

COMMUNIQUE ON PRINCIPLES REGARDING RATINGS AND RATING AGENCIES

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SECTION 1
PURPOSE, SCOPE, LEGAL BASIS AND DEFINITIONS

Purpose and Scope

Article 1 - The purpose of this Communiqué is to regulate all the issues pertaining to ratings and rating agencies that are authorized by the Board.

Legal Basis

Article 2 - This Communiqué issued pursuant to paragraph (n) of Article 22 and Article 39 of Law No: 2499.

Definitions

Article 3 - For the purposes of this communiqué, the following definitions shall apply:

Law	:	Capital Markets Law No: 2499 dated 8 July 1981.
Board	:	Capital Markets Board
Exchange	:	Exchanges and other organized markets where capital market instruments are traded.
Rating Agency	:	Agencies established in Turkey to perform rating activities defined in Article 4 with the permission of the Board and international rating agencies recognized by the Board to operate in Turkey.
Corporation	:	Publicly held joint stock companies defined in Law and issuers who have publicly traded securities other than shares.

Capital Market Instruments	:	Securities defined in the Law and all other capital markets instruments
Capital Market Institutions	:	The institutions defined in Article 32 of the Law
Rating Specialist	:	Real person who has the qualifications defined in Article 9
Customer	:	Corporations (publicly held joint stock companies) and capital market institutions signing contracts with rating agencies for the purpose of being rated
List	:	List of agencies that are qualified to offer rating activities in the capital markets.

SECTION 2

SCOPE OF RATING ACTIVITIES AND AGENCIES ALLOWED TO OPERATE IN RATING ACTIVITIES

Scope of rating activities

Article 4 - Rating activities include credit rating and the rating of compliance with corporate governance principles.

Obtaining a rating is optional. However, it may be mandatory under circumstances where it is deemed necessary by the Board.

Rating agencies may undertake a rating without the request of corporations and capital market institutions. However, disclosure of the results is subject to the approval of the respective corporations and capital market institutions.

Credit rating

Article 5 - A credit rating is an independent, unbiased and fair evaluation and classification of:

- a) The creditworthiness of corporations and capital market institutions;
- b) The default risk as to the timely payment of interest and repayment of principal in accordance with the terms of obligations, by rating agencies.

Rating of compliance with corporate governance principles

Article 6 - A rating on compliance with corporate governance principles is an independent, unbiased and fair evaluation and classification of corporations' and capital market institutions' compliance with the "Corporate Governance Principles" issued by the Board.

In the rating of compliance with corporate governance principles, rating grades ranging between 1 and 10 shall be assigned on the compliance with corporate governance principles as a whole, and individually with respect to the headings: shareholders, public disclosure and transparency, stakeholders, board of directors.

Agencies allowed to perform rating activities

Article 7 - Rating services shall be carried out by the rating agencies established in Turkey and qualified by the Board to provide rating service in Turkey, and by international rating agencies recognized by the Board.

International rating agencies

Article 8 - The Board will publish a list of international rating agencies which are recognized to provide rating activities in Turkey in accordance with this Communiqué.

International rating agencies are required to inform the Board when they open branches, representations and offices in Turkey.

These agencies are also allowed to perform rating activities without establishing an office in Turkey, or participating in an existing rating agency, or without opening branches, representation or offices.

SECTION 3
AUTHORIZATION OF RATING AGENCIES AND LISTING

Application Conditions

Article 9 - Rating agencies to be established in Turkey to perform rating activities shall fulfil the following conditions;

a) They shall be established as a joint stock corporation and their capital must be in the form of registered shares,

b) Their commercial title shall contain the expression "rating".

c) The articles of association shall include a statement on exclusively conducting rating activities.

d) Paid-up capital shall be at least 200,000 billion TL.

e) In order to ensure that each rating service is given independently, the agencies shall have adequate infrastructure and organization, and accounting, recording, information, documentation and registration systems for each rating activity.

f) The agencies shall determine the systematic rating methodology and policies to prevent misuse of the information that is not publicly disclosed and shall form internal control systems including control processes concerning the financial and legal working procedures to control the conformity to these issues for each rating activity.

g) Partners, directors, auditors and rating specialists of these agencies and members of the board of directors of the legal entity partners of these agencies shall fulfill the following conditions:

1- They shall not have been sentenced for the violation of the Law on Money Lending Activities, Law on Prevention of Money Laundering No: 4208, Banking Law No: 438 and Capital Market legislation and/or excluding negligent offenses – even if pardoned, with heavy imprisonment or imprisonment for over five years or for the offenses of infamous crimes such as embezzlement, peculation, extortion, bribery, theft, cheating, forgery, breach of trust, fraudulent bankruptcy, smuggling excluding smuggling for consumption purposes, for involvement in fraudulent activities in the official award of contracts and sales contracts or in revealing secrets of the State, tax evasion or participating in tax evasion.

2- They shall have not been subject to any legal prosecution due to bankruptcy or concordat.

3- They shall not be among the responsible persons at the institutions of which at least one of the licenses has been cancelled by the Board or which have been permanently expelled from the Stock Exchange membership, and

4- They shall not be among the responsible persons at independent auditing firms which have been excluded from the list of independent auditing firms authorized in the capital markets for acts or business contrary to the current capital markets legislation

5- They shall not have had sentences due to violations of the Law.

6- They shall not have a trading ban based on Article 46 paragraph (i) of the Law.

h) In order to ensure that each rating service shall be given independently, the agencies shall employ an adequate number of rating specialists who shall fulfill the following conditions:

1- They shall have at least a bachelor's degree in law, economics, finance, banking, business management, public administration and equivalent branches or if they have a bachelor's degree in other branches shall have a master's degree in any of the fields listed above.

2- They shall have at least one year experience in rating and shall possess a "Rating License Certificate" in accordance with the regulations of the Board on licensing

i) The executives who are authorized to sign rating reports shall hold shares corresponding to minimum 10 % of the capital and shall have at least three years experience in rating and shall fulfill the conditions for rating specialists mentioned above.

j) The executives and rating specialists shall work full-time.

However,

a) Those who have worked at the Board as a specialist or assistant specialist for a period of at least 5 years and members of the Board are qualified to meet experience and licensing conditions for rating activities mentioned in subparagraphs (h) and (i) of this Article.

b) Those rating specialists who have completed at least two years, and administrators authorized to sign having four years experience at international rating agencies approved by the Board are qualified to meet licensing conditions for rating activities mentioned in paragraphs (h) and (i) of this Article.

The amount of minimum capital shall be revised annually by taking into account, the revaluation rate announced by the Ministry of Finance.

Examination by the Board

Article 10 - Rating agencies shall be registered and authorized by the Board separately for each rating service.

Applications of rating agencies shall be examined by the Board in accordance with the conditions of this Communiqué. As a result of this examination, the agencies seen fit shall be authorized and included in the list, and they are announced to the public by the Board.

SECTION 4

RATING CONTRACT AND PRINCIPLES OF OPERATION

Rating contract

Article 11 - Rating agencies are required to conclude a written contract with each client.

These contracts shall include the following provisions, namely:

- a) Title and address of the rating agency.
- b) Title and addresses of the client to be rated.
- c) The objective, subject and any special reasons, if applicable.
- d) The period over which rating grades are revised, and the rating principles.
- e) Duration of the agreement and termination conditions.
- f) The fee to be charged.
- g) The rights and obligations of each party.

Know-how agreement

Article 12 - In cases where rating agencies have know-how agreements with international rating agencies, these agreements shall contain as a minimum the following:

- a) Title and address of the international rating agency.
- b) Title and address of the rating agency.
- c) Principles on the communication between the rating agency and the international rating agency, regarding the procedure and techniques used in its home country and international ratings.
- d) A clause stating that the rating agency will carry out its activities by the methods and techniques transferred from the international rating agency.
- e) The fee to be charged
- f) Duration and termination conditions.

General principles

Article 13 - Rating agencies shall fulfill the following conditions in providing rating services.

- a) Rating agencies are not allowed to give any commitment to their client on assigning a certain rating.
- b) Rating agencies shall announce to the public what every rating grade implies. In the public disclosure, it shall be also stated that ratings do not constitute recommendations to buy, hold or sell any securities.
- c) It is obligatory for the rating agency to monitor periodically the client's financial and operational conditions, and risks of capital market instruments representing indebtedness, and if necessary, to revise the ratings.

d) Newly assigned ratings and the reasons for changing grades must be disseminated along with the earlier rating.

e) The rating agency shall disclose the termination of a rating contract

f) In their rating reports rating agencies shall state client information that has not been disclosed in due time and/or sufficiently in accordance with the relevant regulations of the Board and financial and operational risks that may adversely affect their operations.

g) It is essential that independently audited financial information be used in the rating service.

h) Rating agencies are allowed to consult with specialists outside the agencies and to have them undertake additional research.

i) All resources used in a rating must be reliable. In case of any suspicion concerning reliability, this shall be indicated clearly in the rating report.

j) All projections and assumptions shall be identified in the rating report.

k) In case the rating agency has a know-how agreement with an international rating agency, it shall follow the rating methodology of the international rating agency and assigned ratings shall be the same as those of the international rating agency.

Professional proficiency

Article 14 - Professional proficiency implies that undergraduate and graduate education and the level of professional experience are adequate in providing rating services. Rating agencies shall look for and ensure professional proficiency for their rating specialists.

All relevant parties benefiting from the rating service are entitled to ask for the professional proficiency of specialists who have assumed the responsibility for undertaking rating activities.

Rating agencies and rating specialists shall provide high-quality services and shall be fully aware of the fact that their clients expect this.

Principle of independence

Article 15 - In carrying out their activities, the rating agencies and their specialized staff shall be objective and independent. Independence is a combination of both the understanding and attitudes that will provide a fair and unbiased exercise of the profession. It is essential that rating specialists are individually honest and objective during the rating process, and that there shall be no special cases impairing their independence.

Rating specialists shall avoid any conflicts of interest which may arise during their work, must not allow any intervention to take place that would impair their independence and objectivity, and must prepare their reports according to their own conclusions without considering the interests of others.

Shareholders of rating agencies, administrators, and rating specialists may not take any responsibilities at another rating agency and/or capital markets institution during the period that they offer rating services.

After they leave their job, shareholders of rating agencies, their administrators and rating specialists may not be employed by any corporation or capital market institution to which they have provided rating services before two years have elapsed.

Rating agencies, shareholders, managers, rating specialists and other employees thereof may not invest in capital markets instruments of the institutions to which they provide rating services.

Rating agencies may not issue ratings on, legal person shareholders that directly or indirectly own more than 10% share of their capital, their affiliates, subsidiaries, and ; in the cases where that legal person shareholder is a credit institution, the corporations to which credits have been extended.

Conditions that impair independence

Article 16 – Independence shall be deemed to be impaired in any case where there is suspicion of the Board, the rating agency, the client and other related parties on the independence of the rating agency and rating specialists. In such situations the Board shall be informed as soon as possible.

Independence shall be deemed to be impaired under the following circumstances:

a) Following actions of partners, managers, auditors, rating specialists, legal entity partners' directors and their blood and affinity relatives up to the third degree, their spouses, or rating agency itself;

1. Any direct and indirect benefit or promise of benefit obtained from the clients or from those with relations to clients,

2. Any partnership relation with the clients, or partners of the clients or real/legal persons in direct or indirect relation in terms of management, auditing or capital, or having control over the clients,

3. Any position taken as partner, chairman or member of the board of directors, company manager or vice manager or any other position giving major authority or responsibility, in the client and in their affiliates,

4. Any creditor-debtor relationship engaged beyond common economic relations with the clients and their participations.

b) Any unpaid fees related to rating services provided the in previous years, without any valid reason.

c) Rating fee payments made in the past years lower or higher than those specified in the contract.

d) Dependence of the rating fee on the results of the rating, or the rating expectations or any situation where the rating fee diverges from the market rate or if the agreement concerning the payment is made after the rating results

e) Any situation where earnings from a client exceeds 15% of the earnings of the whole year after three years following commencement of activities.

Conditions stipulated in the second paragraph shall also apply for subcontracting persons and institutions that provide services to the rating agency .

Professional care and due diligence

Article 17 - Rating agencies may not accept mandates where their knowledge and capability are insufficient.

Rating specialists working in rating agencies shall provide the necessary care and diligence while they are working on the planning, execution and reporting of the rating process. Professional care and diligence implies the importance given to details, attention paid and efforts demonstrated by a careful and prudent rating specialist under the same conditions.

Confidentiality

Article 18 - A rating agency, its employees and any of its subcontractors, shall keep all the information they receive during of their work as a commercial secret under the rules of ethic and they cannot use such information for their own benefit or for the benefit of third parties.

Cases listed below shall not be considered within the scope of confidentiality:

- a) Compulsory explanations related to the rating result
- b) All notices and announcements related to legislation in accordance with public disclosure.
- c) Revealing confidential information concerning acts incurring crime, all kinds of scrutiny and investigation provided they are assigned by juridical institutions and authorized administrative institutions.

Advertising prohibition

Article 19 - Rating agencies may not engage in any activities that can be considered directly or indirectly as advertising, for attracting business, and may not solicit business unless requested by a potential client.

Nevertheless, they may distribute brochures including information about them; they may make announcements for recruitment for themselves and for their clients; they may make publications in the field of their profession; they may organize seminars and conferences or participate in such meetings; their staff may give lectures for educational purposes. While performing these activities:

- a) No commitment or promise shall be given on the outcome of the business,
- b) Utmost care shall be taken for proper behavior required by the business,

c) Any assertion involving exaggerated, emotional, false, deceiving and misleading impressions shall be avoided,

d) No expectations shall be created without factual foundations about the business and services that can be provided,

e) The rating agency shall not be compared to other rating agencies.

This provision also covers the professional staff of the rating agencies.

SECTION 5

Other Provisions

Preparation of financial statements and independent auditing

Article 20 -.Annual financial statements of rating agencies shall be audited in accordance with the regulations of the Board on independent auditing by listed independent auditing companies authorized in the capital markets.

Rating agencies are required to send copies of the Turkish Commercial Registry Gazette on which announcements on the general assembly is published, the annual financial statements, annual report, audit report, and independent audit report within one month after the annual general assembly.

Notification to the Board

Article 21 - After authorization, rating agencies shall notify the Board on amendments in the articles of association and changes in shareholders, executives, auditors, rating specialists, board members of legal person shareholders of the company, institutions that provide consultancy services to rating agencies; and changes in the application conditions stated in this communiqué within five days after any change occurs.

Rating agencies shall submit information on their operations to the Board every three months.

Responsibility Arising from Rating Activities

Article 22 - The legal responsibility for any loss that the clients and the third parties may encounter due to rating activity not being carried out in accordance with the principles stated in this communiqué belongs to the rating agencies.

Supervision and audit

Article 23 - Rating activities within the context of this communiqué and accounts and transactions related to rating are subject to the surveillance and inspection authority of the Board; the Board may request any kind of information and documents from rating agencies.

Rating agencies must keep rating reports and the underlying documents for five-years in order to be able to present them to the Board upon request.

Delisting

Article 24 - If the Board determines that

- a) Rating agencies do not maintain the requirements for establishment,
- b) Rating service has been provided by unauthorized persons
- c) The documentation and registration systems are insufficient to confirm operations and results,
- d) Reports give wrong, insufficient and misleading information due to insufficient professional care and diligence
- e) The documents and information requested by the Board have not been submitted in due time
- f) The operating principles given in Part 4 of this communiqué are not complied with,

the rating agency can be delisted by the Board in accordance with subparagraph (g) of the first paragraph of the amended Article 46 of the Law.

Overruled Provisions

Article 25 – Communiqué Serial: VIII. No: 31 on Principles Regarding Rating Services and Rating Agencies” and published in the Official Gazette dated 6 March 1997 No: 22925 has been overruled.

Provisional Article 1 - The authorizations of rating agencies established in Turkey before the publication of this communiqué and international rating agencies authorized by the Board to operate in Turkey continue. However, within the period of two years following the issue of this communiqué, rating agencies established in Turkey and authorized by the Board shall adapt their activities and organizational structures to this communiqué.

Provisional Article 2 - During the **two year** transition period following the issue of this communiqué, persons who have undergraduate degrees in management, finance, economics, public finance, accounting, management engineering, banking and related areas or if they have degrees other than these fields, master degrees in these fields, and at least one year experience in rating and are able to document these be accepted to be rating specialists by the Board. At the end of the two-year period, the title of rating specialist of the persons who have not obtained the License mentioned in subparagraph h of the first paragraph of Article 9 shall expire.

Entry into Force

Article 26 - This Communiqué shall enter into force on the day of its publication.

Execution

Article 27 - The provisions of this Communiqué shall be executed by the Capital Markets Board.