

LICENSING OF BROKERAGE FIRMS IN TURKEY

ACTIVITIES OF INTERMEDIARIES

To provide investment services, all intermediary institutions have to be authorized by the Capital Markets Board (CMB). While only brokerage firms and banks authorized by the CMB may apply for membership to the Istanbul Stock Exchange (ISE) or the Turkish Derivatives Exchange (TurkDex), derivatives brokerage firms may only become a member of TurkDex. Membership to the Association (TSPAKB) is compulsory for all intermediaries.

With the decision of 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, derivatives brokerage firms and banks are the market players.

CMB's Communiqué Serial V, Number 46 is the main regulation regarding the establishment and activities of brokerage firms. Derivative brokerage firms are subject to similar set of regulations defined by the Communiqué Serial V, Number 90.

Intermediary institutions are required to obtain a license from the CMB in order to be able to offer services. CMB determines minimum requirements for application and examines each application in detail before issuing a license.

The operating licenses can be summarized as follows:

1. Securities Trading (Banks are authorized only for intermediation of off-exchange equity transactions),
2. Public Offering,
3. Portfolio Management,
4. Investment Consultancy,
5. Repo/Reverse Repo Agreements,
6. Margin Trading, Securities Lending & Short-Selling,
7. Derivatives Trading

LICENSING REQUIREMENTS

A brokerage firm/derivatives brokerage firm should meet the following general conditions in order to obtain a license from the Capital Markets Board.

- The brokerage firm/derivatives brokerage firm should be established as a joint stock company;
- The brokerage firm/derivatives brokerage firm should have 100% of its paid-in capital in registered form;

- The capital must be fully paid-in;
- The brokerage firm/derivatives brokerage firm should meet the minimum capital requirements;
- Necessary collateral and guarantees must be allocated. 15% of the minimum capital required by the licenses held should be pledged at Takasbank (Settlement and Custody Bank);
- Service units must be established, adequate personnel must be recruited, a satisfactory accounting, record keeping, information, communication and documentation system must be in place, technical hardware must be provided, an internal control and audit system must be set up, job descriptions, the authority and responsibilities of the personnel must be determined, and cash, securities and other assets kept within the institution must be insured against fire and theft (CMB makes on-site inspections to check the adequate fulfillment of these requirements);
- The brokerage firm/derivatives brokerage firm should apply for membership to the TSPAKB (Association);
- The brokerage firm should participate in the Investors Protection Fund;
- Founders must have the necessary financial capacity and credibility;
- Managers must be university graduates, and all expert personnel must be at least high school graduates;
- The general manager and assistant general man-



agers must either have a minimum of 7 years of professional experience in financial markets or management, or hold an Advanced Level License (certification is required for managers, research and corporate finance analysts at intermediary firms, audit firms and asset management companies);

- In case the board of directors wants to appoint a board member as an executive director, at least two members should be appointed with clearly defined responsibilities;
- The members of the board must inform the board of directors if they have been into a blood or marital relation with the individuals party to the decisions of the board of directors, such as vendors or clients.

Any ownership changes surpassing 10%, 20%, 33% or 50% of the brokerage firm's capital is subject to CMB approval. Also, CMB must be notified of changes that do not affect these thresholds.

MINIMUM CAPITAL REQUIREMENTS

In addition to general conditions, there are minimum capital requirements to obtain licenses for brokerage firms. Current amounts are presented in the table.

All brokerage firms must have at least the Securities Trading license. 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 full service brokerage firm, at least TL 2 million (~US\$ 1.28 million as of end June 2010) paid-in capital is required for the year 2010.

CMB Communiqué Serial V, Number 34 defines capital adequacy requirements for brokerage firms.

Minimum Capital Requirements (2010)		
Brokerage Firms	TL	US\$
Securities Trading	803,000	510,262
Public Offering	403,000	256,084
Repo/Reverse Repo Agreements	403,000	256,084
Portfolio Management	322,000	204,613
Investment Consultancy	84,000	53,377
Margin Trading, Securities Lending and Short-Selling	-	-
Derivatives Trading	-	-
Total	2,015,000	1,280,422
Derivatives Brokerage Firms		
Trading in Currency and Precious Metal Derivatives	767,000	487,386
Trading in Commodity Derivatives	767,000	487,386
Trading in All Kinds of Derivatives	1,533,000	974,137
Source: CMB	*Calculated as of June 2010	

There are three thresholds to be met at all times:

- Minimum capital required by the licenses held,
- 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.

On the other hand, TL 767,000 (~US\$ 487,000) minimum capital requirement should be met by derivatives brokerage firms which are engaged in trading of currency and precious metal derivatives. Again, TL 767,000 (~US\$ 487,000) minimum capital is required for brokerage firms engaging in commodity derivatives. In order to offer full derivatives services, the brokerage firm is required to have TL 1,533,000 (~US\$ 974,000) of paid-in-capital.

RELEVANT REGULATIONS

Communiqué Serial: V, No: 46 on Principles Regarding Intermediary Activities and Intermediary Institutions

Communiqué Serial: V, No: 90 on Principles Regarding Conditions for Establishment and Activities of Derivatives Brokerage Firms

Communiqué Serial: V, No: 34 Regarding the Principles on Capital Adequacy of Brokerage Firms