

STEPPING INTO THE LIMELIGHT

“The Report: Turkey 2013”

<http://www.oxfordbusinessgroup.com/news/stepping-limelight-obg-talks-vahdettin-ertas-chairman-capital-markets-board-cmb>

OBG: *What key issues were addressed by the recent amendments to Turkey’s capital markets laws (CML)?*

ERTAŞ: The most important changes in the new CML reflect Turkey’s harmonization process with capital markets regulations in the EU and the lessons derived from the recent global financial crisis. One of the biggest changes was in corporate governance. Starting this year, banks and listed firms are required to follow new rules that define the responsibilities of independent board members. In the past, some Turkish firms had ceremonial board members who were not involved in business practice or important company decisions. The amendments will address this issue and more clearly outline the requirements for public disclosure.

In addition, the amendments will provide greater protection for investors. For example, we have created an investor compensation scheme to ensure that cash and securities are covered up to TL100.000 (€43,180) against fraud. As a result of the new law, the stock exchange is undergoing structural consolidation, with all three exchanges merging into Borsa Istanbul.

The highly fragmented brokerage industry is also expected to consolidate through mergers and acquisitions. Lastly, the recent reform of the Individual Pension System features a 25% government-matching scheme for contributors. Over the long term, this promises to channel more liquidity into the capital markets and boost overall savings rates.

OBG: *In what way can obstacles be overcome to realize the Istanbul International Financial Centre (IFC)?*

ERTAŞ: The IFC is planned to be completed by 2023, in time for the republic’s 100th anniversary. Yet, the capital markets of our country have not fulfilled their potential, so more must be done to attract investors, from both domestic and international markets. Historically, investors in Turkey have stayed away from the stock exchange and preferred government debt

securities, bank deposits and real estate over equities. However, over the past decade the political climate has stabilized and growth has been robust. High inflation has been tamed and income levels have risen. All this has created a suitable environment for the development of capital markets in Turkey. Considering this favorable environment, we are now focused on enhancing market infrastructure, strengthening the judicial system and creating a number of new products.

The corporate bond market has demonstrated impressive growth over the past three years. Additionally, in 2013, exchange traded single stock options have become available in Turkey for the first time. We are also eager to develop more sharia compliant products, as reflected by the issuance of the government's first sovereign *sukuk* (Islamic bond) in 2012.

Finally, the IFC project will only succeed if Turkey is able to offer a greater number of investable assets, which means that more local organizations must begin listing on the exchange. In the coming years we expect to see more initial public offerings, especially from larger enterprises, which can more easily capture the public's attention due to their high visibility.

OBG: *How is the CMB collaborating with capital markets authorities in other countries?*

ERTAŞ: The CMB is an active member of the International Organization of Securities Commissions (IOSCO) and chairing its Emerging Markets Committee. Also, we are represented at the Financial Stability Board and the International Financial Reporting Standards Monitoring Board, through IOSCO. Last but not least, we are leading the COMCEC Capital Markets Regulators Forum. In this regard, we are not only a user of the global standards, but a contributor to the standard setting efforts.

The CMB also was among the first regulatory authorities to sign the IOSCO multilateral memorandum of understanding (MMoU), which serves as an instrument for international co-operation and exchange of information in the enforcement of securities regulation. In addition to the MMoU, the CMB has signed agreements with some 30 additional capital markets authorities.