

THE ACQUISITION
AND LEVERAGED
FINANCE
REVIEW

SIXTH EDITION

Editor
Marc Hanrahan

THE LAWREVIEWS

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AND LEVERAGED
FINANCE
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CONTENTS

PREFACE.....	v
<i>Marc Hanrahan</i>	
Chapter 1 INTRODUCTION	1
<i>Marc Hanrahan</i>	
Chapter 2 ARGENTINA.....	9
<i>Tomás Allende</i>	
Chapter 3 AUSTRALIA.....	20
<i>John Schembri and David Kirkland</i>	
Chapter 4 AUSTRIA.....	35
<i>Markus Fellner and Florian Kranebitter</i>	
Chapter 5 BRAZIL.....	44
<i>Fernando R de Almeida Prado and Fernando M Del Nero Gomes</i>	
Chapter 6 CANADA.....	62
<i>Jean E Anderson, David Nadler, Carrie B E Smit, David Wiseman, Caroline Descours, Chris Payne and Keyvan Nassiry</i>	
Chapter 7 CHINA.....	80
<i>Jie Chai, Qin Ma and Xiong Yin</i>	
Chapter 8 DENMARK.....	87
<i>Nikolaj Jubl Hansen, Soren Theilgaard and Caspar Rose</i>	
Chapter 9 GERMANY.....	101
<i>Thomas Ingenhoven and Odilo Wallner</i>	
Chapter 10 HUNGARY.....	116
<i>Melinda Pelikán, János Pásztor, László Lovas and Bence Kálmán</i>	

Contents

Chapter 11	IRELAND	127
	<i>Catherine Duffy and Robbie O'Driscoll</i>	
Chapter 12	JAPAN	138
	<i>Satoshi Inoue, Yuki Kohmaru and Risa Fukuda</i>	
Chapter 13	NETHERLANDS	147
	<i>Sandy van der Schaaf and Martijn B Koot</i>	
Chapter 14	NORWAY	156
	<i>Markus Nilssen, Magnus Tønseth and Audun Nedrelid</i>	
Chapter 15	SPAIN	165
	<i>Borja Contreras and José Félix Zaldivar</i>	
Chapter 16	SWEDEN	175
	<i>Paula Röttorp and Carolina Wahlby</i>	
Chapter 17	SWITZERLAND	185
	<i>Lukas Wyss and Maurus Winzap</i>	
Chapter 18	TURKEY	199
	<i>Umut Kolcuoğlu, Bihter Bozbay and İpek Yüksel</i>	
Chapter 19	UNITED KINGDOM	210
	<i>Suhrud Mehta, Russell Jacobs, Mark Stamp, Mitali Ganguly and Francesca Mosely</i>	
Chapter 20	UNITED STATES	219
	<i>Lauren Hanrahan, Eschi Rahimi-Laridjani, Douglas Landy, Morgan Lingar, James Kong and Archan Hazra</i>	
Appendix 1	ABOUT THE AUTHORS	229
Appendix 2	CONTRIBUTORS' CONTACT DETAILS	249

PREFACE

Leveraged finance, particularly with respect to acquisition financing, has been an expanding asset class for many years. As of the fourth to quarter of 2018, leveraged loans outstanding totalled US\$1,147 billion and high-yield bonds outstanding totalled US\$1,256 billion. The average annual growth rate for leveraged loans outstanding (2000–2018) equalled 15.8 per cent and for high-yield bonds (1997–2018) equalled 6.5 per cent.¹ In 2018, leveraged finance loan totals for acquisition finance surpassed the previous records set in 2007.²

The leveraged finance markets and these markets' participants grow deeper and more sophisticated year over year. The playing field for acquisition finance, particularly for private equity deals, remains in large part an issuer-controlled game with an increasing number of new financing sources clamouring to become involved. As has been noted by many, credit controls (covenants and collateral coverage) remain soft and continue to weaken in some cases. That said, default rates are at the low end of the historical range and new piles of capital continue to be accumulated to support acquisition financing. As discussed in the Introduction that follows, regulators are indicating concern about the leveraged loan market in the case of an economic downturn but, to date, that does not seem to have stifled the appetite for new deals and associated financings.

For lawyers, this is a great area of practice. There is lots of activity given the size of the asset class; everything from new issuance, to refinancings, to work outs and insolvency proceedings. But to be an effective practitioner in the area, more is required than occasionally dabbling in leveraged finance transactions. Most lawyers who successfully practice in leveraged finance do it full time. Knowing 'market terms' is considered to be very helpful, if not critical, to success in this area.

This volume is intended to introduce the newcomer to the legal basics involved in leveraged finance, particularly acquisition finance, so that he or she is grounded in the underpinnings of the practice area. It is also intended to be a helpful update for the more seasoned practitioner with respect to what is new and what is being talked about in leveraged finance deals.

1 Source: Financial Stability Report of the Board of Governors of the Federal Reserve System, May 2019.

2 2018: U.S. Primary Loan Market Review, LSTA 3 January 2018.

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New York, NY

September 2019

TURKEY

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I OVERVIEW

The year 2018 was one of recovery; Turkish markets' struggle with the effects of the previous years' uncertainties has continued. The fluctuation of the Turkish lira, the increase in the borrowing costs and high inflation rates have halted the long-expected restoration of Turkish markets in 2018. In terms of the M&A markets, although the improvement recorded in 2018 was very modest in comparison to 2017, market activity in 2018 surpassed expectations in terms of deal value. Regarding political restoration, in 2019, the renewal of Istanbul municipal elections and shifting political winds have influenced the markets deeply and demonstrated the longing for stability and growth in Turkey.

According to the estimations of Deloitte, in the Turkish M&A market, the total deal volume in 2018 was US\$12 billion with 256 deals.² Given that the total deal volume in 2017 in Turkey was around US\$10.3 billion through 295 transactions, a slight increase of 17 per cent was observed.³ In 2018, deals involving foreign investors were 63 per cent of the total deal volume (i.e., US\$7.6 billion).⁴

In the Turkish M&A market, acquisitions are typically financed with debt financing involving local and international banks, depending on the parties involved in transactions in the form of senior secured debt.

Following the introduction, by the Turkish Ministry of Treasury and Finance, of limitations on foreign currency loans obtained from abroad in early 2018, we have observed a significant decrease in foreign financing; both local and international banks seem to be reluctant to provide financing until the application of the new legislation is tested and the currency crisis is settled. Considering the expensive pricing offered by local banks, and tax-related challenges, clients often turn to international banks in acquisition finance deals; thus the limitations to foreign currency loans will continue to create an adverse environment in terms of the leveraged financing.

1 Umut Kolcuoğlu is a managing partner, Bihter Bozbay is a partner and İpek Yüksel is an associate at Kolcuoğlu Demirkan Koçaklı Attorneys at Law.

2 Deloitte, Annual Turkish M&A Review 2018 p.4; January 2018, available at: <https://www2.deloitte.com/tr/en/pages/mergers-and-acquisitions/articles/annual-turkish-ma-2018.html>.

3 id, p. 3.

4 id, p. 5.

II REGULATORY AND TAX MATTERS

i Regulatory matters

The most critical regulatory matter regarding acquisition finance deals in Turkey is the limits to the foreign currency borrowing that was introduced in early 2018. (See below for details of the limitation.)

A common debt product in Turkey is debt financing, whereby a financial institution lends money to the acquiring entity in the form of a term loan facility. Under Turkish law, money lending is supervised by public authorities. Only banks and financial institutions may lend money with the intention to make profit. Money lending by non-bank and non-financial institutions is prohibited and may constitute a usury crime under Turkish law, unless it is explicitly permitted by law.

Banking laws require Turkish companies to obtain a banking licence from the Banking Regulation and Supervision Agency to engage in any kind of banking activities in Turkey, such as the extension of any kind of loan and collection of deposits. Indeed, Turkish residents may, without any permission or licence from a Turkish regulatory authority, obtain loans (other than consumer loans) in Turkish lira or, subject to certain limitations, in foreign currency from banks, financial institutions or other entities (i.e., intragroup companies) resident abroad, provided that the proceeds of such loans are paid to an account of the Turkish resident acting as borrower held with a bank licensed in Turkey. In other words, a Turkish resident must bring borrowings from abroad via Turkish banks.

The new amendment has introduced a distinction for Turkish resident legal entities based on which currency they generate their income from, while prohibiting Turkish individuals from obtaining foreign currency loans or loans indexed to foreign currency from banks and financial institutions resident abroad. Turkish legal entities that generate foreign currency income can freely take out foreign currency loans from banks and financial institutions resident abroad. However, these entities are also required to have a loan balance⁵ of at least US\$15 million on the date of utilisation; if not, the entire loan to be utilised and the current loan balance cannot exceed the borrowing entity's foreign currency income of the past three years.

As a general principle, Turkish legal entities that do not generate foreign currency income are prohibited from taking out foreign currency loans from banks and financial institutions resident abroad. This prohibition will not be applicable in certain cases, for example, if the borrower is a bank, a public authority or a financial institution; or if the borrower has the loan balance of at least US\$15 million on the date of utilisation; or, most notably, if the borrower is a Turkish special purpose vehicle that is incorporated solely to purchase the shares of a company. The form of the special purpose vehicles (i.e., whether these companies should be incorporated as holding companies) is yet to be clarified.

Furthermore, a Turkish resident must notify any guarantee it provides abroad to the Ministry of Treasury and Finance of the Republic of Turkey within 30 days of the signing date. The purpose of this rule is to enable the Turkish Central Bank and the Turkish Treasury to keep records of loans and securities (statistical tracking) and to prevent any breaches of money-laundering regulations.

⁵ Loan balance is defined as the total of the unpaid foreign currency loans obtained from the banks located in Turkey and abroad.

According to the Turkish regulations on money laundering and financing of terrorism, Turkish banks (banks licensed in Turkey) are further required to immediately inform the Turkish Financial Crimes Investigation Board about suspicious transactions (transactions that may relate to illegal purposes such as financing of terrorism). In this context, unusually excessive money transfers shall be considered suspicious and therefore notified to the Turkish Financial Crimes Investigation Board.

As mentioned above, Turkish resident legal entities may obtain loans from banks or financial institutions resident abroad subject to limitations explained above. Additionally, according to a prohibition that was adopted in 2014, Turkish residents are prohibited from obtaining revolving loans from lenders resident abroad.

ii Tax matters

Resource Utilisation Support Fund

The Resource Utilisation Support Fund (RUSF) applies to Turkish lira-dominated loans obtained by Turkish residents (except for banks and financing companies) from abroad at a rate of 1 per cent for loans with an average maturity up to one year. The RUSF does not apply to such Turkish lira-dominated loans obtained from abroad with an average maturity of one year and more. For foreign currency denominated loans, the rate varies between zero per cent and 3 per cent.

The RUSF does not apply to loans obtained from Turkish banks.

Banking and insurance transaction tax

Five per cent banking and insurance transaction tax (BITT) is applicable over the interest payment of loans obtained from Turkish banks, which is deductible for Turkish corporate tax purposes. The BITT is not applicable to loans obtained from abroad.

Reverse charge VAT

If a Turkish company obtain loans from a foreign entity other than a financial institution or bank (e.g., an intragroup loan), the interest payment is subject to reverse charge VAT at a rate of 18 per cent.

Withholding tax

Withholding tax is not applicable to interest payments paid for loans obtained from banks, international institutions and financial corporations, while it is applicable at a rate of 10 per cent to interest payments regarding the loans obtained from non-financial corporations.

Thin capitalisation rules

Thin capitalisation rules are only applicable to related party transactions. If the debt financing obtained from shareholders or related parties⁶ of the shareholders exceeds the shareholders' equity in the borrower company threefold, it will be considered as thin capital, and the following thin capitalisation rules will apply:

6 A related party of the shareholders is (1) a corporation in which the shareholder owns, directly or indirectly, more than 10 per cent of the shares, voting rights or rights to receive dividends; or (2) a corporation or individual that owns, directly or indirectly, at least 10 per cent of the capital, voting rights or rights to receive dividends of the shareholder or an affiliated corporation of a shareholder.

- a* financing expenses such as interest accruals and foreign exchange costs corresponding to the exceeding portion of the acquisition financing cannot be deducted for corporate tax purposes; and
- b* interest paid or accrued on the thin capital will be deemed dividends received by the lender and will be subject to withholding tax.

III SECURITY AND GUARANTEES

i Collateral

In Turkey, common types of collateral used in acquisition financing are:

- a* pledge over shares;
- b* pledge over real property;
- c* surety;
- d* guarantee;
- e* pledge over movables;
- f* pledge over bank accounts; and
- g* assignment of receivables.

Pledge over shares and pledge over real property are the collateral types that are most commonly obtained by the lenders. In Turkish practice, depending on the borrower's field of activity and asset portfolio, the lenders require the borrower to provide a security package including all or some of the above-mentioned collateral.

A hot topic under Turkish law is the lenders' tendency to request a guarantee as collateral instead of a surety. A surety agreement imposes a secondary obligation on the surety while a guarantee agreement imposes a primary obligation on the guarantor independent from the validity of the underlying receivable. A surety can raise its own defences against the lender, such as lack of a qualified form requirement, or the invalidity of the underlying agreement or statute of limitation related to the underlying agreement. On the other hand, the receivables arising from the guarantee agreement, similar to the bank letter of guarantee, must be paid upon the lender's first request without the need for any further review. Given the foregoing, the guarantee agreement provides a stronger protection to lenders.

Guarantee agreements are not specifically governed under Turkish law. Turkish scholars often interpret the guarantee agreement within the scope of 'guarantee of performance by third party' under the Turkish Code of Obligations. Therefore, rules applied to guarantee agreements as well as the distinguishing criteria of the guarantee agreement and the surety agreement are mainly determined by scholars and court precedents. There is often confusion about the nature of the agreement (i.e., whether it is a guarantee or a surety) that may be brought to courts.

As for the collateral commonly used in Turkish acquisition financing market, a recent development is the change in legislation regarding the pledge over movables. The Law on Pledges over Movable Assets in Commercial Transactions has been effective since 1 January 2017; its aim is to popularise the use of movable pledge rights as collateral, to extend the scope of movables subject to the pledge, to ensure public accessibility and transparency in movable pledges and to facilitate easy access to financing by way of new alternatives in foreclosure of the pledged property. The Movable Pledge Registry was established as a new registry for pledged movables for the registration of the relevant pledge agreement to establish a pledge over movables. Movable Pledge Registry transactions are made via an online system and registered by the notary public.

With the enactment of the Law on Pledge over Movable Assets in Commercial Transactions, the Law on Commercial Enterprise Pledge, which has been in force since 1971, was abolished. Now, in addition to banks and credit institutions, small-sized enterprises can establish a commercial enterprise pledge. Contrary to the Law on Commercial Enterprise Pledge, a pledge over one or more movable assets may be established. As a particularly special exception (introduced by the new law), a pledge may be established on the entire commercial enterprise only if those movable assets are not sufficient to pay off the debt.

The pledge can be established on movables including receivables; intellectual and industrial property rights; raw materials; animals; any income and revenues; any licences or permits for which registration is not required; rental incomes; tenancy rights; trade names or business names; and other movables set out under the new law. The new law imposes stricter obligations on the pledgee, and its pledge rights are restricted (e.g., establishment of a pledge over the entire enterprise is not possible if the assets subject to pledge provide sufficient collateral against the facility amount). The new law also allows the pledgor to request the transfer of the pledged movables' ownership upon default; this is an exemption from the general principle of Turkish pledge law prohibiting *lex commisoriae*.

ii Financial assistance prohibition

According to Article 380 of Turkish Commercial Code No. 6102 (TCC), which entered into force on 1 July 2012, a company cannot advance funds, or provide loans, security or guarantee, to a third party with a view to facilitate the acquisition of its own shares. Any such finance transaction is prohibited and is considered null and void. The TCC has enabled companies to buy back their shares or to accept as pledge up to a limit of 10 per cent of the share capital, but has also introduced the financial assistance restriction. Accordingly, in the Turkish M&A market, one of the common matters that investors look for an answer to is whether any kind of collateral granted by the target company falls within the scope of the financial assistance prohibition.

Any type of transaction aiming to provide financial assistance for the acquisition is within the scope of the prohibition (e.g., advancing funds, providing loans, security or guarantee to a third party). Transactions are not exhaustively listed and any direct or indirect attempt to facilitate the acquisition may fall within the scope of the prohibition. There are certain exceptions to the prohibition:

- a* transactions carried out by banks and financial institutions in performance of their ordinary course of business; and
- b* acquisition of shares by the company's employees or its affiliated companies' employees.

The Turkish provision regarding the financial assistance provision almost literally reflects Article 23 of the Council Directive 77/91/EEC dated 13 December 1976 (the Second Company Law Directive). In 2006, in an effort to make acquisition more flexible and to foster the young leveraged buyout markets, Directive 2006/68/EC amended the Second Company Law Directive. The new directive lifted the general ban on the financial assistance under certain conditions, but kept the capital maintenance rules to protect creditors' and shareholders' rights.

Financial assistance in Turkey has been subject to various discussions and criticism among scholars and legal practitioners. The main point of criticism is that the legislator did not take the liberalisation brought by the 2006 Directive into consideration, leaving Turkey behind the development of company law in Europe.

iii Prohibition to exercise abusive control over subsidiaries

Intragroup guarantees are commonly used in acquisition finance. According to Article 202 of the TCC, in a group of companies, a dominant company cannot exercise its dominance in a manner that results in a loss to its subsidiary through transactions such as the transfer of funds and the provision of guarantees. If a dominant company forces a subsidiary to participate in a transaction that is likely to result in a loss, the dominant company must compensate this loss during the year in which it occurred; or grant the subsidiary a right of claim equal to the amount of loss incurred.

In addition, according to Articles 203–206 of the TCC, in the event of full control (100 per cent), the dominant company may give instructions regarding the management of the controlled entity, even if this may cause losses. However, creditors may claim the responsibility of the parent company and its board in the case of damages.

The above provisions of the TCC allow transactions that constitute financial assistance in a group of companies, subject to certain conditions, for example, compensation of loss. In other words, the TCC provides for a consolidated liability regime for groups of companies instead of the general rules for capital maintenance. Therefore, although not explicitly stated under Turkish law, it is widely accepted among the Turkish scholars that financial assistance in a group of companies does not fall within the scope of the financial assistance prohibition set forth under Article 380 of the TCC.

iv Securities granted before the commencement of insolvency proceedings

According to Article 279 of Execution and Bankruptcy Law No. 2004 (EBL), certain transactions of the debtor including the establishment of a pledge to secure an existing debt are subject to annulment if they are exercised within a one-year period prior to the commencement of insolvency proceedings.

In addition, Article 280 of the EBL provides that if a debtor whose assets do not suffice to satisfy its debts enters into any transaction with the intention of damaging its creditors' rights, the creditors may request the court to annul the debtor's transaction, provided that the creditors initiate an insolvency proceeding against the debtor within five years of the date of the relevant transaction.

v Security agent

The concept of a security agent is not specifically governed under Turkish law. However, in Turkish practice and particularly in foreign law-governed acquisition finance transactions involving several lenders, a security agent is commonly used to simplify the security establishment and enforcement. The common view in the Turkish market is that the concept of a security trustee or agent would be recognised under Turkish law. However, there is no court precedent as to whether such provisions are enforceable under Turkish law.

IV PRIORITY OF CLAIMS

i General rules on priority of claims

Under Turkish law, the general rule is that creditors secured with pledges over the debtor's assets have priority at the distribution of the proceeds to be generated through the sale of those pledged assets. After the public receivables including the taxes and the sale costs regarding the pledged asset are paid, first the secured creditors and then the unsecured creditors are satisfied. The unsecured creditors' claims are ranked as follows:

- a* employment receivables;
- b* receivables related to family law;
- c* privileged creditors' receivables governed under the relevant laws (e.g., receivables of the Central Bank of the Republic of Turkey and receivables of the Social Security Institution of the Republic of Turkey); and
- d* other unsecured creditors' receivables.

ii Ranking system

As for pledges over immovables, the ranking system adopted under Turkish law provides a priority ranking to mortgagees holding a mortgage with a preceding degree over other mortgagees in subsequent rankings. The degrees of mortgages on real property separately secure the obligations for which they are created up to the mortgage amount in each degree. The degree determines the order of distribution of the foreclosure proceeds. Accordingly, unless the first-degree mortgagee is fully satisfied, a second-degree mortgagee cannot be satisfied with the proceeds of the foreclosure.

As for pledges over movables, the priority regime was changed by the Law on Pledges over Movable Assets in Commercial Transactions that has been effective since 1 January 2017. Previously, creditors' rights were ranked in accordance with the date they established the pledge. Now, the security provided by the pledge will be limited to the amount and the pledge's degree as registered with the relevant registry. The date of establishment is considered by determining the priority only if the parties did not agree on the pledge's degree.

iii Subordination agreements

Subordination agreements are commonly used in Turkish practice. However, Turkish law does not govern contractual subordination. Therefore, such agreements are not enforceable by the public authorities during an execution or bankruptcy proceeding. Under Turkish law, the priority of claims is determined by the EBL without taking into consideration any subordination agreement. Thus, a subordination agreement only creates a contractual obligation and is binding on the creditors that are party to the agreement.

V JURISDICTION

i Choice of foreign law

Under Turkish law, parties are free to choose a foreign law to govern their contract. The right to choose a foreign law to govern a contract is expressly provided for in the International Private and Procedure Law (IPPL), particularly in the presence of a foreign element. According to the IPPL, where there is (1) a foreign element and (2) an express choice of law to govern, the contract will be recognised and applied by the Turkish courts in any action.

However, the overriding mandatory provisions of Turkish law are applicable to any situation falling within their scope, irrespective of the foreign governing law. These provisions are those that are regarded as crucial by Turkish law for safeguarding public interests, such as the political and social organisation of the state. In addition, the provisions of the governing law chosen by the parties cannot apply if the provision of the applicable foreign law is expressly contrary to Turkish public policy.

ii Choice of foreign court's jurisdiction and enforcement

The IPPL also governs the agreement on jurisdiction of a foreign court. The IPPL states that the consent of the parties to the exclusive jurisdiction of a foreign court is valid and binding if:

- a* the dispute between the parties contains a foreign element;
- b* the dispute arises from a debtor–creditor relation; and
- c* the matter of the dispute is not within the exclusive jurisdiction of the Turkish courts.

In addition to these conditions:

- a* the agreement must be in written form and as per the precedent of the Court of Appeals; and
- b* the dispute subject to the exclusive jurisdiction of the foreign court and the court chosen by the parties as the competent court must be unambiguous.

In practice, there is also a Turkish court precedent that requires the foreign court selection to be 'very clear'. Turkish practice has developed in a manner requiring the parties to specify the city, state (if applicable) and country of the courts in question. For instance, the jurisdiction clause must not refer to the English courts in general but to London courts or other courts in other cities. It is worth emphasising that, as per the precedent of the Court of Appeal, a jurisdiction clause granting jurisdiction to the 'English courts' without mentioning the specific city or province is not valid as the court is not definite.

The IPPL applies to the enforcement of foreign court judgments in Turkey. Under the IPPL, the grounds for a Turkish court to decide to enforce a foreign court judgment are as follows:

- a* the foreign court judgment must be final and binding, with no recourse to appeal or similar review process under the laws of the relevant country;
- b* there must be *de jure* or *de facto* reciprocity between Turkey and the country of the relevant foreign court. If there is no such agreement, then the Turkish court hearing the enforcement lawsuit would seek confirmation of *de facto* reciprocity;
- c* the subject matter of the judgment must not fall under the exclusive jurisdiction of Turkish courts or – subject to the defendant having raised an objection in this regard – the judgment must not have been rendered by a court that found itself competent to resolve the dispute, although it has, in fact, no relation to the subject matter of the dispute or to the parties;
- d* the decision must not be in clear conflict with Turkish public policy; and
- e* the party against whom enforcement of the judgment is sought must have been duly served or must have been made fully aware of the proceedings and given the full opportunity to represent or defend himself or herself in the legal proceedings in relevant jurisdiction.

iii Arbitration and awards

In Turkey, the use of international arbitration has substantially increased since the early 2000s. Changes in legislation that led to relatively more certainty regarding arbitral awards' enforcement as well as increased foreign direct investments in Turkey with the choice of arbitration in their contracts have resulted in such increase. The Istanbul Arbitration Centre started operating in October 2015. This significant development is expected to result in that arbitration being even more commonly used.

The primary Turkish legislation governing international arbitration is International Arbitration Law No. 4686 (IAL), which is applicable if the venue of arbitration is in Turkey and the dispute contains a foreign element. Under the IAL, validity and enforceability of an arbitration agreement are governed by the law that the parties chose as the governing law, or by Turkish law if there is no specific choice of law applicable to the arbitration agreement. For an arbitration agreement to be valid and enforceable under Turkish law:

- a* the parties' intention to arbitrate must be clear and unambiguous;
- b* the arbitration agreement must define the relevant legal relationship;
- c* the parties must have the capacity to sign an arbitration agreement under the law applicable to their capacity; and
- d* the arbitration agreement must be in writing.

If the Turkish court finds that the dispute's subject matter is not arbitrable under Turkish law, an arbitral award may be set aside. Disputes relating to rights *in rem* over real property in Turkey and disputes that are not at the parties' free disposal are not arbitrable. Disputes relating to family law, consumer law and labour law, bankruptcy lawsuits, and disputes subject to the jurisdiction of criminal courts and administrative courts may not be submitted to arbitration.

The IAL does not govern enforcement of foreign arbitral awards. The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention) is the principal source for the recognition and enforcement of foreign arbitral awards in Turkey. The relevant provisions of the IPPL also apply to issues where the New York Convention is silent.

There is no significant difference between the conditions for enforcement of foreign court judgments and foreign arbitral awards. Retrial or examination of a case's merits is prohibited for the enforcement of both. However, the condition of reciprocity explained above is not sought for the enforcement of foreign arbitral awards, while it is used for the enforcement of foreign court judgments.

VI ACQUISITIONS OF PUBLIC COMPANIES

Public companies in Turkey are subject to supervision of the Turkish Capital Markets Board (CMB) and certain requirements, including public disclosure, mandatory tender offer, and squeeze-out and sell-out rights under the Turkish capital market laws.

i Public disclosure

Under the capital markets regulations, the companies must disclose certain material information to the public through online platforms, for example, changes in the share capital or management control of the company. Any acquisition of a listed company must also be disclosed to the public by the bidder. This can be carried out before or after the acquisition depending on the turnovers and significance of the transactions on the investors.

ii Tender offers

Tender offers are regulated by the Communiqué on Tender Offers (II.26-1). If a person or group of persons acting in concert, directly or indirectly, acquires shares granting management control over a public company, such person or persons must make a tender offer to the other shareholders for the target company's remaining shares under the terms and

conditions approved by the CMB. Under the Communiqué on Tender Offers, a mandatory tender offer is triggered by ‘acquisition of management control’, which is defined as the acquisition – whether directly or indirectly, single-handedly or together with others acting in concert – of shares representing at least 50 per cent of the voting rights; or, regardless of share percentage, privileged shares entitling the holder to appoint or nominate the majority of the board of directors. According to a recently adopted amendment, the CMB may hold the banks exempt from making a mandatory tender offer at the time of acquiring the shares that were pledged to the bank as a security upon the borrower’s default in the underlying loan and at the time of transfer of these shares from the bank or a special purpose vehicle owned by the bank to a third party.

In addition to the mandatory tender offers, the Tender Offer Communiqué also regulates the voluntary tender offer process. A voluntary tender offer can be launched for the acquisition of all or part of a public company’s shares. However, if a partial voluntary tender offer results in the acquisition of management control over the target, the offeror must make a mandatory tender offer for the target’s remaining shares. On the other hand, if management control is acquired following a voluntary tender offer made for all shares in the public company, a mandatory tender offer is not required.

iii Squeeze-out and sell-out rights

Squeeze-outs in public companies are regulated by the Communiqué on Squeeze-out and Sell-out Rights (II-27.2). The Communiqué regulates the squeeze-out of minority shareholders by the majority shareholder, as well as the minority shareholders’ exit right by selling their shares to the majority shareholder in public companies. If the total voting percentage of a shareholder or group of shareholders acting jointly reaches or exceeds 98 per cent or more in a public company, such shareholder or group of shareholders is deemed to be the ‘controlling shareholder’. The controlling shareholder can reach the threshold by way of different methods such as a tender offer, merger, capital increase or otherwise. When the controlling shareholder reaches this threshold, minority shareholders can exercise their exit right and force the controlling shareholder to purchase their shares. The minority shareholders must apply to the company within three months following the public disclosure stating that the controlling shareholder has reached or exceeded the mentioned threshold. If the minority shareholders fail to apply to the company within such period, their exit right is terminated, and the controlling shareholder can exercise the squeeze-out right and force minority shareholders to exit the company by applying to the company within three business days following the end of the three-month period.

VII THE YEAR IN REVIEW

In 2018, early presidential elections, political crises and currency fluctuations affected Turkish markets in every aspect. Following the elections in July 2018, the national state of emergency that has been in effect since the attempted coup d’état of 2016 has been abolished. Although the market has shown a slight recovery in comparison to the previous years, factoring in the socioeconomic conditions, a full recovery is expected to take some more time. In 2019, the renewal of Istanbul municipal elections and shifting political winds have influenced the markets deeply and demonstrated the longing for stability and growth in Turkey. With no new elections on the horizon for four years, Turkish markets’ focus may shift towards economic progress.

Other than the major changes to foreign borrowing limitations, new developments in the data protection area have kept companies busy from a compliance perspective. The Personal Data Protection Board's data controllers' registry started to accept registrations in early 2019.

Another vital development in 2018 related to bankruptcy procedures; the suspension of bankruptcy procedure has been eliminated with the amendments to the EBL, leaving debtors with the only viable option of moratorium to avoid bankruptcy. With the 'zoning peace' of 2018, the owners of the unregistered immovables were able to receive a temporary permit and commence the procedures to register their movables with reduced fines. In 2019, mandatory mediation in commercial disputes have been introduced and Turkey's execution of the United Nations Convention on International Settlement Agreements Resulting from Mediation (the Singapore Convention) was another development in the legal framework environment.

The *cause célèbre* of 2018 was the application by Akbank, Garanti Bankası and İş Bankası to the Turkish Competition Board for the acquisition of a 55 per cent stake in Turk Telekom, held by Otaş, to a bank-owned special purpose vehicle owing to the default of Otaş in June 2018, with a transaction value of US\$5.1 billion. Acquiring banks have financed the leveraged buyout of Turk Telekom, previously the state-owned telecommunications giant of Turkey, by Otaş for US\$4.75 billion in 2013.⁷ Another notable deal that was finalised in 2019 was the acquisition of the majority shares of Denizbank by Emirates NBD Bank from Sberbank for US\$3.2 billion. Following the privatisation of 13 sugar production factories in 2018, the privatisation of Milli Piyango (the Turkish national lottery) is expected to be finalised in 2019 for approximately US\$1.6 billion; the Demirören Group–Sisal SpA joint venture won the tender in early 2019. Furthermore, the acquisition of a majority stake at izyico by Naspers Group for US\$165 million, the acquisition of Tamsa by True Value Capital Partners, the acquisition of EWE Group's Turkish subsidiaries Millenicom, Kayserigaz and Bursagaz by SOCAR, and the acquisition of Ergo Sigorta by HDI Group were other noteworthy deals.

VIII OUTLOOK

Small-to-medium-sized companies that are in financial distress and companies without any export capabilities will struggle with foreign exchange exposure, considering a potential local or global economic recession. On the other hand, businesses with export operations will be the focus of investors' attention. Finally, the expected sales of certain assets and companies from the portfolio of the Savings Deposits and Insurance Fund may boost activity in the Turkish M&A market.

Forecasts for 2019 are mainly dogged by Turkey's growth uncertainty, the fluctuations of the Turkish lira against foreign currencies and high inflation. We expect the 2019 deal volume to be similar to 2018. Despite all the political and economic turmoil, the Turkish market continues to have great potential and investors who are familiar with the region and have long-term investment plans will not be reluctant to continue investing in Turkey.

7 www.ntv.com.tr/ekonomi/turk-telekomda-yonetim-bankalara-geciyor-otas-kredi-borcu-nedeniyle,2rU2eqWiN0C0Iu1CV86UBg.

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