

COMMUNIQUE ON PRINCIPLES REGARDING EXCHANGE TRADED FUNDS

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Purpose

ARTICLE 1 – The purpose of this Communiqué is to regulate the principles on establishment, and rules and principles of operation of exchange traded funds, public offering of their participation certificates and related public disclosure requirements.

Legal Basis

ARTICLE 2 – This Communiqué is based on amended Articles 37 and 38 of Law No: 2499.

Definitions

ARTICLE 3- For the purposes of this Communiqué, the following definitions shall apply:

Law: Capital Market Law No: 2499 dated 28 July 1981,

Board: Capital Markets Board,

Fund: Exchange Traded Fund,

Founder: Banks, intermediary institutions, insurance companies, retirement and pension funds with no restrictions in their legislation and funds established in accordance with Provisional Article 20 of Social Security Law No: 506 dated 17 July 1964,

Exchange: Exchanges that capital market instruments are traded, precious metal exchanges and exchanges in foreign countries of the same nature and other organized markets,

Manager: Institutions with portfolio management license granted by the Board,

Custodian: ISE Clearing and Custody Bank Inc. and/or other institutions authorized by the Board,

ISE: Istanbul Stock Exchange,

Authorized Participant: Banks and intermediary institutions that play an active role in the creation and redemption processes of exchange traded funds, which signed an agreement with the founder and are approved by the Board,

Creation Unit: The minimum amount of exchange traded participation certificates that is necessary for creation and redemption processes,

Creation: The process whereby the authorized participant delivers the securities and cash that reflect the portfolio composition of the fund to the custodian and creates participation certificates in the amount of the creation unit or its multiples,

Redemption: The process whereby the authorized participant delivers the participation certificates in the amount of at least one creation unit to the custodian and receives securities and cash corresponding to the participation certificates,

Fund Amount: The maximum amount of shares that can be issued by exchange traded funds on condition that it is stated in the internal statute of the fund,

Primary Market Operations: For the purposes of this Communiqué, the operations whereby creation and redemption is realized in kind between the authorized participant and the custodian,

Communiqué on Principles Regarding Mutual Funds: The Communiqué published in the Official Gazette dated 19 December 1996, No:22852 (Serial: VII, No:10).

TTRG: Turkish Trade Registry Gazette.

SECTION ONE GENERAL PROVISIONS

Exchange Traded Fund

ARTICLE 4 – An exchange traded fund is an asset established for managing a portfolio with principles of risk diversification and fiduciary ownership, whose shares are traded in the stock exchange, whereby authorized participants that directly participate in the creation process by delivering securities and cash that reflect the portfolio composition of the fund and receiving participation certificates in return or authorized participants deliver the participation certificates in the amount of at least one creation unit to the custodian and receive securities and cash corresponding to the participation certificates.

Type and Category of the Fund

ARTICLE 5 – Exchange traded funds shall be established as Index Fund, with at least 80% of the portfolio permanently consisting of securities included in an index approved by the Board, where the correlation coefficient is at least 90% between the unit share value of the fund and value of the index taken as basis within the framework of the calculation in accordance with the formula mentioned in Annex 1 of this Communiqué.

In line with the framework stated in the first paragraph, exchange traded funds can be established;

- a) By tracking all the securities included in the index taken as basis or
- b) From a sample selection of them.

Funds permanently investing at least 25% of monthly average weighted portfolio value in stocks of corporations established in Turkey, including the Public Economic Enterprises that shall be privatized, are called Type A.

Including the ones that are not type A, participation certificates of exchange traded funds are considered as securities.

SECTION TWO PROVISIONS ON ESTABLISHMENT OF THE FUND

Necessary Documents for Establishing a Fund

ARTICLE 6 – In addition to the information and documents stated in Article 16 of the Communiqué Serial: VII, No:10 published in the Official Gazette dated 19 December 1996, No:22852, the following information and documents are required:

- a) Authorized participant's
 - i) Ownership structure as of the application date,
 - ii) Latest independently audited financial statements,
 - iii) Information on authorities,
- b) Information proving that the authorized participant possesses adequate office, technical facilities and organization and the relevant duties and responsibilities of the personnel are determined,
- c) Information on the index that is taken as basis,
- d) Information on the creation unit.

Internal Statute of the Fund

ARTICLE 7 – In addition to the items stated in Article 17 of the Communiqué on Principles Regarding Mutual Funds, at least the following must be included in the internal statute of the fund:

- a) Title and address of the authorized participant,
- b) Creation unit,
- c) Principles on creation and redemption of participation certificates,
- d) Principles on purchase and sale of participation certificates at the stock exchange.

The standard internal statute of the fund shall be determined by the Board.

SECTION THREE
PRINCIPLES ON REGISTRATION AND PUBLIC OFFERING OF
PARTICIPATION CERTIFICATES

Application for Registration of Fund Units

ARTICLE 8 – In addition to the documents stated in Article 23 of the Communiqué on Principles Regarding Mutual Funds, the founder shall apply to the Board for registration of participation certificates including the agreements signed with the authorized participants, annexed to a petition.

Formation of the Fund Portfolio, Advance and Initial Public Offering

ARTICLE 9 – The fund portfolio shall be formed;

- a) By allocating an advance at least equal to the minimum fund amount stated in Article 20 of the Communiqué on Principles Regarding Mutual Funds, by the founder and/or,
- b) By conducting an initial public offering held out of the stock exchange, equal to the amount mentioned above.

The duration of the initial public offering shall not be less than 2 and more than 30 working days, which can be made longer with the permission of the Board.

In case the founder allocates advance, the fund portfolio shall be formed within 3 days, in conformity to the provisions of the internal statute of the fund.

In both cases, the fund must reach the amount mentioned in the first paragraph before the fund starts to be traded at the stock exchange.

Trading at the Stock Exchange

ARTICLE 10 – As a result of the application to the Board, the participation certificates registered with the Board shall start to be traded at the relevant market approved by the stock exchange, within the framework of the rules and principles of ISE.

Underwriting

ARTICLE 11 – In the initial public offering of participation certificates, an underwriting agreement must be signed within the framework of the rules and principles of the Board on intermediary activities and intermediary institutions, about selling the participation certificates by public offering and purchasing the unsold portion of the participation certificates to be offered to public with full payment in cash at the end of the sale period (Partial Standby).

Underwriting may be undertaken by the founder or by the founder and authorized participants jointly.

SECTION FOUR
PROVISIONS REGARDING OPERATIONS OF THE FUND AND
PARTICIPATION CERTIFICATES

Primary and Secondary Market Operations of the Fund

ARTICLE 12 – Primary market operations of exchange traded funds consist of creation and redemption processes of participation certificates in kind held between the authorized participants and the custodian.

Secondary market operations of exchange traded funds consist of purchase and sale of participation certificates obtained by the authorized participants, after the creation process.

Creation of New Participation certificates

ARTICLE 13 – In order to increase the number of participation certificates in circulation, on condition that the fund amount is not exceeded, the authorized participant shall gather the securities and cash in the fund portfolio by reflecting the portfolio composition of the fund and create new shares by delivering this portfolio to the custodian. At the time of settlement, the custodian who takes securities and cash shall give the participation certificates to the authorized participant, in return.

The detailed rules and principles regarding the creation process of new participation certificates shall be included in the agreement signed between the authorized participant and founder.

Redemption of Participation certificates

ARTICLE 14 – If the authorized participant wants to dispose of all or part of the participation certificates that it possesses, it shall form a block of participation certificates at least equal to the creation unit and deliver these participation certificates to the custodian. At the time of settlement, the authorized participant shall obtain the corresponding securities and cash, in return.

For creation and redemption of participation certificates, an agreement shall be signed between the authorized participant and founder and the authorized participants shall be stated in the prospectus.

Creation Unit

ARTICLE 15 – Authorized participants shall make creation and redemption of participation certificates in blocks that compose the creation unit. The amount of the creation unit shall be determined by the founder by taking the approval of the Board and the custodian and it shall be stated in the internal statute of the fund.

Prices of Participation certificates and Unit Value

ARTICLE 16 – There are 2 unit values of each participation certificate, namely net asset value and transaction price.

Net asset value of the fund is the amount that is calculated by adding the receivables to and subtracting liabilities from the total value of the securities portfolio and/or other assets that the fund invests in. Net asset value of each participation certificate is calculated by dividing the net asset value of the fund to the number of participation certificates.

Transaction price is the latest price realized in the stock exchange on the day of operation.

The responsibility of calculation of the net asset value depends on the founder and it shall be announced in the way approved by the stock exchange and stated in the prospectus.

Participation Certificate

ARTICLE 17 – Participation certificate is a security, bearing the rights of the owners of the participation certificate against the founder and indicating the number of shares of the owner in the fund, kept as a record value.

SECTION FIVE PROVISIONS ON PRINCIPLES OF MANAGEMENT

Limitations on Fund Portfolio

ARTICLE 18 – In management of exchange traded funds, it is obligatory to abide by the portfolio restrictions determined for index funds as stated in Article 42 of the Communiqué on Principles Regarding Mutual Funds.

Other Permissible Operations of the Funds

ARTICLE 19 – Exchange traded funds may realize the transactions stated in paragraphs (b) and (d) of Article 43 of the Communiqué on Principles Regarding Mutual Funds.

Principles of Portfolio Valuation

ARTICLE 20 – The values of assets in the portfolio of an exchange traded fund which are in the index taken as basis shall be determined in accordance with the calculation method of the index and the method of valuation shall be explained in the prospectus.

SECTION SIX PROVISIONS ON PUBLIC DISCLOSURE

Disclosure of Information Regarding Portfolio Structure

ARTICLE 21 – Detailed information on the periods and timings of public disclosure of the index taken as basis and the fund portfolio must take place in the prospectus.

SECTION SEVEN OTHER PROVISIONS

Common Provisions

ARTICLE 22 – About the issues that are not stated in this Communiqué, exchange traded funds are subject to the Articles 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 18, 19, 20, 22, 24, 25, 27, 28, 29, 30, 31, 33, 34, 40, 41, 46, 47, 48, 49, 50, 51, 52, 53 and 54 of the Communiqué on Principles Regarding Mutual Funds.

Entry into Force

ARTICLE 23 – This Communiqué will enter into force on the day of its publication.

Execution

ARTICLE 24 – The Capital Markets Board executes the provisions of this Communiqué.

ANNEX 1

CALCULATION OF THE CORRELATION COEFFICIENT

Correlation coefficient is a value between (+1) and (-1), laying out the relation between the value of the index taken as basis in a certain period and the unit share value of the index fund and calculated in accordance with the formula below:

$$r = \frac{\sum (X_t - X_{ave})(Y_t - Y_{ave})}{\sqrt{\sum (X_t - X_{ave})^2} \sqrt{\sum (Y_t - Y_{ave})^2}}$$

r :Correlation coefficient

X_t : Unit share value of the fund at the day (t)

Y_t : Value of the index taken as basis at the day (t)

X_{ave} : Average unit share value in the calculation period
($\sum X_t /$ Number of days in the calculation period)

Y_{ave} : Average index value in the calculation period
($\sum Y_t /$ Number of days in the calculation period)