Securities Industry Outlook in Turkey

Attila Köksal, CFA
Chairman

Asia Securities Forum AGM
24 October 2013, Taipei
TSPAKB

- Founded in April 2001 as a self-regulatory organization.
- 141 members; 100 brokerage firms and 41 banks.
- Assets of our members correspond to 90% of GDP.

We:
- Regulate and oversee the intermediaries,
- Offer training programs,
- Publish a variety of research,
- Cooperate with foreign institutions.
New Capital Market Law

- **Previous capital market law was in force since 1981**
  - It became outdated and inadequate to meet investors' needs and the fast-paced innovations taking place globally.
  - Introduction of the new commercial code increased the need for compatible legislation for the capital markets.

- **New capital market law was adopted in December 2012 with the goal of «modernizing» Turkey’s capital markets legislation,**
  - Better harmonization with international standards (EU directives, FSB principles etc.) and the new Turkish Commercial Code.
  - Significant changes on financial activities, market institutions, offerings, market abuse, investor protection, auditing.
  - More open to financial innovations.
Capital Market Institutions

**PREVIOUS LAW**

Capital Market Institutions
- Brokerage firms
- Mutual funds
- Investment trusts
- Other

**NEW LAW**

Capital Market Institutions
- Investment institutions
- Collective investment institutions
- Asset management companies
- Mortgage finance corporations
- Asset/housing finance funds
- Asset lease companies
- Central clearing institutions
- Central depository institutions
- Trade repositories
- Rating agencies
- Independent auditors
- Other

New capital market institutions introduced, some existing institutions defined for the first time.
Capital Market Activities

PREVIOUS LAW
Capital Market Activities
- Securities trading
- Public offering
- Portfolio management
- Investment advisory
- Repo-reverse repo
- Other activities

NEW LAW
Investment Services
- Trading (customers or own account)
  - Order routing
  - Securities trading
- Public offering
  - Underwriting
  - Best effort
- Asset management
- Investment advisory
- Operating Multilateral Trading Facilities
- Custody services
- Other services
- Complementary services (lending, financial planning, advising etc.)

From an institution-based approach to an activity-based approach.
Investment Institutions

Brokerage Firms
- Derivatives Market
- Fixed Income Market
- Equity Market
- Forex (MM, WL, IB)

Banks
- Derivatives Market
- Fixed Income Market

Derivatives Brokerage Firms
- Derivatives Market
- Forex (IB)

MM: Market Maker
WL: White Label
IB: Introducing Broker
Previously, a minimum capital was required for each activity. Thus, brokerage firms’ minimum capital was ranging between TL 832,000 (US$ 400,000) for securities trading only and TL 10,407,000 (US$ 5.1 mn) for full services.

The new regulation defined three types of intermediaries as; Introducing Broker, Limited Service Broker and Full Service Broker.

Minimum capital varies between TL 2 mn ($ 1 mn) and TL 25 mn ($ 12.5 mn).

<table>
<thead>
<tr>
<th>Brokerage Firms</th>
<th>Minimum Capital Requirement ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Order Routing</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Investment Advisory</td>
<td></td>
</tr>
<tr>
<td>Limited Custody Services</td>
<td></td>
</tr>
<tr>
<td>Best Effort Public Offering</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Securities Trading</td>
<td></td>
</tr>
<tr>
<td>Complementary Services</td>
<td></td>
</tr>
<tr>
<td>Underwriting</td>
<td></td>
</tr>
<tr>
<td>Full Custody Services</td>
<td>12,500,000</td>
</tr>
<tr>
<td>Asset Management</td>
<td></td>
</tr>
</tbody>
</table>
Previously, mutual funds could only be established by banks, brokers, insurance companies, pension and employee funds.

With the new law, funds can be established and managed only by asset management companies.

Previously, asset management companies’ minimum capital requirement was flat at TL 427,000 (US$ 215,000).

New regulation brought minimum capital requirements in line with assets under management.

Minimum required capital now ranges between TL 2 mn (US$ 1 mn) and TL 10 mn (US$ 5 mn).

<table>
<thead>
<tr>
<th>Assets Under Management</th>
<th>Minimum Capital Requirement ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $ 50 mn.</td>
<td>1,000,000</td>
</tr>
<tr>
<td>$ 50-250 mn.</td>
<td>1,500,000</td>
</tr>
<tr>
<td>$ 125-2,500 mn.</td>
<td>2,500,000</td>
</tr>
<tr>
<td>&gt; $ 2,500 mn.</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>
Association’s Structure

- Currently, only banks and brokerage firms are members.
- According to the new Capital Markets Law, other capital market institutions, including asset management companies will be members.
- The management structure of the Association will change accordingly.
Principles of Initial Public Offerings was formed with the contribution of industry professionals.

IPO principles were published in April 2013 and aims at solving the overpricing and misselling problems.

TSPAKB Investor Rights were published in May 2013.

We aim to increase awareness of the investors about their rights and encourage their participation in the financial markets.
Final Remarks

- New capital markets law brought significant changes to the investment industry.
- New capital market institutions are introduced and existing ones are redefined.
- New investment services are defined.
- Capital requirements for investment companies and asset management companies were raised.
- Membership base of our Association will be broadened.
- TSPAKB aims to reinforce its regulatory role.
Thank You!

Buyukdere Cad. No:173
1. Levent Plaza A Blok Kat:4
1. Levent 34394 Istanbul

Tel.: (90) 212-280 85 67
Fax: (90) 212-280 85 89

info@tspakb.org.tr
www.tspakb.org.tr