

COMMUNIQUÉ ON PRINCIPLES OF RATING ACTIVITIES AND RATING AGENCIES IN CAPITAL MARKETS

(Serial VIII, No. 51)

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List of Amendments:

- 1) Communiqué Amending the Communiqué on Principles of Rating Activities and Rating Agencies in Capital Markets”, Serial VIII, no. 68, published in the Official Gazette edition 27553 on 15.04.2010.
- 2) Communiqué Amending the Communiqué on Principles of Rating Activities and Rating Agencies in Capital Markets”, Serial VIII, no. 76, published in the Official Gazette edition 28750 on 29.08.2013.
- 3) Communiqué Amending the Communiqué on Principles of Rating Activities and Rating Agencies in Capital Markets”, Serial VIII, no. 77, published in the Official Gazette edition 30540 on 19/09/2018.
- 4) Communiqué Amending the Communiqué on Principles of Rating Activities and Rating Agencies in Capital Markets”, Serial VIII, no. 78, published in the Official Gazette edition 30789 on 30/05/2019.
- 5) Communiqué Amending the Communiqué on Principles of Rating Activities and Rating Agencies in Capital Markets”, Serial VIII, no. 79, published in the Official Gazette edition 30915 on 11.10.2019.

FIRST CHAPTER

Purpose, Scope, Grounds and Definitions

Purpose and Scope

ARTICLE 1 – (Amended by the Communiqué, Serial VIII, No. 76) (1) The purpose of this Communiqué is to set down and regulate the principles, procedures and rules relating to rating activities in capital markets, rating agencies to be authorized by the Board for such activities, employees of said agencies, international rating agencies accepted by the Board, and disclosure of sovereign credit ratings parallel to the Regulation, no. 1060/ 2009, dated 16.09.2009, of the European Union.

Grounds

ARTICLE 2 – (Amended by the Communiqué, Serial VIII, No. 76) (1) This Communiqué is issued in reliance upon articles 1, 62 and 63 of the Capital Markets Law no. 6362 dated 6/12/2012.

Definitions

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

- a) **“Ethical Rules of Conduct Directive”** refers to a written guideline containing detailed rules aiming to assure independence and objectivity of rating process, and full compliance with laws, to prevent probable conflicts of interests, to protect confidentiality of information, and to resolve problems that may be faced by each employee in the course of rating process;
- b) **“Exchange”** refers to exchanges and other organized markets where capital market instruments are traded;
- c) **“Rating committee member”** refers to natural persons who have the qualifications listed in Article 10 of this Communiqué and determine a rating by assessing the examinations and analyses conducted by rating surveyors;
- ç) **“Rating agencies”** refers to rating agencies established in Turkey and duly authorized by the Board for rating activities regulated by this Communiqué, as well as international rating agencies accepted by the Board for conduct of rating activities in Turkey pursuant to Article 8 of this Communiqué;
- d) **“Rating agency employees”** refers to rating surveyors, rating committee members and other employees of a rating agency;
- e) **“Rating”** refers to a rating determined for capital market instruments representing the enterprise and/or indebtedness as a result of assessment by the rating committee of examinations and analyses conducted by rating surveyors;
- f) **“Rating surveyor”** refers to either credit rating surveyors having the qualifications listed in Article 10 of this Communiqué and conducting the examination relied upon by ratings by carrying out all of the required financial and technical analyses regarding enterprises, or corporate governance rating surveyors entrusted with the task of performing activities for rating of compliance with corporate governance principles;
- g) **“Rating surveyor license”** refers to a professional competence certificate granted for rating activities if and when the licensee passes the exam organized under the regulations of the Board on licensing and registry keeping for actors operating in capital markets, in order to become a credit rating surveyor entrusted with the task of credit rating activities or a corporate governance rating surveyor entrusted with the task of performing activities for rating of compliance with corporate governance principles;
- ğ) **“Enterprise”** refers to corporations and capital market institutions;
- h) **(Amended by the Communiqué, Serial VIII, No. 76) “Law”** refers to the Capital Markets Law no. 6362;

- i) “Controller”** refers to person or persons selected by the rating agency’s board of directors and authorized to audit whether rating agencies and their employees act in strict compliance with the agency’s rating methodology, ethical rules of conduct directive and other internal regulations and applicable legislation or not, and to report the results of audit to the board of directors;
- i) “Board”** refers to the Capital Markets Board;
- j) “List”** refers to a list of agencies authorized to conduct rating activities in capital markets, and of international rating agencies accepted by the Board;
- k) “Customer”** refers to enterprises entering into a contract with a rating agency for rating activities, and enterprises covered by unsolicited rating activities;
- l) “Corporation”** refers to publicly-held corporations as defined in the Law, and issuers issuing their capital market instruments other than share certificates;
- m) “Capital market instruments”** refers to capital market instruments as defined in the Law;
- n) “Capital market institutions”** refers to capital market institutions as defined in the Law.

SECOND CHAPTER

Scope of Rating Activities and Agencies Eligible for Rating Activities

Scope of Rating Activities

ARTICLE 4 – (1) Rating activities cover credit rating activities and rating activities focused on compliance with corporate governance principles.

(2) Enterprises may order a rating in their own discretion. However, enterprises may be held obliged to order a rating if and when deemed necessary by the Board.

(3) Rating agencies may also perform rating activities without any request of enterprises covered therein. However, rating agencies are under obligation to inform the relevant enterprises before making a public disclosure about such unsolicited rating activities and the results thereof. Assessments made and comments expressed by the relevant enterprise about information regarding enterprises relied upon in rating activities are to be taken carefully into consideration by rating agencies.

(4) Unsolicited rating activity is required to be continued for 3 consecutive accounting periods of the relevant enterprise in accordance with principles, procedures and rules set down in this Communiqué. The resulting ratings shall be reviewed and made public every 6 months at the latest.

(5) Fees and similar other benefits, if any, received or expected to be received from the customer or from other individuals, entities or institutions in consideration of unsolicited rating activities are required to be made public by rating agencies, together with ratings resulting therefrom.

Credit Ratings

ARTICLE 5 – (1) Credit rating is an activity wherein:

- a) risk status and solvency of enterprises or
- b) ability to reimburse on due dates of principal sum, interests and similar other obligations associated with capital market instruments representing indebtedness

are rated and classified by rating agencies independently, objectively and fairly.

Rating of Compliance with Corporate Governance Principles

ARTICLE 6 – (1) Rating of compliance with corporate governance principles is an activity wherein compliance of enterprises with Corporate Governance Principles published by the Board is rated and classified by rating agencies independently, objectively and fairly.

(2) In a rating of compliance with corporate governance principles, grades between 1 and 10 shall be assigned both on compliance with all principles as a whole and on compliance separately with certain main sections, namely shareholders, public disclosure and transparency, stakeholders and board of directors. Fractional grades between these values (up to two digits) shall be disclosed to public without rounding up.

Agencies Eligible for Rating Activities

ARTICLE 7 – (1) Rating activities shall be conducted by rating agencies established in Turkey and duly authorized by the Board for rating activities, as well as international rating agencies accepted by the Board for conduct of rating activities in Turkey.

International Rating Agencies Accepted by the Board

ARTICLE 8 – (1) International rating agencies eligible for rating activities according to this Communiqué shall be chosen by the Board and included in the list of international rating agencies accepted by the Board upon their application to the Board, if deemed fit as a result of an assessment with respect to the scope and duration of their business activities, the countries they are actively operating in, whether they are accepted by official authorities of those countries or not, and credibility.

(2) Upon occurrence of any material changes in the criteria evaluated at the time of listing and referred to in first paragraph of this Article, and/or depending on the results of an examination on the activities performed in Turkey, the Board may delist any of said international rating agencies listed as above.

(3) (Amended by the Communiqué, Serial VII, No. 68) International rating agencies accepted by the Board are to appoint a natural person or a legal entity resident in Turkey as their representative in charge of performing the public disclosure and notification obligations stipulated in this Communiqué. However, a legal entity representative resident in Turkey is prohibited from engaging in any rating activities other than collection of data and information relied upon in ratings.

(4) (Amended by the Communiqué, Serial VII, No. 68) Entities intending to engage in rating activities as an affiliate or a subsidiary of international rating agencies accepted by the Board, other than their legal entity representatives mentioned in paragraph 3 of this Article, or under an information sharing contract signed with them, may also deal with rating activities in Turkey if they are authorized under the pertinent provisions of this Communiqué, and they shall be subject to pertinent provisions of this Communiqué as rating agencies authorized by the Board.

THIRD CHAPTER

Authorization and Listing of Rating Agencies Founded in Turkey

Conditions of Application

ARTICLE 9 – (1) Rating agencies to be established in Turkey for dealing with rating agencies are required:

- a) to be established in the form of a joint-stock company;
- b) to have shares comprised only of registered shares;
- c) to use the phrase ‘rating’ phrase in their company name;
- ç) to engage exclusively in rating and other fields directly related to rating, and to have an articles of association drafted accordingly;

- d)** to have a minimum paid capital of 200,000 New Turkish Liras;
- e)** to ensure that their shareholders, managers, directors, controllers, rating surveyors and rating committee members, as well as members of the board of directors of their legal entity shareholders have the qualifications listed in the first paragraph of Article 10 of this Communiqué; and
- f)** separately for each rating activity, with the purpose of ensuring performance of each rating activity independently from others:
- 1)** to have adequate organization, premises, technical equipment, documentation and recording-keeping system, also including elements of principles and rules of rating activity set down in the Fifth Chapter of this Communiqué;
 - 2)** in compliance with the principles and rules of rating activities referred to in the Fifth Chapter of this Communiqué, to determine and choose a systematic rating methodology, and to create a written internal control system so as to cover also the control processes regarding financial and legal modes of operation with a view to supervising compliance with the chosen methodology, and to prepare and issue an ethical rules of conduct directive;
 - 3)** in compliance with the principles and rules of rating activities referred to in the Fifth Chapter of this Communiqué, to appoint at least 1 controller having the qualifications set forth in the fifth paragraph of Article 10 of this Communiqué for auditing the performance and compliance of rating activities with relevant legislation, the efficient operation of the internal control system, and for supervising compliance with the ethical rules of conduct directive;
 - 4)** to employ at least 2 rating surveyors having the qualifications set forth in the fourth paragraph of Article 10 of this Communiqué;
 - 5)** to appoint a rating committee comprised of at least 3 rating committee members having the qualifications set forth in fifth paragraph of article 10 of this Communiqué; and
 - 6)** to undertake to take out a professional liability insurance cover regarding rating activities to be carried out within the frame of the procedures and principles determined and issued by the Undersecretariat of Treasury and by the Ministry with which the Undersecretariat of Treasury is affiliated.
- (2)** The minimum paid capital mentioned in subparagraph (d) of first paragraph of this article may be revised by the Board by considering the revaluation rate published by the Ministry of Finance every year.
- (3)** The Board may, if and when deemed necessary in the course of evaluation of applications, request additional information and documents.

Shareholders, Managers, Controllers and Employees of Rating Agencies Established in Turkey

ARTICLE 10 – (1) As for shareholders, managers, directors, controllers, rating surveyors and rating committee members of a rating agency and as for members of the board of directors of its legal entity shareholders:

a) Themselves or companies they participate as unlimited shareholder must not have been adjudged bankrupt, and must not have entered into composition with their creditors;

b) They must not have been proven to be personally liable for the acts causing cancellation, in enterprises the operating license / authorization certificate of which has been cancelled, or which have been delisted, or the exchange membership of which has been cancelled, pursuant to capital market law legislation or other relevant laws and regulations;

c) They must not have been convicted of non-compliance with the Law;

ç) They must not have been convicted of non-compliance with banking legislation, legislation on the prevention of laundering of proceeds of crime, and legislation pertaining to lending business activities, and/or convicted of crimes requiring imprisonment of 2 years or more, even if later pardoned, with the exception of negligent offenses, or convicted of such infamous crimes as embezzlement, extortion, bribery, theft, fraud, forgery, abuse of confidence, fraudulent bankruptcy, or of smuggling offenses other than smuggling for own use or consumption, of rigging official bids, revealing of secrets of state, tax evasion, or aiding and abetting in such offenses;

d) They must not have been banned from trading in capital markets in reliance upon the pertinent articles of the Law.

(2) Aside from individuals listed in first paragraph, other employees of the rating agency must also not have been convicted of non-compliance with the Law, or such infamous crimes as embezzlement, extortion, bribery, theft, fraud, forgery, abuse of confidence or fraudulent bankruptcy, or of aiding and abetting in such offenses.

(3) Where document requested from foreign natural persons or legal entities cannot be provided due to non-availability of an authority or system in charge of keeping records in the foreign countries they are resident in, this non-availability is required to be verified to the Board by a certificate to be received from official authorities of the relevant foreign country.

(4) Rating surveyors:

a) Must have graduated from education institutions of minimum 4 years at the level of bachelor degree;

b) Must have minimum past experience of 3 years at a specialist level or as academician, faculty member or director in at least one of economics, finance, accounting, audit, internal

control, statistics, risk assessment and management, financial analysis, rating, assessment and corporate governance fields or in any one of the fields of law relating to said disciplines;

c) Must have received a credit rating surveyor or corporate governance rating surveyor license certificate under regulations of the Board relating to licensing;

ç) (Added by the Communiqué, Serial VIII, No. 78) With respect to the implementation of the provisions of subparagraph (c) on foreign natural persons, the licensing condition shall be deemed to be fulfilled, where a certificate corresponding to advanced level license under regulations of the Board pertaining to licensing is received from an internationally accepted institution recognized and announced by the Board, or where it is verified by documentation that the applicant has past work experience of at least five years in rating agencies actively operating abroad in credit rating or corporate governance principles compliance rating fields and recognized or authorized by the relevant authority of the foreign country the applicant is seated. However, the number of foreign rating surveyors appointed as above may not exceed fifty percent of the total number of rating surveyors.

(5) Rating committee members and controllers:

a) Must have graduated from education institutions of minimum 4 years at the level of bachelor degree;

b) Must have a minimum past experience of 5 years at a specialist level or as academician, faculty member or director in at least one of economics, finance, accounting, audit, internal control, statistics, risk assessment and management, financial analysis, rating, assessment and corporate governance fields or in any one of the fields of law relating to said disciplines;

c) Must have received a credit rating surveyor or corporate governance rating surveyor license certificate within the frame of regulations of the Board relating to licensing;

ç) (Added by the Communiqué, Serial VIII, No. 78) With respect to the implementation of the provisions of subparagraph (c) on foreign natural persons, the licensing condition shall be deemed to be fulfilled, where a certificate corresponding to advanced level license under regulations of the Board pertaining to licensing is received from an internationally accepted institution recognized and announced by the Board, or where it is verified by documentation that the applicant has past work experience of at least eight years in rating agencies actively operating abroad in credit rating or corporate governance principles compliance rating fields and recognized or authorized by the relevant authority of the foreign country the applicant is seated. However, the number of foreign rating committee members appointed as above may not exceed one-third of the total number of rating committee members.

(6) Rating committee members, controllers and rating surveyors are essentially required to work on full-time basis in the rating agency. This full-time work basis does not prevent acceptance of part-time jobs as a trainer, faculty member or academician.

(7) Documents to be procured from abroad with respect to applications to be filed pursuant to this Communiqué must be approved by official authorities of the relevant country and the consulate general of Turkey in that country, or pursuant to the provisions of the Hague Convention Abolishing the Requirement of Legalisation for Foreign Public Documents issued within the frame of the Hague Conference on Private International Law, and the notary-certified translations of the documents must also be attached to the application.

Board Examination and Authorization

ARTICLE 11 – (1) Rating agencies shall be separately authorized and listed by the Board for credit rating and corporate governance principles compliance rating activities.

(2) Applications for authorization of rating agencies shall be examined by the Board by taking into consideration whether the conditions of application sought for in this Communiqué are satisfied or not. Rating agencies deemed fit and eligible as a result of examination shall be listed, and are made public by the Board.

(3) Information and documents determined to be missing by the Board or additionally requested by the Board are required to be submitted to the Board within no later than 3 months following the date of notification to the relevant applicant. If this period is exceeded, application of the relevant applicant shall be cancelled.

FOURTH CHAPTER

Rating Contract and Information Sharing Contract

Rating Contract

ARTICLE 12 – (1) Rating agencies are under obligation to enter into a written contract with the enterprises to be rated, separately for each rating activity referred to in Articles 5 and 6 of this Communiqué.

(2) These contracts shall contain the following items as a minimum:

- a) Name, and address of registered offices of rating agency;
- b) Name, and address of registered offices of the client requesting the rating service;
- c) Purpose, subject and if any, special reasons of the contract;
- ç) Term, and conditions of termination of the contract;
- d) Fee due and payable to the rating agency;
- e) Rights and obligations of the parties;

- f) A commitment to be provided by the parties that the rating activity will be carried out in accordance with the pertinent provisions of this Communiqué;
- g) Client's commitment that all kinds of information required to be provided by the customer shall be reliable, full and complete, and provided on time.

Information Sharing Contract

ARTICLE 13 – (1) In the event that rating agencies enter into an information sharing contract with an international rating agency, the information sharing contract shall contain the following items as a minimum:

- a) Name, and address of registered offices of international rating agency;
 - b) Name, and address of registered offices of the rating agency;
 - c) Principles on transfer of information by international rating agency to the rating agency with respect to the methodology employed by international rating agency in its own country and in its international rating practices;
 - c) Statement of the rating agency that it is going to conduct its rating activities in accordance with methodology reported to it by the international rating agency;
 - d) Fee due and payable to the international rating agency;
 - e) Term and conditions of termination of the contract.
- (2) The rating agency shall send a copy of its information sharing contract to the Board within 6 business days at the latest.

FIFTH CHAPTER Principles and Rules Applicable to Rating Activities

General Provision

ARTICLE 14 – (1) Rating agencies shall carry out their rating activities in accordance with the principles and rules set down in this Chapter.

Activity Principles

ARTICLE 15 – (1) Rating agencies are under obligation:

- a) To conduct their rating activities in accordance with the rating methodology disclosed by them to public and by using all of the information in their possession, to prepare and issue a written guideline for their rating activities, to use this guideline, and to monitor practices;

- b)** To employ a meticulous and systematic rating methodology capable of offering a objective verification in their rating activities;
 - c)** To create a documentation and recording system supporting the opinions regarding rating;
 - ç)** To refrain from performing a rating activity which may be false and misleading about the client and/or the capital market instrument representing the indebtedness;
 - d)** To appoint the working team in such manner to ensure continuity and objectivity in the rating process;
 - e)** To allocate adequate sources so as to assure the high quality of rating services;
 - f)** To provide a qualified rating service by considering also whether rating surveyors having adequate professional qualifications can be allocated to the subject rating work or not, at the time of deciding to assume the requested rating work, or whether or not to continue the rating work;
 - g)** To take into consideration in its rating work also, information required to be made public by the client, but not disclosed in a timely manner and/or disclosed inadequately, and other financial and administrative risks having significant effects on the client's activities;
 - ğ)** To base rating works on the financial information prepared in accordance with the regulations of the Board pertaining to accounting standards, and audited by an independent auditor, and to make sure that all resources used are reliable;
 - h)** In case of signature of an information sharing contract with an international rating agency, to comply with the methodology of said agency and to use the same symbols with it.
- (2)** Rating surveyors must also obligated consistently apply the methodology employed by the rating agency, and to offer a high quality service by showing the required professional diligence and care in their works by refraining from making a false and misleading analysis.
- (3)** Rating surveyors also having the qualifications referred to in fifth paragraph of Article 10 of this Communiqué may also take part as a rating committee member for rating works in which they are not involved as a rating surveyor, and rating committee members may also take part as a rating surveyor in the rating works for which they are not involved as a rating committee member.

Ratings

ARTICLE 16 – (1) Ratings shall be determined not by rating surveyor, but by rating committee in strict compliance with the methodology published and by assessing all available information known and/or regarded as related to the subject.

(2) Ratings assigned as a result of solicited or unsolicited rating activities shall be made public by the rating agency under provisions of the fourth paragraph of Article 26 of this Communiqué.

Monitoring and Update of Ratings

ARTICLE 17 – (1) After making a rating public as above, the rating agency is under obligation to continuously keep that rating updated by:

- a) Regularly reviewing information regarding the relevant client and/or capital market instruments representing indebtedness;
- b) Being aware of all kinds of information which may affect the rating operations and decisions, also including those which require termination of the rating contract;
- c) Reassessing the rating works in a timely manner depending on review outcomes.

(2) A rating work may not be terminated with the intention of refraining from making the ratings public. With the exception of this case, a decision regarding termination of a rating work shall be made public by the relevant rating agency. The public disclosure relating thereto shall also declare the last date of revision of ratings, and the reasons underlying termination of the rating work.

(3) **(Added by the Communiqué, Serial VIII, No. 76)** The maximum time of revision of solicited or unsolicited country credit ratings shall be implemented as 6 months.

Objectivity

ARTICLE 18 – (1) Rating agencies and their employees shall establish and develop an honest, fair and objective relationship with clients, investors, other market participants and the public in general.

(2) Rating agency employees shall carry out their rating activities and their relations established in the course of said activities objectively, honestly and fairly. If any employee is proven to have breached such objectivity, honesty and fairness principles, their employment contract shall be terminated by the rating agency.

(3) Rating agencies and their employees may by no means explicitly or implicitly warrant or give any commitment as to the assignment of a certain predetermined rating.

(4) Rating agencies are obligated to determine in writing the rules of election of controller by board of directors and the working and reporting principles, procedures and rules of controller. Controller shall present a written report issued as a result of audit works directly to board of directors of the rating agency. Fees to be paid and other benefits to be provided to the controller may not be linked to rating activities.

(5) Illegal acts or other acts of any employee of rating agency which breach the rating agency's ethical rules of conduct directive or applicable legislation shall be reported immediately by the rating agency's other employees to the controller in order to ensure that the required measures are taken. Under these circumstances, the rating agency is under obligation to take necessary actions specified in the rating agency's ethical rules of conduct directive or the applicable legislation, and to take required measures so as to prevent the probable preventive acts of other employees against the controller. The rating agency shall notify the Board within 6 business days thereafter about actions and/or measures taken upon report of the controller.

Protection of Independence and Refraining from Conflicts of Interest

ARTICLE 19 – (1) The following general principles shall be implemented with the purpose of protection of independence and avoiding conflicts of interest in rating activities:

a) Rating agencies may not refrain from taking the required actions and decisions relating to ratings due to the probable economic, political or other impacts of rating activity on themselves, investors and other market participants.

b) Ratings may not be determined subject to existing or probable business relations of rating agency (also including its affiliates, companies under joint management, and subsidiaries, or other institutions having an information sharing relationship with the agency) with its client or its client's controlling shareholders, affiliates and companies under joint management with the client.

c) Rating agencies must separate their rating activities and their employees assigned for rating activities from other fields of business which may cause conflicts of interests legally or in terms of rating. To this end, rating agencies must establish processes and mechanisms and take actions as and when required in order to eliminate the possibility of conflict of interests.

ç) Rating agencies may not provide their clients of rating services with consulting services and other services that may lead to a conflict of interests with rating services in the same period and during two following years thereafter. Similarly, rating agencies may not provide their clients of consulting and similar other services, with rating services in the same period and during two following years thereafter.

(2) Rating agencies shall develop and implement policies in strict compliance with the following principles to ensure protection of independence and avoiding conflicts of interest in their rating activities:

a) Rating agencies shall establish written procedures and methods aiming to detect, prevent, manage and disclose all existing and probable conflicts of interests which may affect the analyses, assessments, opinions and decisions of their employees who are influential on the rating process. These procedures and methods shall be described in the ethical rules of conduct directive of the rating agencies.

b) Rating agencies shall act with diligence to ensure that public disclosures mentioned in subparagraph (a) of second paragraph of this Article are complete, true, accurate, clear, comprehensible and timely so as not to cause any conflicts of interest in essence and in appearance.

c) Rating agencies may not deal with trading of capital market instruments (except for investment fund units) issued by their client or the client's controlling shareholders, affiliates, and companies under joint management with the client.

(3) Rating agencies and their employees are required to comply with the following principles to ensure the protection of independence and prevention of conflicts of interest and/or avoiding conflicts of interest in rating activities:

a) Working principles applicable to and service fees and other benefits to be provided to rating surveyors and rating committee members in return for the services they provide shall be determined in such manner to prevent probable conflicts of interest.

b) Rating agencies and rating surveyors and rating committee members are under obligation act independently and objectively in their rating activities. Aside from individually being honest and objective in the course of rating activities, said individuals are essentially required to act in such manner to ensure honest and objective performance of their professional activities.

c) Rating surveyors are under obligation to keep away from probable conflicts of interest during their works and activities and not to permit any intervention which may negatively impact their honesty and objectivity. Rating committee members are also required to build their opinions as a result of examination and assessment works without taking into consideration any direct or indirect interests of third parties.

ç) (Amended by the Communiqué, Serial VIII, No. 77) (Amended by the Communiqué, Serial VIII, No. 79) With the exception of the rating agency's legal entity shareholders directly or indirectly holding a capital share of less than 10% therein, and Türkiye Varlık Fonu Yönetimi Anonim Şirketi (Turkish Wealth Fund Management Inc.), Türkiye Varlık Fonu (Turkish Wealth Fund) established by the Law on the Establishment of Turkish Wealth Fund Management, Inc. and on Amendments to Some Laws, no. 6741, dated 19.08.2016, and the enterprises included in its portfolio, and sub-funds affiliated to the Turkish Wealth Fund and the enterprises included in portfolios of said sub-funds, the rating agency's shareholders, managers, directors, controllers, rating committee members and rating surveyors are not permitted:

- 1)** To take office in any position or title whatsoever in another rating agency or in any client during the period rating services are provided;
- 2)** To deal with trading (with the exception of rating agency shareholders who do not take office in any position in the rating agency);

- 3) To take office in any position or title whatsoever in the rating service client or in the client's controlling shareholders, affiliates and in companies under joint management with the client, until the end of 2 years following the completion of the subject rating work;
- 4) To deal with trading of capital market instruments (with the exception of investment fund units) issued by the rating agency's client or by the client's controlling shareholders, affiliates and by companies under joint management with the client.

d) (Amended by the Communiqué, Serial VIII, No. 79) Rating agencies may not provide rating services to their legal entity shareholders directly and/or indirectly holding 10% or more share in their capital, and their affiliates, companies under joint management with them and their subsidiaries. However, rating agencies where Turkish Asset Fund Management Inc. and the Turkish Wealth Fund established by the Law no. 6741, participate directly and/or indirectly, may provide rating services to Turkish Wealth Fund Management, Inc., and to the Turkish Wealth Fund and enterprises included in its portfolio, and sub-funds affiliated to the Turkish Wealth Fund and enterprises included in portfolios of said sub-funds, without being subject to the restrictions depicted in this paragraph.

e) Rating agencies may not link the wages of their employees to revenues from rating activities they conduct.

(4) (Amended by the Communiqué, Serial VIII, No. 77) (Amended by the Communiqué, Serial VIII, No. 79) With the exception of the rating agency's legal entity shareholders directly or indirectly holding a capital share of less than 10%, and Turkish Wealth Fund Management Inc., Turkish Wealth Fund established by the Law, no. 6741, and enterprises included in its portfolio, and sub-funds affiliated to the Turkish Wealth Fund and enterprises included in portfolios of said sub-funds, the spouses and blood relatives up to and including third degree and relatives by marriage up to and including second degree of the rating agency's shareholders, managers, directors, controllers, rating committee members and rating surveyors are not permitted to enter into commercial relations with the client or to take office in a job position having administrative and/or managerial powers at management levels of the client during the period subject rating services are provided.

(5) Rating surveyors are under obligation to report to the rating agency all of their personal relations which engage in or give the impression of probably engaging in conflicts of interest.

Cases Where Independence is Deemed to Have Been Compromised:

ARTICLE 20 – (1) In cases where the Board, rating agency, client or other relevant parties are in doubt that independence of rating agency, rating surveyors or rating committee members has been impaired, then and in this case, their independence is deemed to have been compromised. Cases where independence has been compromised shall be notified promptly to the Board.

(2) Cases when independence is deemed to have been compromised include, but are not limited to, the following cases:

a) (Amended by the Communiqué, Serial VIII, No. 77) (Amended by the Communiqué, Serial VIII, No. 79) With the exception of the rating agency's legal entity shareholders directly or indirectly holding a capital share of less than 10%, and Turkish Wealth Fund Management Inc., Turkish Wealth Fund established by the Law, no. 6741, and enterprises included in its portfolio, and sub-funds affiliated to the Turkish Wealth Fund and enterprises included in portfolios of said sub-funds, with respect to the spouses and blood relatives up to and including third degree and relatives by marriage up to and including second degree of the rating agency's shareholders, managers, directors, controllers, rating committee members and rating surveyors, and the rating agency itself:

- 1) If it is detected that a benefit is obtained directly or indirectly from or is promised to be provided by the client or any other persons, entities or corporations related to the client, other than those specified in the rating contract;
- 2) If it is demonstrated that a shareholding relationship is entered into with the client, or the shareholders holding 10% or more of capital of the client, or natural persons or legal entities which are directly or indirectly affiliated with the client in terms of management, audit and/or capital or are or controlled by the client;
- 3) If office is taken as founder, chairperson or member of board of directors, company manager or vice manager, or in any other position having significant decision taking powers or liabilities, in the client or the client's controlling shareholders or its affiliates or in companies under joint management with the client;
- 4) If debt-credit relationships, other than ordinary and usual economic relations, are entered into with the client or the client's controlling shareholders or its affiliates or companies under joint management with the client or the client's subsidiaries, or if trading is conducted in capital market instruments (with the exception of investment fund units) issued or guaranteed by the client or the client's controlling shareholders or its affiliates or companies under joint management with the client;
- 5) If services were provided to the customer in the scope of independent audit and/or appraisal activities during the previous 2 years;

b) Failure of the customer in payment of the rating fees of past years, or payment of a rating fee less or more than the amount of fees agreed upon in the rating contract, in absence of a valid reason;

c) If payment of the rating fee is linked to conditions relating to rating results or a predetermined and agreed upon rating estimate, or if the rating fee is determined after completion of rating process or exhibits clear differences from current market rates;

ç) If the ratio of total annual revenues obtained from a client and that client's controlling shareholders, affiliates and companies under joint management with that client to the total income of the rating agency of that specific year exceeds 20% for 3 consecutive years.

Timely Disclosure to Public of Information Relating to Rating Works, and Transparency

ARTICLE 21 – (1) Under general requirements relating to public disclosures as stipulated in Articles 16 and 17 of this Communiqué, rating agencies shall comply with the following rules and principles to ensure that the public is provided with complete, accurate and timely information their rating services:

- a)** Rating agencies are under obligation to disclose to public both their ratings and any changes in ratings, also including the time of update, and all other information required in connection therewith, within the frame defined in fourth paragraph of Article 26 of this Communiqué. Accordingly, all public disclosures must contain all of the required information and should be free to enable access of all investors thereto.
- b)** In order to enable the public to have access to adequate information about rating activities being carried out, rating agencies must make disclosures to public about their methodologies, procedures and assumptions (also including corrections made in financial statements that lead to material changes in the client's financial information disclosed to public). Such disclosures shall cover issues such as what each rating group means and refers to, and the event of default or recovery from default by client, and the rating activity procedure (but are not limited to such information).
- c)** In public disclosures of rating agencies, it shall also be clearly stated that the rating may in no case be construed as a recommendation about the subject rating client or its capital market instruments representing indebtedness.
- ç)** Before making public ratings or any changes in ratings, rating agencies must inform the client about significant issues relating to their rating activity. All related information received from the client must be carefully examined and assessed. Also where the rating agency is not able to provide information in advance, the rating agency must disclose its reasons of inability to provide information to its clients promptly after public disclosure of the resulting ratings.
- d)** To ensure increased transparency in the marketplace, and better assessment of performance of rating agencies by related parties or persons, rating agencies must also make adequate disclosures to public about past default rates relating to each rating group and the changes which have occurred in the default rates of rating groups over time. However, if, due to the nature of rating or other circumstances, the disclosure of past default rates is statistically meaningless or may mislead investors, then, rating agencies are further liable to inform the public about this issue as well.
- e)** With respect to each rating process, the rating agency shall publicly disclose whether the client participated in such process or not. In unsolicited ratings, the public shall also informed that the rating was performed without a request of the relevant enterprise. Policies and processes regarding unsolicited ratings must are be made public.

f) Rating agencies are further liable to publicly disclose all kinds of material changes in all or any of their actions, procedures, methodologies and practices before putting such material changes into force. Before making any such changes, the probable effects of changes shall also be taken into consideration.

(2) Rating agencies are liable to build an official website in order to fulfil their public disclosure obligations stipulated in this Communiqué.

Confidentiality and Secrecy Obligations

ARTICLE 22 – (1) In the absence of a contract signed between the rating agency and its client, or a provision in relevant legislation with respect to confidentiality of information, the rating agency must develop procedures and mechanisms to ensure confidentiality of all information. Unless otherwise provided in the related contract or legislation, rating agencies and their employees are prohibited from disclosing any confidential information to investors or other third parties.

(2) With the exception of conditions included in the contract signed with the client, rating agencies must confidential information solely for rating activities.

(3) Rating agencies must take all precautions against the risks of theft, burglary or abuse of all records and documents, also including those related to their customers.

(4) Information not yet made public, about rating results or scheduled future rating activities may not be disclosed by rating agencies to third parties, with the exception of the client and certain predetermined persons or entities. However, disclosure of any confidential information to authorities, in relation to judicial, and administrative proceedings provided that there is authorization under legislation, or any kind of investigation or prosecution or any criminal events shall not be construed as a breach of this secrecy obligation.

(5) Rating agencies may not disclose any confidential information to employees of other companies affiliated to them. Confidential information may be shared within the rating agency only on a need-to-know basis for rating activities.

(6) Rating agency employees may use confidential information solely for conduct of their rating activities, and may by no means use them for their own interests or interests of others.

(7) Secrecy obligations of shareholders, directors, managers and employees of rating agencies regarding confidential information obtained during the conduct of their rating activities shall survive their departure from office.

Public Disclosure of Ethical Rules of Conduct Directive, and Communications with Market Participants

ARTICLE 23 – (1) Rating agencies must ensure that their ethical rules of conduct directive has been prepared as described in this Communiqué and in compliance with the scope thereof,

to make their ethical rules of conduct directive public, and to ensure the implementation of these rules.

(2) Rating agencies must establish a unit within their organization structure for the purpose of management of their relations with market participants and public, assessment of complaints, and determination of appropriate policies by taking all questions and assessments into consideration.

Advertising Ban

ARTICLE 24 – (1) Rating agencies may not engage in activities that may be deemed as direct or indirect advertisement, and may not propose any business, in order to acquire jobs.

(2) However, rating agencies may prepare and distribute brochures containing introductory information about them, and may place job postings for themselves or their clients, may make scientific publications on vocational issues, may organize meetings such as seminars and conferences or participate and present papers in them, and may give lectures for education and training purposes. Provided, however, that in the course of these activities it must be ensured that:

- a) No promise or commitment is given about the results of rating activities;
- b) Austerity and temperance as required by the business is maintained;
- c) Exaggerated, sentimental and untrue, images or information deceiving or misleading related persons or abusing their lack of experience are not used or such impression is not created;
- ç) Expectations lacking any concrete base about services to be performed are not created;
- d) Comparisons with other rating agencies are not made.

(3) The provisions of this Article are valid also for the shareholders, directors, managers, controllers and employees of rating agencies.

SIXTH CHAPTER Other Provisions

Requirement to Issue Financial Statements and of Independent Audit

ARTICLE 25 – (1) Annual financial statements of rating agencies established in Turkey must be prepared in accordance with provisions specified in regulations of the Board on accounting standards with regard to corporations listed in an exchange, and must be subject to independent audit pursuant to the regulations of the Board pertaining to independent audit standards.

Notification to Board and Public Disclosure

ARTICLE 26 – (1) Rating agencies established in Turkey must inform the Board within no later than 6 business days about any changes that may occur after they are authorized in:

- a) Their articles of association,
- b) Their shareholders, managers, directors, controllers and employees and members of the board of directors of their legal entity shareholders,
- c) Other information submitted by them to the Board at the time of application pursuant to this Communiqué.

(2) Rating agencies established in Turkey must submit to the Board within no later than 6 business days:

- a) Their rating contracts signed in accordance with the provisions of this Communiqué, and any amendments to said contracts,
- b) Their information sharing contracts signed in accordance with the provisions of this Communiqué, and any amendments to said contracts,
- c) Their professional liability insurance policies required to be taken out as per this Communiqué.

(3) Rating agencies established in Turkey must disclose to public on their official website, both their annual financial statements required to be issued pursuant to Article 25 of this Communiqué, and independent audit reports issued therefor, and information about their operating income duly classified in details by the sources of income, and to send the same to the Board within 10 weeks following the date of their balance sheet.

(4) Rating agencies established in Turkey must send the information relating to their issuing of ratings, and related monitoring and updating activities:

- a) in case of information relating to corporations the capital market instruments of which are traded in an exchange, to the related exchange and the Board to be publicly disclosed, by the quickest means of communication by no later than 09:00 hours in the first business day following the date of creation of such information;
- b) in case of information relating to corporations the capital market instruments of which are not traded in an exchange, to the Board by the quickest means of communication by no later than the first business day following the date of creation of such information.

Also in case of termination of rating services, the same principles shall be implemented in public disclosures relating to such termination.

(5) Rating agencies established in Turkey must make public via their official websites and by other communication methods deemed fit, all information required to be made public pursuant

to this Communiqué, other than such information as referred to in third and fourth paragraphs of this Article, and to send the same information to the Board within 6 business days following the date of public disclosure.

(6) The notification requirement set forth in the fourth paragraph of this Article shall be effective also for international rating agencies permitted by the Board to engage in rating activities in Turkey pursuant to Article 8 of this Communiqué. Furthermore, before starting their rating activities in Turkey, these agencies must also provide information to the Board about their rating activities to be carried out in Turkey, clients, scope and subject of rating, and representatives to be assigned by them under the third paragraph of Article 8 of this Communiqué.

(7) (Paragraph added by the Communiqué, Serial VIII, No. 76) With respect to public disclosure of solicited or unsolicited credit ratings and country outlooks:

a) Rating agencies assigning credit ratings must make public via their own websites and through data distribution firms and to send to the Board at the end of December every year, a calendar showing the dates of rating and/or outlook disclosures scheduled to be made by them during the next year. Rating or outlook disclosures are essentially required to be made on Fridays. In case of necessities and/or emergencies, credit ratings or outlooks may also be disclosed to public at a date different from the calendar made public beforehand as above. However, in this case, the reasons underlying the change of the date of disclosure must also be publicly disclosed. With respect to unsolicited credit ratings, rating or outlook disclosures may be made maximum 3 (three) times a year.

b) Credit rating or outlook disclosures must be made by the rating agency at least one hour prior to opening of the first session in the exchange or after closing of the last session therein at the date previously declared to public.

c) A detailed research report containing all factors taken into consideration in determination of sovereign rating or outlook, including, but not limited to, all relevant assumptions, restrictions, variables and uncertainties, shall also be made public simultaneously with the disclosure of rating or outlook. This report made public as above must be understandable and clear.

ç) In case of a change in sovereign rating or outlook, the research report to be made public simultaneously with the disclosure of change is required to contain the following elements as a minimum:

1) A detailed assessment focused on causes of actual changes in quantitative assumptions and on their relative weights: This assessment shall cover income per capita, Gross Domestic Product growth rate, inflation rate, budget balance, external balance, foreign debts, economic growth indicator, default indicator and all other factors taken into consideration. This assessment shall also contain the relative weight of each factor.

- 2) A detailed assessment focused on causes of actual changes in qualitative assumptions and on their relative weights.
- 3) A detailed description of risks, restrictions and uncertainties associated with changes in ratings.
- 4) Summary minutes of meeting of the committee deciding the changes in ratings.

d) Unsolicited credit ratings or outlooks related to such ratings shall be reported to the relevant public institution responsible for the issue 12 hours before the time of public disclosure, for information purposes and for confirmation of existence or non-existence of any information or any other factors that may affect the rating. This report shall be delivered to a limited number of recipients, and the recipients shall be determined mutually by the credit rating agency and the relevant public institution.

Liability Arising out of Rating Activities

ARTICLE 27 – (1) Without prejudice to the general law provisions pertaining thereto, the rating agency and the relevant rating surveyors and rating committee members shall be severally liable for all kinds of damages and losses that may be incurred by customers and third parties due to failure in performance of rating activities in compliance with principles, rules and procedures set forth in this Communiqué.

(2) Rating agencies authorized by the Board must take out a professional liability insurance cover against probable damages and losses that may arise out of their rating activities.

(3) Criminal liabilities of shareholders, directors, managers, rating committee members, controllers, rating surveyors and other employees of rating agency are, however, reserved.

Monitoring and Supervision by the Board

ARTICLE 28 – (1) Rating activities covered by this Communiqué are subject to monitoring and supervision by the Board. The Board may request all kinds of information and documents from rating agencies. Rating agencies are under obligation to keep the reports issued about their rating activities and their work papers relied upon in their rating activities for at least 10 years for submission to the Board upon request.

Administrative Fines and Delisting

ARTICLE 29 – (1) In cases where it is determined by the Board that:

- a) The rating agency has subsequently lost its eligibility for application;
- b) The rating agency does not comply with the rating activity rules and principles described in Chapter 5 of this Communiqué;
- c) The rating agency has not engaged in any rating activities in capital markets for 5 years uninterruptedly;

ç) The rating agency has not performed timely, completely and accurately its notification and reporting requirements arising out of this Communiqué, or has failed to provide on time, completely and accurately, or has delayed delivery of, all kinds of information or documents that may be requested by the Board or by its designees,

an administrative fine may be imposed on the rating agency and/or the rating agency's directors, controllers and employees in reliance upon article 47/A of the Law, or the rating agency may be delisted by a decision of the Board pursuant to subparagraph (g) of first paragraph of Article 46 of the Law.

(2) In determination of the order of priority of sanctions mentioned in the preceding paragraph, the characteristics and effects of the relevant act shall be taken into consideration. In case of detection of acts of a rating agency, which may lead to irreparable damages and in terms of public interest, the Board may decide to delist the rating agency without imposing any administrative fine.

(3) In case of detection of liability in relation with the event mentioned in subparagraph (b) of first paragraph of this Article, the Board may prohibit only the relevant controller, rating committee member and/or rating surveyor from conducting rating activities in capital markets.

Repealed Provisions

ARTICLE 30 – (1) The Communiqué on Principles of Rating Activities and Rating Agencies in Capital Markets, Serial VIII, no. 40, published in the Official Gazette edition 25306 on 04.12.2003 is hereby superseded and repealed.

TRANSITIONAL ARTICLE 1 – (1) The obligation as to employment of controller as referred to in third paragraph of Article 9 of this Communiqué is required to be complied with:

a) by rating agencies authorized by the Board prior to the date of publication of this Communiqué, within 3 years following the date of publication of this Communiqué,

b) by the rating agencies to be authorized by the Board after the date of publication of this Communiqué, within 2 years following the date of authorization.

TRANSITIONAL ARTICLE 2 – (1) Rating agencies authorized by the Board prior to the date of publication of this Communiqué, and applicants the application of which is at the stage of evaluation by the Board as of the date of publication of this Communiqué must adapt their activities and organization structure to comply with the pertinent provisions of this Communiqué within 2 years following the publication of this Communiqué, without prejudice to the provisions of Transitional Article 1 of this Communiqué.

TEMPORARY ARTICLE 3 – (1) International rating agencies permitted by the Board to engage in rating activities in Turkey prior to the date of publication of this Communiqué, and international rating agencies which have already filed an application to the Board pursuant to

first paragraph of Article 8 of this Communiqué as of the date of publication hereof, must also comply with the third paragraph of the same Article within 1 year following the date they start their activities.

Effective Date

ARTICLE 31 – (1) This Communiqué shall become effective as of the date of its publication.

Enforcement

ARTICLE 38 – (1) The provisions of this Communiqué shall be enforced and executed by the Capital Markets Board.