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An exchange designed to drive growth

İbrahim M. Turhan, Ph.D., chairman and CEO of Borsa İstanbul, explains the exchange's critical role in developing Turkey's financial markets and supporting economic growth.



İBRAHİM M. TURHAN

Today, securities exchanges are at the very heart of capital markets all around the world. Liquidity and product diversity offered by exchanges and the number and market capitalisation of listed companies play a crucial role in attracting both local and international investors that affect the level of capital inflows as well. Accessibility, efficiency and transparency of these platforms are decisive factors that affect the level of capital inflows. In this respect, Borsa İstanbul is the institutional powerhouse of Turkey that leads the financial development and contributes to the socio-economic welfare of the country.

With a long history that goes back to early 1870s, Borsa İstanbul is the fully integrated operator of capital markets in Turkey and provides a fair, transparent and efficient environment for the trading of a wide variety of securities including equities, exchange-traded funds, warrants, government and corporate bonds, repo and reverse-repo agreements, derivatives, selected commodities and Sukuk. Borsa İstanbul as a group is also the sole provider of post-trade services, namely, central clearing, settlement, custody, and registration in Turkey.

A new era

Borsa İstanbul has highly liquid, dynamic and well established equity and fixed income markets and fast-growing derivatives and commodity markets. The

shares of 421 companies are quoted on its equity platform, with a market capitalisation of US\$283 billion as of November 2014. At the end of 2013, daily average traded values for equity and fixed income markets reached US\$1.7 billion and US\$14.5 billion respectively, making Borsa İstanbul the sixth largest among emerging equity markets in terms of trading volume and the fourth largest bond market in the world based on electronic order book volume.

Enactment of new Capital Market Law in December 2012 has started a new era in Turkish capital markets. Borsa İstanbul was demutualised in April 2013 and separate Turkish exchanges were merged under its umbrella. Since then, extending the range of products and markets, enhancing corporate capacity and capabilities, and investing in state-of-the-art market technology and infrastructures have been at the top of the corporate agenda.

Borsa İstanbul closely pursues emerging trends and opportunities in the global exchange business. In this respect, Borsa İstanbul has stepped up its efforts to make the most from opportunities available to emerging markets with initiatives such as exchange consolidation, demutualisation, technological infrastructure upgrades, and the establishment of partnerships with global players and linkages with international exchanges. In line with the rising share of emerging markets in global output, an increased capital flow to developing

markets is expected to materialise as new economic powerhouses rise globally. At this critical juncture, the financial markets that benefit most from such structural changes will be the ones which provide investors with the broadest product mix on reliable and transparent platforms with the highest possible efficiency.

Technology has become one of the most crucial elements of the exchange business. Aware of such a business requirement, Borsa İstanbul has signed a comprehensive strategic partnership agreement with Nasdaq OMX to renew its technological infrastructure. With this agreement, Borsa İstanbul is obtaining a state-of-the-art technology employed by leading exchanges. A multi-asset, multi-currency trading platform, integrated into all post-trade functions, with customary key features such as connectivity and risk management will be at the service of all investors.

In best responding to global trends and competition in the capital markets, Borsa İstanbul has adopted a strategic roadmap that prioritises the enhancement of existing product and services, and the initiation of new businesses that will provide targeted growth in the short and long terms. In particular, along with macroeconomic growth, fixed income and equity businesses offer vast opportunities (e.g. In the last five years, new corporate debt issues jumped to US\$29 billion in 2013 from almost nothing).

Diverse growth sources

Borsa İstanbul recently established a venture-capital platform where early-stage companies can meet potential institutional investors such as venture capitalists, angel investors and private equity funds. Such a move will not just make it easier for start-up firms to have access to funds, but will also boost the number of IPOs as investors in those start-ups might prefer to turn their investments into cash by offering these companies to the public.

Borsa İstanbul has a dynamic and fast-growing derivatives market. Options and futures contracts based on equities and indices are now traded on Borsa İstanbul platforms. Borsa İstanbul is the principal shareholder in the upcoming Turkish Energy Exchange and the platform operator for energy trading in Turkey. Energy derivatives including electricity and natural gas contracts will be traded on Borsa İstanbul platforms.

Borsa İstanbul is establishing a technology development centre (technoparc) where global and local technology firms will conduct R&D to best meet the technology needs of the financial industry in Turkey.

Borsa İstanbul is also capitalising on its advantage in the fast-growing Islamic finance niche. The funding needs of the fast-growing real estate industry and large infrastructure projects will be the driving force for high growth in the Turkish market in the near future. In this respect, along with high growth potential in Islamic financial products, the opening of the World Bank Global Islamic Finance Development Center at Borsa İstanbul campus proves that the potential role that Borsa İstanbul can play in Islamic finance is also well-recognised at global level.

Turkey, in the context of its 2023 vision, aims to be among 10 biggest economies in the world, to have an export volume of US\$500 billion and to make İstanbul an important international financial centre. Such goals require the presence of a technologically advanced exchange that serves a broad range of products and services. Borsa İstanbul is fully aware of its responsibilities in reaching these targets and is redesigning its legal, organisational and technological infrastructures accordingly. ■

Extending the range of products and markets, enhancing corporate capacity and capabilities, and investing in state-of-the-art market technology and infrastructures have been at the top of the corporate agenda.



**BORSA
İSTANBUL**

COUNTRY FOCUS – TURKEY

From the Bosphorus to the Hudson

International standards and agreements are central to Turkey's development as a regional, and ultimately global, financial hub.

Heather McKenzie

In October 2014, Turkey's Takasbank joined the European Clearing House Association. Ayhan Altintas, central risk and collateral management director, said the move would be "a great advantage and anchor for Takasbank to carry out and extend its central counterparty (CCP) services in line with international best practices".

Takasbank has multiple roles in the Turkish financial markets; it provides clearing, settlement and custody services as well as certain investment banking services. It is also authorised to provide cash and securities settlement transactions as the central clearing and settlement institution to Borsa Istanbul's equities, debt, derivatives and precious metals markets.

One month later, Russia's central securities depository

(CSD), the National Settlement Depository, signed a memorandum of understanding with Merkezi Kayıt Kuruluşu (MMK) A.Ş., its Turkish counterpart, with a view to cooperating on service developments including the use of e-proxy voting services during corporate actions processing.

These moves reflect the changing nature of Turkey's post-trade framework as the country's government and regulators look to reform financial markets infrastructure, with particular attention paid to governance and trading capabilities. The aim is to attract more international institutional investment to a country that believes it has very real advantages as a bridge between Europe and Asia. To achieve it, Turkey's capital markets institutions are adopting a wider

outlook, forming alliances with counterparts across the globe.

Investment channels

With a population of more than 81 million, Turkey recorded GDP growth in 2013 of 3.8%. Foreign direct investment (FDI) for 2013 totalled US\$12.9 billion, according to the Central Bank of the Republic of Turkey, slightly on the previous year (US\$13.2 billion). Despite not being bracketed with the BRICs, Turkey is one of the biggest emerging markets success stories of the past decade and is already the world's 17th largest economy. It would become the sixth largest in the European Union, were long-drawn out accession talks to conclude positively. But the outlook is mixed at best.

Stefano Manservigi, ambassador and head of the European Union delegation to



“Maintaining the confidence of foreign and domestic investors in Turkey’s growth prospects is very important.”

STEFANO MANSERVIGI,
HEAD OF THE EU DELEGATION
TO TURKEY

Turkey, warned a summit in May 2014 that the country’s low domestic savings rates were insufficient to finance its large investment needs. Moreover, a current account deficit running at 8% of GDP, financed by short-term capital inflows, makes Turkey vulnerable to rapid changes in investor sentiments. Rising political tensions both in Turkey’s close neighbourhood and at home also cast long shadows over the investment landscape. “In such a challenging global environment, maintaining the confidence of foreign and domestic investors in Turkey’s growth prospects is very important,” he said.

Manservigi said the EU could play a key role in helping to

shore-up confidence in Turkey as an investment destination. Close coordination of macroeconomic and financial objectives were required, as are “EU-inspired” reforms to provide transparency and build confidence in Turkey’s business environment, thereby encouraging inward investment. Although accession appears to have stalled, closer with Europe links are being established. The EU is the main source of Turkish FDI, despite the ravages of the euro-zone crisis, with European companies investing in sectors such as automotive, energy, telecommunication and financial services. “Around 70% of total FDI ending up in Turkey in the past five years originated from the EU,” said Manservigi. “Half

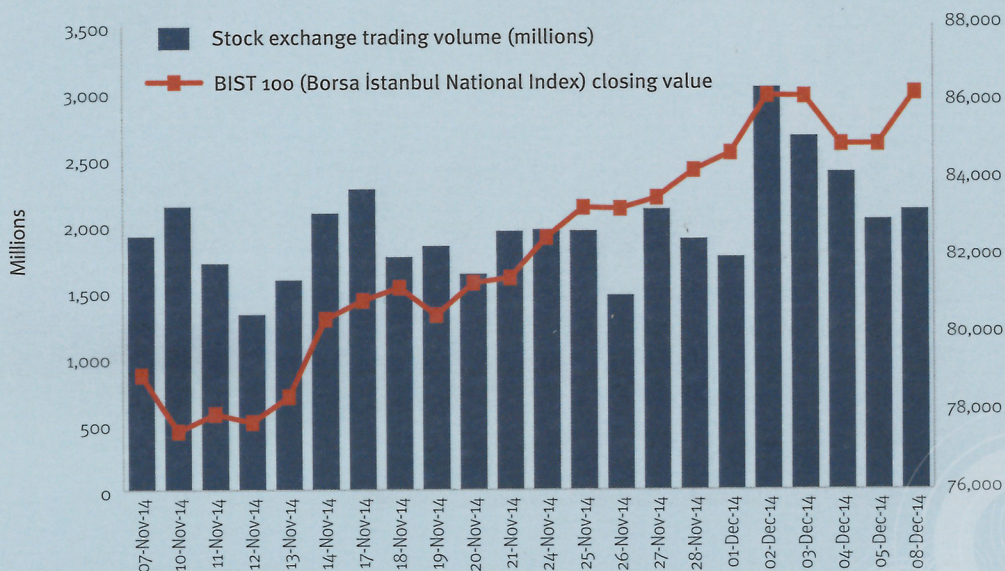
of the companies established with foreign capital in Turkey are EU companies and their number exceeded 16,000 last year.”

International cooperation

The Turkish government is working to improve the tax system, legal and fiscal environment, political and economic stability and regulatory framework as part of a coordinated effort to attract investment. A Capital Markets Law enacted in December 2012 has led to a number of changes, and plans are afoot to establish Istanbul as an international finance centre, initially with a regional focus before developing into a more global centre.

CONTINUES ►

Figure 1: Borsa Istanbul volumes and values: Nov-Dec 2014



Source: Takasbank

In August 2013, one of the country's main financial regulators, the Capital Markets Board of Turkey, signed memoranda of understanding with securities regulators of 13 EU member states (Czech Republic, Denmark, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Romania, Sweden, the Netherlands and the UK) and three securities supervisors of the European Economic Area (Iceland, Liechtenstein, Norway). The MoUs concerned the cooperation and the exchange of

information for the supervision of alternative investment fund managers.

The CMB said international cooperation and supervision of cross-border transactions "are among the indispensable elements of today's financial markets". The MoUs on alternative investment funds will contribute to the protection of investors through increasing cooperation on supervision of funds that carry out cross-border transactions. From the perspective of Turkish alternative investment fund

managers, the MoUs are important in enabling funds to access new markets.

In parallel with accession talks, Turkey has been gradually aligning its capital markets regulations and infrastructure to those of the Union. In 2013, for example, changes were made to corporate governance arrangements, with banks and listed firms required to follow new rules that more clearly defined the responsibilities of independent board members. This removed the previous practice of 'ceremonial' board

members who were not involved in the business practice or important company decisions.

Integrated market structure

Under the Capital Markets Law, Turkey's three stock exchanges – Istanbul Stock Exchange, Istanbul Gold Exchange and the Turkish Derivatives Exchange – were merged into one, Borsa Istanbul, in 2013. A demutualised institution, Borsa Istanbul trades a wide range of instruments including equities, exchange-traded funds, government and corporate bonds, Islamic bonds, covered warrants, money market instruments, asset-backed securities, Turkish sovereign eurobonds and foreign currency-denominated Treasury Islamic bonds and futures and options. Foreign investors account for 64% of free-float in stocks listed on Borsa Istanbul, up from 43% in 2002, reflecting in part the success of efforts to improve access.

The settlement of equities and cash is done on a T+2 basis by Takasbank, through a delivery versus payment system. The securities settlement operations are carried out via a Takasbank settlement pool account with the MMK. The two post-trade utilities' systems are fully interlinked in real time, so securities transfers are reflected in the CSD instantaneously.

Borsa Istanbul this year increased its share in Takasbank

“International cooperation and supervision of cross-border transactions are among the indispensable elements of today's financial markets.”

THE CAPITAL MARKETS BOARD
OF TURKEY

to above 60% to strengthen the vertical integration of the Turkish capital markets. Since March 2014 Takasbank has provided CCP services for the Borsa Istanbul Futures and Options Market. It will extend this function to equity and fixed income markets in the near future.

Emerging opportunities

Borsa Istanbul's ambition to become a regional hub has driven the establishment of a number of alliances and connections to support investment inflows to neighbouring markets, although an MoU signed with the Egyptian Exchange in 2012 was delayed indefinitely in August 2013. More significantly, an agreement signed with Nasdaq OMX in July 2013 will see Borsa Istanbul implement the US-headquartered group's market technologies for trading, clearing, market surveillance and risk management across asset classes.

The deal aims to expand the Istanbul exchange's global presence, while strengthening its

position as a regional hub that can take advantage of historic macro-economic shifts. “The consolidation of local exchanges, demutualisation, updating of technological infrastructure and establishment of linkages with international exchanges are all initiatives to make the most of the opportunities for emerging markets, including Turkey,” according to Borsa Istanbul's Research and Business Development Department. “The International Monetary Fund foresees that the share of emerging markets in global output will increase to 60% by 2019 from only 40% in 1990. As a result, despite short-term fluctuations occurring from time to time, Turkey as one of the leading emerging economies will continue to be an attractive centre for foreign institutional investors.”

The key to capturing investment flows on a consistent basis, of course, is to cater to multiple needs. In May, the exchange started trading currency options on the US\$. Borsa Istanbul is also in the process of establishing a venture-capital platform for early-stage companies.

As such, the exchange's efforts to deepen its existing product mix while initiating new business areas seems perfectly aligned with Turkey's development as a regional, and ultimately, global financial hub. ●