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COMMUNIQUÉ**Published by the Capital Markets Board:****COMMUNIQUÉ ON PRINCIPLES OF
EXCHANGE TRADED FUNDS
(III-52.2)****FIRST CHAPTER****Purpose, Scope, Basis, Definitions and Abbreviations****Purpose and Scope:**

ARTICLE 1 – (1) The purpose of this Communiqué is to set down principles with regard to foundation of exchange traded funds, their operating principles and rules, fund units and their public offering, and public disclosures in relation therewith.

Basis:

ARTICLE 2 – (1) This Communiqué is prepared in reliance upon Article 52 and 54 of the Capital Markets Law no. 6362 dated 6/12/2012.

Definitions and Abbreviations:

ARTICLE 3 – (1) For the purposes of this Communiqué:

- a) **“Minimum transaction unit”** refers to the minimum amount of fund units required for creation and redemption ,
- b) **“Bank”** refers to banks defined in Article 3 of the Banking Law no. 5411 dated 19/10/2005,
- c) **“BİAŞ”** refers to Borsa İstanbul A.Ş.,
- ç) **“Information documents”** refers to fund rules, prospectus and investor information form,

- d)** “**Exchange**” refers to the systems, marketplaces and foreign exchanges as defined in sub-paragraph (ç) of the first paragraph of Article 3 of the Law no. 6362,
- e)** “**Fund**” refers to exchange traded funds,
- f)** “**Prospectus**” refers to a public disclosure document containing all information regarding the characteristics of the fund and the associated rights and risks, so as to enable investors to make an informed assessment,
- g)** “**Net assets value**” refers to the fund portfolio value calculated by valuation of assets in the fund portfolio within the frame of the relevant regulations of the Board pertaining to financial reporting of investment funds, with addition of other assets and receivables thereto and deducting debts and liabilities therefrom,
- ğ)** “**Issuer**” refers to a joint-stock company,
- h)** “**Law**” refers to the Capital Markets Law no. 6362 dated 6/12/2012,
- ı)** “**PDP**” refers to the Public Disclosure Platform,
- ı)** “**Fund unit**” refers to a dematerialized capital market instrument which represents the right of ownership of the investor and proves his participation in the fund,
- j)** “**Founder**” refers to a portfolio management company holding an operating license received from the Board within the frame of the Communiqué on Portfolio Management Companies and Their Activities (III-5.1) published in the Official Gazette edition 28695 on 2/7/2013,
- k)** “**Board**” refers to the Capital Markets Board,
- l)** “**Portfolio depository institution**” refers to an institution offering portfolio custody services within the frame of Article 56 of the Law,
- m)** “**Swap contract**” refers to an agreement wherein total return of an asset is swapped with another cash flow throughout the maturity of agreement,
- n)** “**Takasbank**” refers to İstanbul Takas ve Saklama Bankası A.Ş.,
- o)** “**Tracking difference**” refers to the difference between the annual return on fund portfolio and the annual return on the tracked index,
- ö)** “**Tracking error**” refers to the variability of the difference between the return on fund portfolio and the return on the tracked index,

- p) **“CBRT”** refers to the Central Bank of the Republic of Turkey,
- r) **“TTRG”** refers to the Turkish Trade Registry Gazette,
- s) **“Derivative instruments”** refers to futures and option contracts deemed appropriate by the Board to be included in the fund portfolio,
- ş) **“Communiqué on Principles of Investment Funds”** refers to the Communiqué on Principles of Investment Funds (III-52.1) published in the Official Gazette 28702 on 9/7/2013,
- t) **“Investor information form”** refers to a summary form indicating the structure, investment strategy and risks of the fund,
- u) **“Authorized participant”** refers to an intermediary institution holding a license received from the Board for execution of orders or dealing on own account services, which has entered into a contract with the founder, and which intermediates the creation and redemption of fund units,
- ü) **“Authorized institution”** refers to an intermediary institution or an investment bank licensed by the Board for underwriting activities,
- v) **“Manager”** refers to a portfolio management company deemed appropriate by the Board.

SECOND CHAPTER

General Principles

Exchange Traded Fund:

ARTICLE 4 – (1) The exchange traded fund is an asset of which fund units are traded at BİAŞ, and may issue fund units in return for the delivery of assets in the portfolio or only cash in such a manner to reflect the composition of the fund portfolio, and which enables the receipt of assets or only cash in return for the fund units, established by portfolio management companies within the fund rules on the account of savers, in conformity with the fiduciary ownership principles, in order to operate the portfolio and which does not have a legal entity.

(2) The fund must be established in order to track an index deemed appropriate by the Board.

(3) The index tracked by the fund and the fund portfolio may be composed of the following assets and transactions:

- a) Corporate and public debt instruments and shares of issuers established in Turkey, also including those within the scope of privatization,

- b) Foreign corporate and public debt instruments and shares of issuers which are tradable pursuant to the provisions of the Governmental Decree no. 32 on Protection of Value of Turkish Currency enacted and put into force by a Decree of the Council of Ministers no. 89/14391 dated 7/8/1989;
- c) Gold and other precious metals and capital market instruments issued on the basis of such metals;
- ç) Fund units of exchange traded funds tracking the same index and listed in foreign exchanges;
- d) Lease certificates;
- e) Real estate certificates;
- f) Warrants and investment firm certificates;
- g) Cash collaterals and premiums of derivative instruments;
- ğ) Repo and reverse repo transactions;
- h) Time deposits and participation accounts up to a maximum maturity of 12 months;
- ı) Takasbank money market transactions;
- i) Foreign currencies, the daily foreign exchange buying and selling rates of which are announced by CBRT;
- j) Swap contracts;
- k) Other investment instruments deemed appropriate by the Board.

(4) The fund cannot deal with any activities other than operation of a portfolio composed of assets and transactions listed in the third paragraph hereinabove.

(5) The fund cannot be established as an umbrella fund.

Tracking Strategy of the Fund:

ARTICLE 5 – (1) The basic strategy of the fund is to mimic the performance of the tracked index. This is controlled by calculation of the tracking difference and tracking error as shown and described in Annex-1. Tracking difference and tracking error may be calculated in the currency used in calculation of the index.

(2) Principles relating to calculation and disclosure of tracking difference and tracking error are described in the information documents.

(3) The founder announces in PDP:

a) the tracking difference and tracking error calculated for the recent one year, and in the case of a substantial increase in tracking difference and tracking error, the reasons of such difference, as of the end of each month, in the first business day of the following month;

b) the estimated value of probable tracking error of the next year which may occur under normal market conditions, as of the last business day of each year;

c) the estimated tracking error predicted for the previous year, and the actual tracking difference and tracking error, and in the case of a substantial difference between estimated and

actual tracking errors, the reasons of such difference, as of no later than the last business day of January every year.

(4) The fund may track the index by investing:

- a) at least 80% of the net assets value permanently only in the assets covered by the tracked index;
- b) at least 80% of the net assets value permanently in fund units of exchange traded funds which are tracking the same index tracked by the fund and are listed in foreign exchanges;
- c) in assets which are not covered by the tracked index.

(5) Funds covered by subparagraph (a) of the fourth paragraph hereinabove may establish their portfolios through full copying from all of the assets covered by the index tracked by them or by way of sampling from some of them chosen.

Name of the Fund:

ARTICLE 6 – (1) Name of the fund:

- a) is required to be in compliance with the investment strategy of the fund;
 - b) may not have excessive similarity to the name of another fund, and may not associate with a person/entity unrelated to the fund, and may not refer to non-provable qualities and features of the founder or portfolio manager or may not contain similar subjective expressions implying a superiority of the fund from other funds, or may not otherwise mislead the investors.
- (2) The fund’s name may contain expressions relating to the tracked index, or the index provider.
- (3) Names of funds which permanently invest at least 80% of their net assets value in foreign currencies and capital market instruments must contain the expression “foreign”.
- (4) Funds the portfolios of which are fully and permanently composed of lease certificates, participation accounts, shares, gold and other precious metals and other non-interest-based money and capital market instruments deemed appropriate by the Board may use the expression “participation fund” in their name.
- (5) Names of funds covered by subparagraph (c) of the fourth paragraph of Article 5 are required to contain a phrase describing their tracking strategies.

Fund Rules:

ARTICLE 7 – (1) Fund rules is a fiduciary contract between fund unit holders, founder, portfolio depositary institution and portfolio manager containing general terms and conditions of operation of fund portfolio and custody of the fund portfolio pursuant to Article 56 of the Law, and management of the fund portfolio in accordance with the provisions of proxy agreement.

(2) The standards of fund rules is determined by the Board. The minimum contents of fund rules are given in Annex-2.

THIRD CHAPTER
Principles on Establishment of Fund, and
on Public Offering of Fund Units

**Application For Establishment Permit of Fund, and For Approval of Prospectus
 Relating to Public Offering of Fund Units:**

ARTICLE 8 – (1) Applications for establishment of the fund and for approval of prospectus relating to public offering of fund units are required to be evaluated jointly. However, if the fund intended to be established is the founder’s first fund, applications for establishment permit of fund and for approval of prospectus are evaluated separately.

(2) In cases where applications for establishment permit of the fund and for approval of prospectus are evaluated jointly:

- a) The founder shall apply to the Board with drafts of information documents, and an application form as described by the Board, and other information and documents requested by the Board.

Applications regarding establishment of the fund shall be concluded by the Board within two months starting from the full submission of the necessary documents to the Board

c) In cases where the information and documents submitted with the application regarding the approval of the prospectus are incomplete or when additional information and documents are required, such incomplete information and documents are required to be completed within a period of time to be determined by the Board. In this case, the period of two months mentioned in subparagraph (b) hereof starts to count as of the date of delivery of said information and documents to the Board.

- ç) Fund rules approved by the Board, shall be registered in the trade registry of the place where the headquarters of the founder is located and shall be announced in the TTRG and in PDP within six business days following the date of receipt of the Board’s decision by the founder.
- d) Fund prospectus is approved following the submission to the Board of the documents proving that the fund rules is registered in the trade registry, and of the agreements signed for Fund operations. Said documents and agreements are required to be sent to the Board within 10 business days following the date of registration of the fund rules in the trade registry.

(3) In cases where applications for establishment permit of the fund and for approval of prospectus are evaluated separately:

- a) The founder shall apply to the Board with draft fund rules, and an application form as described by the Board, and other information and documents requested by the Board.
 - b) Applications shall be concluded by the Board within two months starting from the full submission of the necessary documents to the Board. The information and documents required for applications are determined and announced by the Board.
 - c) In case when the information and documents submitted with the application regarding the approval of the prospectus are incomplete or when additional information and documents are required, such incomplete information and documents are required to be completed within a period of time to be determined by the Board. In this case, the period of two months mentioned in subparagraph (b) hereof starts to count as of the date of delivery of said information and documents to the Board.
 - ç) The fund rules, approved by the Board, shall be registered in the trade registry of the place where the headquarters of the founder is located and shall be announced in the TTRG and in PDP within six business days following the date of receipt of the Board's decision by the founder.
 - d) The founder submits to the Board its application for approval of the fund prospectus within no later than three months following the date of registry of the fund rules in the trade registry. If an application is not filed to the Board within this period of time, the fund rules is cancelled by the founder from the trade registry. Documents relating to cancellation are sent to the Board within six business days. For reasonable causes deemed appropriate by the Board, the period of three months mentioned in this paragraph may be extended by three months for only once.
 - e) Prospectus is examined within 20 business days within the frame of documents and information presented to the Board. If found acceptable, the prospectus is approved, and the approval is notified to the relevant persons.
 - f) In cases where the information and documents submitted with the application regarding the approval of the prospectus are incomplete or when additional information and documents are required, such incomplete information and documents are required to be completed within a period of time to be determined by the Board. In this case, the period of 20 business days mentioned in subparagraph (e) hereof starts to count as of the date of delivery of said information and documents to the Board.
- (4) Prospectus and investor information form are published in PDP and in the founder's official internet site within 10 business days following the date of receipt of a letter of permission by the founder, and are not separately registered in the trade registry and announced in TTRG. However, the place where prospectus is published is registered in the trade registry and the registration date is also stated in investor information document.

(5) If the prospectus is not received within 20 business days following the date of decision pertaining to approval of the prospectus by the Board, or is not announced within the period of time set forth in the preceding fourth paragraph, it is required to receive a new decision of the Board for re-approval of the prospectus.

(6) In the course of application for establishment of the fund and for approval of prospectus, the information given in the fund rules, prospectus and investor information document must be consistent, understandable and complete in line with the fund rules standards determined by the Board, and these documents should be in Turkish. Minimum contents of prospectus are given in Annex-3, while minimum contents of investor information document are given in Annex-4.

(7) The approval of prospectus neither construes a warranty given by the Board for accuracy of information contained in this document, nor can it be deemed or accepted as a recommendation regarding the relevant fund units.

(8) If an application is not approved as a result of an evaluation conducted under this Article, this situation is notified to the founder together with the reasons thereof.

(9) If only the method defined in subparagraph (a) of the first paragraph of Article 9 is used in creation of the fund portfolio, the prospectus may be approved by the Board only after completion of the allocation of advance thereto.

(10) The prospectus is required to be signed by the founder and if any, the authorized institution. If a consortium is formed, the prospectus is signed by the consortium leader and if any, co-leaders.

(11) With regard to the founder, the prospectus may contain information with reference to the information previously announced in the Board's or BİAŞ's internet site or in PDP. The information included therein with reference to the prospectus should be the most current information held by the founder.

(12) In case when amendments or new matters which may affect investment decision of investors occur in the prospectus and investor information document before starting the sale or within the sale period, the situation shall be notified by the founder to the Board in writing. Upon occurrence of amendment or new matters, the sales process may be halted by the founder or by authorized institutions upon the consent of the founder. This is also immediately notified to the Board in writing. If the sales process is not halted by the founder or authorized institutions, and if deemed necessary, the Board decides to halt the sales process.

(13) Relevant parts of the prospectus containing the amendments or additions are approved by the Board within seven business days following the date of notification to the Board and are immediately announced at the places mentioned in the fourth paragraph hereof. In addition, the founder's and authorized institution's internet sites and PDP shall contain a comparison table

showing the former and new versions of relevant parts of the prospectus, as well as a new single-text version of the prospectus as amended.

(14) Investors who have made a demand to buy fund units prior to publishing of changes or new additions have the right to withdraw their demand within two business days following the date of publishing of the changes and additions to the prospectus. The period referred to in this paragraph may be extended by the founder, provided that it is specified so in the prospectus.

(15) The founder shall be held responsible for all kinds of losses arising out of inaccurate, misleading and incomplete information contained in prospectus and investor information document. If the losses cannot be compensated by the founder or it is clearly obvious that the losses shall not be compensated by the founder, then the leading authorized institutions intermediating the public offering, and the members of board of directors of the founder shall be held responsible to the extent the losses can be attributed on them depending upon their culpability and the requirements thereof.

(16) Persons and entities issuing reports to be included in the prospectus, such as independent audit firms and rating agencies, are also held responsible within the frame of provisions of this Communiqué and the Law for inaccurate, misleading and incomplete information in their reports.

(17) An approval of the Board is not required for the amendments in investor information document. However, the amendments are required to be reported to the Board six business days in advance, and to be in compliance with the fund rules and the prospectus, and to be announced in PDP and in the founder's official internet site on the business day following the date of change.

Creation of the Fund Portfolio, Allocation of Advance, and Public Offering:

ARTICLE 9 – (1) Fund portfolio is created:

- a) by depositing of an advance by the founder into the fund, and/or
- b) through public offering of fund units in return for cash payment in BİAŞ or in the over-the-counter market.

(2) The amount of the advance to be deposited or the amount of initial public offering to be arranged should be minimum TL 6,000,000. If both methods are used together, this amount is applied for the total sum of advance and public offering.

(3) If the founder allocates an advance to the fund, the advance allocation should be completed and the fund portfolio should be created within 10 business days following the date of registration of the fund rules. If the applications for establishment of the fund and for approval of prospectus are assessed separately, the advance allocation is required to be

completed within 10 business days following the date of receipt of the Board's permission relating to approval of prospectus by the founder.

(4) If the fund units are offered to public, the public offering process should be initiated within maximum five business days following the date of announcement of the prospectus. Period of public offering cannot be less than two business days, or more than 30 business days. With the prior consent of the Board, this period of public offering can be extended.

(5) Detailed principles relating to public offering are published in the prospectus.

(6) During the activities of the fund, as from the assessment to be made as of the last business day of every month, average of the net assets value for the last three months cannot fall below TL 3,000,000. In cases where average of the net assets value for the last three months falls below the said threshold, the Board may grant an additional time of one month for only once. If, however, the net assets value is still below the said minimum threshold as of the end of the additional time granted as above, the Board requires that the subject fund is liquidated, or is converted into a different type of fund as described in the Communiqué on Principles of Investment Funds.

(7) The Board may re-determine the amounts set forth in the second and sixth paragraphs every year. Thereupon, the re-determined amounts are published in the Board's Bulletin.

Trading in BİAŞ:

ARTICLE 10 – (1) Within 10 business days following the end of the public offering period, the founder applies to BİAŞ for trading of fund units.

(2) If only the method described in subparagraph (a) of the first paragraph of Article 9 is used in creation of the fund portfolio, application to BİAŞ is filed within 15 business days following the date of receipt by the founder of the letter of permission relating to approval of prospectus.

(3) Fund units are traded in the market to be deemed appropriate by BİAŞ.

Underwriting:

ARTICLE 11 – (1) In the initial public offering of fund units, with regard to an underwriting for sales of fund units through public offering and for purchasing of all of the shares required for reaching the minimum fund amount specified in the second paragraph of Article 9 of this Communiqué, against full payment of the price thereof in cash at the end of sales period, it is required to sign an underwriting agreement in accordance with regulations of the Board pertaining to investment services.

(2) Underwriting may further be carried out also by a consortium composed of one or more authorized institutions.

FOURTH CHAPTER
Principles on Modus Operandi and
Fund Units

Primary and Secondary Market Transactions of the Fund:

ARTICLE 12 – (1) The fund’s primary market transactions are creation of new fund units and of redemption of existing fund units between the authorized participant and the portfolio custodian.

(2) Trading of fund units in BİAŞ constitutes the secondary market transactions of the fund.

(3) Natural persons and legal entities who are permanently or temporarily banned to trade in exchanges within the frame of subparagraph (a) of the first paragraph of Article 101 of the Law cannot also be a party to primary market transactions during this period.

(4) The fund’s primary and secondary market transactions are carried out in accordance with regulations of the Board pertaining to investment services.

Creation of Fund Units:

ARTICLE 13 – (1) It is the process of creation of fund units of a number corresponding to the minimum transaction unit or its multiples by way of combination of assets or cash of portfolio so as to reflect the composition of the fund portfolio and of delivery of the same to the portfolio custodian within the frame of transactions to be executed through authorized participant.

(2) Detailed principles relating to the process of creation of fund units are set forth in the agreement signed between the authorized participant, founder and portfolio custodian and are included in fund rules and fund prospectus.

Redemption of Fund Units:

ARTICLE 14 – (1) Redemption of fund units is the process of taking delivery of assets or cash corresponding to the subject fund units against return to portfolio custodian of a number of fund units corresponding to the minimum transaction unit or its multiples, within the frame of transactions to be executed through authorized participant.

(2) Detailed principles relating to the process of redemption of fund units are set forth in the agreement signed between the authorized participant, founder and portfolio custodian, and are included in fund rules and fund prospectus.

Obligation to Determine a Minimum Transaction Unit:

ARTICLE 15 – (1) Minimum transaction unit expressing the minimum number of fund units required for creation and redemption of fund units is required to be determined by the founder, and such information is required to be included in information documents.

Price and Value of Fund Units:

ARTICLE 16 – (1) Each fund unit has two separate values, namely unit share price and transaction price.

(2) Fund unit share price is calculated by dividing the net assets value by the number of fund units in circulation.

(3) Fund transaction price is the price of fund units occurring in transactions executed in BİAŞ.

(4) Without prejudice to provisions of the regulations of the Board pertaining to portfolio custody services and providers of such services, it is the responsibility of the founder to calculate the unit share price, which is then announced as deemed appropriate by BİAŞ and as described in the fund prospectus.

(5) Fund units do not have any nominal value.

(6) Fund units are dematerialized and pursued in Central Registry Agency on the basis of right holders.

(7) Upon occurrence of extraordinary events or situations such as war, natural disasters, economic crisis, collapse of communication systems, closure of markets, segments or platforms of the portfolio assets, failures in computer systems, or emergence of a major or significant information that may affect the founder's financial situation, if it is also deemed appropriate by the Board, the unit share price of fund units may not be calculated, and the primary and/or secondary market transactions of fund units may be halted or suspended.

(8) The fund may distribute dividends.

**FIFTH CHAPTER
Principles Regarding Management**

Limitations on the Fund Portfolio:

ARTICLE 17 – (1) The fund may make investments only in the assets traded in the exchange, pursuant to subparagraphs (a), (b), (c), (ç), (d), (e) and (f) of the third paragraph of Article 4

hereof. In case of initial issues, such types of assets deemed appropriate for trading in the exchange may be included in the fund portfolio.

(2) In order for foreign exchange traded fund units covered by subparagraph (ç) of the third paragraph of Article 4 to be included in the fund portfolio, a prior consent of the Board is not sought for issue or sales of these units.

(3) Sum of investments made in assets covered by subparagraph (f) of the third paragraph of Article 4 hereof cannot exceed 10% of net assets value. Sum of warrants and investment firm certificates issued by a single issuer cannot exceed 5% of net assets value.

(4) Maximum 10% of net assets value may be invested in assets covered by subparagraph (h) of the third paragraph of Article 4 hereof. However, the amount to be deposited in a single bank cannot exceed 3% of net assets value. For the funds having the expression of “participation fund” in their name, the proportions referred to in the first and second sentences hereof are applicable respectively as 20% and 10%.

(5) Sum of reverse repo and Takasbank Money Market transactions cannot exceed 20% of net assets value. Reverse repo contracts in exchange or in the over-the-counter market may be included in the fund portfolio. Up to not more than 10% of net assets value may be invested in reverse repo contracts entered into in the over-the-counter market.

(6) Up to 10% of current market value of assets in the fund portfolio and eligible for repo contracts may be used for repo in exchange or in the over-the-counter market.

(7) It is the responsibility of the founder and the portfolio manager to determine the rate of interest on repo and reverse repo transactions in the over-the-counter market, provided that rates of interest applied on contracts with a similar maturity structure traded in the stock exchange are taken into consideration. In case of being a party to such contracts, the maturity, interest rate, counterparty and rating of counterparty of the contract are published in PDP within no later than the business day following the date of contract; and the relevant information and documents are kept in the founder’s or portfolio manager’s headquarters for five years following the date of contract.

(8) The funds which permanently invest at least 80% of net assets value in foreign currencies and capital market instruments may enter into repo contracts in foreign over-the-counter markets, for the purpose of meeting their cash requirements, provided that the contract assets are kept in custody in the central settlement and custody institution of the relevant country.

(9) Loans may be borrowed and/or Takasbank Money Market transactions may be made for borrowing purposes in the account of the fund in an amount up to 10% of the net assets value. In the case of borrowing a loan, the amount and interest rate of loans, date of borrowing, lending institution and date of repayment are notified to the Board.

(10) As for the funds covered by subparagraphs (a) and (b) of the fourth paragraph of Article 5:

- a)** The index comprising of the issuer's shares tracked and the fund portfolio tracking that index should be composed of minimum six issuers' shares, and the weight of each of issuer's shares included in the index/fund portfolio, in the total value of the index/net assets value of the fund should not exceed 30%;
- b)** The weight of each instrument included in the public bond index tracked, and the fund portfolio tracking that index, in the total value of the index/net assets value of the fund should not exceed 35%;
- c)** The corporate bond index tracked by the fund, and the fund portfolio tracking that index should be composed of minimum six debt instruments, and the weight of each of debt instruments included in the index/fund portfolio, in the total value of the index/net assets value of the fund should not exceed 35%;
- ç)** The index comprised of real estate certificates or private sector lease certificates tracked by the fund, and the fund portfolio tracking that index should be composed of minimum four real estate certificates or private sector lease certificates, and the weight of each of real estate certificates or private sector lease certificates included in the index/fund portfolio, in the index/net assets value of the fund should not exceed 35%;
- d)** If the fund tracks an index by investing in foreign exchange traded fund units tracking the same index, then units of at least four foreign exchange traded funds tracking that index should be contained in the fund portfolio and the weight of each of these funds in the net assets value should not exceed 30%.

(11) Funds covered by subparagraph (c) of the fourth paragraph of Article 5 hereof may make investments in swap contracts to provide the yield of the tracked index. The counterparty risk exposed due to these contracts included in the portfolios of funds cannot exceed 10% of net assets value in any case. Swap contracts to be invested by these funds in their portfolios are valued as of each trading day, and receivables and payables arising out of these contracts are liquidated as of the periods set forth in the prospectus.

(12) The issuer of corporate bonds except bank debt instruments, in the fund portfolio should have received a rating equivalent to investment grade from rating agencies authorized to rate within the frame of the relevant Board regulations.

(13) For hedging and/or investment purposes, derivative instruments may be included in the fund portfolio within the frame of principles to be determined by the Board and in accordance with the type and investment strategy of the fund. In this case, all portfolio managers of the

fund must hold a capital market activities advanced level license certificate and a derivative instruments license certificate.

(14) Amount of open positions exposed due to derivative instruments may not exceed the net assets value.

(15) The fund may not engage in short selling and margin trading.

(16) Public external borrowing instruments listed and traded in the exchange may be included in or excluded from the fund portfolio through over-the-counter market transactions.

Regarding the contracts to be entered into by the founder in the name and account of the fund in the over-the-counter market:

a) They should be in compliance with the fund's investment strategy;

b) Their counterparties should have received a rating equivalent to investment grade from rating agencies authorized to rate within the frame of the relevant Board regulations;

c) They should be made under objective conditions and contain a fair price so as not to be affected from any relations;

ç) They should be liquidable over their fair value.

(18) Reliable methods to be applied for compliance of the over-the-counter market contracts with the principles set forth in subparagraph (c) of the seventeenth paragraph, and general principles relating to contracts are determined and outlined in the fund rules and prospectus.

(19) In cases where the limitations set forth in the fund's information documents and this Communiqué are violated due to such reasons as price movements of portfolio assets or as dividend distribution, which are beyond the control of the portfolio manager, or due to the preemptive rights, it is required to re-establish compliance with those limitations within maximum 30 days. If it is impossible to re-establish compliance within said period of time or if it is determined that it may lead to great losses, then this period of time may be extended by the Board. For the funds which do not apply to the Board by the end of this period of time or for which the Board does not deem appropriate to grant an additional time, the Board may request transformation or liquidation.

(20) The Board may determine different portfolio limitations for the assets to be included in the fund portfolio.

(21) The fund portfolio limitations are stipulated in the fund rules and prospectus.

Portfolio Valuation Principles:

ARTICLE 18 – (1) Fund assets covered by the tracked index are valued according to the principles referred to in the prospectus in such manner to be consistent with the index calculation method.

(2) Other assets included in the fund portfolio are valued as described in the prospectus and in accordance with the valuation principles included in the regulations of the Board pertaining to financial reporting of investment funds.

(3) Upon occurrence of events mentioned in the seventh paragraph of Article 16, the founder's board of directors may take decisions on determination of valuation principles. In this case, it is required to insert the valuation principles with reasons thereof in the decisions book, and to notify the same to the Board and the portfolio custodian.

**SIXTH CHAPTER
Principles on Public Disclosure**

Public Disclosure of Information Regarding the Fund:

ARTICLE 19 – (1) It is obligatory to include detailed information about periods of public disclosure of the fund portfolio and the tracked index in the prospectus.

(2) Information listed in Annex-5 is disclosed to public within the frame of regulations of the Board pertaining to public disclosure of material events.

(3) Advertisements and announcements of the fund shall be governed by the relevant regulations of the Board pertaining thereto.

**SEVENTH CHAPTER
Miscellaneous Provisions**

Common Provisions:

ARTICLE 20 – (1) For all matters on which this Communiqué remains silent, funds are governed subject to the regulations of the Board pertaining to investment funds and portfolio custody service and providers of such service.

(2) For the implementation of the first paragraph of Article 33 of the Communiqué on Principles of Investment Funds, the limitations valid for the funds containing the expression “index” in their name are applicable.

(3) The Fund's financial reporting principles are required to comply with the regulations of the Board pertaining to financial reporting of mutual funds.

(4) It is not compulsory for the fund to prepare and issue a performance presentation report within the frame of the regulations of the Board pertaining to performance presentation and

performance-based remuneration, rating and ranking activities of individual portfolios and collective investment schemes.

Other Provisions:

ARTICLE 21 – (1) In cash based primary market transactions, the principles relating to liabilities and responsibilities of the founder, portfolio custodian, authorized participant and portfolio manager are determined with a prior consent of the Board, and these principles are included in the fund rules and prospectus.

(2) In cash based primary market transactions, costs arising out of the market conditions during the time from the date of receipt of order for primary market transaction to the date of execution of such transaction can not be charged to the fund. The fund rules and prospectus contain detailed principles pertaining to the parties liable to pay these costs.

Board's Fee:

ARTICLE 22 – (1) A fee calculated by the founder and approved by the portfolio custodian at a rate of five per one hundred thousands of the net assets value as of the last business day of each quarterly period on calendar year basis pursuant to the third paragraph of Article 130 of the Law shall be deposited by the founder in the Board's Account within the following 10 business days. A copy of each of the relevant payment receipt and calculation matrix is sent to the Board within five business days.

Repealed Communiqués and References:

ARTICLE 23 – (1) The Communiqué on Principles of Exchange Traded Funds (Serial VII, No. 23), published in the Official Gazette edition 25432 on 13/4/2004 is hereby repealed.

(2) All references made to the Communiqué on Principles of Exchange Traded Funds (Serial VII, No. 23), published in the Official Gazette edition 25432 on 13/4/2004 shall hereafter be deemed to have been made to this Communiqué.

Transitory Provisions:

TEMPORARY ARTICLE 1 – (1) Funds the shares of which have been offered to public prior to the date of publishing of this Communiqué are required to adapt themselves to the provisions of this Communiqué within one year following the effective date of this Article. Otherwise, the founder is under obligation to apply to the Board within 20 business days following the end of this period of time for cancellation of fund rules or fund prospectus from the trade registry.

(2) For the funds the shares of which have been offered to public prior to the date of publishing of this Communiqué, the condition set forth in the sixth paragraph of Article 9 of this Communiqué is required to be satisfied as of 30/06/2015.

Finalization of Existing Applications:

TEMPORARY ARTICLE 2 – (1) The applications for establishment of fund which have not been responded to by the Board prior to the date of publishing of this Communiqué shall be subject to the provisions of the second and sixth paragraphs of Article 9 of this Communiqué.

(2) The applications for establishment of fund or for approval of prospectus which have not been responded to by the Board prior to the date of publishing of this Communiqué shall be subject to the provisions of this Communiqué.

Effective Date:

ARTICLE 24 – (1) Second and sixth paragraphs of Article 9 of this Communiqué shall become effective as of the date of publishing, and other provisions as of 1/7/2014.

Enforcement:

ARTICLE 25 – (1) The provisions of this Communiqué shall be executed by the Capital Markets Board.

ANNEX-1

**CALCULATION OF TRACKING DIFFERENCE AND
TRACKING ERROR**

Tracking Difference:

$$TD = R_P - R_B$$

TD = Tracking difference

R_P = Annual return on the fund (calculated on the basis of net assets value)

R_B = Annual return on the tracked index

Tracking Error:

TE = Tracking error

R_P = Annual return on the fund (calculated on the basis of net assets value)

R_B = Annual return on the tracked index

N = Number of days of calculation

ANNEX-2

MINIMUM CONTENTS OF FUND RULES

- (a) Name and duration of the fund;
- (b) Name and address of founder, portfolio manager, portfolio custodian and authorized participant;
- (c) Minimum transaction unit;
- (c) Information on index and index provider;
- (d) General principles on investment policy, objectives, investment limitations, index tracking strategy and risks of the fund;
- (e) General principles on creation of fund portfolio and public offering of fund units;
- (f) General principles on disclosure of net assets value and unit share price of the fund which are used as indicators;
- (g) Detailed principles on primary and secondary market transactions of the fund;
- (g) Principles on management and custody of portfolio;
- (h) Portfolio valuation principles;
- (i) Principles on expenditures from fund assets, and management fee and total expense ratio of the fund;
- (i) Principles on transfer of difference between fund income and fund expenses to fund unit holders;
- (j) Principles on dividend distribution, if any;
- (k) Conditions of liquidation of the fund;
- (l) Other contents to be determined by the Board.

MINIMUM CONTENTS OF FUND PROSPECTUS

- (a) Name and duration of the fund;
- (b) Name and address of the founder, portfolio manager, portfolio custodian and authorized participant; (c) Information on fund portfolio managers and members of founder's board of directors;
- (c) Minimum transaction unit;
- (d) Information on index and index provider and principles of disclosure of index value;
- (e) Detailed principles on investment policy, objectives, investment limitations, index tracking strategy and risks of the fund;
- (f) Principles on calculation of tracking difference and tracking error, and probable estimated value of tracking error under normal market conditions to be calculated for the first one year following the public offering of fund units;
- (g) Statements on factors (transaction costs, total expenses, illiquid assets and similar other factors) which may affect the reflection by the fund of the performance of the index tracked by it, and the size of tracking difference and tracking error;
- (g) Detailed principles on creation of fund portfolio and public offering of fund units;
- (h) Principles on calculation and disclosure of net assets value, unit share price of the fund which are used as indicators;
- (i) Detailed principles on primary and secondary market transactions of the fund;
- (i) Principles on portfolio management and custody;
- (j) Principles on portfolio valuation;
- (k) Management fee, commissions and other expenses and total expense ratio of the fund;

- (l) Principles on transfer of difference between fund income and fund expenses to unit holders;
- (m) Principles of taxation of the fund;
- (n) Information regarding from where the fund rules and financial reports can be provided;
- (o) Principles on dividend distribution, if any;
- (o) Method of liquidation of the fund;
- (p) Statement on the firm to be assigned for audit of the fund;
- (r) Information on outsourced services;
- (s) Other contents to be determined by the Board.

MINIMUM CONTENTS OF INVESTOR INFORMATION DOCUMENT

- (a)** Introductory information about the fund;
- (b)** Minimum transaction unit;
- (c)** Detailed principles on primary and secondary market transactions of the fund;
- (ç)** Information on index and index provider and principles of disclosure of index value;
- (d)** General principles on index tracking strategy of the fund;
- (e)** Principles on calculation of tracking difference and tracking error, and probable estimated value of tracking error under normal market conditions to be calculated for the first one year following the public offering of fund units;
- (f)** Explanations on factors (transaction costs, total expenses, illiquid assets and similar other factors) which may affect the reflection by the fund of the performance of the index tracked by it, and the size of tracking difference and tracking error;
- (g)** Brief description of investment objectives and investment policy, and distribution of the portfolio;
- (ğ)** Management fee, commissions and other expenses and total expense ratio of the fund;
- (h)** If any, past performance of the fund, and performance scenario analyses depending on the type of fund;
- (ı)** Risk and yield profile containing appropriate disclosures and warnings related to risk exposures of the fund.

**MATERIAL EVENTS
REQUIRED TO BE DISCLOSED TO PUBLIC**

(a) Explanations on index tracked by the fund:

- 1) Change of index;
- 2) Change of assets included in the index, and/or change of weights of these assets;
- 3) Change in method of disclosure of index, and in data distribution channels through which the index is disclosed;
- 4) Tracking difference and tracking error calculated for the recent one year, and in the case of a substantial increase in tracking difference and tracking error, the reasons of such difference, as of the end of each month, for disclosure in the first business day of the following month;
- 5) Estimated value of probable tracking error of the next year which may materialize under normal market conditions, as of the last business day of each year;
- 6) Estimated tracking error predicted for the previous year, and the actual tracking difference and tracking error, and in the case of a substantial difference between estimated and actual tracking errors, the reasons of such difference, as of no later than the last business day of January every year.

(b) Explanations on the fund founder, portfolio manager, portfolio custodian and authorized participant:

- 1) Change of the fund founder, portfolio manager, portfolio custodian and authorized participant;
- 2) Change of communication data, such as address, telephone and facsimile numbers, of headquarters or principal offices of the aforementioned institutions;
- 3) Sanctions applied by the Board on the fund founder, portfolio manager, portfolio custodian and authorized participant, and on officials of such institutions, due to their fund-related activities and operations;
- 4) Disclosures made to public about the fund founder, portfolio manager, portfolio custodian and authorized participant pursuant to the regulations of the Board pertaining to public disclosure of material events, which may directly or indirectly affect the value of fund units, and investment decisions of investors, and primary and secondary market transactions of the fund.

(c) Explanations on transaction principles and unit share price of the fund:

- 1) Changes in principles relating to primary and secondary market transactions of the fund, and suspension or limitation of such transactions;
- 2) Change in minimum transaction unit;

- 3) Developments or events leading to a failure in calculation or public disclosure of unit share price of the fund;
- 4) Changes in data channels where the net assets value and unit share price are disclosed as indicators of the fund;
- 5) Fall of the average value of recent three months of net assets value below TL 3,000,000 according to the assessment to be conducted in the last business day of every month.

(ç) Explanations on portfolio structure and management strategy of the Fund:

- 1) Change of portfolio structure, portfolio limitations, investment strategy and index tracking strategy of the fund;
- 2) Change of valuation principles of the fund portfolio;
- 3) Change of principles of custody of assets included in the fund portfolio;
- 4) In the case of being a party of repo-reverse repo transactions in over-the-counter market, information about maturity, rate of interest, counterparty, and rating of counterparty of the contract;
- 5) General principles on reliable methods and contracts to be used for compliance of over-the-counter-market contracts, entered into as cited above, with the principles set forth in subparagraph (c) of seventeenth paragraph of Article 17 hereof;
- 6) In the case of getting a loan, the amount, rate of interest, date of borrowing, lending institution, and date of repayment of loans.

(d) Explanations on administrative structure and organization of the fund:

- 1) Appointment, retirement or otherwise replacement for any reason whatsoever of members of the board of directors, or fund manager, or other officials of the fund carrying substantial decision making authority and responsibilities;
- 2) Sanctions applied by the Board on the aforementioned persons.

(e) Explanations on financial structure of the Fund:

- 1) Change in fund management fee, commissions and other expenses and in total expense ratio;
- 2) Index licensing fees paid by the fund, and changes therein.

(f) Explanations to be made in the case of termination, transfer, transformation or merger of the fund, or in the case of change of its founder:

- 1) Decisions of authorized bodies taken in the case of termination, transfer, transformation or merger of the fund, or in the case of change of its founder;
- 2) Filing of an official application, getting a permission, and all process-related developments with respect to these transactions (to be arranged so as to contain the announcement text, and to be made every day starting from the date of permission of

the Board relating thereto, until the effective date of changes specified in the announcement text).

(g) Other explanations:

- 1) Starting of trading of fund units in foreign stock exchanges, and change of markets where they are listed and traded, or delisting of them;
 - 2) Changes in laws which in turn substantially affect the activities of the fund;
- Any development which substantially affects the fund's activities, operations and financial situation, although not listed hereinabove, or a substantial change in an event previously disclosed to public through reports, financial statements, footnotes of financial statements, and information documents.