TCMA TURKISH CAPITAL MARKETS ASSOCIATION

The Handbook of the Turkish Capital Markets

2014

The Handbook of the Turkish Capital Markets 2014

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ABBREVIATIONS

Term	Definition
BAT	Banks' Association of Turkey
BRSA	Banking Regulation and Supervision Authority
CBRT	Central Bank of the Republic of Turkey
CMB	Capital Markets Board
CML	Capital Market Law
CMLTA	Capital Markets Licensing and Training Agency
CRA	Central Registry Agency
ETF	Exchange Traded Funds
FX	Foreign Exchange
IAT	Insurance Association of Turkey
IFRS	International Financial Reporting Standards
IGE	Istanbul Gold Exchange
ISE	Istanbul Stock Exchange
IPO	Initial Public Offerings
OTC	Over the Counter
PBAT	Participation Banks' Association of Turkey
Takasbank	Istanbul Settlement and Custody Bank
TL	Turkish Lira
TCMA	Turkish Capital Markets Association
TurkDex	Turkish Derivatives Exchange

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I. MILESTONES

A brief timeline and milestones of the Turkish capital markets are presented below:

1981	Capital Markets Law passed.
1982	Capital Markets Board established.
1985	Istanbul Stock Exchange (ISE) established.
1987	First mutual fund issued.
1989	Settlement and Custody Dept. established within ISE
	Liberalization of foreign investments.
1991	Bonds & Bills Market established within ISE.
1992	Settlement and Custody Inc. established as a company.
	Corporate bond market established within ISE.
1993	Repo-Reverse Repo Market established within ISE.
	Automated trading started with 50 companies.
1994	Settlement on T+2.
	Fully automated trading started.
1995	Settlement and Custody Bank (Takasbank) formed.
	Istanbul Gold Exchange (IGE) established.
	New Companies Market established within ISE.
	International Securities Market established within ISE.
1996	Securities Lending & Borrowing Market established.
	Money Market established within Takasbank
1997	Banks forbidden to trade equities, but may establish brokerage subsidiaries.
	First asset management company established.
1998	First credit rating agency established.
1999	Client-based custody at Takasbank.
2000	Market making system introduced for government bonds.
	First venture capital trust offered to public.
2001	TSPAKB (Association) established.
	Investors' Protection Fund established.
	Futures market established within ISE.
	Central Registry Agency established.
	Remote trading started at ISE.
2002	Pension system regulation passed.

2003	Corporate governance principles published.
	First private pension fund established.
	International Financial Reporting Standards adopted.
2004	First Exchange Traded Fund established.
2005	Turkish Derivatives Exchange established.
	Dematerialisation of equities completed.
2006	Dematerialisation of corporate bonds and mutual funds completed.
2006/2007	Twinning project between CMB and Germany's BaFin to comply with EU standards.
2007	Opening auction introduced at ISE for the equity market.
	Mortgage Law passed.
	Eurobond market established within the ISE.
2008	New IFRS regulation adopted.
	New anti-money laundering regulations in line with FATF recommendations adopted.
	IPO Campaign initiated.
2009	Automated Disclosure Platform introduced.
	Emerging Companies Market and Collective Products Market established within ISE.
	Istanbul International Financial Center strategy announced.
2010	Regulations regarding IPOs eased.
	First warrant issued.
	Market making introduced for warrants, ETFs and investment trusts.
2011	First Islamic bond and electricity futures issued.
	Forex regulations introduced.
	Investor Education Campaign initiated.
2012	Free Trade Platform established within the ISE.
	Closing auction introduced on the ISE for equities.
	Single stock futures and exchange traded options were introduced in the ISE on December 2012.
	First certificate was issued.
	New Capital Markets Law entered into force.
	Dematerialization of government bonds started.
	ISE demutualised and merged with IGE under Borsa Istanbul.

2013	Secondary regulations issued in line with the new CML. Borsa Istanbul and TurkDex merged. Borsa Istanbul and Nasdaq strategic partnership. Investor Compensation Center established.
2014	The name of the Association was revised to TCMA and the membership base was expanded to include asset management companies and investment trusts in addition to investment companies.

II. REGULATORY STRUCTURE OF THE FINANCIAL SYSTEM

The Turkish financial system has a fragmented regulatory structure. Banking Regulation and Supervision Agency (BRSA) is in charge of the banking system, whereas the Capital Markets Board of Turkey (CMB) is the main regulator of the capital markets. The Treasury, on the other hand, oversees the insurance industry. Major institutions are briefly introduced below and a chart is provided on the next page with an illustration of jurisdictions.

Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority for the securities markets and institutions in Turkey. The CMB determines the operational principles of the capital markets and is responsible for the protection of the rights and interests of investors. CMB regulates and supervises public companies, listed companies, investment companies, exchanges, mutual, closed-end and pension funds, leveraged transactions on foreign exchange and precious metals, Settlement and Custody Bank (Takasbank), Turkish Capital Markets Association (TCMA), Central Registry Agency (CRA), Investor Compensation Center (ICC), and other related institutions operating in the capital markets, such as independent audit firms, rating agencies, appraisal firms, asset leasing companies, market operators, trade repositories. The role of the CMB will be elaborated in the following section.

Borsa Istanbul brought together all the exchanges operating in Turkish capital markets in 2013. It is a demutualised for-profit company. The exchange has the authority to regulate its own markets, listed companies and member firms. The organisation and markets of the exchange will be explained in detail in the following sections.

Turkish Capital Markets Association (TCMA) is a self-regulatory organization. All investment companies that are authorized for capital market operations, portfolio management companies and investment trusts should become members of the Association. TCMA sets professional rules and monitors members to provide a fair and disciplined capital market. TCMA establishes and enforces regulations

on subjects assigned by legislation or CMB. The role of TCMA will be explained in detail in the following sections.

Capital Markets Licensing and Training Agency (CMLTA) organizes licensing exams and offers training programs for market professionals. The role of CMLTA will be explained in detail in the following sections.

Banking Regulation and Supervision Agency (BRSA) is the regulatory and supervisory authority for the banking sector. The BRSA is responsible for regulating the activities of deposit banks, participation banks (Islamic banks), development and investment banks including Takasbank, foreign banks' branches in Turkey, audit firms, rating agencies, financial holding companies, leasing, factoring and consumer finance companies.

Banks' Association of Turkey (BAT) is a self-regulatory organization. All deposit banks, development and investment banks (including Takasbank) operating in Turkey are members of the BAT. BAT determines professional principles and sets standards for members.

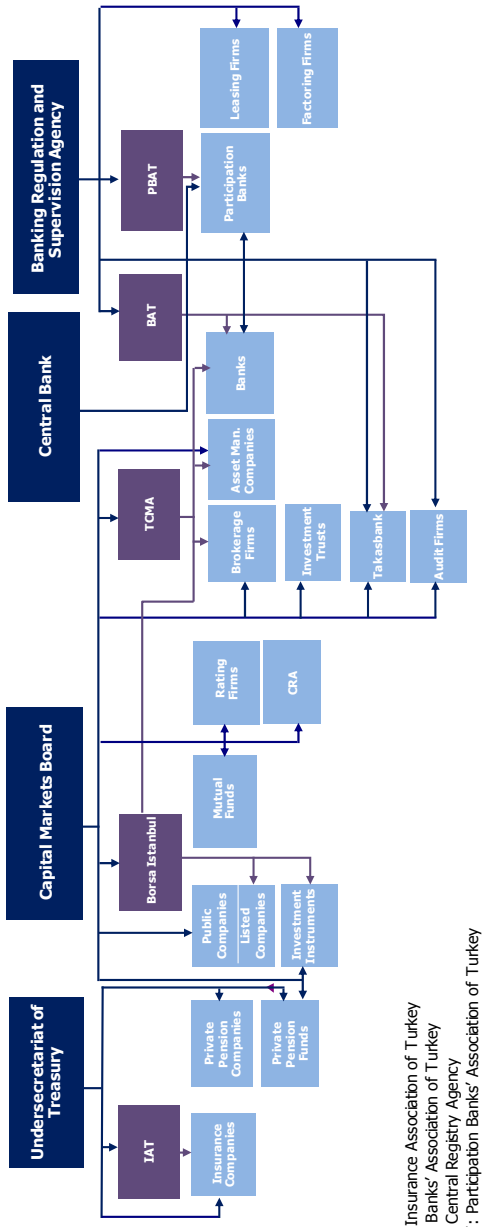
Participation Banks' Association of Turkey (PBAT) is the self-regulatory organization for participation banks. Participation banks operate under interest free (Islamic) banking principles. PBAT has similar authority as BAT on its members.

Undersecretariat of Treasury is the regulatory and supervisory authority for the insurance sector and the private pension system.

Insurance Association of Turkey (IAT) is a self-regulatory organization. All insurance, reinsurance and pension companies are IAT's members.

Central Bank of the Republic of Turkey (CBRT) regulates money and foreign exchange markets and oversees financial stability. CBRT has the authority to determine procedures and conditions of reserve and liquidity requirements. CBRT determines the terms and types of deposits in banks and the terms of participation funds in participation banks.

REGULATORY STRUCTURE OF THE TURKISH FINANCIAL SYSTEM



IAT: Insurance Association of Turkey
BAT : Banks' Association of Turkey
CRA: Central Registry Agency
PBAT : Participation Banks' Association of Turkey
Takasbank: Istanbul Settlement and Custody Bank
TCMA: Turkish Capital Markets Association

III. REGULATORY FRAMEWORK OF THE CAPITAL MARKETS

In 1981, the Capital Market Law (CML) was enacted and a year later, the main regulatory body, the Capital Markets Board (CMB) was established. In 1984, the Regulation for the Establishment and Operations of Securities Exchanges led to the establishment of the Istanbul Stock Exchange (ISE). Trading started at the end of 1985. The New Capital Markets Law became effective on December 30th, 2012, replacing the previous law. Brief descriptions of major regulations are provided below.

A. Capital Markets Law (CML)

The new law is prepared in line with the EU acquis. It sets a new framework for financial markets with the goal of fostering a more robust financial system while strengthening investor protection.

Capital market instruments, public offerings and sales, issuers, exchanges and other organized markets, investment services, the structure of the Capital Markets Board and capital market institutions are all subject to the provisions of the CML.

Joint stock companies which have more than 500 shareholders or which offer their shares to the public are subject to the CML. In addition to this, securities issued by the state economic enterprises (including those within the scope of the privatization program), municipalities and related institutions are subject to the disclosure requirements.

Section	Context
I	General Provisions
II	Issue of Capital Market Instruments
III	Capital Market Activities & Institutions
IV	Exchanges, Associations & Other Institutions
V	Supervision & Measures
VI	Administrative Fines & Capital Markets Crimes
VII	Miscellaneous Subjects

CMB's main regulatory tool is its communiqués. CMB communiqués are published according to their content under the sections in line with the related part of the law, as outlined above.

B. Capital Market Institutions and Activities

The Capital Market Law defines capital market activities as well as the types of institutions allowed to operate in capital markets, and empowers the CMB to set the requirements which must be fulfilled by those institutions.

Capital market activities are defined under two categories in the new law: Investment services & activities and ancillary services.

Investment services & activities are defined as follows:

- Receiving and transmitting orders,
- Executing orders,
- Dealing on own trade book,
- Asset management,
- Investment advice,
- Underwriting, best effort,
- Operating multilateral trading systems and regulated markets other than exchanges,
- Custody and administration of capital market instruments.

On the other hand, ancillary (complementary) services are specified as follows:

- Providing advisory services,
- Granting credits, lending or providing foreign currency services associated with investment services and activities,
- Providing investment research, financial analysis or general advice,
- Providing services in relation to the conduct of underwriting,
- Providing intermediary services for obtaining financing by borrowing or through other means,
- Wealth management and financial planning.

In addition, other services and activities to be determined by the CMB might also be defined as investment services or ancillary

services.

Capital market institutions are defined in the CML as follows;

- Investment firms,
- Collective investment schemes,
- Independent audit firms, appraisal firms and credit rating agencies,
- Asset management companies,
- Mortgage finance institutions,
- Housing finance and asset finance funds,
- Asset leasing companies (special purpose vehicles for Islamic bonds),
- Central clearing institutions,
- Central depository institutions,
- Trade repositories.

C. Brokerage Firms and Minimum Capital Requirements

With the decision of the CMB, banks were required to transfer their equity market operations to a brokerage firm as of January 1997. Since then, only brokerage firms are allowed to trade equities. In the fixed income market, banks, as well as brokerage firms are authorized to trade. In the derivatives market, brokerage firms, and banks are the market players. However, banks are not allowed to trade equity-linked futures or options. Only brokerage firms are allowed to provide brokerage services in leveraged (forex) transactions.

Minimum Capital Requirements (2014) **Brokerage Firms**	**TL**	**US$***
Securities Trading	852,000	402,761
Leveraged FX Trading (Market Maker)	8,520,000	4,027,607
Leveraged FX Trading (White Label)	2,556,000	1,208,282
Leveraged FX Trading (Introducing Broker)	-	-
Public Offering	428,000	202,326
Repo/Reverse Repo Agreements	428,000	202,326
Asset Management	342,000	161,672
Investment Consultancy	89,000	42,072
Derivatives Trading	-	-
Margin Trading, Securities Lending and Short-Selling	-	-
Total (Inc. Market Making in Leveraged FX)	**10,659,000**	**6,247,045**
Source: CMB		*Calculated as of May 2014

In the previous law, capital market institutions were required to obtain a license from the CMB and minimum capital requirements were attributed to those licenses.

In order to become a full service brokerage firm offering market making in forex transactions, at least TL 11 million (~US$ 6 million as of end May 2014) paid-in capital is required for the year 2014.

All brokerage firms must have at least the Securities Trading license. Please note that the Derivatives Trading license does not require additional capital. Technically, Margin Trading, Securities Lending and Short-Selling license is not considered as a "license" but a "permit", so it is also not taken into account for the minimum capital requirements.

In order to become a market maker in leveraged foreign exchange trading, it is required to have an additional capital equal to 10 times the minimum capital required for Securities Trading license. For white label firms, additional required capital is 3 times the capital required for Securities Trading license. For introducing brokers, there is no additional capital requirement.

In view of the new Capital Market Law, CMB's Communiqué Section III, Number 39 which is the main regulation regarding the establishment and activities of brokerage firms, was issued on December 2013.

With the new regulations brokerage firms have been categorized according to their activities as below. However, this regulation will come into force in July 2014. In addition, a transition period of one year might be granted to brokerage firms by the CMB.

- **Introducing brokers** are permitted only to receive market orders and transfer them to execution brokers or market makers on behalf of their own and/or customers' account. They are not allowed to offer custody services in the name of their customers.
- **Execution brokers** are able to execute orders of capital market instruments in the name of customers and/or their own account. They can offer custody services in the name of their customers.

• **Market makers** are permitted to execute orders from their own account by positioning their customer as counterparty, in addition to brokerage activities.

The minimum capital requirements for different types of brokers are presented in the following table.

Minimum Capital Requirements of Brokerage Firms*		
Type	TL	US$**
Introducing Broker	2,000,000	945,448
Execution Broker	10,000,000	4,727,238
Market Maker	25,000,000	11,818,096
Source: CMB		
*Will become effective in July 2014		
**Calculated as of end-May 2014		

In addition to minimum capital requirements, there are three thresholds to be met at all times for brokerage firms:

- Minimum capital calculated as explained above,
- Last three months' operating expenses, and
- Risk-adjusted capital.

Risk-adjusted capital is based on the risk weighting of assets by the coefficients determined by the CMB. Some items, such as real estate, are deducted from the shareholders' equity and the remaining portion of the equity is expected to exceed the risk-weighted assets.

D. Exchanges and Market Operators

The new Capital Market Law that enacts the exchanges can be established as joint-stock companies, rather than state-owned public entities. It also introduces the establishment of market operators for the first time.

Within this framework, Istanbul Stock Exchange was demutualised and merged with the Gold Exchange under the name of Borsa Istanbul at the end of 2012. This consolidation has been followed by the merger of the Turkish Derivatives Exchange with Borsa Istanbul in August 2013. Borsa Istanbul became the only exchange in Turkey where securities, derivatives and commodities are being traded.

The establishment, activities, operating principles and supervision of securities exchanges and market operators are detailed in the Regulation Concerning the Establishment, Operation and Supervision Principles of Exchanges and Market Operators. According to the new regulation, the establishment of securities exchanges and market operators is subject to the approval of the Council of Ministers, upon the recommendation of the CMB.

E. Decree on the Value of the Turkish Currency

Decree No. 32 regarding the "Protection of the Value of the Turkish Currency" was enacted in August 1989 and aims to further liberalize the financial system. It allows non-residents to invest in Turkish securities and vice versa, through financial intermediaries authorized by the CMB.

An amendment to this Decree in February 2008 defines the foreign currency transactions of brokerage firms. Accordingly, brokerage firms can buy and sell foreign currency as long as it is done with their clients and for the purpose of trading securities, which previously was not possible.

IV. TAXATION

Turkey has a liberal foreign investment policy. There are no restrictions on foreign investments, repatriation of capital or profits. Foreign individuals and corporations (including investment trusts and investment funds abroad) can freely purchase and sell all sorts of securities and other capital market instruments. However, a foreign investor should use a Turkish intermediary for capital market activities.

We present a summary of the current system on the table. However, it should be noted that this presentation does not cover all instruments or all aspects of taxation.

In order to be exempt from taxation, non-resident individual investors are required to provide a certificate of residence. The certificate of residence must be renewed every year. If the certificate

of residence is not submitted, non-resident individuals will be treated as resident investors. For non-resident corporate investors, a certificate of incorporation is required to benefit from exemptions.

In 2012, the tax regime on investment funds was revised, and the withholding tax rate of "equity intensive" mutual funds and exchange traded funds was brought down to 0% from 10%. Equity intensive funds are defined as funds where at least 75% of the portfolio is invested in equities or equity indices.

The withholding tax regime on bank deposits has been revised at the beginning of 2013. Previously, the withholding tax rate was 15% for all maturities for both TL and foreign currency denominated deposits. The new tax rates are given below:

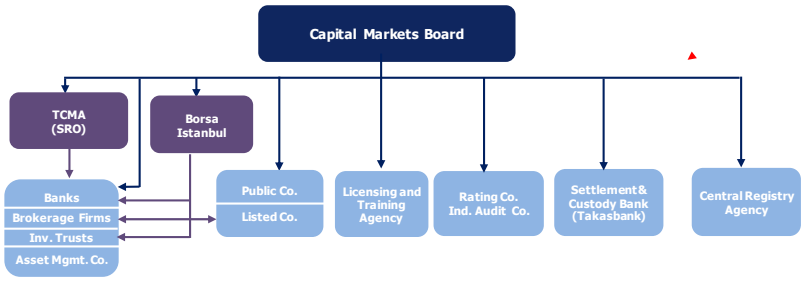
Withholding Tax on Deposits in Turkey		
Maturity	**TL Deposits**	**FX Deposits**
< 6 months	15%	18%
6 months<maturity<1 year	12%	15%
>1 year	10%	13%

TAXATION OF SELECTED INVESTMENT INSTRUMENTS IN TURKEY				
	Individuals		Corporations	
Investment	Residents	Non-residents	Residents	Non-residents
Bank Deposits[1]	10-18% withholding tax.	10-18% withholding tax.	10-18% withholding tax.[2]	10-18% withholding tax.
Repo Interest	15% withholding tax.	15% withholding tax.	15% withholding tax.[2]	15% withholding tax.
Capital Gains and Interest on G. Bonds, Corporate Bonds, etc.	10% withholding tax.	10% withholding tax.	0% withholding tax.[2]	0% withholding tax.
Futures	Withholding tax rate is 0% for contracts on equities or equity indices and 10% for others. Withholding tax is the final tax.	Withholding tax rate is 0% for contracts on equities or equity indices and 10% for others. Withholding tax is the final tax.	0% withholding tax.[2]	0% withholding tax.
Listed Equities	Capital gains derived from shares are subject to 0% withholding tax.[3] Withholding tax is the final tax.	Capital gains derived from shares are subject to 0% withholding tax.[2] Withholding tax is the final tax.	0% withholding tax.[2]	0% withholding tax.
Investment Funds	Subject to 10% withholding tax. Withholding tax is the final tax.[3]	Subject to 10% withholding tax. Withholding tax is the final tax.	0% withholding tax.[2]	Subject to 0% withholding tax. Withholding tax is the final tax.
Covered Warrants	Withholding tax rate is 0% for covered warrants on equities or equity indices and 10% for others. Withholding tax is the final tax.	Withholding tax rate is 0% for covered warrants on equities or equity indices and 10% for others. Withholding tax is the final tax.	0% withholding tax.[2]	0% withholding tax.
Dividends on Equities	15% withholding tax is applied by the corporation distributing dividends.[4]	15% withholding tax is applied by the corporation distributing dividends.	Not subject to dividend withholding tax. Dividends received from resident corporations are exempt from corporate tax.	15% withholding tax is applied by the corporation distributing dividends.

1: Withholding tax for TL (FX) denominated bank deposits varies from 15% (18%) for maturities under 6 months, to 12% (15%) for deposits with a maturity between 6 months and one year, and to 10% (13%) for maturities exceeding one year.
2: Earnings are subject to 20% corporate tax, but withholding tax is deducted.
3: Withholding tax is not applied on the gains from the investment funds, if held for more than one year and if the equity portion of investment fund's portfolio is at least 51% at all times. But, the shares of investment trusts are subject to 10%, if held for less than a year. For mutual funds and exchange traded funds, classified as "equity intensive" (equity investments of at least 75% of the portfolio), the withholding tax rate is 0%.
4: Half of the dividends are exempt from income tax. If the remaining amount exceeds TL 26,000 in 2014, all income must be declared and will be subject to income tax. In that case, full amount of withholding tax may be deducted from the income tax.

CAPITAL MARKET INSTITUTIONS

Institutional structure of the Turkish capital markets is depicted in the diagram below.



I. CAPITAL MARKETS BOARD

The Capital Markets Board of Turkey is the main regulatory and supervisory authority in charge of the securities markets. Empowered by the Capital Markets Law, the CMB is regulating and supervising the markets, investment instruments and institutions.

The CMB aims to ensure the safe, fair and effective functioning of the capital markets while protecting the rights and interests of investors.

A. Organization Structure

The Capital Markets Board is governed by the Executive Board, which is the main decision-making body. The Executive Board is the highest decision-making body and is empowered to decide on any issue within the authority of the CMB. The Chairperson of the Executive Board is also the Chief Executive Officer.

The Executive Board consists of seven members. All the members of the Board are appointed by the Council of Ministers for a period of five years. The Council of Ministers appoints one of the members as the Chairperson and the Executive Board elects one member as the Deputy Chairperson.

B. Functions

The main duty of CMB is to ensure the fair and orderly functioning of the capital markets, while protecting investor rights. In order to achieve this goal, the Board determines the conditions and operating principles of capital markets and capital market institutions. Cooperating with other financial regulatory institutions in order to ensure financial stability, is also among the Board's responsibilities.

II. TCMA (TURKISH CAPITAL MARKETS ASSOCIATION)

The Association was initially established in February 2001 according to the Capital Markets Law under the name of "The Association of Capital Market Intermediary Institutions of Turkey". After the New Capital Markets Law came into effect, the name of the Association was revised into "Turkish Capital Markets Association" in April 2014.

According to this amendment, asset management companies and investment trusts should become members of the Association, in addition to investment institutions that are authorized for capital market operations. The Association has 230 members as of May 2014: 99 brokerage firms, 42 banks, 42 asset management companies, 6 venture capital investment trusts, 30 real estate investment trusts, and 11 investment trusts. The list of members is provided on the TCMA's website at www.tspb.org.tr.

A. Organization Structure

The statutory bodies of the Association are the General Assembly, the Board of Directors and the Board of Auditors. The General Assembly is the highest decision-making body, where each member firm has one voting right.

The Board of Directors will be composed of eleven members. Eight of them will be elected by different member categories: three members from brokerage firms, two from banks, two from asset management companies and one member representing investment trusts. In addition, one representative from the Appraisal Experts

Association of Turkey and two independent members will serve on the Board. Independent members will be appointed by a committee formed by the chairpersons of CMB, Borsa Istanbul and Association. Board members are selected for two years.

The Board of Auditors has three members, also serving for two years.

The Secretary General carries out the daily management and administration of the Association.

B. Objectives and Functions

The Association aims to:

- Meet the collective needs of members,
- Contribute to the development of capital markets,
- Facilitate professional activities of members' employees,
- Safeguard prudent and disciplined conduct of business by its members,
- Facilitate solidarity among its members,
- Protect economic interest of members,
- Enhance members' professional know-how,
- Prevent unfair competition among members.

The main functions of the Association are to:

- Ensure research activities, organise meetings, trainings and publicity in order to foster the development of capital markets and members' activities,
- Establish professional rules and regulations in order to ensure fair and honest conduct of business,
- Set safety measures to prevent unfair competition,
- Issue, implement and supervise regulations in areas to be determined by the Capital Markets Board,
- Impose disciplinary action on members, when necessary,
- Cooperate with related foreign institutions,
- Monitor professional developments, changes in rules and regulations and inform members,
- Develop and implement policies in order to foster the development of capital markets and members' activities,

- Evaluate complaints against its members,
- Engage in financial literacy activities,
- Be member or shareholder in relevant national or international bodies,
- Develop the infrastructure for arbitration in disputes arising from off-exchange transactions among its members or between its members and investors,
- Assist in the resolution of complaints arising from off-exchange transactions among its members or between its members and investors, and develop an infrastructure for an arbitration commission,
- Evaluate complaints against members and report them to the Capital Markets Board,
- Determine the principles regarding limits on commissions and fees to be implemented by members.

III. BORSA ISTANBUL

Istanbul Stock Exchange (ISE), which was the former stock exchange, was established at the end of 1985. The demutualization process of Borsa Istanbul has been completed in 2013 following the enactment of the new Capital Markets Law.

The exchanges operating in Turkey, namely Istanbul Stock Exchange, Istanbul Gold Exchange and the Turkish Derivatives Exchange (TURKDEX) merged under the roof of Borsa Istanbul during 2013.

Borsa Istanbul has some self-regulatory authority on its members, but major decisions are subject to CMB approval.

Financial instruments currently traded on Borsa Istanbul markets are:

- Equities,
- Exchange traded funds,
- Government bonds and bills,
- Corporate bonds and bills,
- Islamic bonds (sukuk),
- Covered warrants,
- Turbo certificates,
- Money market instruments (repo/reverse repo),
- Asset backed securities,
- Turkish sovereign Eurobonds,
- Foreign currency denominated Treasury sukuks,
- Futures and options,
- Precious metals and diamond.

A. Shareholder Structure

The Company's main shareholder is the Treasury. As of end-May 2014, the Company's shareholding structure is as follows:

Shareholder Structure of Borsa Istanbul		
Treasury	A	0.1%
Treasury	B	48.9%
Borsa Istanbul	B	40.7%
OMX Technology AB.	B	5.0%
TCMA	C	1.3%
99 Brokerage Firms	C	3.7%
7 Banks	C	0.3%
Total		**100.0%**

All of the shares representing the A, B and C groups of Borsa Istanbul is registered and only shares in B and C group can be transferred. Undersecretariat of Treasury is the main shareholder of Borsa Istanbul with a share of 49%. 4% of the capital was transferred to the members of the former stock exchange (ISE, IGE and Turkdex). 1.3% share of the exchange is held by the TCMA.

40.7% of the total shares belongs to the company itself. In accordance with the strategic partnership agreement signed between BIST and Nasdaq OMX on 31 December 2013, BIST transferred 5% of its own shares to Nasdaq OMX.

B. Organization Structure

The General Assembly is the supreme decision-making body of the Borsa Istanbul. Its decisions are subject to ratification and review of the CMB. The General Assembly also decides on issues related to the management and administration of the Borsa Istanbul.

Borsa Istanbul is managed and represented by the Executive Board. The Board is comprised of 10 members elected by the General Assembly. 3 Board members represent C group shareholders (namely the members of Borsa Istanbul) and 2 Board members represent A group shareholder (namely Treasury). Remaining 5 members represents B group shareholders. The members serve for three years and may be re-elected. The Chairperson of the Executive Board is selected by the General Assembly. The Board may form committees that are responsible for special purposes. Currently there are 5 committees: Audit, Early Risk Assessment, Arbitration, Disciplinary and Corporate Governance Committees.

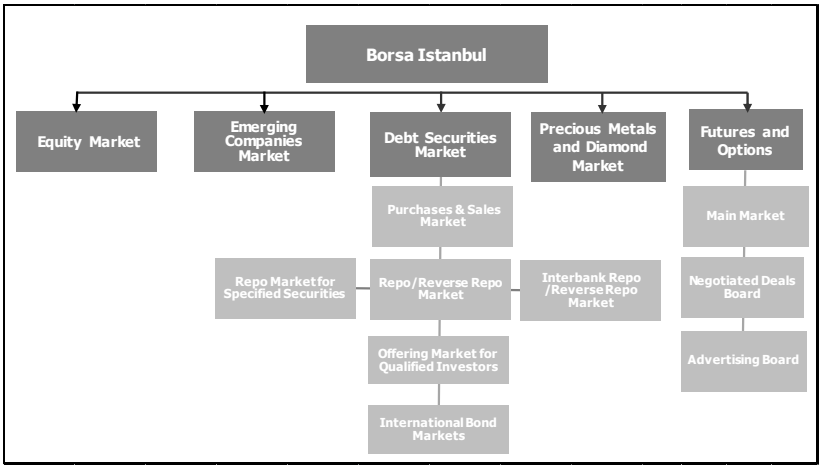
C. Functions

The main functions of Borsa Istanbul are as follows:

- Ensure that capital market instruments, foreign currencies, precious metals and other instruments approved by CMB are traded in a transparent, efficient, competitive, fair and stable environment;
- Create and develop markets, sub-markets, platforms or systems for trading;
- Examine listing application of capital market instruments, request additional information and documents if necessary;
- Suspend trading and delist capital market instruments if necessary;
- Execute regulations about the disclosure of traded instruments;
- Determine trading days and hours for the markets;
- Sanction the Borsa Istanbul members violating regulations;
- Take necessary precautions to prevent insider trading, manipulation etc.

D. Markets

There are five main markets at the Borsa Istanbul and several sub-markets within these main markets.



E. Equity Market

Equities, warrants, certificates, rights coupons and exchange-traded funds are traded on the stock market. Only brokerage firms are allowed to trade equities. The size of markets is given in the table below.

Borsa Istanbul Equity Market*	No. of Companies	MCap. (mn. $)
National	223	234,169
Collective Products (Exc. Warrants)	65	10,927
Second National	85	8,627
Watch List	27	265.8
Total	**400**	**253,988**
Source: Borsa Istanbul	* As of end-May 2014	

1. National Market

National Market is the main market where companies that fulfil the listing and liquidity criteria, determined by the Exchange are traded. Listing requirements are given in detail in the following sections.

Liquidity (daily average trading volume and number of traded shares) criteria are reviewed quarterly. In case a company fails to meet the minimum criteria, it is transferred to the Second National Market. The main indicator of the Exchange, the BIST-100 Index, is composed of 100 companies listed on the National Market.

As of the end of May 2014, there were 223 companies traded on the National Market.

2. Second National Market

The Second National Market was established for small and medium-sized companies. The Second National Market consists of companies transferred from the National Market and companies that fall short of the listing requirements on the National Market. The Borsa Istanbul Executive Board decides on the transfer and listing of a company in the relevant market. 85 companies were listed on the Second National Market as of May 2014.

3. Watch List Companies Market

The Watch List Companies Market is for companies under special surveillance and investigation due to extraordinary events. Extraordinary events cover unusual trades, incomplete, inconsistent and/or late disclosure of information to the public, failure to comply with the existing rules and regulations, and other situations that may lead to delisting. As of the end of May 2014, 27 companies were in the Watch List Market.

4. Collective Products Market

Collective Products Market was introduced in November 2009. As of May 2014, 12 investment trusts, 31 real estate investment trusts and 6 venture capital investment trusts were traded on this market.

There were 17 exchange traded funds as of May 2014.

Covered warrants and turbo certificates are also being traded on the Collective Products Market. As of end-May 2014, 468 warrants were listed. All listed certificates expired on that date.

5. Free Trade Platform

Free Trade Platform was established for trading of unlisted public companies. Trading on this platform commenced on May 2012. Eligible equities for trading on this platform are determined by the Capital Market Board. As of May 2014, 13 companies were being traded on this market.

6. Primary Market

Initial public offerings of companies can be done in this market. Moreover, rights offerings are also being done in the Primary Market. In the Primary Market, an ask order can only be given by the intermediary institution managing the public offering. All others can only enter bid offers. Equities that are bought by the members cannot be resold in this market. Trading is carried out between 10:30-12:00 hours.

7. Wholesale Market

The Wholesale Market provides a platform for large trades. Equities of listed or unlisted companies can be traded in this market. Pre-agreed trades, as well as block offers to the public are allowed. Block sale of privatized companies are also done in this market. Settlement can either be done through Takasbank or among the parties of the transaction, upon their application and Exchange's approval.

8. Rights Coupon Market

The Rights Coupon Market is a market for secondary trading of rights coupons during capital increases.

9. Official Auction

The courts, the court-bailiff's offices and other government agencies may request the sale of certain equities as a result of a legal case. The price is either set by these authorities or determined at an auction in this market.

10. Trading

Trading in the main markets depends on multiple price-continuous auction method. The system automatically matches buy and sell orders on a price and time priority basis.

Traders enter the orders via their workstations located at the Borsa Istanbul or in their offices. It is a blind order system with counterparties identified on the next trading day (T+1).

Unit of trading (lot) is the minimum quantity by which a stock, a rights coupon or an ETF can be traded. 1 lot of a stock represents 1 share (TL 1 at par value), 1 lot of rights coupon represents 1 coupon (the rights coupon attached to a stock of TL 1 at par value). In the ETF Market, 1 lot size is 1 certificate with a nominal value of TL 1.

Trading Rules According to Equity Classifications			
	Group A	**Group B**	**Group C**
Continuous Auction/Single Price	Continuous Auction	Continuous Auction*	Single Price
Margin Trading & Short Selling	Yes	No	No
Disclosure	No change.	Investors are warned about the risks of the related equity.	Investors are warned about the risks of the related equity and the single price mechanism.
Price Depth Information	Depth information is shown in 5 price levels.	Depth information is shown in 5 price levels.	Last price is shown. For investment trusts, traded via market making, depth information is shown in 5 levels.

*: Investment trusts with a free float market capitalization of less than TL 10 million, all covered warrants, turbo certificates and ETFs are traded via continuous auction with market making.
Source: Borsa Istanbul

In July 2010, CMB classified the listed equities into three groups: Group A, B and C. In accordance with the classification, each group is subject to different trading rules. The classification is made according to the criteria above. Disclosure of prices also varies among classes.

Group A: Equities that are not B or C, are classified as Group A.

Group B: Equities, with free float market capitalization less than TL 10 million and number of freely floating shares below 10 million or; equities with free float capitalization less than TL 45 million and free float ratio less than 5%, are classified as Group B. Additionally, investment trusts, trading at more than 50% (included) premium over their net asset value, are also classified in Group B.

Group C: Equities listed on the Watch List Market or with number of free floating shares less than 250,000, are classified as Group C. Additionally, investment trusts, with a market price equal to or more than twice their net asset value are also classified in Group C.

Group A and B shares are traded through continuous auction, whereas Group C shares are traded by single-price auction method. Within Group C, equities in the Watch List Market are traded twice a day in the afternoon. Other Group C shares are traded at four single-price sessions during the day.

Only Group A shares can be used for margin trading and short selling.

Additionally, investors, who want to buy equities from Groups B and C, have to be informed about their risks by brokerage firms before trading these shares for the first time.

Trading Hours at Borsa Istanbul Equity and Emerging Companies Markets		
Continuous Trading		
National Market	Opening Auction	09:15-09:35
Collective Products Market	Session I	09:35-12:30
Second National Market	Lunch Break	12:30-14:00
(Excluding Group C)	Opening Auction	14:00-14:15
	Session II	14:15-17:30
	Closing Auction	17:30-17:40
Continuous Auction with Market Making		
Emerging Companies Market	Opening Auction	09:15-09:35
Warrants and Certificates Market*	Session I	09:35-12:30
ETF Market*	Lunch Break	12:30-14:00
Collective Products with Market Making	Opening Auction	14:00-14:15
	Session II	14:15-17:30
	Closing Auction	17:30-17:40
Single Price Auction		
Group C Stocks	Call Phase	09:35:12:30
Collective Products without Market Making	Single Price Determination	12:30 (+)**
	Call Phase	14:15-17:30
Free Trade Platform	Single Price Determination	17:30-17:33
Primary Market		10:30-12:00
Official Auction Market		10:30-12:00
Rights Coupon Market		Relevant Market's Trading Hour

*: No opening and closing auction.
**It may go beyond the session depending on the trades.

Equity trading is done in two separate sessions, first session is in the morning and second in the afternoon. An opening auction (single price) is carried out in both sessions. Orders are entered into the trading system during the predefined time interval without matching. At the end of the order-entry period, opening prices are determined

and orders are matched. A closing auction, which takes place after the second session, was introduced in March 2012.

11. Settlement

The settlement of equities and cash is done on T+2 by Takasbank, through delivery-versus-payment (DVP) system. The securities settlement operations are carried out via Takasbank Settlement Pool Account with the Central Registry Agency (CRA). CRA and Takasbank systems are fully interlinked in real time, so securities transfers are reflected in the CRA instantaneously. Settlement is realized along with the details transferred from the CRA.

The custody accounts are held with the CRA. Intermediaries have a settlement pool account besides their own portfolio account and client sub-accounts. The cash accounts are held at Takasbank.

At the end of each trading day, Borsa Istanbul transmits details of all transactions to Takasbank. Takasbank multilaterally nets the settlement positions, determines the obligations of each broker in each security, and calculates their net cash position.

The net settlement position on client basis is transmitted to CRA on the trade day (T). Details of netting are available to brokers electronically on T, showing also settlement amounts due. At the end of the day, the securities of the delivering clients are blocked automatically by the CRA for settlement purposes.

On T+1, net settlement records that are checked by the CRA are made available to brokers electronically.

On T+2, the securities of the delivering clients are transferred from the blocked settlement account to the settlement pool account of the broker within the CRA system. Securities are transferred to client sub-accounts by the CRA.

Brokers are expected to fulfil their cash obligations through their cash accounts at Takasbank from 09:00 to 16:30 for equity settlements.

For cash settlement dues, brokers may,

- transfer funds from their accounts at other banks;
- use same day receivables from the Borsa Istanbul Debt Securities Market;
- use same day receivables from the Takasbank Money Market;
- borrow from the Borsa Istanbul repo markets with same day value date;
- borrow from the Takasbank Money Market with same day value date.

If the amount is still not covered, the brokerage firm defaults. Default procedures are explained in the next section. Firms generally charge penalty interest from their clients for failed settlement dues.

However, equity settlement is different. If, on the settlement date, the client is unable to deliver the equities s/he sold, the broker may;

- borrow the equities from the Securities Lending/Borrowing Market (which is explained on the following pages);
- borrow the equities from another client with her/his written consent;
- borrow the equities in the OTC market from another brokerage firm (the equity holdings of brokerage firms are available through data vendors' screens);
- borrow the equities from foreign institutions.

12. Failed Trades and Default Procedures

If a party fails to fulfil its settlement obligation, ISE charges a default penalty based on overnight interest rates.

If default is covered on T+2 but after 16:30, then the highest of Borsa Istanbul Repo/Reverse Repo Markets', Takasbank Money Market's or the Central Bank's overnight interest rate is applied.

However, if default is covered on T+3, relevant interest rate is multiplied by three and the penalty payment is calculated accordingly. If default is not covered on T+3, Takasbank notifies the Borsa Istanbul, indicating due obligations (cash or securities), the

brokerage firm's detailed list of securities and cash receivables pledged at Takasbank.

Borsa Istanbul holds a buy-in auction for the required securities or liquidates the brokerage firm's collateral. Auction's settlement is on the same day (i.e. T+3). If the receivables still do not cover obligations, then Takasbank Guarantee Fund is used.

13. Collateral for the Stock Market

All intermediary institutions must deposit the collateral determined for each market of the Borsa Istanbul in which they operate.

The collateral is deposited at the Central Bank or any public bank stipulating it to be at Borsa Istanbul's disposal.

The following are accepted as collateral:

- Cash (TL or foreign currency),
- Time deposits,
- Treasury bills and government bonds,
- Equities,
- Investment funds,
- Gold (traded in the exchanges)
- Eurobonds issued by the Treasury
- Islamic bonds issued by the Treasury
- An irrevocable and unconditional bank letter of guarantee. The amount of the guarantee is determined by Borsa Istanbul for each brokerage firm. The issuer of the guarantee letter should not have any affiliation with the brokerage firm.

The stock market collateral is calculated once every quarter and is the sum of the following:

Fixed Collateral: The fixed amount is TL 500.

Proportional Collateral: 5% of the average daily equity trading volume in the last 3 months.

Supplementary Collateral: 10% of the total amount of the defaults that exceed TL 10,000 within the last 3 months.

Odd-Lot Collateral: TL 50,000 should be deposited only by the members executing odd-lot transactions (Off-Exchange).

A new brokerage firm pledges only the average collateral, which is the sum of fixed and proportional collateral assigned by the ISE.

F. Emerging Companies Market

The ISE Emerging Companies Market (ECM) regulation was released in August 2009 and the market became operational in October 2010. The first company on the ECM was listed in January 2011. At the end of May 2014, 22 companies with US$ 421 million market capitalization are listed on the ECM.

The ECM is designed for companies with high growth potential but which fail to meet the listing criteria of the Stock Market. Companies are not "listed" but admitted to the ECM Directory.

There are no quantitative admission criteria, such as profitability, paid-in capital, market capitalisation or offering size, etc. However, there are certain conditions that the company is expected to fulfil.

1. Market Advisor Mechanism

A market advisor mechanism is introduced for this market. The market advisor is authorized by Borsa Istanbul and is required to assist the company for the application to the ECM. Additionally, it has to provide advisory services to the company for compliance with the capital markets regulations.

The following companies can be market advisors;

- Intermediaries holding an Investment Advisory License or Public Offering License,
- Asset management companies holding an Investment Advisory License,
- Venture capital companies.

2. Admission

Similar to the National Market, the shares of the company should be freely transferable. However, the offering should be done through a capital increase and the proceeds should go to the company. During the offering, existing shareholders cannot sell their shares. However, after trading starts, they can freely buy or sell, provided that those shares are registered at the ECM Directory.

Latest year-end financial statements should be audited. Depending on the time elapsed since last audit, semi-annual financial statements may need to be audited as well.

A market advisory agreement should be signed for at least two years. Market advisors are jointly responsible for the accuracy of the information submitted to the exchange or disclosed to the public.

The Executive Council of the Exchange decides for admission, depending on the market advisor's positive report. Unlike regular listings, Borsa Istanbul does not examine the company. Due diligence is done by the market advisor.

3. Offering

Shares can be sold through public offering or private placement. Prospectus and circulars are not required for private placements, whereas the number of investors should not exceed 100.

For the public offerings in the ECM market, companies must use the Sales on the Exchange method. Bookbuilding is not allowed.

Intermediaries must have the ECM Risk Notification Form signed by investors before trading ECM shares either during the IPO or in the secondary market. ECM Risk Notification Form gives information about the ECM and emphasises the market's risks.

4. Trading

Trading of the shares is done on the same electronic platform with the shares traded on the Stock Market, although with a different

method. Mainly, continuous auction with market maker method is used for trading, while "Single Price" method is used for the shares without a market maker.

ECM traded shares are registered in the Central Registry Agency (CRA) system in dematerialized form. The custody and settlement of ECM shares are done in the same method as other shares.

Cash and security settlement of trades are completed by Istanbul Settlement and Custody Bank (Takasbank).

All brokerage firms who are authorized to trade on the Stock Market may also trade on the ECM.

G. Debt Securities Market

There are five sub-markets within the Debt Securities Market;

1. Purchases & Sales,
2. Repo/Reverse Repo,
3. Repo Market for Specified Securities,
4. Interbank Repo/Reverse Repo,
5. Offering Market for Qualified Investors.
6. Equity Repo Market

Government bonds, Treasury bills, corporate bonds, revenue-sharing certificates and liquidity bonds of the CBRT are traded in these markets. Bonds and bills can also be traded in the OTC market. Banks and brokerage firms are allowed to operate in the Debt Securities Market.

1. Purchases and Sales Market

In the Purchases and Sales Market, the value dates of orders vary from the same day to 90 days for government bonds and to 30 days for private sector bonds. If the nominal value of an order is less than TL 100,000, it is considered as a small order. Orders are given in multiples of TL 100,000 up to TL 10,000,000 nominal. Small orders must be in multiples of TL 1,000 up to TL 99,000 nominal. All orders can be matched with several counter orders, i.e. splitting is possible.

All members can download their trading books from Borsa Istanbul web site or have them sent to their pre-registered e-mails at the end of each trading session. Members can also access their trading books at any time through their terminals.

Price, yield, volume information of best orders, details of the last transaction and a summary of total transactions excluding the trading parties are disseminated real-time.

2. Repo/Reverse Repo Market

In the Repo/Reverse Repo Market, the securities are safe kept on behalf of the participant involved in reverse repo transaction, in a segregated account. Securities are marked-to-market daily, during the repo period. Margin calls are made if necessary.

The "beginning value date" of orders varies from zero to seven days. If the nominal value of a repo/reverse repo order is less than TL 500,000, it is considered as a small order. Orders are given in multiples of TL 500,000 up to TL 10,000,000. Small orders must be in multiples of TL 1,000 up to TL 499,000. All orders can be matched with several counter orders.

3. Repo Market for Specified Securities

In this market, trading parties may negotiate and agree on the underlying security, its price and the repo rate. Government bonds, corporate bonds, revenue-sharing certificates and liquidity bonds of the CBRT can be subject to repo transactions.

Unlike the Repo/Reverse Repo Market, the securities are not blocked, but are delivered to the buyer. At maturity, the buyer delivers the related securities to Takasbank to be transferred to the seller. Orders are given in multiples of TL 10,000 up to TL 10,000,000.

4. Interbank Repo/Reverse Repo Market

When banks engage in repo transactions with the non-bank

counterparties, they have to meet the reserve requirements of the Central Bank. Therefore, this market was established in January 2011, as an organized repo market only for banks and the CBRT, where brokerage firms are not allowed to operate.

Banks can trade only for their own books, but not for their clients. Government bonds, Treasury bills and the liquidity bills of the CBRT are subject to repo transactions in this market.

Traded securities, order types, order validity rules and value dates, are the same as those applied in the Repo-Reverse Repo Market.

5. Offering Market for Qualified Investors

In this market, listed companies on the National or Second National Market can issue debt securities through private placement and without preparing a prospectus. Issued debt securities can only be sold to qualified investors, which are defined as investment funds, pension funds, intermediary institutions, insurance companies, asset management companies, mortgage companies, and individual investors who have at least 1 million TL of financial assets.

Debt securities issued in this market are traded in the Purchases and Sales Market without any further requirements. Issued securities can be denominated in TL, USD or Euro. Orders are given in multiples of 50,000 up to the nominal value of the security.

6. Equity Repo Market

The Equity Repo Market was established within the Debt Securities Market in December 2012. The shares of BIST-30 index companies are eligible to be subject of a repo transaction. Trades can be executed with a starting value date as the prevailing date, or a future date up to 2 working days. There has not been any transaction in this market yet.

7. Over the Counter Market

All transactions in the OTC Market, which take place among banks,

brokerage firms, individual and institutional investors, are agreed upon on the telephone or through systems such as Reuters Dealing. Transactions are settled through banks' accounts at the Central Bank or brokerage firms' accounts at Takasbank. Unless otherwise agreed by the parties, the settlement date is the trade day. OTC market transactions must be reported to the Borsa Istanbul.

8. International Bond Market

Listed Turkish sovereign eurobonds were being traded at the International Bonds Market since April 2007. Since September 2013 these instruments are being traded in a separate market under the Debt Securities Market.

The market is operating on a multiple price-continuous auction trading system. The system provides fully automated, remote-access, electronic order matching and reporting.

Order matching is based on price and time priorities. Members are subsequently informed about the executed transactions. Information on price and volume of best orders, details of the last transaction and a summary of all transactions are disseminated real time.

Orders are based on a "100" face value, on the relevant currency of the Eurobond. Value date of the orders can be between 1 and 15 days.

All Borsa Istanbul members, authorized to operate in the Debt Securities Purchases and Sales Market, are eligible to operate in the Foreign Securities Market. Members do not have to deposit any extra collateral, since their transactions are evaluated within trading limits for the Debt Securities Market.

9. Trading

The Central Bank, banks and brokerage firms may trade in the debt securities market. A computerized order matching and reporting system is in place.

Trading Hours at the Borsa Istanbul Debt Securities Market		
Purchases and Sales Market	Same day value date	09:15-12:00 13:00-14:00
	Other value dates	09:15-12:00 13:00-17:00
Repo/Reverse Repo Market Repo Market for Specified Securities Interbank Repo Reverse Repo Market	Same day beginning value date	09:15-12:00 13:00-14:00
	Other value dates	09:15-12:00 13:00-17:00
Equity Repo Market	Same day beginning value date	09:35-12:00
	Other value dates	09:35-12:00 14:15-17:00
Offering Market for Qualified Investors International Bonds Market		09:15-12:00 13:00-14:00

Members may enter their orders via terminals in their own offices. Orders are matched according to price/rate and time priorities. Each market is operating on a multiple price-continuous auction system. Trading hours are presented in the table.

10. Settlement

Clearing and settlement is handled by Takasbank. The settlement date for transactions is T+0, unless otherwise agreed between the parties. On the other hand, for the foreign currency denominated securities, settlement date is T+3.

The settlement of government debt securities traded in the organized and OTC markets are done through the Electronic Securities Transfer System operated by the Central Bank. Takasbank has a securities account with the CBRT in order to facilitate the settlement of government debt securities.

After a trade, the Borsa Istanbul issues confirmations to both parties and to Takasbank. Takasbank multilaterally nets all trades (other than the trades on Repo-Reverse Market and Interbank Repo-Reverse Market) for each Borsa Istanbul member for each security traded and for cash. Netting results are reported to the members electronically on trade day. Only trades done before 14:00 hrs can be settled on the same day.

Trading members are expected to fulfil their cash obligations by

using their cash accounts with Takasbank for the Bonds and Bills Market settlements by 16:30 hrs. They can also transfer cash from their other accounts at Takasbank, from other banks using the CBRT's Electronic Fund Transfer (EFT) system, use same day receivables from Borsa Istanbul Stock Market or the Takasbank Money Market.

11. Collateral for the Debt Securities Market

Members (banks and brokerage firms) are required to keep collateral in order to trade in the Bonds & Bills Market. Assets that are accepted as collateral are as follows:

- Cash collateral (TL, US$, € and gold deposits),
- Government bonds and bills, revenue sharing certificates, corporate bonds and bills,
- Bank letters of credit. The issuer should not have any affiliation with the brokerage firm.

Haircuts are applied, varying according to the nature of the collateral. Bank letter of credit cannot exceed 50% of total collateral. The amount of collateral depends on the trading limit of the member firm.

12. Trading Limits

Trading limits are determined by the Istanbul Stock Exchange. Members cannot exceed their trading limits during a session, unless their trades are settled.

The main criteria used in determining trading limits are the member's shareholders' equity and the fixed income portfolio of the mutual funds it owns or manages.

The maximum trading volume (gross limit) is calculated as follows: (Shareholder's Equity x 15) + (Size of Fixed Income Portfolio of Mutual Funds Founded or Managed).

Gross limit is the maximum amount the intermediary can trade during the day, which roughly equals the latest shareholders' equity

multiplied by 15. It could be increased to three times that amount, if additional collateral conditions are met.

Once the gross limit is determined, a net limit is assigned to the member by taking into account its average daily trading volume and its settlement default history. After the net limit is set and approved by Borsa Istanbul Executive Board, the member firm provides the necessary collateral and uses its net limit. The required collateral is 2.5% of the net limit.

As an example to clarify the mechanics of this process: assume that the brokerage firm's shareholders' equity is TL 1 million and that it manages mutual funds of TL 1.5 million, of which TL 1 million is in fixed income and the remaining TL 0.5 million in equities. Hence, the final gross limit is TL 16 million. However, Borsa Istanbul may determine the firm's net limit as TL 15 million. If the company wants to use its limit to the full, 2.5% of this amount, TL 375,000, should be pledged as collateral. However, if the company prefers to pledge TL 250,000 as collateral, then its net trading limit is set as TL 10 million (=TL 250,000/2.5%).

Trading limits can be increased by depositing excess collateral. Each unit of collateral grants 40 units of trading limit (i.e. 2.5% ratio). That is, if TL 1 million is deposited as excess collateral, an additional TL 40 million can be traded.

If, under special circumstances, the company wants to exceed its net limit or even gross limit, it could do so by collateralizing the excess amount in full.

Continuing with the example given above: assume that the firm is willing to trade TL 20 million of bonds on a given day. Its net limit is TL 15 million and gross limit is TL 16 million. It meets the collateral requirements in full, i.e. TL 375,000 required by its net limit. In order to increase its net limit to TL 20 million, the firm has to deposit additional collateral of TL 5 million, i.e. the difference between the trading value and the net limit.

H. Futures and Options Market

Futures and Options Market of Borsa Istanbul was launched in December 2012 where single stock futures and options were traded. Following the merger of the Turkish Derivatives Exchange (launched in 2005) with Borsa Istanbul on August 2013, the product range has widened.

Futures and options are traded on the Main Board, Negotiated Deals Board and on the Advertising Board.

1. Main Board

The Main Board is the main market where the orders are matched during the regular session and price fixing session. There are eight sub-markets under this market. The sub-markets and current underlying assets are given as below;

1) Equity Futures Main Board (10 stocks as of May 2014)
2) Equity Index Futures Main Board (BIST-30 index)
3) Currency Futures Main Board (TL/US$, TL/€ and €/$)
4) Precious Metals Futures Main Board (TL/gr gold, USD/ounce gold)
5) Commodity Futures Main Board (cotton, wheat)
6) Energy Futures Main Board (Base Load)
7) Equity Options Main Board (10 stocks as of May 2014)
8) Equity Index Options Main Board (BIST-30)

2. Negotiated Deals Board and Advertising Board

These boards are defined separately for large orders. Negotiated deals, where both sides are identified, are done on the Negotiated Deals Board, subject to the approval of the Exchange.

On the Advertising Board, traders indicate their interest in performing a negotiated trade. Once an advertising order is matched by the counterparty, it becomes a negotiated deal and the trade is executed on the Negotiated Deals Board upon the Exchange's approval.

3. Trading

Trading is done on a multiple price, continuous auction method. The system automatically matches orders based on price and time priority. Both market and/or limit order can be entered in the trading system.

The offers for futures and option contracts are entered into the trading system on the basis of premium/price for 1 unit of the underlying asset.

There is continuous trading from 09:10 to 17:45 (17:40 for equity contracts) with a non-trading period between 12:30-13:55 hours. In the non-trading period, the system is open. However, order entry or execution is not possible. In this period, member representatives may log on to the system, execute queries and may aggregate order files to be sent to the system after the start of a normal session.

The cycle of the maturities are February, April, June, August, October and December. Contracts with three different expirations nearest to the current month shall be traded concurrently. If December is not one of those three expirations, an extra contract with an expiration of December shall be launched.

4. Members and Clearing

Banks and brokerage firms are permitted to trade on this market. However, banks are not permitted to trade equity/equity index products.

Members of the Futures and Options Market are required to become a direct clearing member of Takasbank among other requirements. The minimum requirement of shareholders' equity for a clearing member is TL 50 million (US$ 24 million) for the banks and TL 10 million (US$ 4.8 million) for the brokerage firms.

The clearing and settlement of equity futures and options are executed on physical delivery basis. Cash settlement is used for other contracts.

For any transaction, the Exchange will address only the relevant member, regardless of whether the trades are for the account of their clients or not. In the case of failure to fulfil margin calls, the Exchange and Takasbank are authorized to take action without any notification to the client.

Open positions are updated daily by Takasbank on the basis of clients' accounts. The losses are collected on the trade date (T+0) while profits are distributed on the following date (T+1).

Members should fulfil their settlement obligations by 15:00 on T+1 (in case of physical settlement until 16:30 on T+3). Cash obligations of physical delivery conracts are calculated by the settlement price of the contract on the last trading day.

Takasbank is the central counterparty and it guarantees the settlement of transactions. The members have to deposit the collateral to the accounts determined by Takasbank. The following are accepted as collateral:

- Turkish Lira and foreign currency
- Government debt securities, eurobonds and rent certificates issued by the Turkish Treasury
- BIST-30 shares and exchange traded funds
- Investment funds
- Gold
- Letter of guarantee

At least 50% of the total collateral must be deposited in Turkish lira.

Beside the collateral, Takasbank manages a guarantee fund, which is used in case of member defaults. As the central counterparty, Takasbank will dedicate resources from its own capital in addition to collaterals and guarantee fund.

5. Margining

For futures and options, margining and risk management are carried out by Takasbank. The positions are kept in Takasbank's system on a real time basis. Takasbank calculates the required collateral for

each portfolio. Maintenance margin is equal to 75% of the required collateral.

If the total collateral plus total profit/loss is lower than the maintenance margin, Takasbank places a margin call. Collateral obligations must be fulfilled by 14:30 on T+1.

Takasbank also calculates the risk ratio for each portfolio as follows:
Maintenance Margin / [Total Collateral ± Temporary Profit/Loss]

"Maintenance Margin" is equal to 75% of the Required Collateral. Required collateral is calculated by Takasbank for each portfolio.

Four risk levels are defined between 0 and 3.

Risk Ratio (%)	Risk Level
75>=Risk Ratio	0
90>=Risk Ratio>75	1
100>=Risk Ratio>90	2
Risk Ratio>100	3

If the risk ratio is less than 75%, it is assumed that there is no risk for that portfolio.

The portfolios with the risk levels 1 or 2 (risk ratio is between 75% and 100%) are assumed as "high risk" status, but these levels are alerts only.

If the risk ratio exceeds 100% i.e. the maintenance margin is more than the [Collateral ± Temporary Profit/Loss], then the portfolio is defined as "risky". The outstanding orders for a risky account are automatically cancelled in the trading system. Takasbank places a margin call to its members on the basis of the account. Such accounts may be taken out of risky position by depositing collateral and/or closing positions. Collateral may be deposited in, but not drawn from risky accounts.

Members can monitor the accounts' risk status via the Takasbank system. Any changes in the risk status of custody accounts will be reported to Borsa Istanbul by the Takasbank system.

6. Contract Specifications

Specifications of the following futures and option contracts are summarized below.

1. Currency futures (TL/US$, TL/€ and €/$) and options (TL/US$),
2. Interest rate futures (benchmark bonds),
3. Equity index futures and options (BIST-30 Indices),
4. Equity futures and options (10 stocks)
5. Commodity futures (cotton, wheat, TL/gr gold, USD/ounce gold, live cattle).
6. Energy (Base Load).

Equity Index Futures and Options		
Contract Name	BIST 30 Index Futures	BIST 30 Index Options
Underlying Asset	BIST National-30 stock price index	
Contract Size	%10 of the index in TL	
Price Quotation	0.1% of index with three decimals	
Tick Size	2.5 TL (25 index points)	1 TL (10 index points)
Trading Hours	09:10-17:40 (12:30-13:55 nontrading period)	
Contract Months	3 nearest months of February, April, June, August, October, December	
Settlement Period	Cash settlement, T+1	
Final Settlement Day	Last business day of each contract month	
Exercise Style	-	European
Source: Borsa Istanbul		

Equity Futures and Options		
Contract Name	Equity Futures	Equity Options
Underlying Asset	The BIST-30 stocks determined by the exchange	
Contract Size	100 shares of underlying stock	
Price Quotation	one underlying share	premium value of underlying share
Tick Size	0.01 per share	
Trading Hours	09:10-17:40 (12:30-13:55 nontrading period)	
Contract Months	February, April, June, August, October, December	
Settlement Period	Physical settlement, T+3	
Final Settlement Day	Last business day of each contract month	
Exercise Style	-	American
Source: Borsa Istanbul		
*Currently 10 stocks are underlying assets of equity futures and contracts		

Currency Futures and Options				
Contract Name	TLUSDollar Futures	TLEuro Futures	EuroUSD Futures	TLUSDollar Options
Underlying Asset	TL/USDollar	TL/Euro	Euro/USD Cross Currency	TL/USDollar
Contract Size	1,000 US Dollar	1,000 Euro	1,000 Euro	1,000 US Dollar
Price Quotation	Sample quote = 1,4155 TL or 1,8870 TL		Sample quote 1€=1.2711 USD	Premium value of underlying
Tick Size	0.0005 = 0.5 TL		0.0001 = 0.1 USD	0.1 (per option premium)
Trading Hours	9:10-17:45 (without break)			
Contract Months	3 nearest months of February, April, June, August, October, December		2 nearest months of March, June, Sept., Dec.	Current and next month
Settlement Period	Cash settlement, T+1			
Final Settl. Day	Last business day of each contract month			
Exercise Style	-	-	-	European
Source: Borsa Istanbul				

Commodity Futures				
Contract Name	Aegean cotton	Anatolian Red Wheat	Gold	USD/Ounce Gold
Underlying Asset	Aegean Standard 1 Cotton	Anatolian Red Hard Wheat	995/1000 fineness refined gold	995/1000 fineness of gold.
Contract Size	1 tonne	5 tonnes	100 grams	1 ounce
Price Quotation	Per kg with three digits (1.825 or 1.830 TL)	Per kg with four digits (0.3865 or 0.3870 TL)	Per gram with three digits (22.680 TL)	Per ounce with three digits (1.150,15 USD)
Tick Size	0.005 = 5 TL	0.0005 = 2.5 TL	0.005 = 0.5 TL	0.05 = 0.05 USD
Trading Hours	09:10-17:40 (12:30-13:55 non-trading period)		9:10-17:45 (without break)	
Contract Months	2 nearest months of March, May, July, October, December		3 nearest months from Feb., April, June, August, Oct., Dec.	
Settlement Period	Cash settlement, T+1			
Final Settl. Day	Last business day of the contract month			
Source: Borsa Istanbul				

Energy Futures	
Contract Name	Base Load Electricity Futures
Underlying Asset	The basic arithmetic average price of each hour of contract month
Contract Size	Number of hours in the contract month x 0.1 MWh ex: contract size for 30 day contract month is 72 (=30x24x0.1)
Price Quotation	1 MWh of electricity with two decimals. (ex: 121.20)
Tick Size	0.1
Trading Hours	09:10-17:40 (12:30-13:55 non-trading period)
Contract Months	Current and next month
Settlement Period	Cash settlement, T+1
Final Settlement Day	Last business day of the contract month
Source: Borsa Istanbul	

İ.Precious Metals and Diamond Markets

The Istanbul Gold Exchange (IGE) became operational in July 1995. It merged with Borsa Istanbul as of end-2012 in line with the new Capital Markets Law. Now precious metals and diamond are traded in the Precious Metals and Diamond Markets of Borsa Istanbul.

1. Markets

There are three sub markets:

- Precious Metals Market (spot transactions for gold, non-standard gold, silver and platinum)
- Precious Metals Lending Market (for gold).
- Diamond and Precious Stone Market (transactions of diamond and precious stones)

Silver and platinum trading started in December 1998. Non-standard gold transactions within the Precious Metals Market were launched in October 1999. This enables scrap gold trading in a secure environment by eliminating counterparty risk. It also removes concerns regarding non-standard bullions.

The Precious Metals Lending Market and Diamond and Precious Stone Market were introduced in March 2000 and April 2011 respectively.

2. Members and Clearing

In the Precious Metals Market, trading takes place on 24 hours a day 7 days a week (including weekends and holidays). Daily session starts 04:00 pm and closes 04:00 pm next day. Orders are given through an internet based trading system. Trading units are Turkish Lira/kg, US$/ounce, EUR/ounce.

The value dates of the transactions are from T+0 up to T+90 days. Each member submits membership collateral of US$ 10.000 (or equivalent TL or €) which covers the possible losses that a member may cause to other members or the exchange.

In addition, the members have to submit trading collateral. It sets the upper limit on the transaction volume of a member. A member can trade:

- 25 times the sum of trading collateral for T+0
- 20 times for T+1 up to T+5
- 12 times for T+6 up to T+9 and
- 10 times for T+10 up to T+90.

Financial obligations are fulfilled until 17:00 and precious metals physical deliveries are fulfilled until 16:00.

Clearing operations are done during in business days and official working hours of the Exchange (T+0).

The members of this market are banks (22), currency offices (39), precious metals brokerage firms (17) and precious metals producing and marketing companies (12).

In the Precious Metals Lending Market, lending and certificate transactions of precious metals are executed. The market has 14 members as of May 2014. Trading hours are from 9:45 to 17:30 continuously. Value date is T+0 for all transactions. In the market, the borrower can trade up to ninety percent (%90) of his collateral value pledged to the Exchange.

J.Indices

1. Equity Indices

Until the end of 1996, Borsa Istanbul used to compute only the BIST-100, Financial and Industrial indices. As of 1997, sector and sub-sector indices began to be calculated. All equity indices are calculated as price and total return indices. Price indices are free float capitalization weighted.

BIST price indices are computed throughout the trading session every 10 seconds, while the return indices are calculated and announced at the end of the session only. The BIST National-100 Index is the main indicator of the market.

BIST stock indices do not comprise any of the stocks that are listed on the Watch List Market or included in the C list.

Some of the basic indices are explained below:

BIST-100 has been calculated since the inception of the exchange. It comprises of the 100 largest and most liquid companies listed on the National Market. Constituents are reviewed quarterly. BIST National-100 Index covers **BIST-50** and **BIST-30** Index stocks.

BIST National Index covers all companies traded on the National Market.

BIST All Index is composed of equities traded on all Borsa Istanbul markets, except investment trusts.

BIST Dividend Index consists of National Market and Second National Market companies, real estate investment trusts and venture capital investment trusts listed on the Collective Products Market which distributed cash dividends in the last 3 years.

BIST Investment Trusts Index comprises of investment trusts traded on the National Market.

BIST Second National Market Index comprises of all companies

traded on the Second National Market.

BIST Corporate Governance Index was launched in 2007. Index comprises of companies with a corporate governance rating of at least 7 out of 10. Ratings are assigned by independent rating agencies authorized by the Capital Markets Board. As of May 2014, there are 47 companies in this index.

BIST City Indices were launched in 2009. These indices comprise of companies whose main production or operating centres are in the same city. As of May 2014, City Indices are calculated for 12 cities in Turkey.

Greece and Turkey 30 (GT-30) index was created in 2009. The index is calculated by STOXX, a global index provider, and is composed of 15 largest companies from Athens Stock Exchange and Borsa Istanbul, each. Price and return indexes are available for GT-30 indices in TL and € terms.

BIST IPO Index was launched in 2012. Companies offered to the public in the National and Second National markets, as well as venture capital investment trusts and REITs are included in the BIST IPO Index on their first trading day and they remain in the index for 2 years.

BIST SME Industrial Index was launched in 2013. The index includes companies which satisfy at least one of the annual net sales or balance sheet size criteria stated in the Turkish SME definition.

Sector and sub-sector indices are composed of National Market companies, excluding investment trusts. The Exchange also calculates all indices on US dollar basis and the BIST National-100 on Euro basis.

2. Debt Securities Indices

Debt Securities Market indices are calculated on each trading day from the weighted average prices of the discounted securities traded on the Debt Securities Market Purchases and Sales Market. They are

calculated real time, following any trade in these securities. The government securities, which were not traded on the previous or the current day, are not used in the index calculations. Thus, the number of securities used in the indices can vary.

Debt Securities Market indices are divided into two main groups; Price/Performance Indices and Portfolio Performance Indices.

The **Price Index** is an indicator reflecting the price fluctuations of bonds due to interest rate changes, provided that the maturity term remains constant. The index is calculated with five different maturities of 91, 182, 273, 365 and 456 days. In addition, a composite index is calculated by weighting the relevant maturities with issue sizes. Maturity term is kept constant, in order to reflect the effect of the interest rate changes on the price index.

The **Performance Index**, on the other hand, is an indicator of yield. It reflects the price changes of the bonds/bills (with the above mentioned maturities), due to interest rate fluctuations and as the time to maturity diminishes.

Since price/performance indices are designed to reflect the changes in the yield curve, they are calculated only once at the end of each trading day.

Portfolio Performance Indices, on the other hand, take into account the intra-day transactions on a real time basis. These indices are equally weighted (EQ) or market value (MV) weighted. 6 portfolio performance indices are calculated.

Equally weighted indices are **EQ short-term index** (contains bonds and bills with less than 180 days to maturity), **EQ long-term index** (contains bonds and bills with more than 180 days to maturity) and **EQ composite index** (contains discounted bonds and bills traded on the market).

Market value weighted indices are also calculated with the same classification as **MV short-term index**, **MV long-term index** and **MV composite index**

The **Repo Index**, reflects the average daily yield of overnight repo transactions. The rate used for index calculations is the volume weighted average rate of overnight transactions in the Repo-Reverse Repo Market.

K. Initial Public Offerings

Public offering procedures and disclosure requirements of the public companies are regulated by the Capital Markets Board. According to the Capital Markets Law, public companies are defined as "joint stock corporations whose shares are offered to the public or which are considered to have been offered to the public". If the number of shareholders exceeds 500, the shares of a joint stock company are considered to have been offered to the public and these corporations are subject to the Capital Markets Law. According to new Capital Markets Law, public companies should apply to trade on a stock exchange within 2 years.

The preparation of prospectus and its approval by the Board is compulsory for the public offering of capital market instruments. The related processes and sales methods of shares are defined in the following regulations enacted in 2013;

- Communiqué Serial:II No:5.1 on Principles Regarding Prospectus and Issue Documents
- Communiqué Serial:II No:5.2 on Principles Regarding Issue of Capital Market Instruments

1. Public Offering of Equities

There are prerequisites for public offering of equities. The capital of the company should be all paid-in and the shares should be freely transferable.

Three methods can be used for the offering: sale of existing shares, capital increase or a combination of both.

Three methods can be used for the sale of shares: underwriting (book building), best effort (offering on the stock exchange) and sale without book building (for specific circumstances).

In underwritten offerings, the demands of investors are collected through fixed price, price bids or a price spread.

In underwriting with a fixed price, a single price is determined by the company or the shareholder and investors submit their demand for the number of shares only.

In underwriting with price bids, a minimum price is determined and investors' price bids and share demands are collected.

Underwriting with a price spread is similar to the above method, but with an additional upper limit. Investors bid prices within a predetermined price spread. The spread cannot exceed 20%.

In best effort, shares may be offered to the public on the Borsa Istanbul Primary Market.

Sale without Book Building can be used by specific companies or under specific conditions. Publicly held, but unlisted companies may sell their shares and become exchange-listed via this method. It can also be used for unsold parts of underwritten offerings.

2. Approval of Prospectus by the Capital Markets Board

The main document of public offering is the prospectus. Other fundamental documents are the financial statements and the independent auditors' reports. Audited financial statements in line with the CMB's accounting standards (i.e. IFRS) for the last 3 financial years and the latest interim financial statements, if available, should be provided.

The prospectus may be issued in the form of one or multiple documents containing information about the issuer, the issued shares and a summary section.

The summary section consists of brief, clear and comprehensible statements associated with the issuer, the guarantor if any, the nature of the guarantee and the essential characteristics, rights and risks of the capital market instruments to be issued.

Applications to the CMB are evaluated through consideration of whether or not the prospectus truly and fully reflects the information on the company and the shares to be offered to public. If the information is found to be insufficient or false, the CMB may refrain from approving the prospectus by providing a formal explanation. Otherwise, the prospectus is approved. Following approval, the prospectus must be published in line with the principles of the CMB.

The public offer should be initiated within 3 days after the publication of the prospectus. The sale period may last between 2 to 20 business days.

In order to issue equities without public offering, an issue document should be approved by the Capital Market Board. It contains brief and clear information about the capital market instruments and the sale conditions.

The stocks of public companies that are not listed on the Exchange can be traded without going through the usual public offering procedures. With the approval of the Executive Council of the Exchange, these companies can be traded on the Second National Market. These companies have to apply to the Central Registry Agency to dematerialise their stocks. If they fulfil the National Market Listing Criteria, they can be traded on this market with the decision of the Executive Council of the Exchange.

3. Cost of Public Offerings

The main cost components for the issuers are as follows.

Fees Paid to Brokerage Firms: These fees are freely negotiable and depend on the services offered and the size of the offering.

Fees Paid to the Capital Markets Board: CMB's registration fee is 0.2% of the total offering size. The companies, which will be traded on Emerging Companies Market, pay 0.02% of total offering size to the CMB as registration fee.

Fees Paid to Borsa Istanbul: Listing fee for the National and

Second National Market is 0.1% of the nominal value of the company's paid-in capital. The listing fee for the companies which will be traded on Emerging Companies Market is 0.01% of the nominal value of the company's paid-in capital. Companies listed on the Emerging Companies Market were exempt from the listing fee until 2013.

Fees Paid to CRA: Central Registry Agency charges an initial membership fee which is equal to 0.1% of the issued/paid-in capital of the publicly-traded companies. CRA charges only a 0.01% membership fee (within TL 200 – 5,000 range) for ECM companies.

Other Costs: In addition to the above, the issuer generally bears the audit, due diligence, marketing and advertising expenses.

On the other hand, small and medium enterprises which will be listed on the Emerging Companies Market, can apply for a maximum of TL 100,000 subsidy, provided by the Small and Medium Enterprises Development Organization, to cover listing costs.

L. Listing Requirements

1. Equities

The following conditions and documents are required to be provided for listing on Borsa Istanbul:

- The audited financial statements for the last three years and the latest quarter if applicable;
- The company's Articles of Incorporation must not include any provisions restricting the transfer or circulation of the securities to be traded on the Exchange or preventing the shareholders from exercising their rights;
- There should be no open or pending legal disputes of significant size which might affect the company's production and/or activities;
- The company must not have suspended its activities for more than three months during the previous year;
- The company must have made a profit-before-tax in the last two years. However, if the offering size exceeds TL 68

million and if the free-float rate is at least 5%, only last year's profitability is required;
- The shareholders' equity must be at least TL 13.5 million;
- Market capitalization of the offered shares must be at least TL 33.5 million and free-float must be at least 25%. If free-float is below 25%, offering size must be at least TL 68 million. Companies have to fulfil one of the requirement groups, shown in the below table:

Borsa Istanbul Listing Requirements			
	Group 1	Group 2	Group 3
MCap of Offered Shares (TL Million)	135	68	33.5
Profit-Before-Tax	At least one of last 2 years		Last 2 years
Min. Free-Float Rate (%)	-	5%	25%
Shareholders' Equity (TL Million)	33.5	22	13.5
Source: Borsa Istanbul			

The annual listing fee of Borsa Istanbul is one fourth of the initial listing fee. For the companies that are included in BIST Corporate Governance Index, the annual listing fee is applied as 50% of the tariff for the first two years, 75% of the tariff for the following two years and 90% of the tariff for the subsequent years.

2. Debt Securities

There are two basic requirements to list debt instruments at Borsa Istanbul. First, the nominal value of the issue must be at least TL 1.35 million. Second, the entire amount of the issue must be offered to public. Also, there are other conditions required from the issuer:

- At least three calendar years must have passed since the establishment of the company;
- The latest financial statements should have been independently audited;
- The company must have a profit-before-tax in the last two years. If the company is already listed with free-float of at least 25%, only the previous year's profitability is required;
- The shareholders' equity must be at least TL 2.2 million;
- The company's Articles of Incorporation must not include any provisions restricting the transfer and circulation of the securities traded on the Exchange or preventing the

shareholders from exercising their rights.

Furthermore, unlisted corporate bonds, which have been registered with the CMB can be traded on the Debt Securities Market with the decision of the Executive Council. These securities must be sold entirely through public offering.

M. Delisting

Securities may be delisted upon the decision of the Executive Council through consultation with the Listing Committee, for the cases listed below:

- Negative shareholders' equity;
- Non-compliance with the rules and regulations, especially violation of disclosure and insider trading regulations;
- Filing for bankruptcy or suspending operations for more than three months;
- Dissolution of the company;
- Company facing difficulties in paying its debts or in financial distress;
- Company not fulfilling the fee obligations of the Exchange;
- Cancellation or invalidation of any permits, licenses or agreements of the company, crucial to its operations;
- An independent auditor gives a negative opinion or refrains from giving an opinion for the last two financial periods;
- Loss of 2/3 of the operational capacity due to any disaster such as fire, war, terrorism, etc.;
- Defaulting on debt securities.

On the other hand, companies may voluntarily delist from Borsa Istanbul. Only the companies (excluding investment trusts), whose main shareholders have at least 95% of the capital and/or voting rights, can be delisted. For delisting, the company must apply to both Borsa Istanbul and the CMB. The main shareholder(s) should make a tender offer to the minority shareholders. After the tender offer is completed, the company may be delisted.

IV. TAKASBANK (ISTANBUL SETTLEMENT AND CUSTODY BANK)

Takasbank is the "Clearing and Settlement Center for the Istanbul Stock Exchange" and the "National Numbering Agency of Turkey". Apart from these functions, Takasbank operates the money market and the securities lending & borrowing market, provides banking services including cash loans to members, and other services such as cross-border settlement and custody.

Takasbank was established in 1988 as a department of the exchange. It originally provided settlement services for securities traded on the Borsa Istanbul. In January 1992, a separate company was established, which took over the operations of the department. This company was renamed Takasbank in 1996.

Established under the Turkish Banking Law and incorporated as a non-deposit taking bank, Takasbank is a specialized bank dedicated to securities services in Turkey.

Clearing and settlement rules are specified by the Borsa Istanbul, in accordance with the general rules and regulations of the CMB. Due to Takasbank's status as a bank, the Banking Regulation and Supervision Authority and the Central Bank of Turkey also regulate Takasbank.

Settlement of transactions is done through Delivery Versus Payment, with daily netting.

Takasbank provides central counterparty services on the Borsa Istanbul Futures and Options Market and Takasbank Securities Lending & Borrowing Market. Takasbank plans to extend these services to other securities in line with the new Capital Markets Law.

Takasbank is recognized by the UK FSA as an "Approved Depository" and an "Approved Bank". It also complies with the "Eligible Foreign Custodian" definition of the US SEC.

Furthermore, Takasbank became a globally endorsed Local Operating Unit (p-LOU) and started to allocate Legal Entity Identifier codes to financial institutions as of November 2013.

A. Organization and Shareholder Structure

Takasbank is owned by the Borsa Istanbul and 57 of its members. According to the Articles of Incorporation, no single shareholder can hold more than 5% stake, except for the Borsa Istanbul. The shareholder structure of Takasbank is as follows as of May 2014:

Shareholder Structure of Takasbank		
Borsa Istanbul	A	0.0%
Borsa Istanbul	B	52.0%
14 Banks	B	24.8%
43 Brokerage Firms	B	23.2%

The Board of Directors is composed of 9 members. Composition of the Board is as follows:

- 4 representatives from the A group (Borsa Istanbul). 3 of them act as independent members. Besides, 2 of these members should not be employed at Borsa Istanbul.
- 2 representatives from the banks.
- 2 representatives from the brokerage houses.
- President and CEO of Takasbank.

B. Functions and Services

Main functions of Takasbank are as follows:

- Provides central clearing and settlement services for the organized markets of the Borsa Istanbul;
- Acts as the central counterparty and clearing house for Borsa Istanbul Futures and Options Market and Takasbank Securities Lending and Borrowing Market
- Operates the Takasbank Money Market, an OTC market where exchange members can lend and borrow funds;
- Operates the Securities Lending and Borrowing Market, where members can lend and borrow securities;
- Provides cash loan services for exchange members;

- Takasbank Electronic Transfer System (TETS) enables brokerage houses to transfer securities (government bonds and Treasury bills) and cash electronically, in connection with the Central Bank's "Electronic Fund Transfer" (EFT) and "Electronic Securities Transfer" systems; and
- Assigns International Securities Identification Numbers (ISIN) to the securities issued in Turkey;
- Operating Electronic Fund Trading Platform of Turkey (TEFAS) which is the central electronic freely platform for investment funds.

C. Takasbank Money Market

Takasbank Money Market (TMM) started operations in 1996. All banks and brokerage firms, which are Borsa Istanbul members, may sign a Letter of Undertaking and start lending or borrowing in the market. Takasbank guarantees settlement.

1. Trading Limits

Transactions take place between 10:00-12:00 and 13:00-15:30. Maturities vary from 1 to 60 days. They may also be in terms of 2, 3 and 6 months. Minimum trading amount is TL 5,000, with increments of TL 1,000. Order rate increments are in 0.05% and multiples.

Brokerage firms may call Takasbank and place their orders over the phone or may enter orders to the Takasbank terminals located in their offices.

Orders are matched through the Takasbank system, based on price-time priorities. Best bid-ask rates are published online, real time. Settlement is done by 17:00 each day.

2. Collateral

The borrowing brokerage firm is requested to place 125% of the amount it would bid in the market. Collateral are marked-to-market, real-time. No collateral is requested from the lender.

The following assets are accepted as collateral:

- Cash (TL, FX),
- Letters of guarantee (TL, FX),
- Treasury bills, government bonds and eurobonds,
- Mutual Funds,
- Equities.

A 25% haircut is applied for equities and eurobonds. The others are valued at market prices. If the total value of collateral falls below 115% of the outstanding borrowing of the brokerage firm, Takasbank makes a margin call and requests the amount be raised to 125%.

D. Securities Lending and Borrowing Market

Takasbank Securities Lending and Borrowing Market was established to facilitate short-selling and equity settlements. Only brokerage firms, allowed by the CMB, may operate in the market. They sign a letter of undertaking with Takasbank and start lending or borrowing securities. Takasbank does not guarantee the settlement, it only operates the market.

1. Trading

Securities that may be lent or borrowed are Group A equities listed on Borsa İstanbul National Market and ETFs. The market value of the transaction is calculated by multiplying the weighted average price in the second session of the previous day and the number of securities to be borrowed/lent.

Prices are quoted as annual interest rates, which is also referred to as the commission rate. The commission rates are freely determined by the parties. Commission increments are in 0.01% (one basis points) and multiples.

Trading is done between 09:30-12:00 and 13:30-16:45. The maturity of the orders may be:

- between 1 and 7 days,
- 1, 2 and 3 weeks, or

- 1, 2, 3, 6, 9 and 12 months.

Brokerage firms may place their orders through Takasbank terminals located in their offices. If a lending order is entered into the system, securities are transferred from the customer's account to the Takasbank's account at the Central Registry Agency. If a borrowing order is entered, the collateral is checked. The market value of a single order cannot exceed TL 1.5 million.

Orders are matched through the Takasbank system based on price-time priorities. Best bid-ask rates are published online, real time. Settlement (security and cash transfer) is done at the time of the transaction. Repayments are done by 17:00 on maturity date.

The financial rights arising from the securities (rights issues, stock splits and dividends) remain with the lender; however, the managerial rights (voting rights) are transferred to the borrower.

2. Collateral

The borrower must have a marked-to-market collateral of at least 110% of the borrowed amount during the transaction. The maintenance collateral rate is 105% of the borrowed amount. If the collateral value falls below the maintenance rate, Takasbank makes a margin call to the broker.

The following are accepted as collateral:

- Cash (TL, FX),
- Letter of guarantee (TL, FX),
- Government bonds and bills,
- Mutual funds,
- Equities, ETFs,
- Gold.

Haircuts are applied to equities, ETFs and mutual funds. The others are valued at market prices.

Borrowers may borrow up to the amount allowed by their collateral. No collateral is required for lenders.

E. Guarantee Fund

Borsa Istanbul established a guarantee fund aiming to avoid delays and defaults in the settlement of transactions. The fund is financed by the fines collected from exchange members with late settlement deliveries.

The guarantee fund, currently managed by Takasbank, provides the initial liquidity for the settlement process every day. At the end of a settlement, if all the parties fulfil their obligations, the fund is released in full. Otherwise, it is used to cover the default. Therefore, the guarantee fund is actually a temporary liquidity facility for the settlement process.

The members of Takasbank must contribute to the guarantee fund. In case of default, the defaulting member's contribution is used first and, if necessary, non-defaulting members' contributions are used on a pro-rata basis.

V. THE CENTRAL REGISTRY AGENCY

The Central Registry Agency Inc. (CRA) is the central depository for all dematerialized capital market instruments. It was established in 2001 as a private company. The communiqué about the terms and conditions for the registration of dematerialized capital market instruments was enacted in December 2002. The dematerialization process was completed in 2006 for equities, in 2007 for mutual funds and corporate bonds, in 2010 for covered warrants, and in 2011 for asset backed and asset covered securities.

The dematerialisation of government debt securities started in 2012. CRA dematerialized investors' (individual and corporations) government debt holdings. The institutional investors' government debt holdings are registered at Takasbank. On the other hand, banks and brokerage firms have an option to register their own government debt holdings at the Central Bank or the Central Registry Agency.

A. Organization and Shareholder Structure

The shareholders of the CRA are as follows as of March 2014:

Shareholder Structure of CRA	
Takasbank	64.9%
Borsa Istanbul	30.1%
TCMA	5.0%

The 9 member Board of Directors is composed of:

- 2 members from the Borsa Istanbul,
- 2 members from Takasbank,
- 1 member from TCMA,
- 1 member from the Ministry of Customs and Trade,
- 1 Borsa Istanbul member
- Chairperson, who is also the Chairperson of the Takasbank, and
- General Manager.

The principles governing the duties, authority and operations of the

CRA are defined in its Articles of Incorporation. The CRA must seek the approval of the CMB for any modifications to its Articles of Incorporation.

B. Functions

Main functions of the CRA are to:

- Dematerialize and register capital market instruments and the rights attached, in electronic form, with respect to issuers, intermediary institutions and rights holders;
- Protect the integrity and consistency of records;
- Ensure confidentiality of records;
- Operate the Public Disclosure Platform

CRA has been developing advanced technologies like Electronic General Assembly (e-GEM), corporate management and investor relations portal (e-Governance) or Electronic Warehouse Receipt Center (e-WAREHOUSE).

C. Public Disclosure Platform

Borsa Istanbul introduced the "Public Disclosure Platform" in 2009. The Platform was designed as an electronic system enabling the companies traded on the Borsa Istanbul to release any information required to be publicly disclosed, using internet and electronic signature technologies.

Public Disclosure Platform is being operated by the Central Registry Agency since February 2014.

Interested parties can access the company disclosures through internet at www.kap.gov.tr. The system allows all users access to both the current and the past disclosures of a traded company, as well as other announcements and up-to-date information. The website serves in Turkish and English.

VI. INVESTOR COMPENSATION CENTER

The Investors' Protection Fund was established in 2001 to cover the obligations of bankrupt brokerage firms and banks to investors, arising from equity transactions. The fund was operated by CRA.

With the new capital market law, Investor Compensation Center, a public legal entity, has replaced the Investors' Protection Fund. The secondary regulation regarding Investor Compensation Center was published in June 2013 and all the assets in Investors' Protection Fund was transferred to the Investor Compensation Center. Investor Compensation Center is managed by the Capital Market Board.

The new body covers all capital market instruments, while the previous fund used to cover only equities. It covers settlement obligations of all capital market instruments, up to TL 100,000 (~$ 50,000) in 2014, in case of liquidation or bankruptcy of investment institutions.

Investment firms have to participate in the Investor Compensation Center.

VII. CAPITAL MARKETS LICENSING AND TRAINING AGENCY

The Capital Markets Licensing and Training Agency (CMLTA) was established in 2011 in order to organize licensing exams and offer training programs for market professionals.

A. Organization and Shareholder Structure

The shareholders of the Capital Markets Licensing and Training Agency are as follows as of May 2014:

Shareholder Structure of the CMLTA	
TCMA	49.0%
Borsa Istanbul	20.0%
Central Registry Agency	10.5%
Takasbank	10.5%
Turkish Appraisers' Association	10.0%

The 7 members of the Board of Directors is composed of:

- 1 member from CMB,
- 1 member from the Borsa Istanbul,
- 2 members from TCMA
- 2 members from CRA and Takasbank,
- General Manager.

The principles governing the duties, authority and operations of the Agency are defined in its Articles of Incorporation. The CMLTA must seek the approval of the CMB for any modifications to its Articles of Incorporation.

B. Functions

Since 2003, market professionals are required to get a license in order to be employed at intermediaries or other capital market institutions, such as asset management companies, real estate appraisers etc. There are several types of licenses for market professionals. At least one among the first seven is a requirement for employment at intermediaries.

1. Basic Level (branch manager, representative office manager, etc.)
2. Basic Level Customer Representative (client advisors, etc.)
3. Advanced Level (managers, research, corporate finance etc.)
4. Settlement & Operations (back office)
5. Derivatives (derivatives traders, managers, back office)
6. Derivatives Customer Representative (client advisors, etc.)
7. Derivatives Accounting & Operations (back office)
8. Real Estate Appraisal (mortgage and real estate appraisers)
9. Residential Real Estate Appraisal (mortgage and real estate appraisers)
10. Credit Rating (credit rating agencies)
11. Corporate Governance Rating (corporate governance rating agencies and investor relations officers at public companies)

After passing the licensing examination, the individual should apply to the CMLTA with the required documents to get his/her license. License holders' detailed information is kept at the CMLTA's registry. Licenses have to be renewed every four years by attending a one-day training course.

KEY INSTITUTIONS IN THE CAPITAL MARKETS

Capital Market Institutions	
Capital Markets Board of Turkey	www.cmb.gov.tr
Central Registry Agency	www.mkk.com.tr
Capital Markets Licensing and Training Agency	www.spl.com.tr
Borsa Istanbul	www.borsaistanbul.com
Investor Compensation Center	www.ytm.gov.tr
Public Disclosure Platform	www.kap.gov.tr
Takasbank - Settlement and Custody Bank	www.takasbank.com.tr
Turkish Capital Markets Association	www.tspb.org.tr
Public Institutions	
Banking Regulation and Supervision Agency	www.bddk.org.tr
Central Bank of the Republic of Turkey	www.tcmb.gov.tr
Financial Crimes Investigation Board	www.masak.gov.tr
Undersecretariat of Treasury	www.treasury.gov.tr
Professional Associations	
Association of Brokerage Firms' Managers	www.bakyd.org.tr
Association of Publicly Traded Companies' Managers	www.koteder.org.tr
Association of Stock Market Investors	www.boryad.org
Banks' Association of Turkey	www.tbb.org.tr
Corporate Governance Association of Turkey	www.tkyd.org
Participation Banks' Association of Turkey	www.tkbb.org.tr
Insurance Association of Turkey	www.tspb.org.tr
Investor Relations Association of Turkey	www.tuyid.org.tr
Turkish Institutional Investment Managers' Association	www.kyd.org.tr

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