

DEIK/Turkish-US Business Council Annual Investment Conference: "Turkey Beyond 2008"

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"2008 Outlook: Economic and Regulatory Environment"

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Honourable Minister,
Distinguished guests,

I wish to thank the Turkish-US Business Council for inviting me to participate in this important discussion. It is especially pleasing to have the opportunity to share our views with you today.

First of all, let me briefly introduce our Association. The Association of Capital Market Intermediary Institutions of Turkey is established as a self regulatory organization in 2001. 104 brokerage firms and 41 banks, which are authorized for capital market operations, are our members. Membership is compulsory. In short, we are similar to FINRA of the US.

Although I am here today to speak on behalf of the financial intermediaries as the Chairman of our Association, I have worked on several fields in the capital markets. I started my career in the Capital Markets Board. After 10 years at the CMB, I moved to Doğuş Group. Currently, I am also serving as the Executive Board Member at Garanti Securities. I feel lucky, because I had the chance to be on both sides of the table. First, on the regulatory side at the Capital Market Boards, and then at the brokerage industry. I am lucky, because 24 years ago, I was among the first experts of the Capital Markets Board. Thus, from the very beginning, I personally witnessed and contributed to the process of building Turkey's capital market infrastructure.

The efforts of the Capital Markets Board, which is the first independent authority in our country, are very important in many aspects. First of all, as the first independent authority in Turkey, a quite distinct model from the existing administrative system was introduced. An independent authority was a revolutionary development at that time in Turkey. At the beginning of this process, Capital Markets Board started analyzing international cases and developed a model for the domestic market. In the first half of 1980s, as Capital Market Board's young experts, we were sent to the USA in order to build Turkey's regulatory infrastructure. We attended a specially-designed training program in Wharton School. Within this program, we attended basic training programs about the capital markets. We also visited the major institutions in the US, like SEC, previously NASD, NASDAQ, NYSE, major brokerage firms, rating companies; Moody's, Standard and Poor's and had fruitful discussions.

Taking the US experience into account, a brand new model for financial markets and legal practices were introduced in Turkey. These regulations have been developed since then.

Although American institutions and regulations form the basis of this model, all the developed markets were analyzed. Even though the Turkish capital market is relatively

young, it currently has a stronger position than ever. Especially, the regulatory infrastructure is quite strong. Turkey adopted several international standards into its system, such as public disclosure, transparency, accounting standards, capital adequacy and supervision.

Today, it is possible to reach any financial statements, independent auditors' reports and disclosures of listed companies, on the stock exchange's website. There is historical data about the companies as well. On the Association's website, it is possible to reach information about the brokerage firms' and portfolio companies' employees, and brokerage firms' operational and financial data. All of these are regulated through communiqués, by-laws and detailed rules. In other words, we do not have any disclosure or transparency problems.

All topics addressed in the developed markets' regulations exist in our current regulations. Takeover bids, mergers and spin-offs, disclosure requirements, proxy voting, cumulative voting, dividend payments, international financial reporting standards, corporate governance principles are all regulated in detail.

Capital market institutions are subject to high capital adequacy requirements. Capital adequacy is reported twice a month, electronically.

Although we have very strong legislative infrastructure in Turkey, CMB is trying to make it better. For example, Capital Markets Board has launched a twinning project, aiming to harmonize Turkey's regulations and practices with the European Union. Within the scope of these projects, several compliance studies are conducted with the German Ministry of Finance, Bundesbank and the financial supervisory authority, BaFin. The twinning project is funded by the European Union.

The major directives covered by the project are;

- Prospectus,
- Undertakings of Collective Investment in Transferable Securities, known as UCITS directive
- Transparency and Public Disclosure
- Investor Protection,
- Markets in Financial Instruments, MIFID
- Capital Adequacy,
- Market Abuse,
- Takeover Bids.

Of course, additional elements are also evaluated in terms of existing regulations and EU acquis.

The twinning project studies revealed that, our regulations are in line with the European standards to a great extent. In a way, EU institutions confirmed that, with minor improvements, Turkish regulations will fully comply with the EU standards. Besides that, the technical infrastructure of our market is extremely strong.

Istanbul Stock Exchange has a state-of-the-art technology allowing remote access, and trading is fully electronic. After execution of trades, ISE provides amazingly detailed information that is rarely seen in the world. Trading volumes, positions, fund inflows to the market can be tracked instantly.

Our settlement system is among the fastest and reliable ones in the world. International custodians such as Citibank, Deutsche Bank, HSBC, BNP Paribas and JP Morgan can provide settlement and custody services without any problems.

The Central Registry Agency keeps capital market instruments in dematerialized form. Again, being amongst the few examples in the world, investor can be tracked down in detail. Detailed investor profile analyses are published by our Association regularly.

Investors in Turkey can track their portfolios through their cell phones, even if they are held at different custodians.

I may develop the examples further, but we do not have enough time to go over all of them. In short, there is a strong technical and legislative infrastructure in place, which is being developed further in line with the EU regulations.

Dear guests,

We all agree that there are some basic conditions while investing in a country. Political and economic stability are among the preliminary conditions. Turkey's macroeconomic conditions have stabilized in recent years. In my opinion, presence of liberal and fair rules and regulations similar to developed capital market are the necessary drivers for investment.

As a matter of fact, major financial institutions, like Morgan Stanley, Merrill Lynch, UBS, Deutsche Bank, Citibank are currently operating in Turkey. And new foreign financial institutions are chasing opportunities. For instance, in the last 2 years, ownership structure of the brokerage firms has significantly changed. Currently, in 26 brokerage firms, out of 100, foreign institutions have controlling stakes. In 2005, this number was just 6.

We are happy to see that major international law offices, consultancy firms, audit firms and rating institutions are operating in Turkey.

In the last three years, foreign direct investments in Turkey exceeded \$50 billion. Half of this amount was invested in the finance industry, mainly in banks. I must add that, the US share in foreign direct investments increased to above 20% of the total in 2007, from around 5% in previous years.

We think that there are two major reasons behind the foreign investor interest. First is the strong regulatory structure, mostly in harmony with the European Union standards, which I have already discussed. Second is the growth potential of our markets. We think that the basic pillar of market growth will be the introduction of new investment instruments. I would now like to mention the ongoing studies about the introduction of new products.

The Turkish Derivatives Exchange Turkdex, became operational in 2005 and recorded an impressive growth. Currently, instruments traded on that exchange are limited to the equity index and currency futures. However, single-stock futures are on the way. Later, options will be introduced.

Recently, Capital Markets Board has opened a draft for the introduction of warrants to public debate. We expect its implementation in the near future.

With the declining real interest rates, corporate bond market has been reviving slowly. If supported with minor regulatory amendments, we think that this market is set to grow rapidly.

The mortgage system regulations have been passed last year. And, we expect to see mortgage instruments soon.

Ladies and Gentlemen,

We all feel the effects of globalisation in our daily lives. When we wake up in the morning, the first thing we do is following the Asian markets. During the day, we keep an eye on European markets. And before going to bed, we check the US markets. In this environment, the convergence of regulations and effective cooperation among regulators are essential. Funds can move around the world in a blink. And potential side effects require international cooperation.

The Capital Markets Board has close relations with the International Organization of Securities Commissions. Most of IOSCO principles are currently put in practice.

Our Association is member of the International Council of Securities Associations. We have taken important steps towards developing international standards. We have the opportunity to consult each other and compare our market structures. In doing so, we aim to converge to international standards and provide a level playing field for our members.

In conclusion, I have to say that Turkish capital markets have made considerable progress within the last few years. However, the variety of capital markets instruments is still limited. In other words, Turkey has ample room for progress, proven by the swift development of Turkdex. Turkey offer significant potential and we expect our markets to be broader and deeper in the medium term.

It has been a great pleasure for me to be part of this discussion today and I thank you all for listening.