dividends and ensuring that they maintain their equities. Under the Omnibus Law, until 30 September 2020 capital companies cannot (i) resolve to distribute more than 25% of 2019’s net profit as dividends; (ii) resolve to distribute the previous years’ profits and retained earnings as dividends; and (iii) authorize their board of directors to distribute advance dividends. As per the same provision, the President can extend or shorten the limitation period by three months. If companies have already adopted dividend distribution resolutions pertaining to 2019 but not yet paid the relevant amount in full, payment of any dividend pertaining to an amount exceeding 25% of 2019’s net profit will be postponed until 30 September 2020, or until the end of the period as extended or shortened by the President.

The Omnibus Law does not set forth how companies violating the dividend distribution limitations will be determined, which actors will play a role in the process and what the sanctions will be. The Omnibus Law authorizes the Ministry of Trade to determine exceptions, procedures and principles regarding the dividend distribution limitation. In this regard, there will be a clearer picture in terms of the limitations’ implementation in the coming days, possibly with the help of secondary legislation to be introduced by the Ministry of Trade.

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