



**SCREENING CHAPTER 09
FINANCIAL SERVICES**

**AGENDA ITEM IV:
SECURITIES MARKETS AND
INVESTMENT SERVICES**

**Country Session: The Republic of TURKEY
2-3 May 2006**



ADMINISTRATIVE AND LEGAL FRAMEWORK FOR SECURITIES MARKET AND INVESTMENT SERVICES SUPERVISION



REGULATIONS REGARDING CAPITAL MARKETS

- **Capital Market Law No. 2499 (CML) (Enacted in 1981)**
- **CMB By-laws and Communiqués**
- **CMB Decisions**
- **By-laws on Exchanges**



CAPITAL MARKETS BOARD OF TURKEY

➤ **Capital Markets Board (CMB)** established in 1982 is the regulatory and supervisory authority responsible for capital markets.

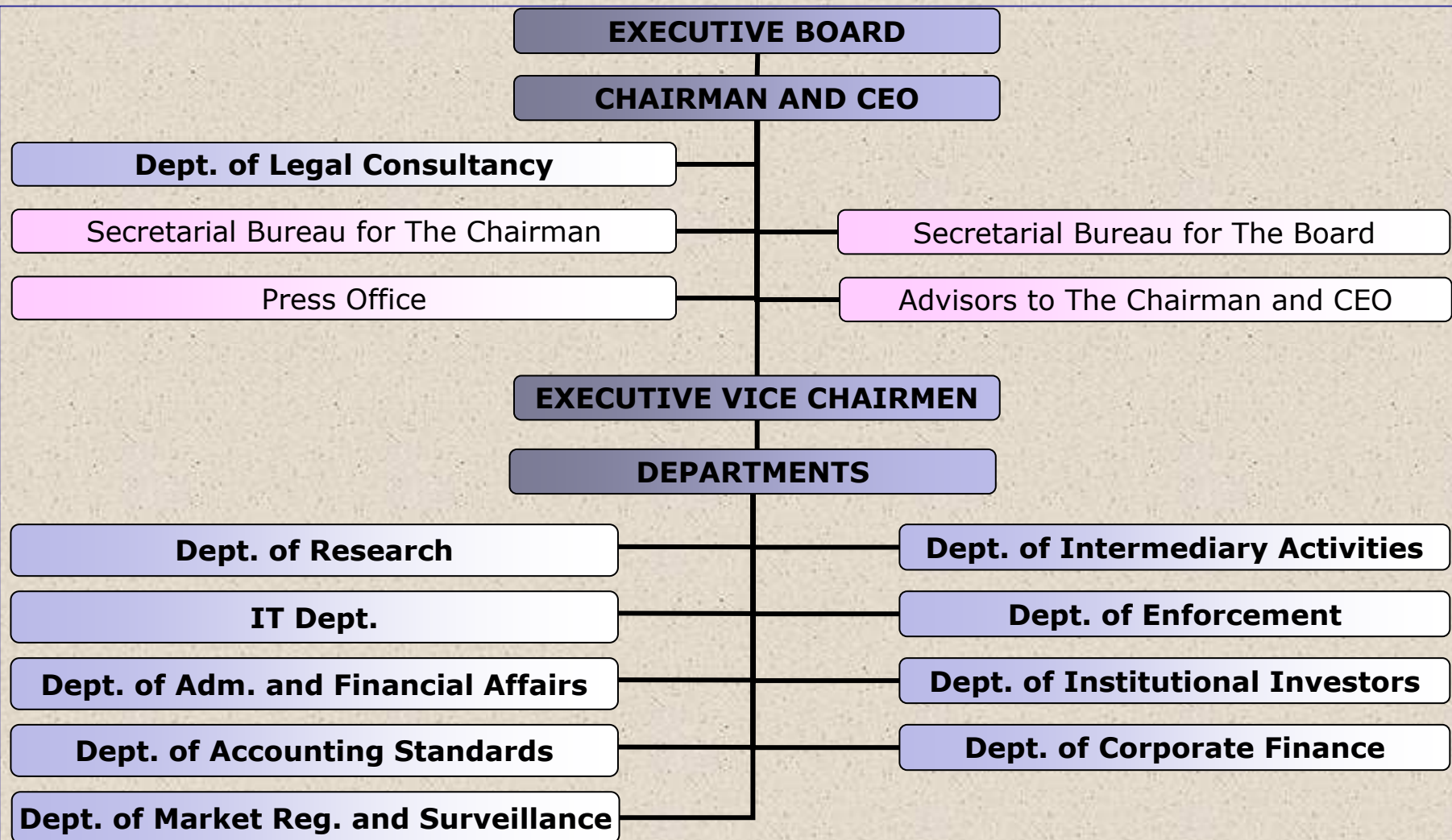
➤ **Purpose**

- ✓ To ensure an efficient and widespread participation by the public in the development of the economy through investing savings in the securities market
- ✓ To regulate and control the secure, transparent and stable functioning of the capital market
- ✓ To protect the rights and benefits of investors



ORGANIZATIONAL STRUCTURE OF THE CMB

- **The Executive Board consists of seven members.**
- **All members are appointed by the Council of Ministers for a six-year period. One third of the members other than the Chairman shall be selected every two years.**
- **The Council of Ministers appoints one of the members as the Chairman and the Board elects one member as the Vice Chairman.**





STAFF OF THE CMB (2005)	
The Executive Board and the Chairman	7
Directors	17
Professional Staff	229
Experts	189
Assistant Experts	40
IT Staff	25
Administrative Staff	167
TOTAL	445



THE MAIN POWERS AND RESPONSIBILITIES OF THE CMB

➤ **Operationally independent and accountable in the exercise of its functions and powers.**

✓ **CMB exercises its authorities independently under its own responsibility (Art. 17 of CML).**

- **The CML (Art. 19) assures the CMB members to act without political influence while performing their duties by providing immunity from impeachment during their tenure unless certain conditions stated in the Article occurs.**

- **The CML (Art. 22) states that the CMB shall exercise its authority by establishing regulatory procedures and making decisions in individual cases**



THE MAIN POWERS AND RESPONSIBILITIES OF THE CMB (cont.)

- **Has adequate powers, proper resources and the capacity to perform its functions and exercise its powers.**
- **The main powers and authorities according to the CML**
 - ✓ **Registration**
 - ✓ **Licensing**
 - ✓ **Regulation**
 - ✓ **Supervision and inspection**
 - ✓ **Enforcement**
- **The CMB recommends the establishment of securities exchanges.**



THE MAIN POWERS AND RESPONSIBILITIES OF THE CMB (cont.)

- **Professional standards set out for the staff including standards of confidentiality**
 - ✓ **Members of the CMB can not involve in commercial or other sectoral interests (Art. 20 of CML).**
 - ✓ **The staff cannot involve in any commercial activity, (Article 22/I.c of the By-law on the Personnel Regime of the CMB)**
 - ✓ **The chairman, members and staff of the CMB may not disclose confidential information that they have learned while fulfilling duties and conducting inspections and they may not use such information for their own benefit. This obligation and responsibility continues after the termination of their office (Article 25/a of the CML).**



THE MAIN POWERS AND RESPONSIBILITIES OF THE CMB (cont.)

➤ Enforcement

✓ Comprehensive inspection, investigation and surveillance powers

- Article 45 of the CML sets out provisions which provide the smooth realization of the inspections to be conducted by the CMB

✓ Comprehensive enforcement powers

- Article 46 of the CML puts forth the measures available to the CMB upon completion of an inspection.



ENFORCEMENT ACTIVITIES

- **Enforcement Department executes on-site and off-site inspections to the publicly held joint stock corporations and capital market institutions on targeted or full scope basis.**
- **Enforcement activity operates both on the basis of routine inspections and also due to the complaints from third parties and findings from other Departments of the CMB.**



ENFORCEMENT ACTIVITIES (cont.)

SUBJECTS OF ENFORCEMENT ACTIVITIES 2005

	Reports	Proposals	TOTAL	%
Brokerage Houses	17	26	43	17
Unlicensed Capital Markets Activities	2	3	5	2
Publicly Held Companies	25	17	42	16
Unregistered Public Offerings	7	3	10	4
Insider Trading	2	0	2	1
Manipulation	61	32	93	36
Independent Auditing Firms	6	0	6	2
Capital Market Institutions	17	6	23	9
Other (Administrative Pecuniary Punishments, Short Sales etc.)	13	20	33	13
TOTAL	150	107	257	100



JUDICIAL REVIEW OF THE DECISIONS OF THE CMB

- Without any exception, all decisions of the CMB are subject to judicial review (Art. 125 of the Constitution).
- Decisions of the CMB can be brought before Administrative Courts within 60 days period beginning with the notification of the decision (Art. 7/1 of Turkish Code of Administrative Trial Procedure).
- If the persons who are harmed by the decisions of the CMB not only request the decision in question to be annulled but also apply for the compensation of their damages, they are required to make initial application to the CMB for their losses to be covered (Art. 10 of the Turkish Code of Administrative Trial Procedure). In case the CMB rejects to pay for the claimed losses or does not reply within 60 days (which is considered accepted as implicit refusal), the person concerned may take legal action against the CMB before the Administrative Courts.



CO-OPERATION WITH DIFFERENT SUPERVISORY AUTHORITIES

➤ Authority to share both public and non-public information with domestic and foreign counterparts.

✓ The CMB, in the fulfilment of its duties, may request the opinions of and information from supervisory authorities. These institutions and persons are obliged to respond to such requests and to provide all kinds of facilities to the representatives of the CMB (Art. 24 of CML).

✓ Article 22/y of the CML authorizes the CMB to make all kinds of collaboration and exchange information with any counterpart foreign authority.



CO-OPERATION WITH DIFFERENT SUPERVISORY AUTHORITIES (cont.)

- ✓ **MoUs with 19 country's authorities and institutions
(9 of those countries are EU members)**
- ✓ **The IOSCO Multilateral MoU in 2002**



FINANCING OF THE CMB

- **Self-financing entity**
- **All the expenditures accrued are paid by a particular fund which is established for this purpose in compliance with the CML.**
- **A total of 0.2% of the volume of the securities registered with the CMB is paid by the issuer as a fee, which constitute the financial sources of the budget of the CMB.**



FINANCING OF THE CMB (cont.)

- 5% of the income of the Exchanges established within the scope of the CML is transferred to this fund.**
- In case the income from this fund is insufficient, the deficit is met by an amount allocated from the budget of the Undersecretariat of Treasury. However, this has not occurred since 1992.**



ADMINISTRATIVE CAPACITY BUILDING

Twinning Project: Assisting the Capital Markets Board of Turkey to comply fully with the European Union capital markets standards

➤ **Overall objective:**

Improvement of the availability of investment via capital markets by the means of better regulation

➤ **Project objective:**

Completion of the alignment of capital markets legislation and its proper implementation, in line with the EU acquis

➤ **Duration of the project: January 2006 – November 2007**



COMPONENTS OF THE PROJECT

- **Component 1 Adoption of capital markets legislation in conformity with the EU acquis**
 - ✓ 14 activities for the full alignment and proper implementation of the capital markets legislation in accordance with the EU acquis
- **Component 2 Strengthening the administrative capacity of the CMB**
- **Component 3 Design of a regulatory impact assessment system**
- **Component 4 Training of the CMB staff**
- **Component 5 Public Awareness Programme**



Indicators for Turkish Capital Markets (31.03.2006)

**NUMBER OF COMPANIES REGISTERED
WITH THE CMB**

606

ISE COMPANIES

306

OTHER COMPANIES

12

MARKET CAPITALIZATION OF LISTED COMPANIES

€ 146 billion

TRADING VOLUME IN ISE EQUITY MARKET

€ 60 billion

TRADING VOLUME OF FOREIGNERS

€ 21 billion



NUMBER OF EQUITY INVESTORS	1.068.584
NUMBER OF MUTUAL FUNDS INVESTORS	2.982.359
SECURITIES INTERMEDIARIES	148
Banks	41
Brokerage Houses	107
NUMBER OF BROKERAGE HOUSES WITH FOREIGN PARTICIPATION	12
TOTAL CAPITAL OF BROKERAGE HOUSES	€ 438 million
FOREIGN PARTICIPATION IN BROKERAGE HOUSES	€ 45 million



MUTUAL FUNDS	331
Number of Mutual Funds	278
Portfolio Value	€ 18 billion
Foreign Mutual Funds	53
Portfolio Value of Foreign Mutual Funds	€ 22 million
PENSION FUNDS	101
Number of Pension Companies	11
Portfolio Value	€ 966 million
INVESTMENT COMPANIES	26
Portfolio Value	€ 325 million



REAL ESTATE INVESTMENT COMPANIES	10
Portfolio Value	€ 1.531 million
VENTURE CAPITAL INVESTMENT COMPANIES	2
Portfolio Value	€ 68 million
PORTFOLIO MANAGEMENT COMPANIES	19
Asset Under Management	€ 19 billion
AUDITING COMPANIES	94
RATING INSTITUTIONS	6



MARKETS IN FINANCIAL INSTRUMENTS, INVESTMENT SERVICES



RELEVANT TURKISH LEGISLATION

- **Capital Market Law No. 2499 (CML) (Official Gazette (OG) No.17416, dated 30.07.1981)**
- **CMB Communiqué Serial: V, No: 46 on the Principles Regarding Intermediary Activities and Intermediary Institutions (OG No. 24163, dated 07.09.2000)**
- **CMB Communiqué Serial: V, No: 6 on the Principles Regarding Record Keeping and Documentation in Intermediary Activities (OG No. 21128, dated 31.1.1992)**
- **CMB Communiqué Serial: V, No: 59 on the Principles Regarding Portfolio Management Activities (OG No. 25000, dated 21.01.2003)**



RELEVANT TURKISH LEGISLATION (cont.)

- **CMB Communiqué Serial: V, No: 68 on the Principles Regarding the Internal Auditing Systems of Brokerage Houses (OG No. 25168, dated 14.07.2003)**
- **CMB Communiqué Serial: V, No: 77 on the Principles Regarding Public Disclosure by Intermediary Institutions (OG No. 25362, dated 30.01.02004)**
- **CMB Communiqué Serial: V, No: 55 on the Principles Regarding Investment Advisory Activities (OG No. 24734, dated 22.04.2002)**
- **CMB Communiqué Serial: V, No: 7 on Repurchase and Reverse Repurchase Agreements (OG No. (*bis*) 21301, dated 31.07.1992)**



RELEVANT TURKISH LEGISLATION (cont.)

- **CMB Communiqué Serial: VIII, No: 34 on the Principles Regarding Licensing and Registration for the Professionals Engaged in Capital Market Activities (OG No. 24490, dated 11.08.2001)**
- **By-law on Istanbul Stock Exchange (OG No. 22559, dated 19.02.1996)**
- **By-law on Istanbul Stock Exchange Listing Requirements (OG No. 25502, dated 24.06.2004)**
- **By-law on the Principles Regarding Establishment and Operations of Derivative Exchanges (OG No. 24327, dated 23.02.2001)**



INTERMEDIARY INSTITUTIONS

➤ Brokerage houses

- ✓ Joint stock corporation
- ✓ 100% of their capital in the form of registered shares
- ✓ Fully paid in capital not less than the amount determined by the CMB
- ✓ In compliance of the articles of association with the provisions of the CML
- ✓ Founders must not have been subject to legal prosecution due to bankruptcy or convicted for serious offences

➤ Banks



CAPITAL MARKET ACTIVITIES

- Intermediation to the public offering or issuance of capital market instruments that are to be registered with the Board
- The trading of previously issued capital market instruments for the purpose of intermediation
- Intermediation to the trading of all kinds of derivative instruments
- Repo and reverse repo transactions
- Investment advisory
- Portfolio management
- Activities of other capital market institutions (such as asset management companies, venture capital investment companies, portfolio safekeeping companies)



AUTHORISATION

- **Institutions to be engaged in capital market activities must be authorized by the CMB.**

- **Only brokerage houses and banks can provide**
 - ✓ **Intermediation to the public offering or issuance of capital market instruments,**
 - ✓ **Trading of previously issued capital market instruments for the purpose of intermediation.**

- **Institutions authorized for trading of previously issued capital market instruments for the purpose of intermediation can provide safekeeping services, margin trading, short sale and securities lending and borrowing services.**

AUTHORISATION (cont.)

- **Deposit taking banks may**
 - ✓ **Trade in previously issued capital market instruments;**
 - **On the exchange, except shares**
 - **Off the exchange**
 - ✓ **Engage in repurchase and reverse repurchase transactions**
 - ✓ **Intermediate for the purchase and sale of derivative instruments**

- **In addition to the above mentioned activities non-deposit banks may also undertake activities such as;**
 - ✓ **Intermediation to the public offering or issuance of capital market instruments that are to be registered with the Board**
 - ✓ **Portfolio management**
 - ✓ **Investment advisory**



AUTHORISATION (cont.)

- Banks can only engage in equity trading by their subsidiaries and they can be agents of brokerage houses by signing agreements.**
- Banks going public with their securities and performing capital market activities are subject to the provisions of the CML limited with these activities.**



REQUIREMENTS FOR OPERATING LICENCE

Intermediary institutions must;

- **Maintain the conditions for establishment**
- **Be member of the Investor Compensation Fund**
- **Apply for membership to the Association of Capital Market Intermediary Institutions of Turkey**
- **Meet initial capital requirement fully paid in cash**



REQUIREMENTS FOR OPERATING LICENCE (cont.)

- **Shareholders, managers, experts and internal auditors and inspectors should be fit and proper for their duties. These persons shall**
 - ✓ **Be certified as never having been subject to legal prosecution due to bankruptcy or other infamous offence**
 - ✓ **Not be sentenced for the violation of legislation**
 - ✓ **Not be sanctioned with heavy imprisonment or imprisonment for over five years or for the offences of infamous crimes.**



REQUIREMENTS FOR OPERATING LICENCE (cont.)

- ✓ Not be among the responsible persons at the institutions of which at least one of the authorization has been cancelled by the CMB or which have been permanently dismissed from the Stock Exchange membership,
- ✓ Not be the persons which the liquidation decision is made against them or institutions of which they are partners
- ✓ Not have a restriction on trading



REQUIREMENTS FOR OPERATING LICENCE (cont.)

- **Members of the board of directors, general manager and assistant general managers, head of units, experts and other qualified staff are subject to educational and professional experience requirements depending on their job specifications.**

(ex: managers should have university degree, general managers should have min. 7 years job experience in the field of financial markets or possess a “Capital Market Activities Advanced Level License Certificate”)



REQUIREMENTS FOR OPERATING LICENCE (cont.)

- Units must be established in line with the services provided and adequate personnel must be recruited
- An accounting, recording, information and documentation system in accordance with the regulations of the CMB must be in place
- Organizational structure sufficient for regular work flow and enabling communication must be established
- Technical hardware must be provided
- Internal control and audit system must be set up



REQUIREMENTS FOR OPERATING LICENCE (cont.)

- **Job descriptions, authorities and responsibilities of the personnel must be determined.**
- **Cash, securities and other assets kept within the institution must be insured in addition to the other necessary security measures.**
- **The collaterals and blockages laid down in the regulations must be allocated.**



OBLIGATIONS OF BROKERAGE HOUSES

- **Certain changes (10%, 20%, 33% and 50%) in the shareholder structure of the brokerage houses are subject to approval of the CMB.**
- **Brokerage houses have to fulfil capital requirements.**
- **Brokerage houses can not use the capital market instruments and the cash belonging to the customers for their own benefit or for the benefit of third parties without the consent of customers.**
- **They have to make public their certain capital adequacy figures and are obliged to act in compliance with the Communiqué on the record keeping and documentation for brokerage houses.**



REGULATED MARKETS

- Banks and brokerage houses authorised by the CMB can become members of the exchanges.
- Regulated markets:
 - ✓ Istanbul Stock Exchange (ISE)
 - Equity markets
 - Bonds and bills markets
 - ✓ Turkish Derivatives Exchange (TURKDEX)
 - Equity market
 - Foreign exchange market
 - Interest rate market
 - Commodity market



REGULATED MARKETS (cont.)

- ISE is a public legal entity and the TURKDEX is a private joint stock company.
- There are certain requirements for the chairman of the securities exchange such as having a university degree, 15 years professional experience and not be banned on public services and rights, and not be convicted of disgraceful offences, and not be adjudged bankrupt.
- Founders, shareholders, members of the board of directors, auditors and staff of the TURKDEX are required to meet certain legal conditions and have sufficient experience and educational background required for their duties.



REGULATED MARKETS (cont.)

- Unless otherwise permitted by a specific law, the Chairman of the ISE is not allowed to assume any other public or private job position, or deal with trading activities, or hold shares in partnerships, or give direct or indirect buy or sell orders for the securities traded on the ISE to prevent conflict of interest.
- Guarantee funds and collaterals of members to manage the risks.
- Clear and non-discretionary rules on execution of orders through by-laws on the exchanges.



REGULATED MARKETS (cont.)

➤ **Finalization of transactions by ISE Settlement & Custody Bank (Takasbank)**

➤ **Financial resources**

Initial membership fee, annual membership fee, fines levied on members, exchange transaction fees, various fees determined by the exchange and other incomes

➤ **There are listing requirements with regard to admission of securities to trading.**



INVESTOR PROTECTION

- There is no client categorisation.
- Intermediary institutions have to conclude a written framework agreement with their customers prior to providing intermediation services for sales and purchase, portfolio management, investment advisory, repo and reverse repo agreements, intermediation in sales of derivative instruments, margin trading, lending and borrowing of securities and short sales.
- Intermediary institutions cannot conclude a written agreement or provide services, unless the customers have signed the “capital market activities risk notice form” explaining the risks of the capital market.



INVESTOR PROTECTION (cont.)

➤ Know Your Customer Rule

✓ Intermediary institutions must obtain the identity information of their customers prior to opening an account, for the joint accounts each account holder shall be identified separately.

✓ Brokerage houses must request from foreign banks and brokerage firms a written commitment that they would provide identification details of the customers on behalf of whom the transaction is to be made, before getting their buy and/or sell orders.



INVESTOR PROTECTION (cont.)

➤ Know Your Customer Rule

✓ Intermediary institutions are obliged to introduce standard forms in order to have sufficient information on the risk and return preferences, investment purposes and financial status of their customers, and to update the information in these forms and keep these forms.

✓ The customers have to be informed that the information is requested for assessing their risk profile and that they assume the responsibility, if they refrain from providing the information.

➤ The intermediary institutions are obliged to send account statements monthly to their customers in 7 days following the related period .



EXECUTION RULES

- In principle, it is mandatory to bring buy and sell orders of the securities listed on the ISE to the ISE.

- Time priority rule for customer orders
 - ✓ The necessary infrastructure system that can list the receiving time of all orders should be established by intermediary institutions in order to assure the principle of time priority.



EXECUTION RULES (cont.)

- ✓ It is obligatory that intermediary institutions have all policies and procedures to prevent conflicts of interest with their customers. If a direct or indirect conflict of interest between them and their customers occurs, they shall primarily consider the interest of the customer. If such a conflict can not be prevented, they shall treat their customers fairly. Moreover, the intermediary institutions must establish an auditing unit which is responsible for the control and supervision of the operation of intermediary institutions.**



TRANSPERANCY RULES

- **The data about the transactions realised on the Exchanges are transmitted on real time basis by data vendors (for ISE, TURKDEX) and television channels (ISE).**
- **Trading information related with each financial instruments is also published at the daily, weekly and monthly bulletins of the Exchanges which are achieved through web sites of Exchanges.**



RECORD KEEPING AND TRANSACTION REPORTING

- **Intermediary institutions are obliged to arrange and keep the forms and documents completely and to register the accounting records related with the transactions of securities to their legal books in one day.**

- **The documents required to be kept:**
 - ✓ **Cash Receipt-Payment Document,**
 - ✓ **Transaction Result Form,**
 - ✓ **Account Statement,**
 - ✓ **Securities Inflow-Outflow Slips,**
 - ✓ **Customer Order Form,**
 - ✓ **Session Trail Form,**
 - ✓ **Transaction Distribution List,**



RECORD KEEPING AND TRANSACTION REPORTING (cont.)

- **Intermediary institutions are obliged to keep all kinds of correspondences, contracts, commitments, guarantees, and the documents such as other promissory notes and court announcements, and the documents regarding identity determination, the power of attorneys, and the other documents arranged within the framework of the rule of customer recognition in a systematic and classified manner.**
- **The keeping period of the documents other than the client order form is 10 years. No matter it has been realized or not, the “Customer Order Form” related with the orders of customers and the documents related with the orders received in the electronic environment are kept for 5 years following the date of arrangement.**



RECORD KEEPING AND TRANSACTION REPORTING (cont.)

- **Tape records related with the oral orders are kept until the end of the following year. It is obligatory that the conflicting ones be kept until the conflict in question is concluded.**
- **There is a link between the ISE and the CMB allowing to access all relevant trading information by the CMB.**



CROSS BORDER SERVICES

- **Brokerage Houses and banks which are authorized in accordance with Capital Market Legislation can intermediate purchase and sale operations of non-residents in domestic securities and other capital market instruments.**
- **Banks and authorized brokerage houses can intermediate purchase and sale operations of residents in securities traded on foreign financial markets.**



CROSS BORDER SERVICES (cont.)

- **Intermediary institutions established outside Turkey authorized by the competent authority of the home country, may provide service;**
 - ✓ **Exclusively to their non resident customers by remote access, in markets approved by the CMB with proper permission from the relevant Turkish exchange, as well as from the CMB**
 - ✓ **In markets established within the framework of the agreements concluded with the approval of the CMB.**



CROSS BORDER SERVICES (cont.)

- **The institutions established abroad should be authorized by the CMB if they are to provide capital market activities to the investors residing in Turkey via all kinds of electronic information, communication device, media and similar devices including internet. However there is no implementation in practice.**
- **It is possible for Turkish brokerage houses to engage in intermediation activities with regard to securities and other capital market instruments in foreign markets provided that they comply with the required principles such as signing agreements, composing necessary record keeping and documentation systems.**



ESTABLISHMENT OF A BRANCH

- **Foreign brokerage houses are not allowed to open a branch in Turkey.**
- **Turkish brokerage houses can operate abroad with the permission of the CMB through;**
 - ✓ **Opening a branch**
 - ✓ **Establishing agencies with the intermediary institutions authorized by the competent authority of the home country**
 - ✓ **Establishing agencies with the foreign branches of banks authorized in Turkey.**



POWERS of the CMB as the COMPETENT AUTHORITY

- **Have access to any document in any form whatsoever, and to receive a copy of it**
- **Demand information from any person, including those who are successively involved in the transmission of orders or conduct of the operations concerned, as well as their principals, and if necessary, to summon and hear any such person**
- **Carry out on-site inspections**
- **Require existing telephone and data traffic records by means of courts**
- **Require the cessation of any practice that is contrary to the provisions regarding the capital market activities**



POWERS of the CMB as the COMPETENT AUTHORITY (cont.)

- **Request the freezing and/or sequestration of assets; (limited to registered public offerings and unlicensed capital market activity)**
- **Request temporary prohibition of professional activity (CMB can prohibit professional activities which are subject to licensing by the CMB. Other activities which are not subject to licensing can be prohibited by applying to court)**
- **Require authorised investment firms and regulated markets' auditors to provide information**
- **Adopt any type of measure to ensure that investment firms and regulated markets continue to comply with legal requirements**



POWERS of the CMB as the COMPETENT AUTHORITY (cont.)

- **Require the suspension of trading in a financial instrument (ISE Stock Market By Law Art.25/A-B, ISE executive board is authorized to suspend trading for shares traded in ISE, CMB is not directly empowered)**
- **Require the removal of a financial instrument from trading, whether on a regulated market or under other trading arrangements**
- **Refer matters for criminal prosecution**
- **Allow auditors or experts to carry out verifications or investigations**



POWERS of the CMB as the COMPETENT AUTHORITY (cont.)

- **Administrative pecuniary fines can be imposed by the CMB in the case of violation of the regulations, standards and forms issued or general and special decisions taken by the CMB.**
- **There is right of appeal against the CMB decisions.**
- **Professional secrecy and cooperation between the competent authorities and exchange of information are regulated in general.**
- **There is an inter-authority consultation prior to the authorisation.**
- **ISE Regulation lays down an exclusive dispute resolution procedure designed for disputes between exchange members and between an exchange member and a customer in relation to an exchange transaction.**



THE NUMBER OF INTERMEDIARY INSTITUTIONS

Brokerage Houses	77
Brokerage Houses which are Subsidiaries of Banks	30
Banks	41
Total	148



INVESTOR COMPENSATION SCHEMES



RELEVANT TURKISH LEGISLATION

- **Capital Market Law No. 2499 (Official Gazette (OG) No.17416, dated 30.07.1981)**
- **By-law on Investor Protection Fund (OG No. 24439, dated 21.06.2001)**
- **By-law on Principles and Procedures of Gradual Liquidation of Intermediary Institutions (OG No. 24439, dated 21.06.2001)**
- **By-law Concerning Incorporation, Operation and Supervision of Central Registry Agency (OG No. 24439, dated 21.06.2001)**



GENERAL OVERVIEW

- **Investor Protection Fund (IPF) was established to fulfil cash payment and share delivery liabilities arising from the capital market operations and transactions performed by the intermediary institutions for which gradual liquidation or bankruptcy measure was taken and to conduct gradual liquidation process.**



GENERAL OVERVIEW (cont.)

- **IPF started to operate with the establishment of Central Registry Agency in 2001.**
- **The Fund is administered and represented by the Central Registry Agency established mainly to keep the registry of capital market instruments and the related rights.**



SCOPE

- All intermediary institutions must participate in the IPF by paying annual fees.
- Only shares and cash obligations arising from the share transactions are covered by the Fund.
- Protection is provided only when;
 - ✓ gradual liquidation decision is made for a brokerage house by the CMB
 - ✓ a bankruptcy decision is made for a brokerage house by the court
 - ✓ a bank's licence is withdrawn by the relevant authority



MEMBERSHIP OBLIGATIONS OF THE INTERMEDIARY INSTITUTIONS TO THE IPF

- **Intermediary institutions are obliged to pay annual subscriptions.**
- **In the case of insufficiency of IPF assets, temporary contributions are also required from intermediary institutions. In this kind of situation advance payments are also made by the ISE.**
- **If subscriptions are not deposited timely, it shall be subject to default interests for each month of delay at a rate to be determined by the CMB up to three times the rate of increase in the Consumer Prices Index of the previous month as published by the Turkish Statistical Institute (TURKSTAT).**
- **There is no provision on exclusion from the membership of the IPF in case not fulfilling the membership obligations. If an intermediary institution does not meet its obligations towards the IPF, it may lead to suspension or withdrawal of operations of intermediary institutions.**



INFORMATION GIVEN TO INVESTORS

- **Intermediary institutions are obliged to give sufficient data and information to the investors about the IPF and the coverage of protection by the IPF during their capital market activities related to the share transactions.**
- **The intermediary institutions cannot use the protection coverage provided by the IPF to the investors for advertisement purposes.**



PERSONS EXCLUDED FROM THE PROTECTION SCOPE of IPF

Intermediary institutions'

- **Shareholders**
- **Members of the Board of Directors**
- **Members of the Board of Auditors**
- **Personnel authorised to sign**
- **Spouses, blood relatives and relatives by marriage including third degree of above mentioned are not compensated.**



AMOUNT OF PROTECTION

- **Maximum payment is TRY 44,715 (~ € 27,520) for 2006**
- **Advance payments are made per account**
- **Payment limit revaluated yearly**



SUPERVISION OF THE FUND

- **CMB is authorised to examine and audit the accounts and transactions of the Fund.**
- **The Supreme Council of Public Accounts audits the Fund annually.**

GRADUAL LIQUIDATION

- **Special liquidation process for brokerage houses.**
- **The period of liquidation is shorter than the period of regular liquidation. Receivables of customers are paid or delivered initially.**
- **Decision is taken by CMB.**
- **The Fund takes over the management of the brokerage house.**



GRADUAL LIQUIDATION (cont.)

- The Fund shall, within 6 months at the latest following the date of the gradual liquidation decision, prepare and issue a schedule of creditors showing the names of creditors and the amounts of their receivables. This schedule shall also show the names of debtors and the amounts of their debts arising out the capital market transactions executed by the brokerage house.
- The period of preparation of this schedule of creditors may, if required, be extended upon proposal of the Fund and approval of the CMB.



GRADUAL LIQUIDATION (cont.)

➤ All information relating to:

- ✓ the places from where the schedule of creditors or the information contained therein may be received
- ✓ the period and procedures of objections
- ✓ the principles of distribution of the capital market instruments held in the safe custody accounts
- ✓ and the principles of cash payments by the Fund
- ✓ and the starting dates of distribution and payment, and the principles of debt payments by the debtor customers,

shall be advertised and publicized by the Fund.

GRADUAL LIQUIDATION (cont.)

- **The relevant creditors may file an objection to the Fund for their own receivables shown in the schedule of creditors within 30 days following the date of advertisement thereof.**
 - ✓ **The capital market instruments that are the subject of such objections and are held in their own safe custody accounts shall be blocked in the same accounts until the end of the fourth month following the advertisement date of the schedule of creditors.**
 - ✓ **If there is no information reported to the Fund within this period regarding the legal actions, the liquidation process continues related to these capital market instruments.**
 - ✓ **If it is reported to the Fund that the legal actions and remedies are taken and initiated, the blockage on the capital market instruments shall remain in effect until a final court judgment is issued thereon.**

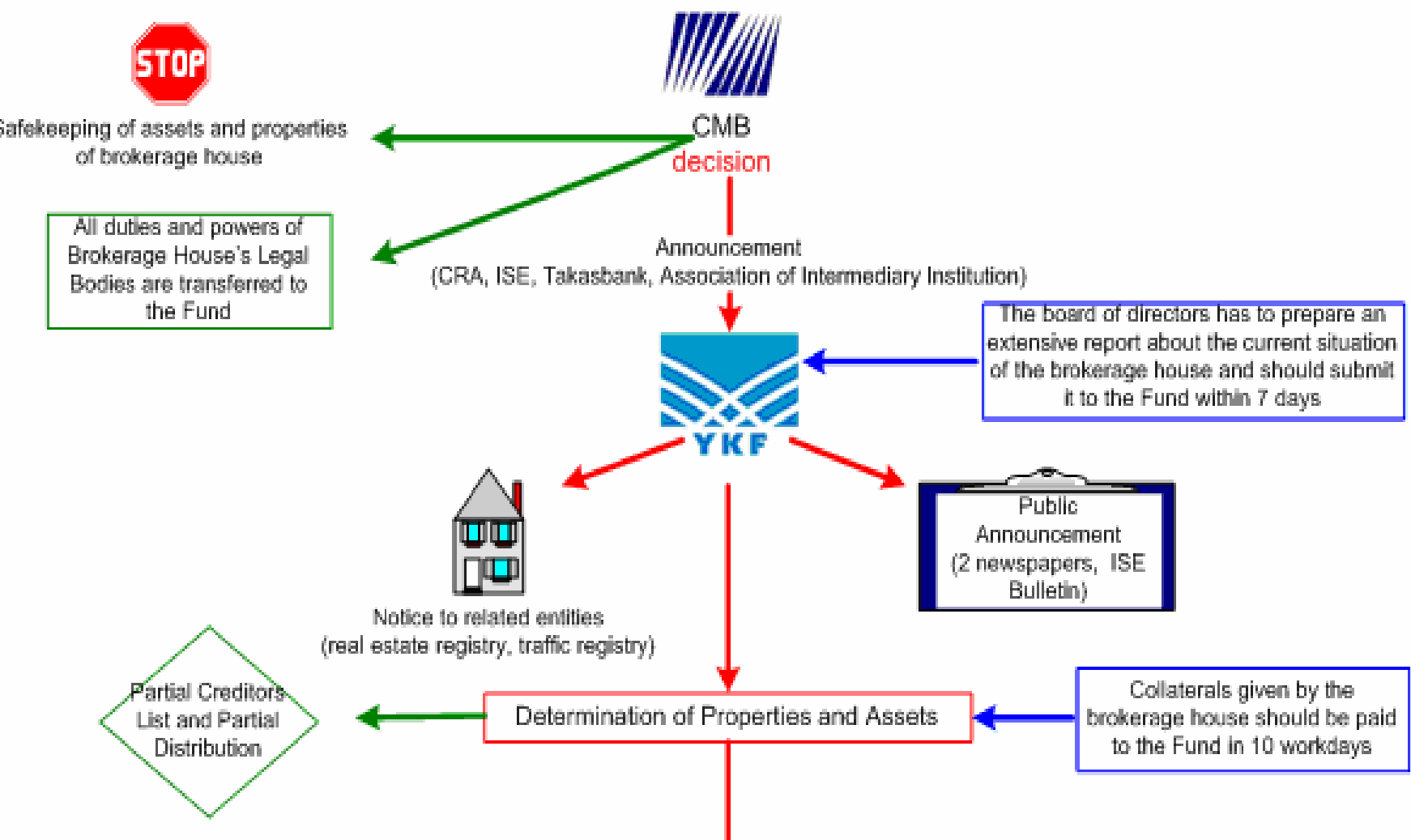


GRADUAL LIQUIDATION (cont.)

- **Advances are firstly paid to the investor by the Fund.**
- **Following the payment of the advances, liquidation balance is used to meet the unpaid claims of the investors, government claims and expenses of the Fund respectively.**

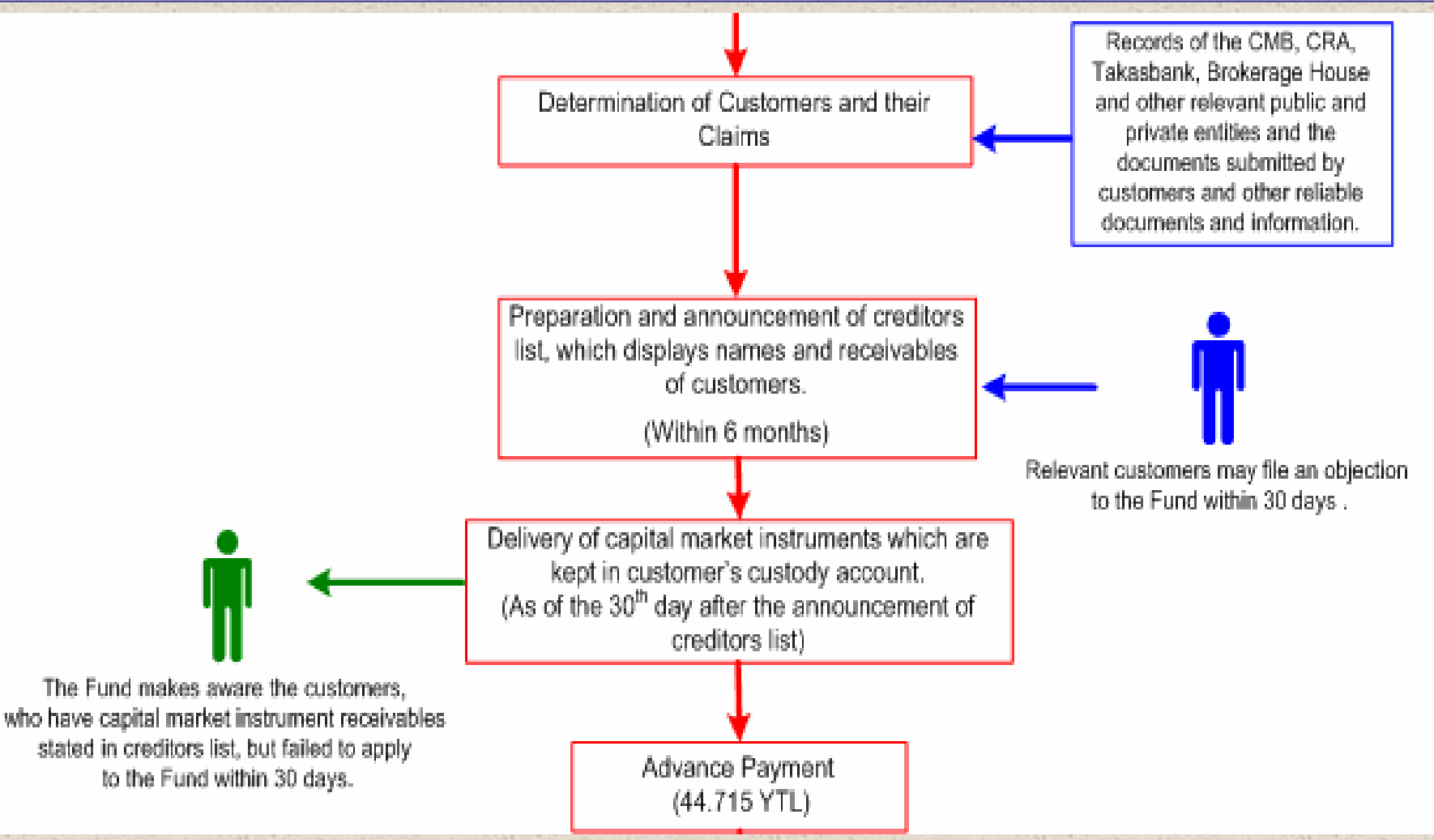


AGENDA ITEM IV: SECURITIES MARKETS AND INVESTMENT SERVICES



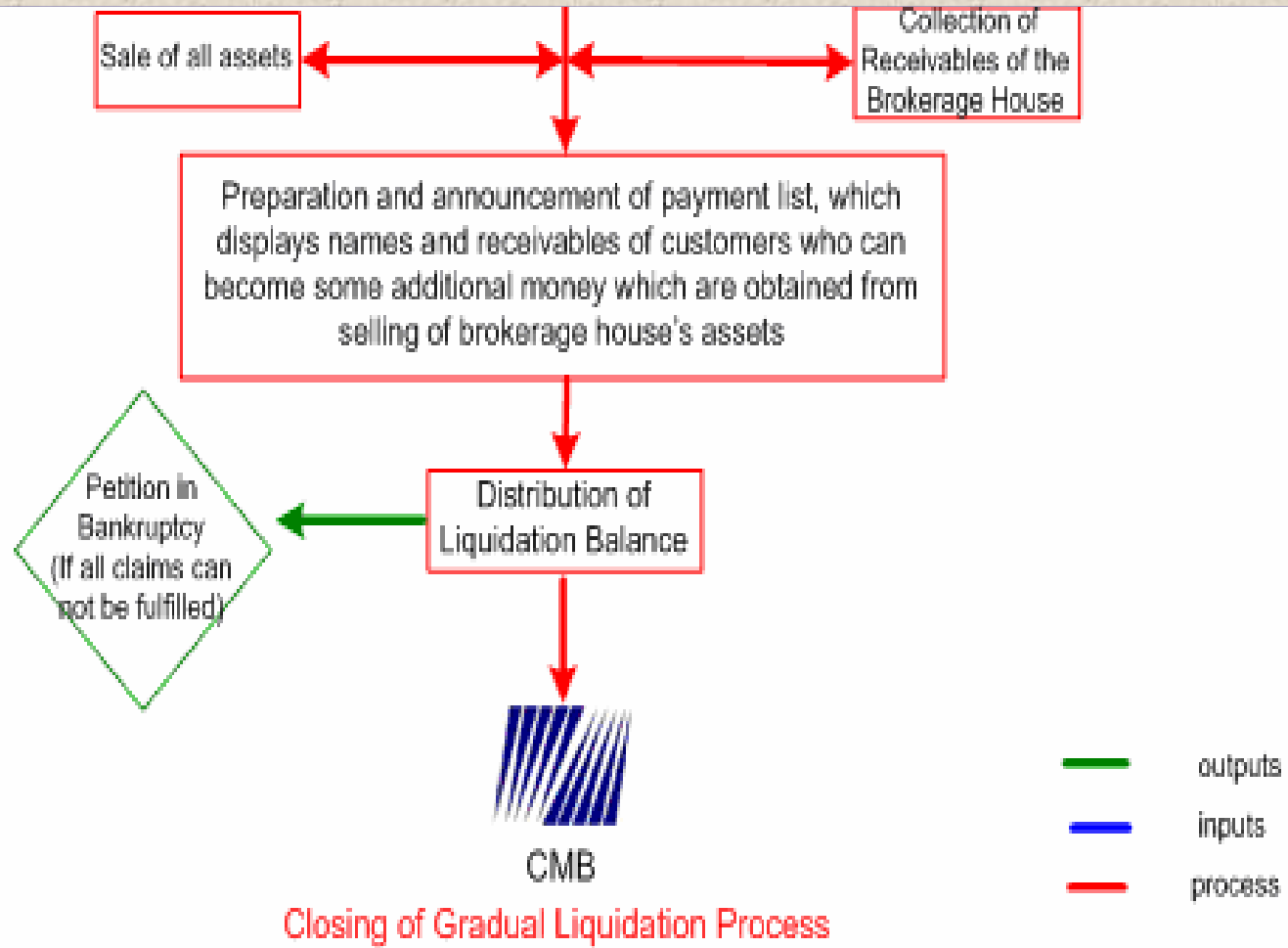


AGENDA ITEM IV: SECURITIES MARKETS AND INVESTMENT SERVICES





AGENDA ITEM IV: SECURITIES MARKETS AND INVESTMENT SERVICES





TRANSPARENCY OBLIGATIONS OF TRADED COMPANIES



RELEVANT TURKISH LEGISLATION

- **Turkish Commercial Code (TCC) (Official Gazette (OG) No. 9353, dated 09.07.1956)**
- **Capital Market Law No. 2499 (OG No. 17416, dated 30.07.1981)**
- **CMB Communiqué Serial: IV No:8 on Principles Regarding Proxy Voting At Shareholders' Meetings of Publicly Held Joint Stock Corporations, Proxy Solicitation and Tender Offer (OG No. 21872, dated 09.03.1994)**



RELEVANT TURKISH LEGISLATION (cont.)

- **CMB Communiqué Serial: XI No:25 on Accounting Standards in Capital Markets (OG No. (*bis*) 25290, dated 15.11.2003)**
- **Several CMB Communiqués on Different Securities**
- **CMB Communiqué Serial: VIII No:39 on the Principles Regarding Material Events (OG No. 25174, dated 20.07.2003)**



DISCLOSURE REQUIREMENTS

➤ Scope of Disclosure Requirements

- ✓ Periodic Information
- ✓ Ongoing Information

➤ Which Issuers are Covered?

- ✓ All issuers even if their securities are not traded on the stock exchanges shall apply legislation of the CMB on transparency regulations



PERIODIC INFORMATION

- Issuers shall prepare financial statements, financial reports to be disclosed in compliance with the standards determined by the CMB (Art. 16 of CML).
- Traded companies have started to prepare their financial statements and annual reports in accordance with the Communiqué Serial: XI, No: 25 which is in line with IFRS or IFRS itself beginning from 1 January 2005.
- All periodic information has to be disclosed to the public and filed with the CMB.

PERIODIC INFORMATION (cont.)

- **Traded companies should disclose**
 - ✓ **Audited annual financial statements**
 - ✓ **Annual financial reports**
 - ✓ **Quarterly financial statements**

- **Disclosure periods of financial statements**

The financial statements must be disclosed within the following time limits, with effect from the ends of the periods to which they relate:

 - ✓ **10 weeks in case of audited annual financial statements**
 - ✓ **6 weeks in case of audited half yearly financial statements**
 - ✓ **4 weeks in case of quarterly financial statements**
(additional 4 weeks are given for consolidated ones)



PERIODIC INFORMATION (cont.)

➤ Disclosure Methods

- ✓ Annual financial statements should be published in Turkish Trade Registry Gazette (TTRG) within 30 days following their shareholders' meeting, and
- ✓ Financial statements of traded companies are published in daily bulletin of the Exchange, and
- ✓ Companies which have internet site should disclose their financial statements, annual reports and audit reports through their internet sites.



PERIODIC INFORMATION (cont.)

➤ **Statements made by the persons responsible for financial statements**

✓ **All financial statements which are disclosed to the public, should be signed by the responsible persons and there should be statements regarding accuracy of financial statements.**



PERIODIC INFORMATION (cont.)

➤ Annual financial reports

Annual financial reports composed of the audited financial statements, the management report, statements made by the persons responsible for financial statements should be made available to shareholders 15 days prior to the annual general meeting which is to be held within the first three months of the year.



ONGOING INFORMATION

➤ The material information is to be disclosed in cases of significant events and developments that may have impacts on the investment decision of investors and the prices of capital market instruments and that are important for investors in exercising their rights.

➤ All material events regarding the changes in;

- ✓ Capital structure
- ✓ Control of management,
- ✓ Purchase and/or sale of tangible fixed assets,
- ✓ Main activities,
- ✓ Investments,
- ✓ Financial condition,
- ✓ Financial fixed assets,
- ✓ Administrative issues

shall be immediately disclosed to the relevant stock exchange, if the corporation is listed on the stock exchange.



➤ ONGOING INFORMATION (cont.)

➤ Information about major holdings

- ✓ Shareholders have to submit a statement to the Stock Exchange and to the traded company
 - if the shareholders' direct or indirect proportion of voting rights or of capital in the company reaches, exceeds or falls below the thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 or 75%
 - on the same date when this material event occurs.
- ✓ Traded company should also submit a statement about change of major holdings to the Stock Exchange.

ONGOING INFORMATION (cont.)

➤ Information about major holdings

✓ The content of notification

- The identity of the person who disclose the information**
- Information about the transactions (dates, prices etc)**
- The resulting situation after the transaction**

✓ Total voting rights of people acting together are also taken into account for disclosure requirement.

✓ Currently, all material information of traded companies are published at daily bulletin of the ISE and could be reached through the web site of the ISE.



STORAGE OF INFORMATION

➤ Public Disclosure System Project

- ✓ Listed Companies will disclose their financial statements, material information and prospectuses via a secure computer network.
- ✓ All disclosed information will be stored within this system.
- ✓ Testing of the system started in November 2004.

OTHER REQUIREMENTS

➤ Information Requirements for Issuers Whose Shares are Traded

✓ Information on Meetings

- An invitation containing the agenda of the shareholders' meeting shall be made on the TTRG at least two weeks before the meeting (art. 368, 369 of TTC).**
- The day of the meeting is also notified by mail to the owners of registered shares.**
- For traded companies, an invitation notice should also be disclosed through the stock exchange's Daily Bulletin.**



OTHER REQUIREMENTS (cont.)

➤ Information Requirements for Issuers Whose Shares are Traded (cont.)

✓ Proxy forms

- At shareholders' meetings of corporations, individuals with voting rights may exercise these rights through proxies.
- The proxy forms must be sent early enough for the shareholders to receive at least two weeks before the shareholders' meeting of the corporation. If corporations publish the proxy forms in the printed media such as newspapers and magazines, these forms shall be regarded as sent.



OTHER REQUIREMENTS (cont.)

➤ Information Requirements for Issuers Whose Shares are Traded (cont.)

✓ Exercising financial rights

- The pre-emptive rights and dividend payments shall be exercised at minimum three centres that are easily accessible and Istanbul Stock Exchange Settlement and Custody Bank.

✓ Notices on shareholder rights

- For traded companies, information on shareholders' rights are disclosed through the ISE daily bulletins.
- “Pre-emptive Rights Circular” shall be announced at daily news papers.



OTHER REQUIREMENTS (cont.)

➤ Information Requirements for Issuers Whose Debt Securities are Traded

✓ Information on Meetings

- **Convening procedure of bond holders meeting is same with the procedure of shareholders meeting (Art. 429 of TCC)**

✓ Proxy Forms

- **No regulation on this issue**

OTHER REQUIREMENTS (cont.)

➤ Information Requirements for Issuers Whose Debt Securities are Traded

✓ Exercising financial rights

- **Debt holders may exercise their financial rights through banks or brokerage firms.**

✓ Notices on debt holders' rights

- **For traded companies, information on debt holders' rights are disclosed through ISE daily bulletins.**



UNDERTAKINGS FOR COLLECTIVE INVESTMENT IN TRANSFERABLE SECURITIES



RELEVANT TURKISH LEGISLATION

- **Capital Market Law No. 2499 (Official Gazette (OG) No. 17416, dated 30.07.1981)**
- **CMB Communiqué Serial:VII No:10 on the Principles Regarding Mutual Funds (OG No. 22852, dated 19.12.1996)**
- **CMB Communiqué Serial:XI No:6 on the Principles Regarding Financial Statements of Mutual Funds (OG No. 20447, dated 28.02.1990)**



RELEVANT TURKISH LEGISLATION (cont.)

- **CMB Communiqué Serial:VII No:14 on the Principles Regarding Registration with the Board and Sale of Foreign Mutual Funds (OG No. 23515, dated 06.11.1998)**
- **CMB Communiqué Serial:VII No:23 on the Principles Regarding Exchange Traded Funds (OG No. 25432, dated 13.04.2004)**
- **CMB Communiqué Serial:V No:59 on the Principles Regarding Portfolio Management Activities and Institutions Which are Authorised to Provide Portfolio Management Services (OG No. 25000, dated 21.01.2003)**



GENERAL FRAMEWORK

➤ Capital Market Law

- ✓ **Investment Companies: Close ended structures**
- ✓ **Mutual Funds: Semi open ended structures**
 - **They can sell their shares up to the value determined in their internal statute**

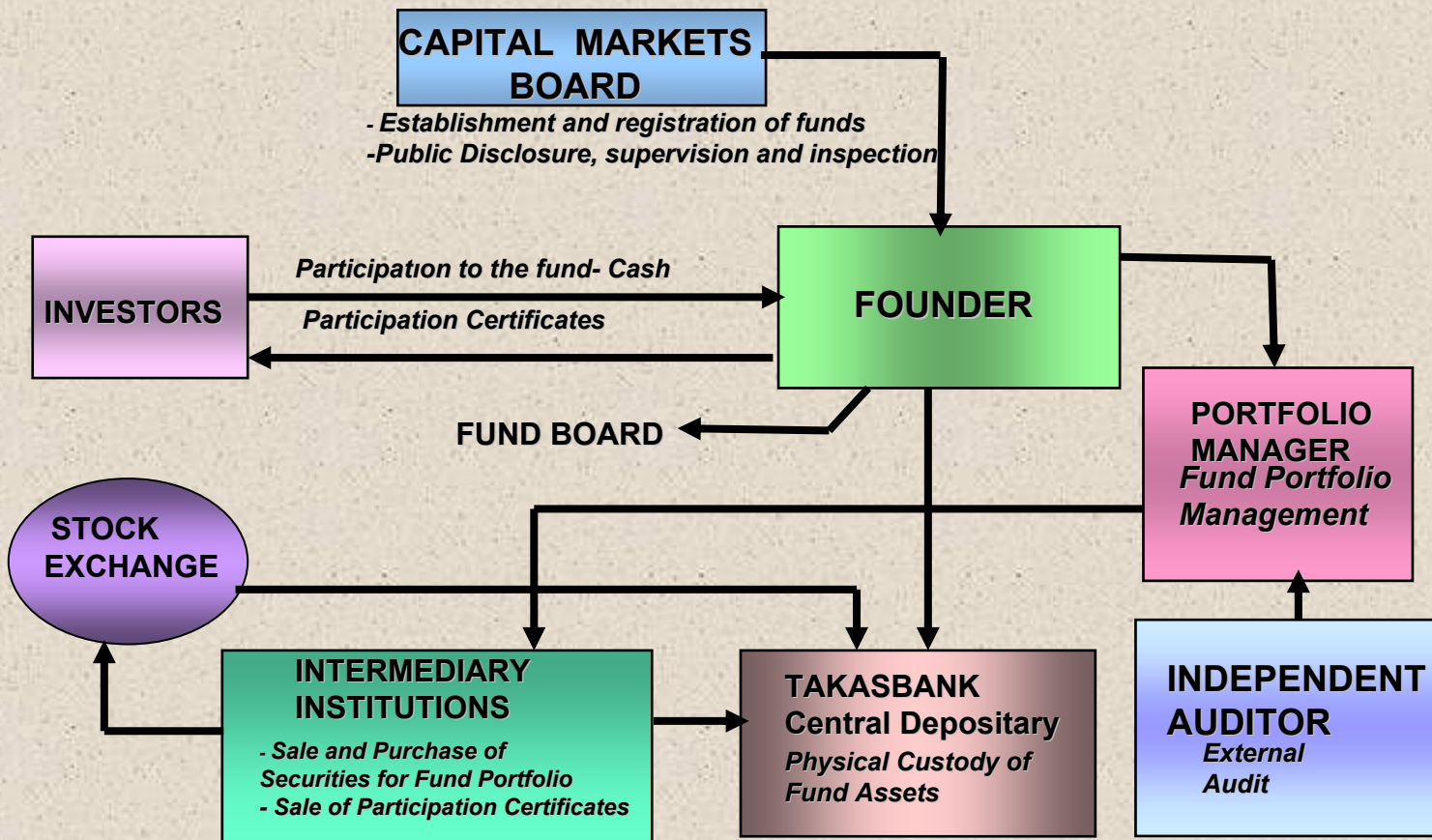


MUTUAL FUNDS

- **Mutual funds can be set up as contractual form.**
- **Founders of the mutual funds are restricted to banks, insurance companies, intermediary institutions, employee funds, pension funds (Art. 38 of CML).**



MUTUAL FUNDS SYSTEM IN TURKEY





MUTUAL FUND AUTHORISATION REQUIREMENT

- In order to establish a mutual fund, the founder must apply the CMB for permission with the internal statute of the fund.
- Minimum standards of internal statute of the fund are determined by the Serial VII No 10 Communiqué. The names of custodian, principles and rules of management and safekeeping of portfolio shall be included in the internal statute of the fund.



MUTUAL FUND AUTHORISATION REQUIREMENT (cont.)

- **Minimum initial fund amount required for mutual funds is TRY 3,000,000 (approximately € 1,845,000) for the year 2006.**
- **They can increase their fund amount if the amendment in internal statute regarding the amount is approved by the CMB.**
- **When a mutual fund issues new units, these units should be registered with the CMB.**



INVESTMENT REQUIREMENTS

- A mutual fund could invest in capital market instruments, gold and precious metal.
- They could not invest in deposits.
- Mutual funds are classified according to their asset allocation such as Variable, Balanced/Mixed, Sector, Equity, Index, Bonds, Liquid and Foreign Securities Funds.



INVESTMENT REQUIREMENTS (cont.)

➤ Mutual funds can invest

- ✓ max. 10% of funds' portfolio value in securities of one issuer.
- ✓ max. 5% of funds' portfolio value in IPOs which are intermediated by the founder or the manager (and max. 10 % of IPOs could be invested).
- ✓ max. 20% of funds portfolio value in securities of corporations belonging to the founder's and manager's shareholders, members of board of directors, general manager and assistant general manager if they have more than 20% of capital of that company separately or together.
- ✓ max. 10 % of funds' portfolio value in units of other types of mutual funds, units of exchange traded funds, shares of investment companies.



INVESTMENT REQUIREMENTS (cont.)

- ✓ Funds can own max. 9% of capital or voting rights in any corporation. Funds belonging to one founder cannot own more than 20% of capital or voting rights in any corporation.
- ✓ The securities of the founder and manager shall not be purchased for the fund portfolio.
- ✓ The total of securities issued by direct or indirect participations of the founder and manager shall not exceed 20% of fund portfolio.
- ✓ The mutual fund shall not undertake short sales and margin trading transactions.
- ✓ The mutual fund may lend max. 20% of the securities in their portfolio or borrow the same amount.



MANAGEMENT OF THE PORTFOLIO

- Portfolios of mutual funds are required to be managed by portfolio management companies or other intermediary institutions which are licensed by the CMB to manage portfolios.
- The portfolio manager is responsible for managing the portfolio consistent with objectives stated in the internal statute of the fund.
- The founder shall represent, manage and supervise the management of the fund (Art. 37 of CML).



MANAGEMENT OF THE PORTFOLIO (cont.)

- **Portfolio management companies and intermediary institutions which are licensed to manage portfolios have to;**
 - ✓ **fulfil capital requirements determined by the CMB**
 - ✓ **ensure organizational requirements, internal control mechanisms**
- **Shareholders, managers, staff of the portfolio management companies and intermediary institutions should be fit and proper for their duties.**



MANAGEMENT OF THE PORTFOLIO (cont.)

- **Portfolio management companies**
 - ✓ may manage individual portfolios,
 - ✓ may also provide investment advisory activities if they are licensed by the CMB.

- **Intermediary institutions which are licensed to manage portfolios may also provide additional activities.**



CUSTODY

- **The assets of the fund portfolio shall be kept in custody by custodian (only safekeeping function).**
- **The founder is responsible for the protection and safekeeping of the assets (Art. 37 of CML).**
- **The assets of mutual funds may not be pledged or provided as guarantee and may not be seized by third parties (Art. 38 of CML).**



DISCLOSURE REQUIREMENTS

- **A mutual fund should**
 - ✓ **Publish prospectus in case of issuance of new units (no simplified prospectus)**
 - ✓ **Disclose daily, monthly and annual reports at the points where units are sold**
 - ✓ **Disclose their unit prices daily**

- **Monthly reports consist of the information on movements of securities and units and performance of the fund.**



DISCLOSURE REQUIREMENTS (cont.)

- An annual report consists of audited financial statements, fund portfolio value and fund total asset value statements. It must be published in three months from the end of the related period.**
- Audited half yearly financial statements should be made available in six weeks from the end of related period at the points where units are sold.**



MARKET ABUSE



RELEVANT TURKISH LEGISLATION

- **Capital Market Law No. 2499 (Official Gazette (OG) No. 17416, dated 30.07.1981)**
- **CMB Communiqué Serial: I, No.26 on the Principles Regarding Registration with the Board and Sale of Shares (OG No. 23524, dated 15.11.1998)**
- **CMB Communiqué Serial: V, No.55 on the Principles Regarding Investment Advice Activities (OG No. 24734, dated 22.04.2002)**
- **CMB Communiqué Serial: VIII, No.39 on the Principles Regarding Public Disclosure of Material Events (OG No. 25174, dated 20.07.2003)**
- **CMB Guide for Preventing Manipulation (CMB Decision No. 63/1482, dated 12.12.2003)**
- **CMB Communiqué Serial: V, No. 46 on the Principles Regarding Activities of Intermediary Institutions (OG No. 24163, dated 07.09.2000)**



MARKET ABUSE

➤ Single competent authority

CMB

➤ Scope

“Capital market instruments”

✓ **Capital Market Instruments: Securities and other capital market instruments which have terms and conditions determined by the Capital Markets Board:**

- including derivatives,
- excluding cash, checks, bills of exchange, promissory notes and certificates of deposit.



INSIDE INFORMATION DEFINITION

- **Non-public information which will be able to affect the value of capital market instruments**



INSIDER DEALING - INSIDERS

- **Primary insiders:** Chairman, members of the board of directors, directors, internal auditors and other staff of the issuers and capital market institutions and the subsidiaries and dominant establishments of these issuers and capital market institutions
- **Secondary insiders:**
 - ✓ persons who are in a position to have information while carrying out their professions or duties
 - ✓ persons who are in a position to have information because of their direct or indirect relations with the primary and secondary insiders



INSIDER DEALING - PROHIBITIONS AND SCOPE

- To *benefit* to his/her self-owned property or
- To *eliminate a loss*

so as to damage equal opportunity among the participants operating in capital markets

- ✓ *with the aim of gaining benefit* for himself/herself or for third parties
- ✓ *by making use* of non-public information which will be able to affect the values of capital market instruments is insider trading
- ✓ *recommending or inducing* on the basis of inside information is not prohibited
- ✓ *disclosure* of inside information to third parties is not prohibited



DISCLOSURE FRAMEWORK

- **Determined by the CML and CMB Communiqué on Public Disclosure of Material Events and the relevant stock exchange rules.**
- **Compulsory to disclose public every kind of information that can impact the investors' decisions and the value of capital market instruments.**

DISCLOSURE FRAMEWORK (cont.)

- The Communiqué contains:**
 - ✓ a definition of “significant/material event/information and a requirement to publish the related information**
 - ✓ a comprehensive list of occasions in which public disclosure is required**
 - ✓ no obligation to draw up lists of persons having access to inside information**



DISCLOSURE FRAMEWORK (cont.)

➤ Managerial Transactions

✓ Managerial transactions are to be disclosed according to Art. 16/A of CML and CMB Communiqué on Public Disclosure of Material Events.

“Members of board of directors, general managers and their deputies and shareholders holding 10% or more of the capital of publicly held joint stock corporations shall provide the CMB and relevant exchanges and other organized markets such information relating to their shares in those corporations as the CMB may require for the purpose of disclosure” (Art.16/A of CML).



INVESTMENT RECOMMENDATIONS

- **Obligations in relation to fair presentation of recommendation and obligations in relation to disclosure of conflicts of interest are prescribed by the CMB Communiqué Regarding Principles on Investment Advice Activities.**



INVESTMENT RECOMMENDATIONS (cont.)

- **Persons**
- **Organizations**

✓ **Providing investment comments and recommendations in capital markets by all means including the media and all electronic means on**

- **capital market instruments,**
- **companies and institutions which issue these instruments**
- **other subjects related to the capital markets**

are obliged to follow requirements set by the CMB Communiqué.



REQUIREMENTS for INVESTMENT RECOMMENDATIONS

- **Preparation of comments and recommendations with due diligence and objectivity**
- **Avoiding expressions that are misleading and deceptive and that exploit the inexperience and ignorance of the public**
- **Avoiding expressions that are subjective and exaggerated**
- **Supporting investment comments and recommendations by reliable documents, reports and analyses**
- **Providing comments and analysis based on the information disclosed in the prospectus and circular regarding public offering of any capital market instrument.**



REQUIREMENTS for INVESTMENT RECOMMENDATIONS (cont.)

- **Avoiding making any promises and/or commitments implying a certain predetermined return.**
- **Avoiding the dissemination of any misleading, false, deceptive and baseless information, news or comments on subjects under the jurisdiction of the CMB that have been or are yet to be resolved.**
- **Compliance with the Law on the Establishment and Broadcasting of Radio and Televisions No: 3984 in providing comments and recommendations.**



REQUIREMENTS for INVESTMENT RECOMMENDATIONS (cont.)

Comments and recommendations should include:

- The name and/or the commercial title of the preparing party**
- Data and sources used**
- The analysis method used and the assumptions of the method**
- Abbreviations, formulas, terms, explanations on related subjects if any, to make the public understand the entire information**



REQUIREMENTS for INVESTMENT RECOMMENDATIONS (cont.)

- **Total value of any benefit obtained by persons or institutions that prepare and/or publish the provided comments and recommendations if any, in case there is any other benefit obtained by them in favour of themselves and/or third parties other than the regular payment in return for these publish services.**
- **Information on any direct or indirect relation in terms of management or capital between the person who prepared the comments and recommendations and the issuer of the capital market instrument which is the subject of comments.**



WARNING NOTICE REGARDING INVESTMENT RECOMMENDATIONS

- Investment comments and recommendations should include a warning notice in accordance with the following principles:
 - ✓ Investment information, comments and recommendations stated are not within the scope of investment advisory activity.
 - ✓ Comments and recommendations stated rely on the individual opinions of the ones providing these comments and recommendations.
 - ✓ These opinions may not fit to the investor's financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated may not bring about outcomes that fit the investor's expectations.



MARKET MANIPULATION – Types

- **Transaction Based Manipulation**
- **Information Based Manipulation (Dissemination of misleading information)**

TRANSACTION BASED MANIPULATION – Scope

- **Trading on capital market instruments in order to artificially affect their demand and supply, to give the impression of existence of active market, to hold the prices at the same level, to increase or decrease the prices (Art. 47/A-2 of CML).**



INFORMATION BASED MANIPULATION – Scope

- **Give and disseminate misleading, false, deceiving information and news, make comments or do not disclose the information which he/she should disclose (Art 47/A-3 of CML).**
- ✓ **No specific rule concerning journalists**

OFFENDERS of TRANSACTION and INFORMATION BASED MANIPULATIONS are:

- **Real persons**
- **Authorized persons of the legal entities**
- **Those acting with them**



REQUIREMENTS for PERSONS PROFESSIONALLY ARRANGING TRANSACTIONS

- **Intermediary institutions, their managers, personnel and other natural and legal persons can not engage in any business which will lead to contributing, assisting or bringing about the trading activities on capital market instruments with the purpose of artificially, having influence on supply of or demand for them; conveying an impression of an active market; or increasing, decreasing or keeping their prices at the same level (Art. 1 of CMB Communiqué on Intermediary Activities Add.).**
- **No regulation regarding the duty to notify suspicious transactions by persons professionally arranging transactions.**



EXEMPTIONS

- **“Buy-back” programmes**
Turkish Commercial Code No. 6762 Article 329 prohibits companies to buy their own shares.
- **Stabilisation of Financial Instruments**
Regulated by the CMB Communiqué to safeguard investors from sharp decreases in the price of stocks after initial public offerings, provisions are in line with the 2273/2003 Commission Regulation.



ENFORCEMENT

Dual System for Sanctions

➤ Criminal

✓ Imprisonment from 2 to 5 years and a heavy pecuniary fine of from TRY 54,900 up to TRY 137,250 (€ 33,780- € 84,460) This fine is not bound to an upper limit, but cannot be less than three fold of the benefits obtained by committing the crime (Art. 47 of CML).

➤ Administrative

✓ Temporary or permanent transaction ban for real persons or legal entities at exchanges and other organized markets who directly or indirectly engaged market abuse practice.

✓ Actions violating public disclosure requirements are subject to administrative pecuniary fine of from TRY 10,980 up to TRY 54,900 (€ 6,756- € 33,784) (Art. 47/A of CML).



ENFORCEMENT POWERS

- Have access to any document in any form whatsoever, and to receive a copy of it
- Demand information from any person, including those who are successively involved in the transmission of orders or conduct of the operations concerned, as well as their principals, and if necessary, to summon and hear any such person
- Carry out on-site inspections



ENFORCEMENT POWERS (cont.)

- **Require existing telephone and data traffic records**
- **Require the cessation of any practice that is contrary to the provisions regarding the capital market activities**
- **Suspend trading of the financial instruments concerned; (ISE Stock Market By-law Art.25/A-B, ISE executive board is authorized, CMB is not directly empowered)**
- **Request the freezing and/or sequestration of assets; (limited to unregistered public offerings and unlicensed capital market activity)**



COOPERATION BETWEEN COMPETENT AUTHORITIES

- **According to CML Article 22/(y) CMB is authorized to collaborate in any way and to exchange information regarding the capital market with any equivalent authority of a foreign country responsible for regulation and supervision of capital markets. This cooperation is exercised through memorandum of understandings.**



PROSPECTUSES



RELEVANT TURKISH LEGISLATION

- **Capital Market Law No. 2499 (Official Gazette (OG) No. 17416, dated 30.07.1981)**
- **CMB Communiqué Serial: I, No:26 on the Principles Regarding Registration with the Capital Markets Board and Sale of Shares (OG No. 23524, dated 15.11.1998)**
- **CMB Communiqué Serial: IV, No:9 Regarding Issuers' Condition of Exemption and Deregistration from the Board (OG No. 22154, dated 27.12.1994)**



RELEVANT TURKISH LEGISLATION (cont.)

- **Several CMB Communiqués on Different Securities**
- **CMB Serial: VIII, No:22 Communiqué on the Principles Regarding Sales Methods of Capital Markets Instruments Through Public Offering (OG No. 21741, dated 27.10.1993)**
- **CMB Decisions (Prospectus Standards)**



OBLIGATION TO PUBLISH A PROSPECTUS

- **Securities may only be offered after registration with the CMB and approval of a prospectus.**



PROCEDURE OF PUBLIC OFFERING

- **Drawing up of the Prospectus**
- **Registration with the Board and approval of prospectuses**
- **Registration with the Trade Registry**
- **Publishing of prospectus and circular**
- **Sale of capital market instruments**



DRAWING UP OF THE PROSPECTUS

- The information required to be disclosed in public offering of capital market instruments shall be included in the prospectus (Art. 6 of CML).
- The CMB determines the content of the prospectus (Art.6 of CML).
- The prospectus shall be signed by the intermediary institutions and issuers (Art. 7 of CML).
- No concept of a base prospectus.

DRAWING UP OF THE PROSPECTUS (cont.)

➤ A voluntary shelf registration system

- ✓ A public disclosure system that consists of basic and regularly updated information about corporations whose shares are traded on the stock exchange.**
- ✓ A company using this system prepare a document containing information regarding the issuer and this document is approved by the CMB each year.**
- ✓ When the company would like to issue shares, another document which contains the information concerning the shares offered to the public is approved by the CMB.**
- ✓ There is no summary in our self registration system and the systems is possible for a listed company who issue shares.**



EXEMPTIONS

➤ **No obligation to publish a prospectus in the following securities;**

- ✓ **Securities offered in connection with a merger, division, takeover,**
- ✓ **Dividends paid out in the form of shares, shares allotted free of charge to the existing shareholders**
- ✓ **Shares issued in substitution for shares of the same class already issued, if the issuing of such new shares does not involve any increase in the issued capital,**
- ✓ **Allotment sale,**
- ✓ **Issuance of shares for conversion of convertible bonds within the framework of the relevant Communiqué.**



APPROVAL AND PUBLICATION OF THE PROSPECTUS

- Prospectus has to be approved by the CMB before being published.
- Any missing documents or information shall be completed within the time period determined by the CMB. Processing of applications shall be completed within maximum thirty days. The time granted for the completion of documents shall not be taken into account in calculating this thirty day period (Art. 5 of CML).



APPROVAL AND PUBLICATION OF THE PROSPECTUS (cont.)

- ✓ Prospectus is published before the public offer through the Turkish Trade Registry Gazette. A copy of the prospectus should be made available for investors at the registered office of the issuer and the sales points.**
- ✓ A pilot program, Public Disclosure Platform, is being worked on so that the publication of a prospectus by electronic means via e-signature will be made available.**



CONTENT OF THE PROSPECTUS ON SHARES

- **Information about the Issuer**
 - ✓ **Descriptive Information**
(i.e. Trade name, address of headquarters and branches, registry date and number, activity period, shareholder number, legislation governing the company, line of activity)
 - ✓ **Information about Existing Capital and Share**
- **Information Regarding Securities that will be Issued**
- **Information Regarding Public Offering of Existing Shares**
- **General Information About Public Offering**
(i.e. Period of public offering, information about price and how it is determined, information related to the nature of underwriting)



CONTENT OF THE PROSPECTUS ON SHARES (cont.)

- **Information About Financial Situation of the Company**
 - ✓ **Financial Statements**
 - ✓ **Explanations Related to Financial Statements**
- **Information Related to Company Management**
- **Information Related to Company Activities**
- **Information about the Group of Companies that the Company Belongs**
- **Taxation Related to Securities**
- **Other Issues**
 - ✓ **The names of documents (corporate charter, annual report, etc.) that can be examined by investors during the public offering process.**
 - ✓ **Explanation about other legislation, if any, governing the company.**



SUPPLEMENTS TO THE PROSPECTUS

- **Any changes and new facts regarding the issues disclosed to public through prospectus and circular which appeared prior to completion of the sales shall be informed to the CMB at that date via the fastest means of communication by suspending the sales.**



ADVERTISEMENTS

- **The texts of ads and announcements to be published due to public offering shall be submitted to the CMB before the date of publication. No information other than the information in the circular and prospectus can be included in the ads, announcements and any kind of releases.**
- **The CMB may require that any change be made in the texts, if deems it necessary, and the texts shall not be published unless the changes required by the CMB are made.**