

The logo for the Capital Markets Board of Turkey (CMB) is located in the top right corner. It consists of the letters 'CMB' in a large, white, sans-serif font.

# CMB

Capital Markets Board of Turkey

Four circles of increasing size and decreasing opacity (from dark blue to light blue) are arranged in a diagonal line from the bottom left towards the top right, positioned to the right of the vertical bar.

## Annual Report

# 2004

CAPITAL MARKETS BOARD OF  
TURKEY  
ANNUAL REPORT  
2004

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## **ABBREVIATIONS**

BILTEN	: Information Technologies and Electronics Research Institute of the Scientific and Technical Research Council of Turkey
CBRT	: Central Bank of the Republic of Turkey
CESR	: Committee of European Securities Regulators
CMB	: Capital Markets Board of Turkey
CML	: Capital Markets Law
CPI	: Consumer Prices Index
CR	: Central Registry
EMC	: Emerging Markets Committee
ERC	: European Regional Committee
EU	: European Union
FCIB	: Financial Crimes Investigation Board
FOE Inc.	: Futures and Options Exchange Inc.
FSF	: Financial Stability Forum
IAS	: International Accounting Standards
IGE	: Istanbul Gold Exchange
IMF	: International Monetary Fund
IOSCO	: International Organization Of Securities Commissions
ISE	: Istanbul Stock Exchange
SP-Net	: Capital Markets Integrated Information Systems
TAIEX	: Technical Assistance Information Exchange Office
TAKASBANK	: ISE Settlement and Custody Bank Inc.
TASB	: Turkish Accounting Standards Board
TEGOVA	: European Groups of Valuers
TSPAKB	: Association of Capital Markets Intermediaries of Turkey
TURKDEX	: Turkish Derivatives Exchange
TUSSID	: Turkish Institute for Industrial Management
WPI	: Wholesale Prices Index



## MESSAGE FROM THE CHAIRMAN

The Capital Markets Board (CMB) continued to regulate and supervise capital markets with simple and understandable approaches in line with international norms and developments, and meeting the ever changing needs of markets in order to ensure that markets are functioning in a safe, fair, transparent and efficient manner in 2004 too. Especially, great efforts have been underway in order to integrate the Turkish Capital Markets to the global financial markets and to boost both domestic and foreign investors confidence in the Turkish capital markets by adapting international standards. The information related to some of the important works that the CMB has been doing are given below.

Although the real estate has been one of the most important sectors in the Turkish economy, due to high inflationary environment that lasted for years, unfortunately an efficiently working mortgage market could not be established. As a result of the study that the CMB has been doing in last two years, a new framework for mortgage financing has been prepared and regulation proposals has been handed over to the related Minister. The proposed system has been prepared in accordance with the systems already in use in developed markets. In this framework, mortgage backed securities and disclosure rules will be regulated in detail and mortgage credits will be redesigned. Furthermore, in order to comply with international standards, the standards related to real estate valuation will be regulated again. With the establishment of this system, it will be possible to own a house with small monthly payments like a rent.

The studies for harmonising the capital market regulations with the European Union (EU) regulations have been continued intensely. In this framework, in collaboration with three foreign sector experts on regulations, administrative structure and information technologies a gap analysis and an action plan have been prepared after a nearly two-month work. Based on these documents, a project proposal has been developed which is to be financed by the EU funds and that project has been approved by the related departments of the European Commission. After the completion of the necessary procedure, an EU country will be chosen in 2005 and in cooperation with that countries' experts the Turkish capital markets regulations will be fully harmonised with the EU regulations.

One of the important factors affecting the maximum use of the international capital flows is to increase the reliability and comparability of the financial statements through disclosing information in line with international standards. Within this concept, as the outcome of the efforts to comply with the International Accounting Standards (IAS), 33 accounting standards which are fully harmonious with the IAS have been issued in 2003 and will be effected on the first interim financial statements ending after 01.01.2005. Complementary to the efforts related to the IAS, the auditing activities should also be rendered more reliable and efficient in order to boost investor confidence. Therefore, the studies for fully harmonising the Turkish auditing standards with the internationally accepted standards and the EU regulations are underway.

It is necessary to restructure the exchanges and other markets in accordance with the current developments for achieving our goal to make Turkey an international financial center. Global trends and increased competition have caused many exchanges to change their structures and organise as profit-making companies. The performance of these restructured exchanges has also been forcing the traditional exchanges to join this process. In this framework, the studies have been continuing to reorganise the Istanbul Stock

Exchange (ISE) and the Istanbul Gold Exchange (IGE) as a profit-making company for increasing their competitiveness and effectiveness at first then to privatise them.

The initiative started in 1999 for dematerialization has also come to near completion in 2004, and dematerialization will begin in 2005 starting from the participation certificates of mutual funds.

The legal structure of the establishment of a new market for small and medium sized companies for extending their opportunity of financing through capital markets has been completed. For the establishment of this market, which is expected to direct the savings of Turkish citizens living abroad and in Anatolia in addition to the so-called "under mattress" savings outside the financial system to the capital market instruments of the familiar companies, an intensive and comprehensive cooperation has been initiated with related institutions.

The CMB not only plays important roles in domestic market but also in the international financial system. As the chairman of the Emerging Markets Committee (EMC) of the International Organization of Securities Commissions (IOSCO), with the chairman of the Technical Committee, I attended the meetings of the Financial Stability Forum (FSF) which was established to ensure financial stability through cooperation and information sharing in the area of financial supervision, on behalf of 75 emerging market countries, and contributed to the economic decisions of G-7 countries.

Lastly, I would like to mention the very important projects on technological infrastructure. It is necessary to establish a modern technological infrastructure to be able to make our country an international financial center, to get efficient results from regulations and measures, and to make the global integration easier. Within this view, the works for establishing the general and specific purpose Information Management Systems which will help detect many illegal acts in capital markets such as manipulation has been continuing non-stop, and many project has come to the completion level.

The efforts of the CMB and the positive economic developments occurring recently will certainly cause a rapid development trend in capital markets. During this process, the capital markets, the weight of which will be increased in the financial system, will begin to contribute to the efficient allocation of resources and social prosperity more substantially.

Dr. Dođan CANSIZLAR  
Chairman of Capital Markets Board

# 1. CAPITAL MARKETS BOARD OF TURKEY

The Capital Markets Board of Turkey (CMB) is the sole regulatory and supervisory authority in charge of the securities markets in Turkey. The CMB was established as a self-funding statutory public legal entity with administrative and financial autonomy empowered by the Capital Markets Law (CML) which was enacted in 1981 with the aim of implementing the duties and exercising its authority endowed by this Law.

The subject of this Law is to regulate and control the secure, transparent and stable functioning of the capital markets and to protect the rights and benefits of investors with the purpose of ensuring an efficient and widespread participation by the public in the development of the economy through investing savings in the securities market.

The CMB has an executive board consisting of seven Members/Commissioners, two of whom are the chairman and the deputy chairman. The CMB's headquarters is located in Ankara, and there is also a regional office in Istanbul.

## 1.1. MISSION, VISION, DUTIES AND POWERS

The **MISSION** of the CMB is **"to regulate and supervise the capital markets for the secure, fair, transparent and efficient functioning of the capital markets, within the framework of objectivity and accountability, conducting supervision and making clear and easy to understand regulations that are in conformity with international norms and developments, and that meet the requirements of a constantly changing market environment."** The **VISION** of the CMB is **"to be a leading and dynamic institution, which has a respected international reputation."**

The main duties and powers of the CMB are as follows:

- To regulate and control the conditions of the issuance, public offering and sale of capital market instruments with respect to the application of this Law;
- To register capital market instruments to be issued or offered to public and to halt the public offering sale of capital market instruments temporarily in case the public interest so requires;
- To determine standard ratios related to financial structures, and the use of resources of capital market institutions subject to the CML in general or by areas of activity or types of institutions, and to regulate the principles and procedures related to the publication of these ratios;
- To determine the principles related to independent auditing operations, including when appropriate with respect to use of electronic media in the capital markets; to determine the conditions for establishment and the working principles of institutions engaged in independent auditing operations with respect to the capital market according to Law No. 3568, dated 1 June 1989 by consulting with the Union of Chambers of Public Accountants of Turkey and to publish lists of those who have such qualifications;
- To reach general and specific decisions to ensure duly and timely enlightenment of the public and to determine and issue communiqués about the content, standards and principles for the publication of financial statements, reports and their audit, of

prospectuses and circulars issued at the public offering of capital market instruments, and of important information affecting the value of instruments;

- To supervise the activities of the issuers subject CML, banks with respect to provisions in paragraph (a) of Article 50 of CML, capital market institutions and stock exchanges and other organized markets for compliance CML, decrees, communiqués of the Board and other legislation related to capital markets by demanding all the necessary information and documents;
- To monitor all kinds of publications, announcements and advertisements relevant to the capital markets made via any means of communication, and to ban those which are determined to be misleading and to inform the related organizations to duly execute what is required;
- To review the financial statements and reports and other documents obtained by the CMB or submitted to it in accordance with the provisions of CML, to request reports also from issuers and internal auditors and independent auditors about matters deemed to be necessary and by evaluating the results obtained, to take the required measures as proved in this Law;
- To determine the principles related to voting by proxy in the framework of the general provisions at the general assemblies of publicly held joint stock corporations and to make regulations related to those who collect proxies or acquire shares in an amount enabling them to change the management of such corporations, or the obligation of purchasing other shares and the rights of the partners who are in the minority to sell their shares to persons or a group which has taken over the control;
- To regulate the qualifications and sale and purchase principles of any derivative instruments, including futures and options contracts based on economic and financial indicators, capital market instruments, commodities, precious metals and foreign currency, the supervision of the obligations of those employed at the exchanges and markets where these instruments are traded, and of the rules and principles of activities and of the rules, principles, and guarantees of the clearing and settlement system;
- To regulate agreements for the purchase or sale of capital market instruments with the promise to resell or repurchase; to adopt market transaction rules related to these contracts; and to determine operating rules and principles related to these transactions;
- To determine rules and principles related to the borrowing and lending capital market instruments and short selling transactions and, after obtaining the opinions of the Undersecretariat of the Treasury and the Central Bank of the Republic of Turkey, to adopt regulations related to transactions involving margin trading;
- To make necessary regulations within the framework of related legislation with respect to the issuing and public offering of capital market instruments in Turkey by non-residents;
- To regulate and supervise the clearing and custody of capital market instruments and the rating of capital market institutions and capital market instruments;

- To determine the principles of establishment, operation, liquidation and termination of newly established capital market institutions and to supervise them in order to ensure the development of capital markets;
- To perform the examinations requested by the Related Minister; to submit reports to the Related Minister in relation with its activities; to submit proposals to the Related Minister with respect to the amendment of legislation concerning the capital market;
- To establish the qualifications necessary to serve as an expert institution with respect to the appraisal of real estate for the purpose of capital market activities and to publish a list of the institutions that have met these qualifications;
- To determine the rules and principles applicable to persons and organizations engaged in making investment recommendations on the capital market, including in the media and by electronic means;
- To determine the principles for issuing certificates showing the vocational training and vocational adequacy of persons who shall engage in activities on the capital markets and managers and the other employees of capital market institutions and with this objective to establish centers and to determine the principles with respect to the activity;
- To regulate and supervise public offerings and capital market activities and transactions that are made by means of all kinds of electronic communication tools and media and similar tools including internet and pursuant to general rules to provide for and supervise the use of electronic signatures in activities within the scope of the CML;
- To make rules and regulations with respect to the method of collective use of voting rights wholly or partly to select members of the board of directors and of company auditors by the general assemblies of stockholders of publicly held joint stock companies subject to the CML;
- To collaborate in every aspect and to exchange information regarding the capital markets with any equivalent authority of a foreign country responsible for regulation and supervision of their capital markets.

## **1.2. THE EXECUTIVE BOARD AND ORGANIZATION**

### **1.2.1. The Executive Board**

The Executive Board is proclaimed by the CML to be at the top of hierarchy within the decision making body of the CMB and is empowered to decide on issues within the authority of the CMB.

The Executive Board consists of seven Members/Commissioners. The Council of Ministers appoints two members from four nominations by the Ministry of State responsible for the Economy. The other five members are appointed from the nominations of the "Ministry of Finance", the "Ministry of Industry and Commerce", the "Banking Regulatory and Supervisory Board", the "Association of Trade Chambers and Exchanges", and the "Association of Capital Markets Intermediary Institutions of Turkey". Each of these institutions nominates two candidates, one of whom is to be elected. All Commissioners are appointed by the Council of Ministers for a six-year period. The Council of Ministers appoints

one of the members as the Chairman and the Board elects one of its members as the Deputy Chairman.

The Chairman appointed by the Council of Ministers is the top executive who is responsible for the administration and representation of the CMB.

## EXECUTIVE BOARD



**Dr. Doğan CANSIZLAR**  
Chairman



**Mustafa Sezai AKIN**  
Deputy Chairperson



**Doç. Dr. Turan EROL**  
Board Member



**Recep BIYIK**  
Board Member



**Prof. Dr. İ. Mete DOĞRUER**  
Board Member



**Nizamettin TEMEL**  
Board Member



**Prof. Dr. Halil SARIASLAN**  
Board Member

### 1.2.2. Organization

The CMB consists of the Chairman, the Executive Board, ten main Departments, and four Executive Vice Presidents.

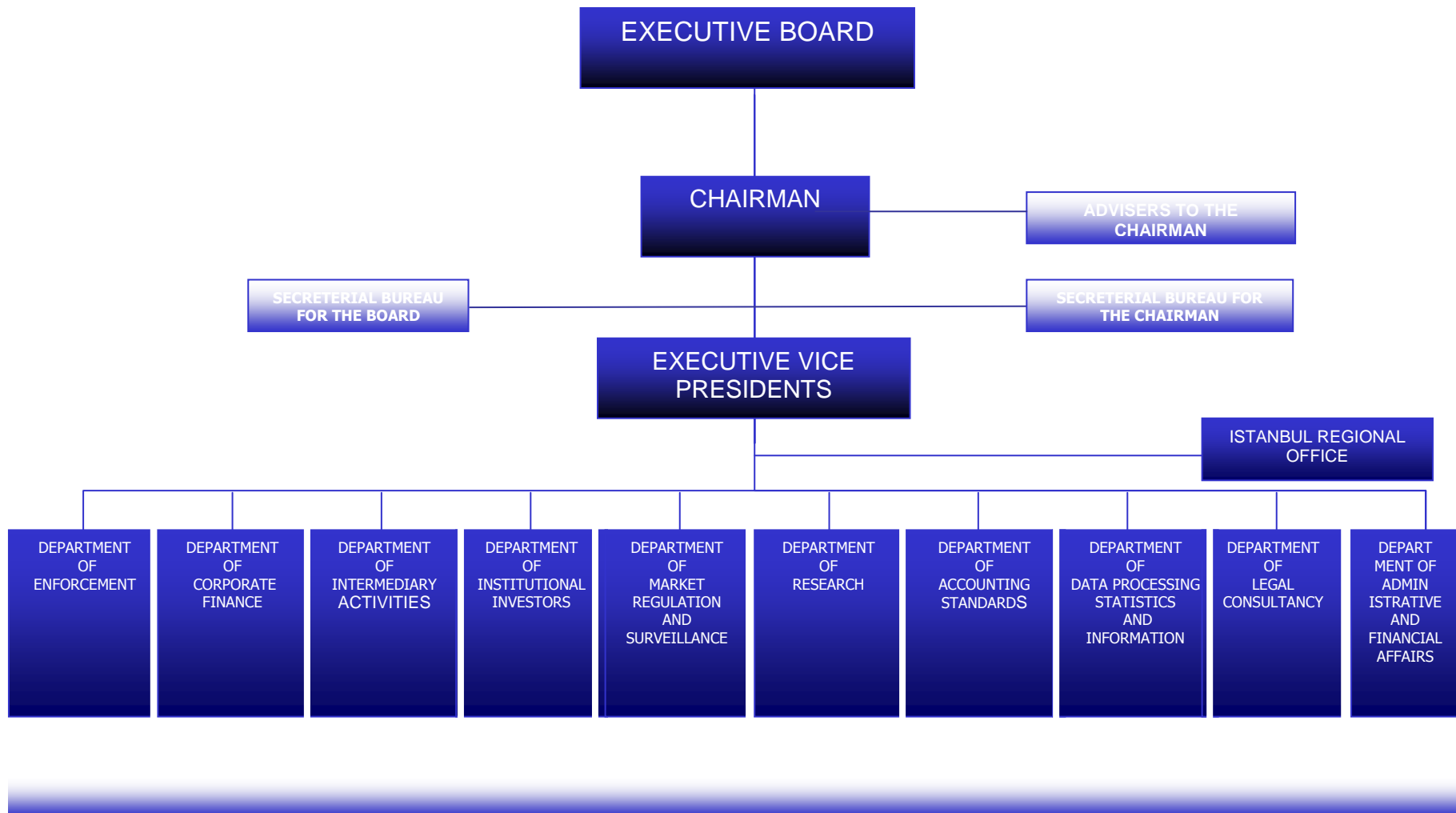
The Executive Vice Presidents are authorized and responsible for the coordination, operation and administration of the entire organization.

The departments are as follows: Department of Enforcement, Department of Corporate Finance, Department of Intermediary Activities, Department of Institutional Investors, Department of Market Regulation and Surveillance, Department of Research, Department of Accounting Standards, Department of Data Processing, Statistics and Information, Department of Legal Consultancy, Department of Administrative and Financial Affairs. Besides, there are Unit of European Union Affairs, Group of IOSCO, Unit of External Relations and Education, and Group of Investor Application.

The CMB also has an Istanbul Regional Office.



CAPITAL MARKETS BOARD  
ORGANIZATION CHART



### 1.3. BUDGET

The income and expenditure figures of the CMB are YTL 46.8 million and YTL 28.3 million in 2004, respectively. The detailed figures are as follows (Table 1.1):

**TABLE 1.1**

<b>INCOME AND EXPENDITURE OF THE CMB IN 2004</b>		
<b>1-INCOME</b>		<b>(TL Million)</b>
<b>Type of Income</b>	<b>Allowances</b>	<b>Realizations</b>
Exchequer Aid	1	0
Legal Income	19,024,500	37,287,739
Inventory Sales Revenues	11,941,757	6,392,606
Other Miscellaneous Income	350,000	1,033,840
Advances Received	0	0
Surplus Amount from 2001	683,742	2,037,502
<b>TOTAL</b>	<b>32,000,000</b>	<b>46,751,687</b>
<b>2-EXPENDITURE</b>		
<b>Type of Expenditure</b>	<b>Allowances</b>	<b>Realizations</b>
Current Expenditures	30,766,000	27,523,456
Investments	360,000	314,912
Debt Payments	874,000	427,807
<b>TOTAL</b>	<b>32,000,000</b>	<b>28,266,175</b>

The CMB can be considered as a self-financing entity since all the expenditures accrued are paid by a particular fund which is established for this purpose in compliance with the CML. A total of 0.2% of the volume of the securities registered with the CMB is paid by the issuer as registration fee, which constitutes the financial sources of the budget. With the latest amendments to the CML, 5% of the income of the exchanges established within the scope of the CML is transferred to this fund. In case the income from this fund is insufficient to meet the expenditures of the CMB, the deficit is financed by an amount allocated from the budget of the Undersecretariat of Treasury. However, such a deficit has not occurred since 1992.

### 1.4. STAFF

The rank profile of the CMB staff at 2004-end is as follows (Table: 1.2):

**TABLE 1.2**

<b>STAFF OF THE CMB</b>	
<b>EXECUTIVE BOARD</b>	<b>5</b>
<b>TOP MANAGEMENT</b>	<b>21</b>
Executive Vice Presidents	4
Heads of Departments	6
Deputy Heads of Departments	6
Advisors	5
<b>PROFESSIONAL STAFF</b>	<b>176</b>
Chief Experts	38
Experts	118
Chief Lawyers	2
Lawyers	18
<b>JUNIOR PROFESSIONAL STAFF</b>	<b>39</b>
Assistant Experts	31
Assistant Lawyers	8
<b>IT STAFF</b>	<b>28</b>
<b>ADMINISTRATIVE STAFF</b>	<b>172</b>
<b>TOTAL</b>	<b>441</b>

## 2. WORLD ECONOMY

Global economy has grown the fastest rate in 2004 in the last 9 years. The importance of the US economy has again been highlighted with its enormous size and also the large current account deficit. Global economic growth even including that of largest economies like euro area, Japan and China has depended on the US economic growth. When the US economy grows above trend, the US trade deficit increases and this in turn affects the economic growth of many countries, whose exports to the US increase, favourably. This scenario repeated again and the above trend economic growth of US economy affected the global economy favourably. Furthermore one has to add the Chinese economy to this scenario. The extraordinary economic growth rate in China has affected both the countries in the Asian region and also countries that are important commodity producers favourably. Also high economic growth in China in 2004 caused the commodity prices to increase. The global GDP growth is projected to be 5% in 2004 according to the IMF (International Monetary Fund). In 2004 the GDP growth in advanced economies is estimated at 3.6 %, and in developing countries at 6.6 %. Among advanced economies, the GDP growth rate in 2004 in US and Japan are projected to be 4.3% and 4.4 % and euro area is expected to grow 2.2 % in 2004. Among the developing countries the GDP growth in countries in the Asian region has surpassed developing countries in other regions again this year.

The consumer price inflation is expected to be 2.1% in advanced economies and 6.0% in developing countries. The Middle East region had the highest inflation among developing countries.

The world trade volume is expected to grow by 8.8% in 2004. The expected growth rate of exports of developing countries is 10.8% and of advanced economies is 8.1%. In addition the expected growth rate of the imports of developing countries is 12.8% and of the advanced economies is 7.6%.

Although the US dollar dropped against major currencies in 2004 too, the US current account deficit is expected to increase by 19% and reach \$541.8 billion in 2004.

**TABLE 2.1**

<b>SUMMARY DATA ABOUT WORLD ECONOMY</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>Annual Growth Rate (%)</b>		
World Output	3.0	3.9	5.0
Advanced Economies	1.6	2.1	3.6
-United States	1.9	3.0	4.3
-Euro Area	0.8	0.5	2.2
-Japan	-0.3	2.5	4.4
Developing Countries	4.8	6.1	6.6
-Africa	3.5	4.3	4.5
-Asia	6.6	7.7	7.6
-Middle East	4.3	6.0	5.1
	<b>World Output (Billion US \$)</b>		
According to the Exchange Rate	32,357	36,238	40,108
According to the Purchasing Power Parity	48,176	50,431	53,070
	<b>Inflation (Consumer Prices, %)</b>		
Advanced Economies	1.5	1.8	2.1
-United States	1.6	2.3	3.0
-Euro Area	2.3	2.1	2.1
-Japan	-0.9	-0.2	-0.2
Developing Countries	6.0	6.1	6.0
-Africa	9.7	10.3	8.4
-Asia	2.1	2.6	4.5
-Middle East	7.5	8.0	9.2
	<b>World Trade Volume (%)</b>		
World Trade Volume (Goods and Services)	3.3	5.1	8.8
-Exports			
-Advanced Economies	2.2	2.6	8.1
-Developing Countries	6.6	10.9	10.8
-Imports			
-Advanced Economies	2.6	3.7	7.6
-Developing Countries	6.0	11.1	12.8
Total World Exports (Billion US \$)	7,936	9,201	10,806
	<b>Current Account (Billion US \$)</b>		
Advanced Economies	-216.4	-246.5	-266.1
-United States	-473.9	-530.7	-631.3
-Euro Area	52.8	25.5	72.2
-Japan	112.6	136.2	159.4
Developing Countries	84.2	148.9	201.3
-Africa	-6.7	-0.4	2.8
-Asia	70.4	85.9	68.8
-Middle East	29.1	57.6	103.5
	<b>Capital Flows (Billion US \$)</b>		
Developing Countries	82.2	113.8	83.2
-Foreign Direct Investment	152.3	135.4	147.6
-Portfolio Investment	-49.6	-6.7	-18.3

Source: IMF World Economic Outlook, September 2004

## 2.1. ADVANCED ECONOMIES

The US economy grew strongly and employment increased considerably in 2004. Despite the rise in oil prices in 2004, consumer spending was strong and businesses increased their investment to capital equipment and inventories. In the US, worker productivity continued to increase again this year, inflation increased as a result of rise in oil prices; nevertheless core inflation which excludes energy and food prices, was well contained. The containment of price pressures in core prices, despite the rise in oil prices and drop in US dollars' value could be attributed to continuing, though diminishing slack in labour and product markets. One important difference of the economic growth in 2004 compared to the last years', was the increase in employment considerably. Employment increased by 170,000 on average monthly in 2004. The unemployment rate which was 5.7% at the end of 2003, declined to 5.4% at the end of 2004.

At the beginning of 2004, businesses were reluctant to hire new workers, although the economic activity was gaining strength; and as a result there was a general feeling that the economic growth was fragile. Nevertheless as the economy grew, deflation fears subsided in the US. The increase in employment in spring showed that the economic growth in the US strengthened. As the economic growth gained momentum and employment increased considerably, the US Federal Reserve (Fed) started to increase interest rates, which had been at historically low levels, in June. In 2003, fearing from deflation, Fed had decreased interest rates to 1% which had been historically low. Nevertheless in 2004 as the economy gained strength, Fed began to reduce monetary accommodation. US Federal Reserve started to tighten monetary policy as a result of employment data and other favourable economic data.

On the other hand some measures of economic activity softened. Hiring activity slowed down during summer for example. This caused concerns regarding the fragility of economic growth. However economic activity gained momentum during autumn. One of the most important developments regarding the US this year was the re-election of President Bush. This was especially influential on the currency markets.

Strong economic growth despite rise in oil prices, could be attributed to several factors: high labour productivity, delayed stimulus of earlier tax cuts, stimulative fiscal policy helped by rising military expenditures, and though lessened after the second half of the year still accommodative monetary policy during year. Also rising house prices was one of the factors behind the strong consumer spending.

On the other hand although the US economy has recovered very strongly in 2004, there are still serious problems overhanging about the economy. For example twin deficits, that is current account and budget deficits have been continuing to rise. Also household debt levels have been high and also some argued there was a bubble in the real estate sector.

The Japanese economy after growing strongly in the first quarter of 2004, stagnated in the remainder of the year. Nevertheless Japanese economy was expected to grow throughout the whole year. Export sector was key to Japanese economic growth despite strengthening yen. However Japanese economy slid into recession after the first quarter. Although economy grew, deflation problem persisted. Also although some of its problems continued, the situation of Japanese banking sector improved. Although Japanese economy grew this year, the problems of the country persists, such as the stagnation of the economy at the end of 2004, the problems in the banking sector, deflation, high public debt, aging population.

Euro area economy performed much better this year compared to 2003. However since economic growth is dependent on the export sector, as euro strengthened during 2004, the economic performance is affected unfavourably. The weakness in the domestic demand has caused problems. Also there are differences in performance among countries in the euro area. While France and Spain has grown stronger, Germany and Italy lagged. European Central Bank kept key interest rates unchanged as a result of subdued inflationary pressures and weak economic recovery.

Although the oil prices rose by 31.32% this year, this did not choke global economic recovery as feared. Oil prices reached record levels on October, but receded till the end of the year. In this regard oil prices remained high throughout the 2004. The oil prices urged because oil supply barely matched the world demand as a result of high global economic growth and rising Chinese demand and low spare capacity.

Also factors that could disrupt oil supply like terrorist attacks, hurricanes and strikes, caused the oil prices to jump. Besides, global economic growth and rising demand from China caused all commodity prices to surge. Gold prices rose this year too as US dollar weakened. Since September 11, the importance of gold as a safe haven investment has been highlighted.

## **2.2. DEVELOPING COUNTRIES**

The developing countries had a very good year as the global economy grew, interest rates declined and commodity prices surged.

Among the developing countries, Asian countries had the highest growth rates again. The strengthening of global economic growth, high economic growth in China, expansion in the global information technology sector as well as strong domestic demand and investment contributed to this. China's role is increasing as regional powerhouse. Foreign investment to the region especially to China and India was high.

The growth in China remained very robust supported by high investment spending. China, first took some administrative steps to cool down the economy. The government constrained the investment approvals and lending. Investment growth slowed down but remained rapid. Afterwards China increased interest rates on November. Although as a result of these precautions there were concerns about a possible hard landing in China, economic growth in China was very strong in 2004. On the other hand the need for a restructuring in banking sector continues. The government injected capital into two large banks. On the other hand since some of the loans given by the banks became non-performing, the need for a new restructuring became apparent. Also as its need for energy increased, China sought global cooperation opportunities for oil. High economic growth in China affected other countries in the region favourably. For example, the most important trading partner for Japan became China.

The economic growth in Latin America was strong too, as a result of global economic growth, high commodity prices and strong domestic demand. The commodity producing countries in Latin America took advantage of rising commodity prices as a result of strong demand from China. Oil producers like Colombia, Ecuador, Mexico and Venezuela, took advantage of the rise in oil prices. Also surge in metal prices contributed to economies of countries like Chile, Jamaica and Peru. Lastly, countries like Argentina, Bolivia, Brazil, Ecuador and Paraguay increased their agricultural exports. In addition, historically low global interest rates had a very favourable affect on Latin American countries. In Argentina, which is the most problematic country in the region, the economy recovered significantly. Argentina

tried to solve its most important problem; the restructuring of its debt by submitting a plan in the middle of January.

East European countries took advantage of global economic recovery as well. However low economic growth in euro area, trade and budget deficits in some countries were a problem. On May 1, 2004, 10 countries joined the European Union. One of the important developments in the East European region was the attempts by Russia to nationalize strategic energy companies. Russia nationalized Yuganskneftegaz which was the biggest subsidiary of Yukos, citing tax evasion.

According to the data of the Institute of International Finance (IIF), net foreign private capital flows to emerging markets increased by 32% in 2004 compared to last year and reached \$279 billion. Asia-Pacific region was the largest beneficiary of the foreign capital flows, developing European countries was the second.

### **2.3. FIXED INCOME MARKETS**

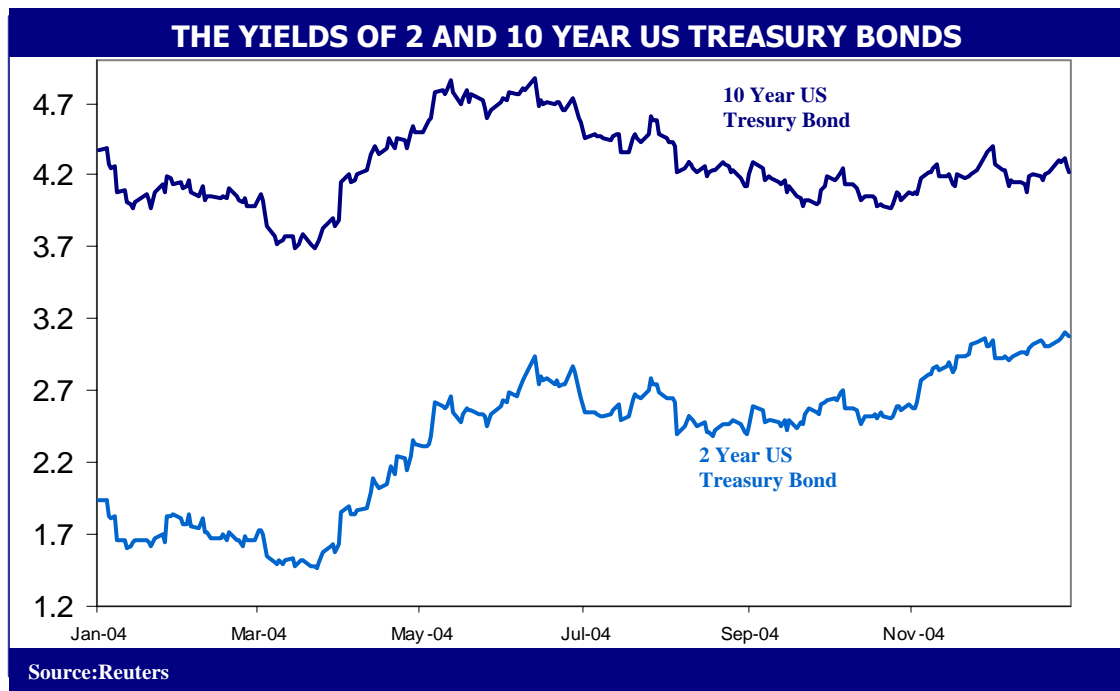
The most important underlying theme in the global financial markets this year was the continued existence of low interest rates environment in developed countries and as a result the increased investment flows to emerging markets where interest rates were higher. The US Federal Reserve started to tighten the monetary policy and this was undoubtedly the most important event in 2004 in money and bond markets. In January, Fed dropped the phrase "policy accommodation can be maintained for a considerable period" and replaced it with the phrase "it can be patient in removing its policy accommodation" in its policy statements. On its January meeting Fed also highlighted the fact that the deflation risk was decreased. As a result Fed which had been concerned about a deflation risk throughout 2003, declared that this was not a serious risk anymore at the beginning of 2004. Fed did not change its position during its March meeting. In May however, Fed announced that inflation was moving somewhat higher but long-term inflation expectations appeared to have remained well contained. On its May meeting, Fed adapted phrase that "policy accommodation can be removed at a pace that is likely to be measured" and kept it throughout the rest of the year. As a result Fed pointed to the fact that the historically low interest rate policy would be coming to an end gradually. Starting from the June meeting Fed started to increase policy interest rates gradually. Fed increased interest rates 25 basis points in every policy meeting starting from June. As a result, in 2004, starting from June Fed increased interest rates by 125 basis points. Fed did not change its mantra that the policy "accommodation could be removed at a measured pace" rest of the year after June. This also increased the expectations that the Fed would continue to increase interest rates in 2005. Fed has been aiming to reach neutral interest rate which neither stimulates nor constrains growth. This rate is thought to be between 3-5 %. In this regard, in 2005 the most important issue will be whether Fed pause its interest rate hike campaign.

Also in April a much better than expected increase in March employment, increased the expectations that the economic growth was on a more sustainable path. In March employment increased by 308,000, much better than the expectations. In this regard one of the most memorable periods for the bond market was May. On May bond yields bounced.

One interesting development was that although the interest rate set by the Fed more than doubled in the last 6 months of 2004, long term bond yields did not rise, on the contrary declined. The yield of 10 year US Treasury bond which was 4.37% at the beginning of 2004 dropped back to 4.22% at the end of the year. In 2004 at one point as the US economic data pointed to strong economic growth and as the expectations that the Fed would start to increase interest rates, the yields of 10 year US Treasury bonds reached 4.87% at the middle of June. Strange it may seem though, after the Fed increased interest

rates on June 30, the yield of 10 year US Treasury bond declined to 4.56%. Although after this period there were temporary increases, the general trend of long term bond yields was downward. In this regard as the Fed increased short term interest rates, long term yields declined. Some analysts found this awkward, because inflation increased compared to 2003, Fed started to increase short term interest rates, the US Federal budget deficit increased. In this context, since economic fundamentals required long term yields to increase, this was an abnormal situation. On the other hand some analysts thought inflation was still low, and real interest rates were not that low. Some other reasons cited for the low long term yields were; Asian Central Bank bond purchases as a result of rise in their foreign currency reserves and purchases of pension funds. Also the spreads between long term and short term bonds decreased as the yields of short term bond increased.

**GRAPH 2.1**



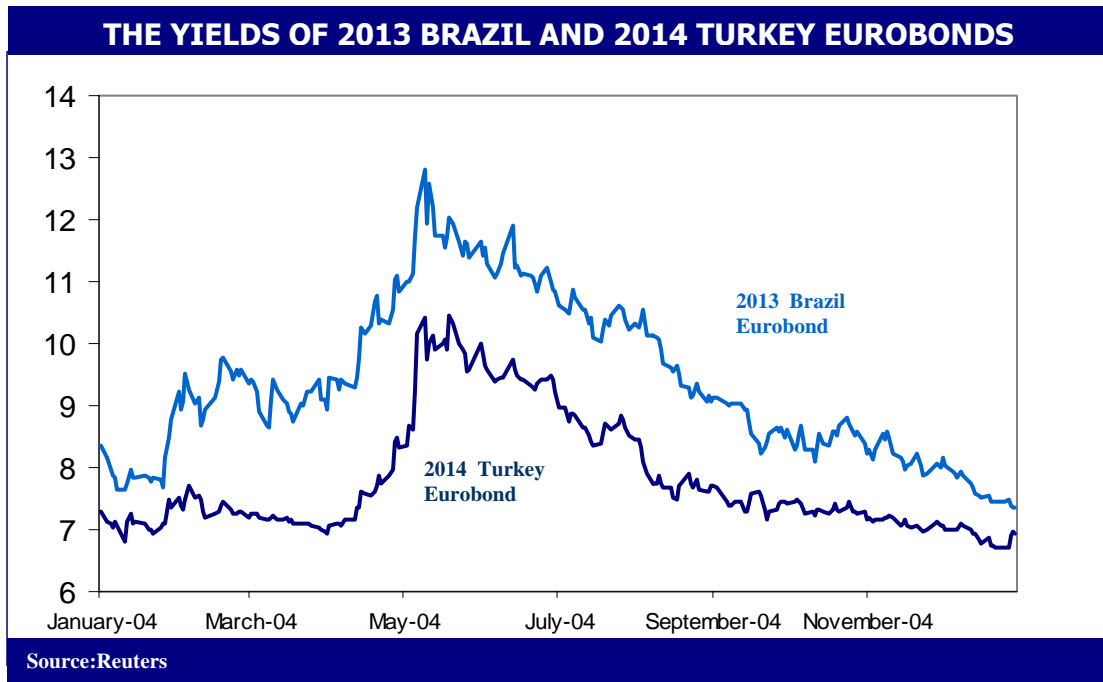
On the other hand the yields of long term bonds dropped not only in the US but also in Germany. The yield of 10 year German bond was 4.33% whereas it declined to 3.68% at the end of the year. In Japan, although the yields of long term bonds increased during the year, the yields were close to the levels at the beginning of the year.

Since the long term yields were at historically low levels in the US, this created a perfect environment for emerging market financing. The yields of emerging market Eurobonds dropped to historically low levels. The yields of these bonds jumped after May parallel to the developments in the US Treasury bonds, however the yields retreated after July. The yields of emerging market Eurobonds were at historically low levels at the end of 2004.

As a result of very low interest rate environment in developed countries, yield seeking investors turned into emerging market Eurobonds. In this context, many emerging market sovereigns issued new bonds to take advantage of this low yield environment. Foreign investors also invested into local bonds in countries like Turkey and Brazil where interest rates were high.



**GRAPH 2.2**



## 2.4. STOCK EXCHANGES

In 2004 the stock market indexes of the developed countries-though humble compared to 2003- increased by respectable amounts. The indices of world stock exchanges increased substantially in the last two years. However as a result of weakening in US dollar, US investors' appetite for stocks in other countries increased. Historically low long term yields and increasing global economic growth created a favourable environment for stocks. However since many stock indexes has returned very high last year, this year's performance was more limited. Also the completion of the US Presidential election without any event and absence of an important geopolitical or terrorist risk, created a favourable environment for stocks.

In the US, Dow Jones Industrials rose only 3.2%, NASDAQ Composite rose 8.6%. US stock indices entered into an upward trend in the last quarter of the year. In 2004 European bourses also gained. In 2004, although the economic growth was much slower compared to the US and the strengthening of euro affected many European companies unfavourably, stock indices moved higher.

Bourses in Latin America were among the best returning bourses as a result of global economic recovery and surge in commodity prices. Asian bourses generally rose. Bourses in Indonesia, Philippines, Pakistan and Malaysia gained whereas in China and Thailand, they retreated. The earthquake and tsunami at the end of the last week of 2004 had a minimal effect on Asian bourses. Although the economy in Japan was technically in recession in the second half of the year, stocks indices rose.

According to the data from the World Federation of Exchanges, the highest returning stock markets in 2004 were in Peru (52.4%), Austria (48.8%) and Mexico (46.9%) whereas the lowest returning stock markets were in Finland (3.2%), Taiwan (4.2%), and Netherlands (5.7%). The stock market in Thailand lost 13.5% in 2004.

When the performances of 47 stock markets in Table 2.2 are scrutinized, the stock markets worldwide returned 20.42% on average. The biggest increase was in South America stock markets (27.45%), the others were respectively Europe Africa, Middle East (21.05%), and North America (20.48%) and Asia Pacific (16.67%).

## **2.5. FOREIGN EXCHANGE MARKETS**

The most important theme in the foreign exchange markets this year were; the continued weakening of dollar and strengthening of emerging market currencies especially those of East European countries.

The weakening of the dollar accelerated especially after the re-election of US President Bush. As the markets had envisaged a continuation of high current account and budget deficits in the second term of US President Bush, the US dollar's fall accelerated. US Officials implicitly approved the weakening in the dollar with their remarks throughout the year. US Treasury Secretary Snow, who was seen as the responsible authority for US policy for currency, advocated that they had a strong dollar policy, but exchange rates should be determined by the markets. Moreover, Fed Chairman Alan Greenspan, who generally did not comment on foreign exchange issues, told that foreign investors' appetite for dollar assets would diminish at some time in the future given the size of the US current account deficit on December. Greenspan's remarks contributed to the weakening of the dollar. European officials complained about the fact that dollar weakened most against the euro, but not as much against Asian currencies and the Chinese currency which is pegged to dollar. Both European governments and European Central Bank announced that large fluctuations in the currency market unwelcome. However, although the value of euro against US dollar surged above 1.35, European Central Bank did not intervene in the foreign exchange markets. US dollar fell 7.72% against euro this year. In the medium term, dollar is expected to weaken given that the US had a large current account deficit.

Also, since the US current account deficit was financed mostly with foreign portfolio inflows, monthly data regarding the net foreign portfolio flows was followed closely throughout the year. When these data came worse than expected dollar weakened. However during 2004, total net portfolio inflows to the US amounted to 821.8 billion dollars. This amount was more than the current account deficit. At the same time, foreigners' net stock purchase from the US declined 31.9% compared to 2003 to 25.8 billion dollars in 2004. This was an unfavourable factor for the US stock market. In 2004 net foreign purchases of US Treasury bonds increased by 30% to 356.7 billion dollars, net purchases of the US federally sponsored agencies (e.g. Fannie Mae) bonds increased by 40.7% to 232.5 billion dollars, corporate bonds increased by 11.9% to 300.8 billion dollars. One other important point was that 56.9% of the net foreign investment to the US Treasury bonds was done by the foreign central banks. On the other hand, private foreign investors generally invested to the US Government sponsored agency bonds and corporate bonds. In 2004 US investors bought net 91.7 billion dollars worth of stocks and 2.3 billion dollars worth of bonds from other countries.

The pressures towards China to adopt a more flexible currency exchange rate regime continued throughout the year. Chinese authorities acknowledged that although there were such plans, the economy and financial system was not still ready for such a move. Nevertheless speculative inflows to the country reached very high levels, as a result of expectations for a Yuan revaluation.

On the other hand, although yen strengthened throughout the year, Japan stopped intervening in the foreign exchange markets at the beginning of the year.

Emerging market currencies strengthened as these countries grew strongly and foreign investment in emerging market bonds and stocks increased. In 2004, the currencies of Poland, Hungary, Czech Republic and Slovakia among other emerging market currencies strengthened most against the dollar. Also currencies of Colombia, Brazil, and Chile appreciated strongly. At the same time the currencies of countries that intervened to foreign exchange markets like South Korea still appreciated. The currencies of Poland, Colombia, Hungary, Czech Republic, Slovakia, South Korea and Brazil appreciated against the euro as well.

TABLE 2.2

2004 PERFORMANCE OF WORLD STOCK MARKETS (%)			
Region	Stock Market	2003	2004
North America	Amex – US	42.3	22.2
	Mexico – Mexico	43.5	46.9
	Nasdaq – US	50.0	8.6
	New York – US	29.3	12.2
	Toronto – Canada	24.3	12.5
	<b>North America Average</b>	<b>37.88</b>	<b>20.48</b>
South America	Buenos Aires – Argentina	89.2	17.4
	Lima – Peru	74.9	52.4
	Santiago – Chile	46.2	22.2
	Sao Paulo – Brazil	97.3	17.8
	<b>South America Average</b>	<b>76.9</b>	<b>27.45</b>
Europe Africa Middle East	Athens – Greece	29.5	23.1
	Barcelona – Spain	32.0	17.6
	Bilbao – Spain	26.8	18.2
	Copenhagen – Denmark	30.0	21.6
	Deutsche Börse – Germany	34.0	6.3
	Euronext Amsterdam – Netherlands	5.6	5.7
	Euronext Brussels – Belgium	12.3	34.8
	Euronext Paris – France	17.4	9.2
	Euronext Lisbon- Portugal	17.4	18.0
	Helsinki – Finland	4.4	3.2
	Irish – Ireland	23.2	25.9
	Istanbul – Turkey	79.6	34.1
	Milano – Italy	14.9	17.5
	Johannesburg – South Africa	12.0	21.9
	Ljubljana – Slovenia	17.7	24.7
	London – United Kingdom	13.6	9.21
	Luxembourg – Luxembourg	27.5	18.2
	Madrid – Spain	27.4	18.7
	Malta – Malta	13.6	44.4
	Oslo – Norway	42.5	31.9
	Swiss – Switzerland	22.1	6.9
	Stockholm- Sweden	29.8	17.6
	Tehran – Iran	115.8	24.4
	Tel-Aviv – Israel	55.4	17.6
	Vienna – Austria	30.2	48.8
	Warsaw – Poland	44.9	27.9
	<b>Europe, Africa, Middle East Average</b>	<b>29.98</b>	<b>21.05</b>
Asia Pacific	Australian – Australia	11.1	22.6
	Colombo, Sri Lanka	30.3	41.8
	Hong Kong – Hong Kong	34.2	15.4
	Jakarta – Indonesia	62.8	44.6
	Korean – South Korea	29.2	10.5
	Kuala Lumpur – Malaysia	22.8	14.3
	Osaka – Japan	27.9	11.8
	Philippine – Philippines	41.6	26.4
	Singapore – Singapore	36.4	11.8
	Taiwan – Taiwan	32.3	4.2
	Thailand – Thailand	116.6	-13.5
	Tokyo – Japan	23.8	10.15
	<b>Asia Pacific Average</b>	<b>39.08</b>	<b>16.67</b>
<b>World</b>	<b>World Average</b>	<b>37.14</b>	<b>20.42</b>

Source: World Federation of Exchanges

### 3. THE TURKISH ECONOMY

In general year 2004 was a stable year both politically and economically due to the advantages of one party government and the adherence to the economic program carried out with the IMF. The political strength of the ruling Justice and Development Party was fortified by winning 58 mayoralties out of 81 on March 28 local elections.

In 2004, one of the two developments which are economically and politically important was happenings pertaining to the process of joining the EU, and the other was the initiative for solving the Cyprus problem. The developments during the preparation of Turkey's progress report towards the December 17 EU summit and contrary to the EU regulations the attempt to define the adultery as a crime on September caused a limited volatility in financial markets. However at the summit it was decided to start the accession talks and the expectations of Turkey were met to a great extent. This outcome has been very positively reflected on future expectations. On the other hand, an attempt was made under the auspices of the United Nations for solving the Cyprus problem which is also related to the process of joining the EU. In this framework, both sides in the Island held a referendum for the compromise reached between Turkish and Greek side on April 24, and while the Turkish side accepted the compromise with 65%, Greek side refused with 76%. This result has given an important advantage to the Turkish side in solving the problem.

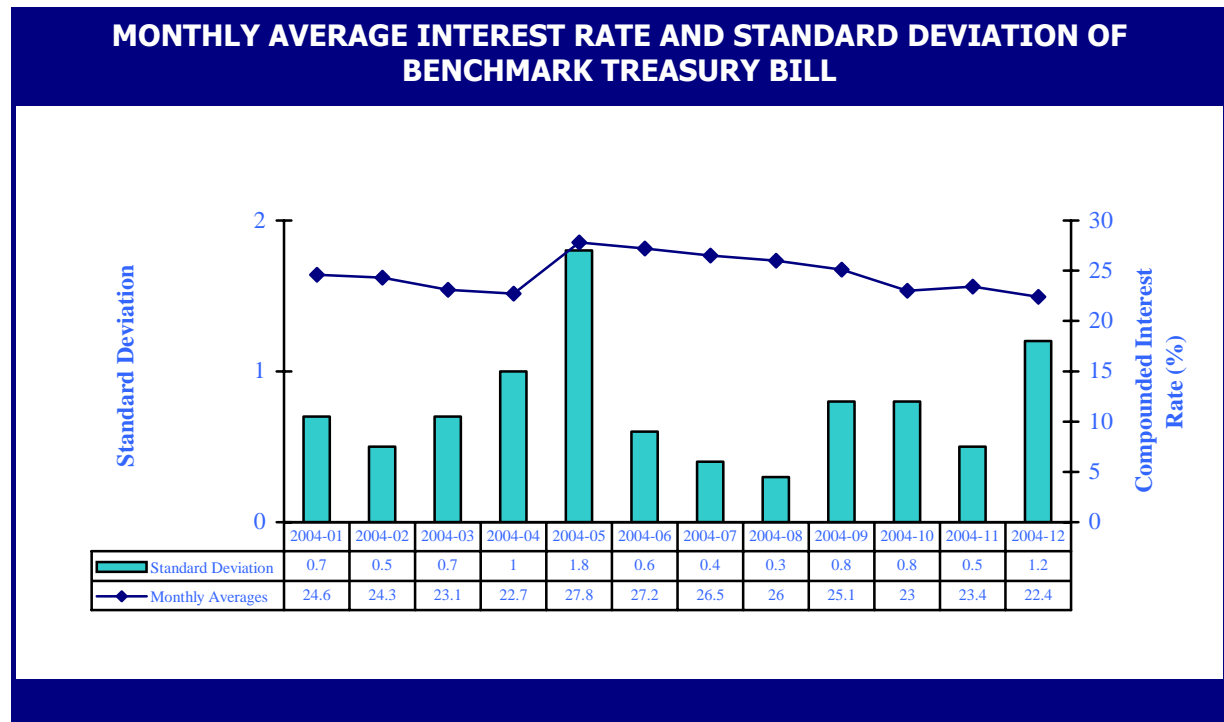
As for the economic program carried out with the IMF, it generally followed a positive trend except the stress lived at the beginning of the year regarding the minimum wage and pensions increases. After the preparation of 2004 budget the increases made on the minimum wage and pensions by the government beyond the appropriations put on the budget cast doubts on fiscal discipline. However, the government cut the flexible expenditures by 13% in 2004 budget, and increased some taxes and the prices of some publicly produced goods to compensate a burden of YTL 7 billion caused by both the increases of minimum wage and pensions and the lagging tax revenues, and therefore cleared the doubts.

The fall in inflation rates and the adherence to the economic program were accompanied by the Central Bank interest rate cuts, and the overnight interest rate which was 26% in the beginning of the year came to 18% at the end of the year. This fall was also reflected on the interest rates of government securities. Moreover, international rating agencies also increased the ratings of Turkey over the year due to the positive economic developments.

Throughout 2004, fiscal discipline was generally pursued and the budget realizations were within targets. When compared with the previous year figures, in the 2004 consolidated budget, revenues, non-interest expenditures and interest expenditures decreased by 1.4%, 7.7% and 12.8% respectively, in constant prices. Consequently primary surplus rose by 25.8% and the budget deficit fell by 31.2%. When the sources of YTL 7.4 billion increase in primary surplus in current prices compared to last year are analysed, it is seen that whereas the increase in non-interest expenditures contributed by -30.7%, the increase in revenues contributed by %130.7. Therefore the increase in primary surplus stemmed from the increases in revenues. Among the non-interest expenditures, in spite of a stark decrease in "other transfers and expenditures", the increases in other current expenditures and the transfers to social security institutions caused the net contribution of the changes in expenditures to be negative. Among the revenues most of the contribution to the primary balance came from the increases in taxes from international transactions, other non-tax revenues, and special consumption tax. The decreases in domestic value added tax and taxes on wealth contributed to primary surplus negatively. Primary surplus, on the other

hand, was realized as YTL 26.2 billion in 2004, exceeding the target level of YTL 20.2 billion by 29.7%.

**GRAPH 3.1**



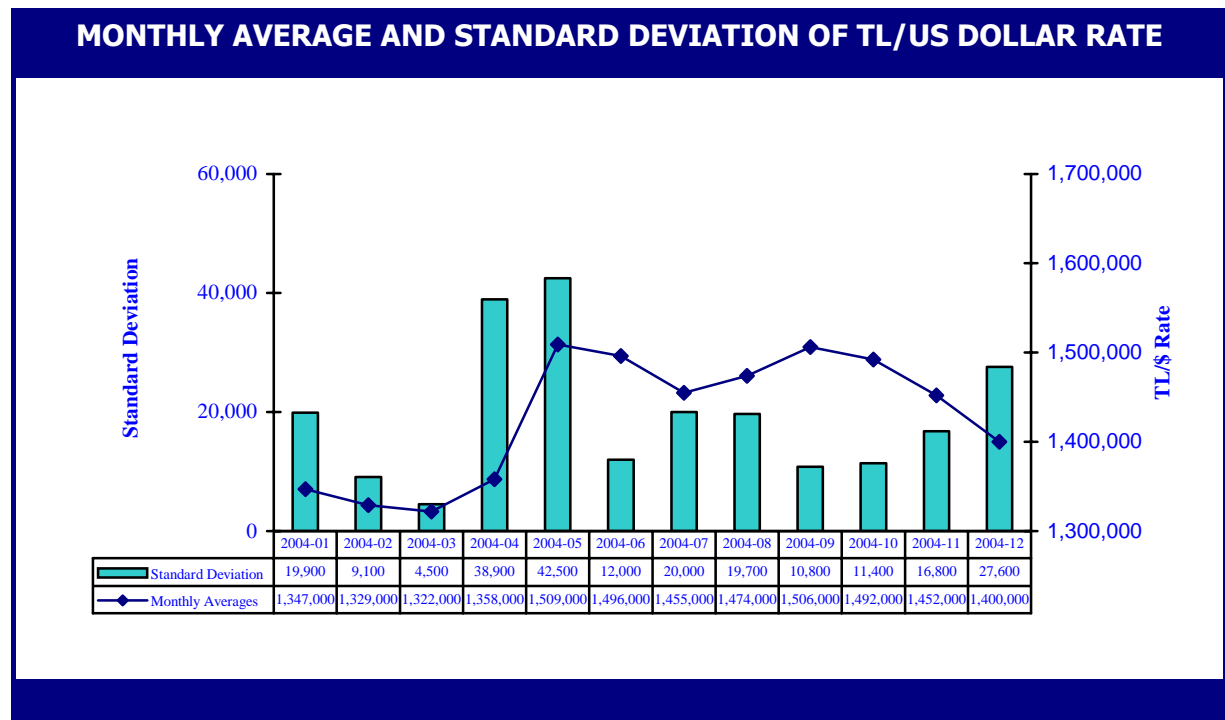
As it happened in 2003 the buoyancy in economic activity in 2004 was much higher than the 5% growth target. The increase in the Gross Domestic Product (GDP) and the Gross National Product (GNP) was realized as 8.9% and 9.9% in real terms respectively. At sectoral level, the highest increases were observed in commerce by 12.8%, in industry by 9.4% and in free professions by 8.0%. On the other hand, in the GDP figures calculated by expenditures method, at constant prices, investment expenditures rose highly by 32.4%, private final consumption expenditures rose considerably by 10.1% and government final consumption rose slightly by 0.5%. To the 8.9% increase in the GDP, private final consumption expenditures contributed by 6.4 points, government final consumption by 0.04 points, gross capital formation by 6.4 points, inventory increase by 1.1 points and foreign trade by -4.9 points. The negative net contribution of foreign trade was mainly due to the high increase in imports.

The consumer price inflation, after the realizations of 29.7% in 2002 and 18.4% in 2003 which were below target rates, retreated to 9.3% which was again below the target rate of 12%. Most important factors affecting this outcome have been the YTL's holding of its appreciated position, adherence to fiscal discipline by the government in general, the Central Bank's keeping of the short term interest rates and hence the liquidity under control, and the domestic demand's not excessive increase. On the other hand, wholesale prices increased by 13.8% in 2004.

In 2004, exports rose by 32.8% and reached \$ 62.8 billion, imports rose by 40.1% and reached \$ 97.2 billion, and as a result, foreign trade deficit increased by 55.7% and realised as \$ 34.4 billion. The main reasons behind the expanding trade deficit have been the real appreciation of the YTL on the one hand, and the expansion of the imports of consumer and

investment goods due to more than expected economic growth on the other hand. In 2004, the current account balance produced a deficit of \$ 15.6 billion, whereas this deficit was \$ 8.0 billion in 2003. As in 2003, the increase in imports which was more than exports was the main reason for a rising current account deficit. When the capital account is analysed, it can be seen that the net foreign direct investments realized a low figure such as \$ 1,706 million, and the net portfolio investments amounting \$ 8,067 million resulted mainly from the non-residents' purchase of equities and government securities sold both at home and abroad. Net inflow of \$ 3,554 million classified as other investments stemmed from the credits obtained by banks and other sectors, in spite of a decrease of \$ 5,897 million in banks' foreign currency assets in their correspondent banks and the Central Bank's net repayment of \$ 4,414 million debt to the IMF.

**GRAPH 3.2**



In 2004, the current YTL value of outstanding domestic debt increased by 15.5% and reached YTL 224.5 billion, while the dollar value increased by 20.1% and reached \$ 167.3 billion. As for the value of the domestic debt at constant prices, it increased by 1.4% in 2004. In parallel to falling interest rates, the borrowing cost of the Treasury also fell. The interest rate of benchmark Treasury bill on the secondary market declined from monthly average of annually compounded 24.6% in January to 22.4% in December.

On the other hand, in 2004, total deposits rose by 27.5% and reached YTL 187.8 billion and total credits rose by 53.8% and reached YTL 87.9 billion. The share of foreign exchange deposits in total deposits fell from 48.4% in 2003-end to 42.0% in 2004-end. The increase in credit volume in 2004 can be considered as an indicator for an increased economic activity.

TABLE 3.1

## MAIN ECONOMIC INDICATORS

Indicators	Unit	2002	2003	2004
<b>Gross National Product</b>				
- TL	YTL Million	275,032	356,681	428,932
- \$	\$ Billion	180.9	239.2	299.5
- GNP Per Person	\$	2,598	3,383	
- Growth	%	7.9	5.9	9.9
- Industrial Production Index (Yearly Average)	%	100.5	109.0	119.7
- Unemployment	%	10.3	10.5	10.3
Public Sector Borrowing Requirement/GNP	%	12.7	8.7	
<b>Consolidated Budget</b>				
- Expenditures	YTL Million	115,486	140,054	140,200
- Personnel	YTL Million	23,160	30,201	28,948
- Other Current	YTL Million	7,889	8,218	16,583
- Investments	YTL Million	6,888	7,165	7,972
- Transfers	YTL Million	77,548	94,470	84,584
- Interests	YTL Million	51,871	58,609	56,488
- Interests / GNP	%	19.0	16.4	13.5
- Interests / Budget Expenditures	%	44.9	41.8	40.3
- Interests / Budget Incomes	%	67.9	58.5	51.4
- Interests / Taxes	%	87.0	69.5	62.7
- Non-Interest Expenditures	YTL Million	63,615	81,445	83,712
- Incomes	YTL Million	76,401	100,238	109,887
- Taxes	YTL Million	59,635	84,334	90,093
- Budget Balance (Deficit)	YTL Million	-39,085	-39,816	-30,313
- Primary Balance	YTL Million	12,786	18,793	26,175
<b>Prices</b>				
- WPI (Year-end)	%	30.8	13.9	13.8
- CPI (Year-end)	%	29.7	18.4	9.3
- Currency Rate (Year-end-TL/\$) (Currency Buying)		1.6345	1.3958	1.3421
<b>Debt Stock</b>				
- Domestic Debt Stock	YTL Million	149,870	194,387	224,483
- Domestic Debt Stock	\$ Billion	91.7	139.3	167.3
- Domestic Debt Stock / GNP	%	50.7	58.2	55.9
- External Debt Stock	\$ Billion	130.4	145.4	161.7
- External Debt Stock / GNP	%	72.1	60.8	54.0
- Public Sector External Debt Stock	\$ Billion	86.0	94.0	95.2
- Debt of Central Bank	\$ Billion	22.0	24.4	21.4
- Public Sector External Debt Stock / GNP	%	47.5	39.6	31.8
- Total Public Sector Debt Stock	\$ Billion	177.7	233.3	262.5
- Total Public Sector Debt Stock / GNP	%	98.2	97.5	87.6
- Average Maturity of Domestic Debt Stock	Month	32.1	25.1	20.6
<b>Foreign Trade</b>				
- Imports	\$ Billion	51.5	69.3	97.2
- Exports	\$ Billion	36.1	47.3	62.8
- Foreign Trade Balance	\$ Billion	-15.5	-22.1	34.4
- Current Account Balance	\$ Billion	-1.5	-8.0	-15.6
<b>Monetary Indicators (1)</b>				
- Emission	YTL Million	7,636	10,676	13,465
- M1	YTL Million	14,259	21,564	29,469
- M2	YTL Million	61,195	80,923	109,344
- M2Y	YTL Million	133,450	149,855	185,419
- Total Deposits	YTL Million	133,311	147,351	187,849
- TL Deposits	YTL Million	58,774	75,979	108,952
- Foreign Exchange Deposits	YTL Million	74,537	71,372	78,897
- Foreign Exchange Deposits/Total Deposits	%	55.9	48.4	42.0
- Credit Stock	YTL Million	39,469	57,170	87,925
- Total Credits/Deposits	%	29.6	38.8	46.8
- Deposit Banks Credits	YTL Million	34,475	49,878	79,649
- Deposit Banks Credits/Deposits	%	25.9	33.8	42.4
- Central Bank International Currency Reserves	\$ Billion	26.8	33.6	36.0

(1) M1: currency in circulation + commercial sight deposits + saving sight deposits + other sight deposits + deposits at the CBRT

M2: M1 + commercial time deposits + saving time deposits + other time deposits

M2Y: M2 + foreign exchange deposits

Source: State Institute of Statistics, State Planning Organization, Central Bank of the Republic of Turkey, Undersecretariat of Treasury, Finance Ministry



## 4. THE TURKISH CAPITAL MARKETS

Despite the presence of certain macro-economic imbalances, the Turkish capital markets have made progress both qualitatively and quantitatively by catching some interior dynamics. As of today, Turkish capital markets have the ability to compete at international level in terms of instruments, institutions and legal infrastructure and have the privilege to be listed among major financial markets in the world. Some indicators relating to Turkish capital markets are shown in Table 4.1.

**TABLE 4.1**

<b>INDICATORS OF CAPITAL MARKETS (2004)</b>	
NUMBER OF CORPORATIONS REGISTERED BY THE CMB	625
NUMBER OF CORPORATIONS LISTED ON THE ISE	307
-Number of Corporations Traded on the ISE	297
-Number of Corporations Traded off the ISE	10
NUMBER OF CORPORATIONS NOT LISTED ON THE ISE	318
MARKET CAPITALIZATION OF CORPORATIONS TRADED ON THE ISE (YTL Billion)	132.6
(\$ Billion)	98.1
NUMBER OF INVESTORS ON THE ISE	1,402,128
NUMBER OF INVESTORS OF MUTUAL FUNDS	2,633,426
NUMBER OF FINANCIAL INSTITUTIONS	154
-Banks	42
-Financial Intermediaries	112
NUMBER OF MUTUAL FUNDS	300
-Number of Domestic Mutual Funds	253
-Portfolio Values (YTL Billion)	24.6
(\$ Billion)	18.3
-Number of Foreign Mutual Funds	47
-Portfolio Values (YTL Million)	26.9
(\$ Million)	19.9
NUMBER OF PENSION FUNDS	81
-Portfolio Values (YTL Million)	297.9
(\$ Million)	222.0
NUMBER OF INVESTMENT TRUSTS	23
-Portfolio Values (YTL Million)	313.2
(\$ Million)	233.0
NUMBER OF REAL ESTATE INVESTMENT TRUSTS	9
-Portfolio Values (YTL Million)	1,376.6
(\$ Million)	989.3
NUMBER OF VENTURE CAPITAL INVESTMENT TRUSTS	2
-Portfolio Values (YTL Million)	146.6
(\$ Million)	77.2
NUMBER OF PORTFOLIO MANAGEMENT COMPANIES	21
-Values of portfolios under management (YTL Billion)	24.5
(\$ Billion)	18.1
NUMBER OF INDEPENDENT AUDITING FIRMS	83
NUMBER OF RATING INSTITUTIONS	1 <sup>1</sup>

<sup>1</sup> Moreover, the CMB has approved 3 international rating agencies (Standard and Poor's Corp., Moody's Investors Service Inc. and Fitch Ratings Limited) for providing credit rating services, and 1 international rating agency (Deminor Ratings S.A.) for providing corporate governance rating services in Turkey.

## 4.1. OUTSTANDING SECURITIES

**TABLO 4.2**

OUTSTANDING SECURITIES												
	PUBLIC SECTOR				PRIVATE SECTOR				TOTAL			
Years	YTL Million	\$ Billion	Proportion in Total (%)	Proportion to GNP (%)	YTL Million	\$ Billion	Proportion in Total (%)	Proportion to GNP (%)	YTL Million	\$ Billion	Change in \$ Value (%)	Proportion to GNP (%)
1986	3.1	4,105	76.8	5.4	0.9	1,240	23.2	1.6	4.0	5,346		7.0
1987	5.4	5,266	71.7	6.0	2.1	2,076	28.3	2.4	7.5	7,341	37.3	8.4
1988	8.4	4,637	68.9	5.1	3.8	2,096	31.1	2.3	12.2	6,733	-8.3	7.5
1989	15.5	6,701	65.8	6.2	8.1	3,487	34.2	3.2	23.5	10,187	51.3	9.4
1990	25.4	8,667	61.1	5.7	16.1	5,514	38.9	3.6	41.5	14,181	39.2	9.3
1991	44.7	8,808	56.1	5.8	35.0	6,888	43.9	4.5	79.7	15,695	10.7	10.3
1992	135	15,764	69.0	10.0	60.7	7,094	31.0	4.5	196	22,857	45.6	14.5
1993	270	18,681	70.7	10.5	112	7,749	29.3	4.3	382	26,430	15.6	14.8
1994	598	15,563	82.0	11.8	131	3,407	18.0	2.6	729	18,970	-28.2	14.3
1995	1,202	19,693	80.3	11.6	295	4,839	19.7	2.8	1,498	24,532	29.3	14.4
1996	2,849	26,500	86.6	14.5	441	4,106	13.4	2.2	3,290	30,606	24.8	16.7
1997	6,093	29,759	86.7	15.5	931	4,548	13.3	2.4	7,025	34,308	12.1	17.8
1998	11,789	37,699	86.1	18.3	1,899	6,072	13.9	2.9	13,688	43,771	27.6	21.2
1999	23,303	43,146	86.0	23.3	3,796	7,028	14.0	3.8	27,099	50,173	14.6	27.1
2000	36,802	54,784	84.3	27.2	6,868	10,224	15.7	5.1	43,670	65,008	29.6	32.3
2001	122,930	85,394	92.1	57.6	10,517	7,306	7.9	4.9	133,447	92,699	42.6	62.5
2002	150,939	92,345	92.0	51.3	13,177	8,062	8.0	4.5	164,115	100,407	8.3	55.8
2003	196,004	140,421	91.6	58.7	18,008	12,901	8.4	5.4	214,012	153,322	52.7	64.1
2004	227,415	169,447	90.0	56.6	25,186	18,766	10.0	6.3	252,601	188,214	22.8	62.8

\* In calculating the proportions to GNP, the dollar values of both the stocks and the GNP have been used.

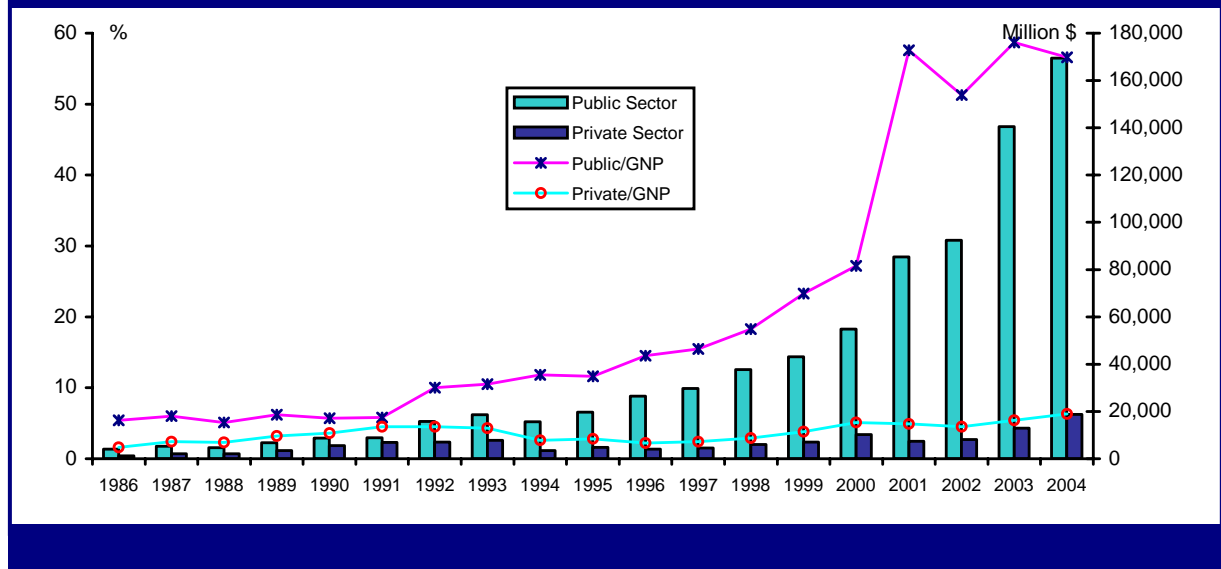
Increasing public deficits and their financing with debt beginning from the 1980's, has resulted in rapidly increasing stock of public securities in Turkey. Outstanding public securities which was \$ 4.1 billion at the end of 1986 reached \$ 169.4 billion at the end of 2004. Outstanding private sector securities also increased rapidly with the regulation of capital markets in 1980's and the establishment of the ISE. Outstanding private sector securities increased from \$ 1.2 billion in 1986-end to \$ 18.8 billion in 2004-end.

The higher speed of increase in outstanding private sector securities than in outstanding public securities until 1991 resulted in an increase in the share of outstanding private sector securities in total outstanding securities, and the share of outstanding private securities rose from 23.2% in 1986 to 43.9% in 1991. However, after 1991 the speed of increase of outstanding public securities rose, whereas the outstanding private sector securities (in dollar values) fell in general until 1998 and this resulted in a substantial retreat in the share of outstanding private sector securities. As of 2004-end, the share of private sector securities in total outstanding securities was 10% and it solely consisted of equities. Therefore, starting from the beginning of 1990's, a strong "crowding out" effect occurred in favour of public securities, and most of the funds in financial markets began to be used by public sector.

However, with the ongoing economic program accompanied by fiscal discipline, the share of private sector securities slightly increased. The continuation of this trend with a momentum will increase the use of resources by private sector on productive areas, and therefore the contribution of capital markets to economic growth and social prosperity.

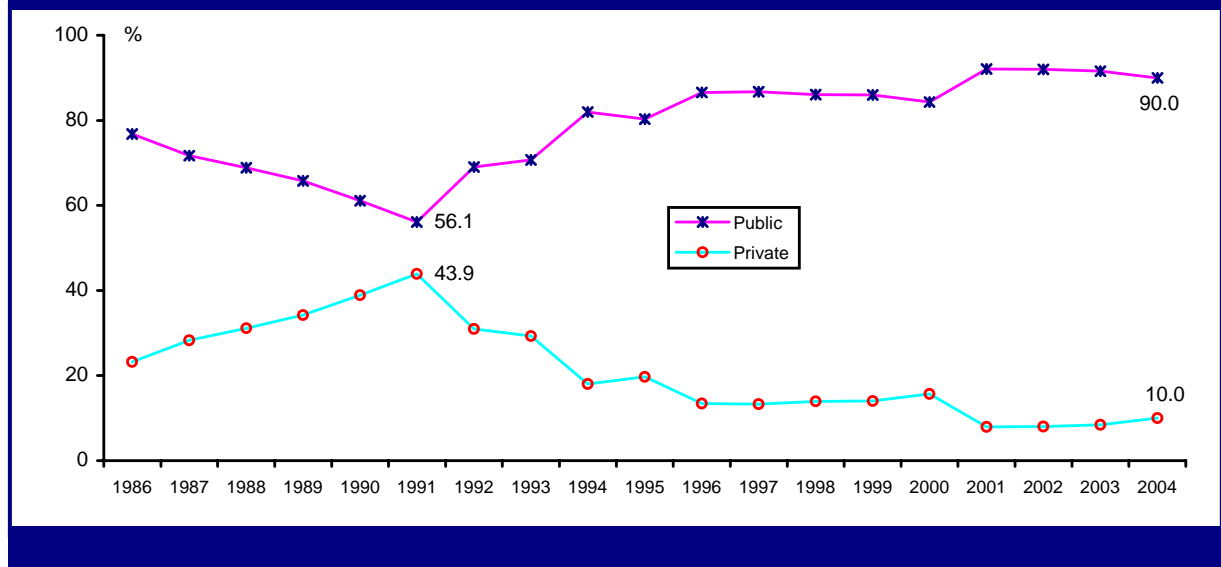
**GRAPH 4.1**

**OUTSTANDING SECURITIES (1986-2004)**



**GRAPH 4.2**

**SHARES OF PRIVATE AND PUBLIC SECTOR SECURITIES**



## 4.2. SECURITIES ISSUES REGISTERED WITH THE CMB

The number of corporations registered with the CMB as of the end of 2004 is 625, 297 of these corporations are listed on the ISE. The CMB has registered the issue and sale of stocks (cash and bonus issues) belonging to 247 corporations (including the shares of 18 investment trusts, 2 real estate investment trusts and 2 venture capital investment trusts) having the market value of YTL 3.8 billion.

The stock issues has increased year by year and reached YTL 3.0 billion (US \$ 4.8 billion) in 2000. But, due to the economic crisis, it has shown a pause during 2001-2003 period, and again increased considerably and amounted to YTL 3.8 billion (US \$ 2.7 billion) in 2004 (Table 4.3; Table 4.4). Despite the dominance of the government in the financial markets, the funds having transferred to the private sector via stock issues have accumulated to as much as US \$ 26 billion since 1986.

**TABLE 4.3**

### SECURITIES ISSUES REGISTERED WITH THE CMB (YTL THOUSAND)

Years	Stocks*	Mutual Funds Part. Cert. **	Asset Backed Sec.	Pension Funds Shares*	Bank Bills & Bank Guaranteed Bills	Other	Total
1986	102	0	0	0	60	112	274
1987	187	45	0	0	76	374	683
1988	364	53	0	0	238	482	1,138
1989	972	162	0	0	98	1,072	2,303
1990	4,107	855	0	0	330	981	6,273
1991	4,444	65	0	0	726	1,496	6,730
1992	5,323	92	14,481	0	770	1,864	22,529
1993	9,573	5,355	52,756	0	2,388	1,921	71,993
1994	37,553	2,203	42,299	0	2,025	648	84,728
1995	51,333	4,249	113,928	0	1,300	3,716	174,526
1996	102,202	8,945	41,629	0	2,362	6,823	161,961
1997	305,732	34,330	23,000	0	9,935	5,453	378,449
1998	696,822	131,423	11,000	0	0	2,533	841,778
1999	678,871	176,674	0	0	0	0	855,545
2000	3,007,974	2,767,908	0	0	12,471	3,943	5,792,296
2001	1,684,498	3,830,879	0	0	147,697	67,321	5,730,394
2002	1,597,317	2,405,346	0	0	83,614	107,041	4,193,317
2003	1,749,597	6,078,693	0	40,000	0	13,437	7,881,726
2004	3,826,540	6,572,431	0	297,920	0	0	10,696,891

\* Market value, consists of capital increases in cash.

\*\* Par value until 1998, market value for 1998 and afterwards.

**TABLE 4.4****SECURITIES ISSUES REGISTERED WITH THE CMB (\$ MILLION)**

Years	Stocks*	Mutual Funds Part. Cert. **	Asset Backed Sec.	Pension Funds Shares*	Bank Bills & Bank Guaranteed Bills	Other	Total
1986	152	0	0	0	90	167	409
1987	219	53	0	0	89	437	797
1988	256	37	0	0	167	338	798
1989	458	76	0	0	46	505	1,086
1990	1,576	328	0	0	127	377	2,407
1991	1,064	16	0	0	174	358	1,612
1992	774	13	2,106	0	112	271	3,277
1993	867	485	4,781	0	216	174	6,524
1994	1,261	74	1,420	0	68	22	2,844
1995	1,122	93	2,491	0	28	81	3,816
1996	1,256	110	511	0	29	84	1,990
1997	2,010	226	151	0	65	36	2,489
1998	2,670	504	42	0	0	10	3,226
1999	1,616	421	0	0	0	0	2,036
2000	4,823	4,438	0	0	20	6	9,287
2001	1,375	3,126	0	0	121	55	4,676
2002	1,061	1,597	0	0	56	71	2,785
2003	1,172	4,071	0	27	0	9	5,279
2004	2,690	4,621	0	209	0	0	7,520

\* Market value, consists of capital increases in cash.

\*\* Par value until 1998, market value for 1998 and afterwards.

### 4.3. THE ISTANBUL STOCK EXCHANGE (ISE)

Origins of organized securities markets in Turkey date back to the second half of 19<sup>th</sup> century. The first securities market was established during the Ottoman Empire in 1866 following the Crimean War under the name "Dersaadet Tahvilat Borsası (Istanbul Bond Exchange)" and was seen as an opportunity by many European investors who expected high returns on the shattered Ottoman economy. Following the foundation of the Republic, "Securities and Foreign Exchange Law No. 1447", launched in 1929 provided a basis for an organized Stock Exchange under the name "Istanbul Securities and Foreign Exchange Bourse".

This new stock exchange had grown quite rapidly and had contributed considerably to the growth of enterprises throughout the country. However, both the 1929 crisis and the Second World War had severely hampered the business environment, which was still at infant stage, and had overridden the success of the stock exchange. The following years, which witnessed a period of rapidly growing industry, had also recorded increasing number of companies that offered their shares to public. These shares faced strong demand from mainly individual investors.

In the first half of 1980's the Turkish securities markets underwent serious changes and improvements in terms of setting up both the legal and institutional framework. The CML was launched in 1981, and the Decree by Law No.91 regulating the founding and operations of Stock Exchanges was launched in October 1983. Following the adoption of related regulations launched in the subsequent period, in December 1985 the ISE was established and began operations on January 3, 1986. Today there are an equities market, a

bonds and bills market, an international market and a futures market operating in the ISE, where money market operations of Takasbank are also taking place.

#### 4.3.1. ISE Equities Market National-100 Index, Trading Volume and Number of Shares

##### Traded

##### 4.3.1.1 ISE Equities Market National-100 Index

In a general pattern of cyclical fluctuations, market indices both in terms of New Turkish Lira and US dollar followed a downward trend from April 2000 to the end of 2002 and then increased from the beginning of 2003. On monthly basis, ISE 100-Index being 17,259 in January 2004, declined to 17,081 in March -the lowest value of the year- and closed at 24,972 in December.

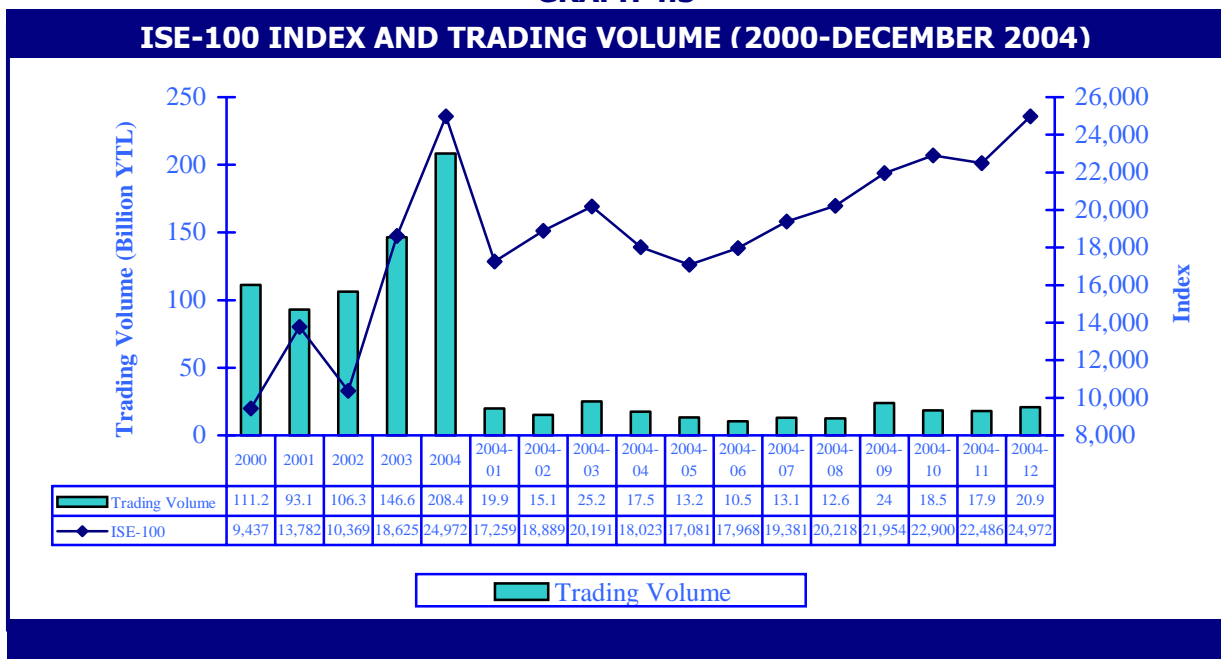
Consequently, in 2004, ISE Share Price Index-100 increased by 34.1% in YTL terms and 38.2% in US dollar terms. In 2004 Industrials Index increased by 28.1% (in US dollar terms 32.0%), Financials Index by 38.7% (in US dollar terms 42.8%) and Services Index by 40.2% (in US dollar terms 44.3%) (Graph: 4.3).

##### 4.3.1.2 ISE Trading Volume and Number of Shares Traded

Trading volume on the ISE had reached its peak value in 2000 with 111 billion YTL (181.9 billion US Dollar) after recording only 9 thousand YTL (13 million US Dollar) in 1986, the first year of operations. However, both the November 2000 and February 2001 crises caused trading to slow down considerably and the total trade volume in 2003 realized 146.6 billion YTL (100.2 billion US Dollar). In 2004 average daily turnover in the ISE equities market was 837 million YTL (593 million US Dollar) and total trading volume was 208.4 billion YTL (147.8 billion US Dollar). This figure indicates a 42.0% increase over the previous year in YTL terms, while in dollar terms it amounts to a 47.5% increase.

In 2004 a total of 70 trillion shares have been traded, which amounts to 280 million on a daily average basis, with a total number of 42 million contracts (Table: 4.5).

**GRAPH 4.3**



**TABLE 4.5****MAIN INDICATORS FOR THE ISE EQUITIES MARKET**

Year	No. of Working Days	Trading Volume		No. of Shares Traded (Million)	Daily Avg. Trading Volume (Thousand YTL)	Daily Avg. No. of Shares Traded (Million)	No. of Contracts (Thousand)	ISE Index (*) (86-01=100)
		(Thousand YTL)	(\$ Million)					
1986	247	9	13	3	0	0	-	170.9
1987	266	105	118	15	0	0	-	673.0
1988	253	149	115	32	1	0	112	373.9
1989	255	1,736	773	238	7	1	247	2,217.7
1990	247	15,313	5,854	1,537	62	6	766	3,255.7
1991	247	35,487	8,502	4,531	144	18	1,446	4,369.2
1992	251	56,339	8,567	10,285	224	41	1,682	4,004.2
1993	246	255,222	21,770	35,249	1,037	143	2,815	20,682.9
1994	253	650,864	23,203	100,062	2,573	396	5,086	27,257.1
1995	251	2,374,055	52,357	306,254	9,458	1,220	11,667	40,024.6
1996	247	3,031,185	37,737	390,924	12,272	1,583	12,446	97,558.8
1997	252	9,048,721	58,104	919,784	35,908	3,650	17,639	(**) 3,451.0
1998	248	18,029,967	70,396	2,242,531	72,701	9,042	21,571	2,597.9
1999	236	36,877,335	84,034	5,823,858	156,260	24,677	25,785	15,208.8
2000	246	111,165,396	181,934	11,075,685	451,892	45,023	32,427	9,437.2
2001	248	93,118,834	80,400	23,938,149	375,479	96,525	31,380	13,782.7
2002	252	106,302,343	70,756	33,933,251	421,835	134,656	28,967	10,369.9
2003	246	146,644,967	100,165	59,099,780	596,118	240,243	29,994	18,625.0
2004	249	208,423,012	147,755	69,614,651	837,112	279,577	41,508	24,971.7

\* For the period after Jan 1991, composite index based on closing prices

\*\* ISE Index basis for the period between 1986-1996 is Jan 1986 = 100; from 1997 onward the basis is Jan 1986 = 1.

Source: ISE

When the year 2004 is analyzed on a monthly basis; the daily average trading volume, which was 19,906 million US Dollar in January, decreased by 23.9% in February, increased by 66.4% in March and showed a downward trend by decreasing 30.7%, 24.1% and 20.5% in April, May and June respectively. In July, it increased by 24.5%, decreased by 4.2% in August, increased by 90.9% in September, decreased by 23% and 2.7% in October and November respectively and increased by 16.3% in December (Graph: 4.3).

#### 4.3.2. Main Indicators for Corporations with Shares Listed on the ISE

The number of corporations with shares traded on the ISE equities market was 80 in 1986 when the ISE was first established. As of the end of 2004 there are 274 corporations traded in the national market, 17 corporations in the second national market and 5 in watch market, making a total of 297. Total nominal capital of these corporations is 25.2 billion YTL (Table: 4.6). During 2004, there have been 12 primary IPO's including 3 shareholder sale, 3 increase of capital, 6 shareholder sale and increase of capital together and also 9 secondary offerings. 2 of primary offerings and all of secondary offerings took place in ISE.

Market capitalization, which was only 938 million US Dollar (0.7 million YTL) in 1986, reached the level of 98 billion US Dollar (132.6 billion YTL) at the end of 2004. Price earnings ratio has been 13.3 and turnover ratio has been 182.3 % in 2004 (Table: 4.6).



**TABLO 4.6**

**MAIN INDICATORS FOR CORPORATIONS WITH SHARES LISTED ON THE ISE**

Year	No. of Corporations	Total Nominal Capital (1) (Thousand YTL)(*)	Corporations with Shares Traded on the ISE				Price/Earnings Ratio (%)		Turnover Ratio (%)(**)
			No. of Corporations Traded	Total Nominal Capital (Thousand YTL)(*)	Market Capitalization (Thousand YTL) (Million \$)				
1986	348	796	80	294	709	938	5.1		1.2
1987	414	1,614	82	470	3,182	3,125	15.9		5.4
1988	556	3,132	79	841	2,048	1,128	5.0		5.7
1989	730	6,727	76	2,654	15,553	6,756	15.7		19.7
1990	916	14,476	110	10,037	55,238	18,737	24.0		43.3
1991	1,092	32,304	134	22,487	78,907	15,564	15.9		52.9
1992	1,238	49,139	145	31,848	84,809	9,922	11.4		68.8
1993	1,284	71,286	160	46,758	546,316	37,824	25.8	20.7	80.9
1994	1,204	109,239	176	97,199	836,118	21,785	24.8	16.7	94.2
1995	922	223,804	205	191,249	1,264,998	20,782	9.2	7.7	226.0
1996	789	424,725	228	361,320	3,275,038	30,797	12.2	10.9	133.5
1997	743	909,295	258	783,234	12,654,308	61,879	24.4	19.5	113.6
1998	686	1,885,946	277	1,669,956	10,611,820	33,975	8.8	8.1	155.0
1999	319	3,793,195	285	3,392,830	61,137,073	114,271	37.5	34.1	102.8
2000	315	6,866,817	315	6,866,817	46,692,373	69,507	16.8	16.1	206.2
2001	310	10,515,933	310	10,515,933	68,603,041	47,689	108.3	824.4	161.5
2002	288	13,176,817	288	13,176,817	56,370,247	34,402	195.9	27.0	170.1
2003	285	16,515,936	285	16,515,936	96,072,744	69,003	14.5	12.3	192.4
2004	297	24,379,916	297	25,186,443	132,555,528	98,073	14.2	13.3	182.3

(1) Total Nominal Capital of Corporations listed on the ISE.

(2) Total Market Value/Total of the last two semi-annual net profits.

(3) Total Market Value / Total of the last four quarterly net profits.

(\*) Total Nominal Capital includes the most recent capital increases, for which the additional listing procedures are not complete.

(\*\*) Trading Volume/(Market capitalization in the beginning of the year+ at the end of the year)/2

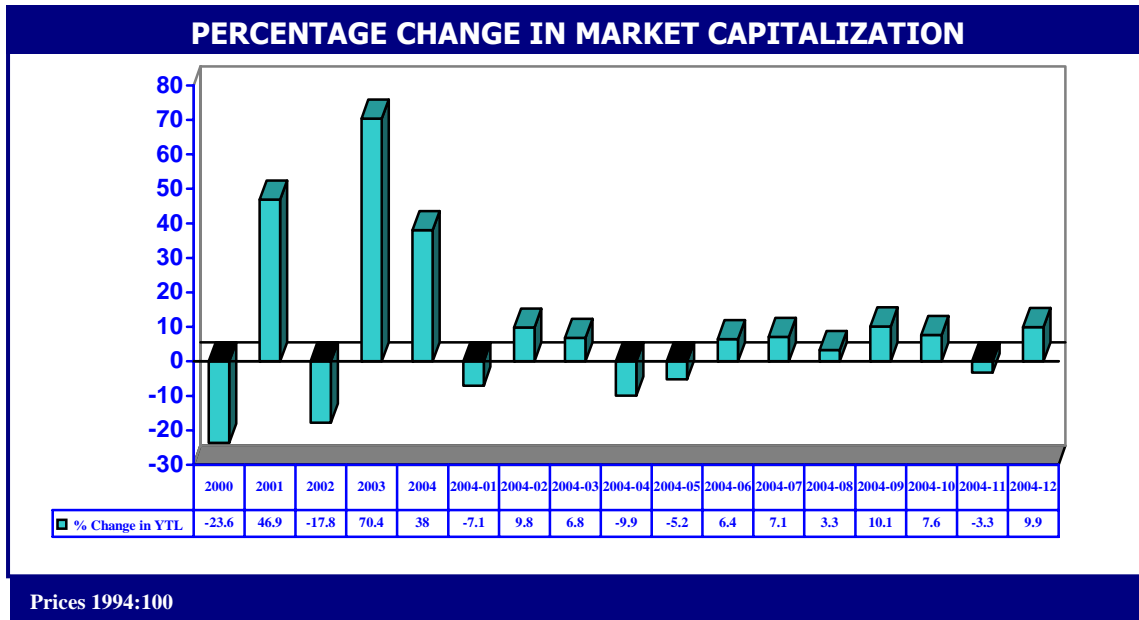
Source: ISE

It is observed that market capitalization in fact showed a very uneven pattern over the years. This figure, which had been 18.7 billion US Dollar in 1990, fell down to 9.9 billion US Dollar in 1992. Similarly from 114.2 billion US Dollar in 1999 fell down to 69.0 billion US Dollar in 2003. In 2004, it increased to 98 billion US Dollar.

On a yearly basis market capitalization had recorded the highest increase in dollar terms in 1999, with 236%. Following this increase, in 2000, 2001 and 2002 market capitalization decreased by 39%, 31% and 28,4% respectively. After that, it increased by 100.6% in 2003 and 42.1% in 2004 (Table: 4.6).

Market capitalization in terms of YTL increased by 474.5% in 1999, decreased by 23.6% in 2000, increased by 46.9% in 2001, decreased by 17.8% in 2002 and increased by 70.4% in 2003. Whereas in 2004 market capitalization increased by 38% relative to the previous year (Graph: 4.4).

**GRAPH 4.4**



By examining on a monthly basis, it is clearly observed that market capitalization is very much affected by crises.

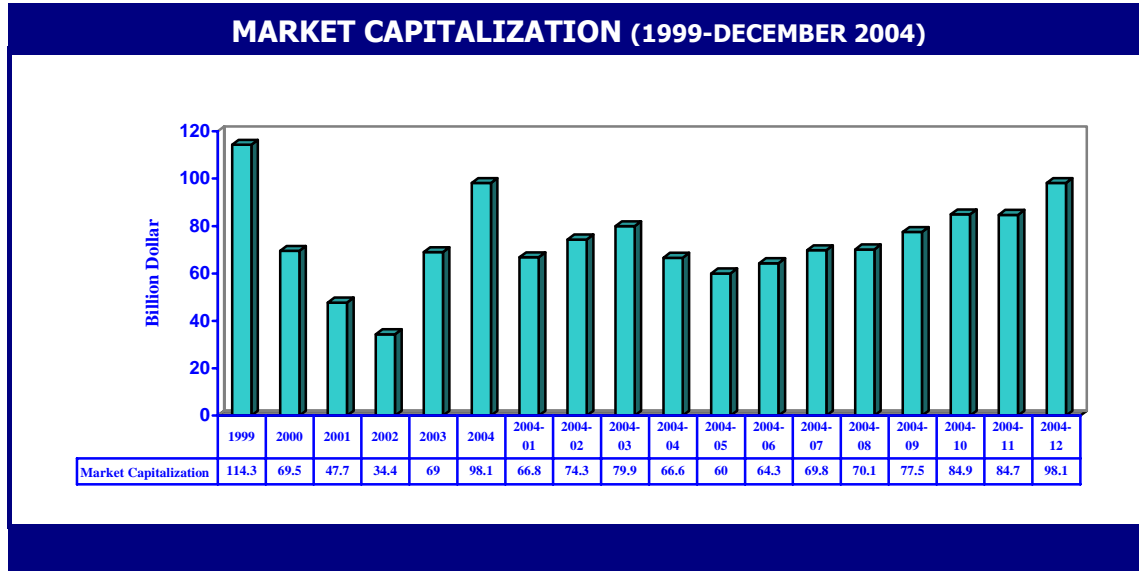
Market value of corporations traded at the ISE, after reaching 114.3 billion US Dollar in 1999, with a 39% loss in value in 2000 fell down to 69.5 billion US Dollar. Following the February 2001 crisis, the decline lasted until September, when the total market capitalization with 25 billion US Dollar was the record low for the year. Economic uncertainties triggered also by the 9/11 disaster are thought to have contributed to this result.

In the wake of revaluation of New Turkish Lira against US Dollar, market values of the firms also increased. After the level of 66.8 billion US Dollar in January 2004, the market capitalization increased to 79.9 billion US Dollar at the end of first quarter, decreased to 64.3

billion US Dollar at the end of second quarter, increased to 77.5 billion US Dollar at the end of the third quarter and reached 98.1 billion US Dollar at the end of fourth quarter.

The level of 98.1 billion US Dollar in December 2004 was the highest level in 2004 after 84.9 billion US Dollar in October (Graph: 4.5).

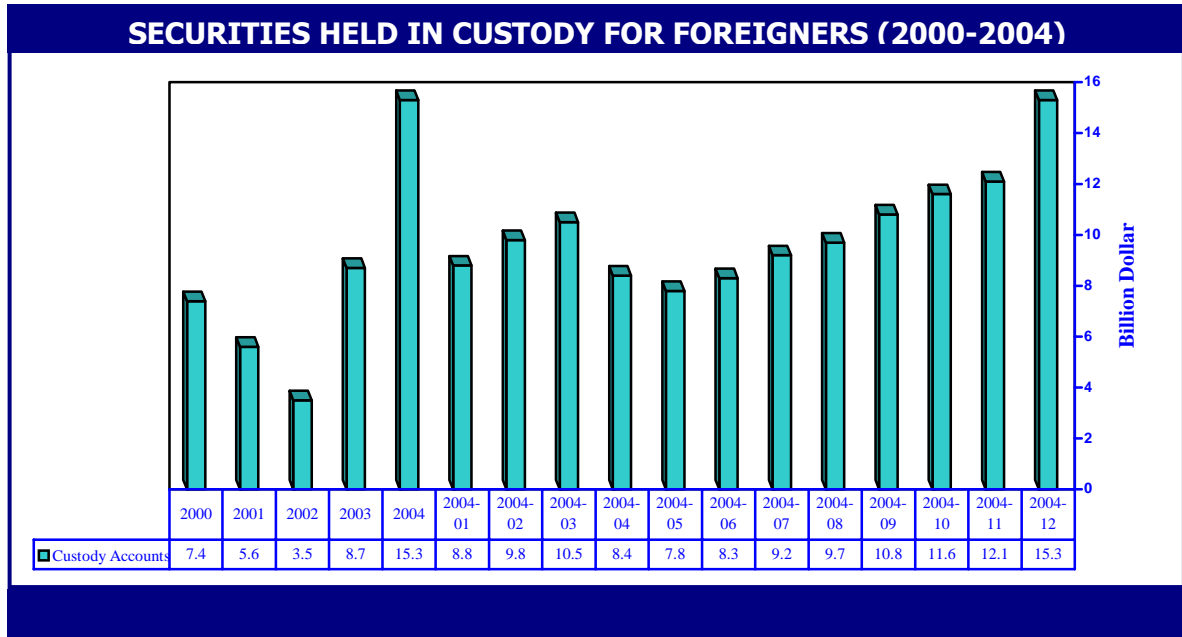
**GRAPH 4.5**



#### 4.3.3. Equities Traded by Foreign Investors

Foreigners' transactions fell considerably in 2001 due to financial crises of November 2000 and February 2001, in 2002 trading by foreigners followed a trend similar to 2001 and increased from 2003. The total trading volume in 2004 was 37.4 billion US dollar which means an increase of 115.6% compared to 2003 (17.3 billion US dollar). Analysis of foreign purchases and sales in net shows that foreigners sold 3,134 million US dollar in 2000, purchased 509 million US dollar in 2001, purchased 15 million US dollar in 2002 and purchased 1 billion US dollar in 2003. Foreigners became net buyers by purchasing 1.4 billion US dollar in the period of January-December 2004 (Table: 4.7).

When the accounts of foreigners in ISE Settlement and Custody Bank Inc. are analysed, the ratio of equities in the accounts of foreign customers to total equities in custody was 40.9% in 2000, this ratio increased to 49.2% in 2001, decreased to 43% in 2002 and increased to 51.5% in 2003. In 2004, the ratio was 50.9% in January, 51.8% in February and then decreased to 49.6% in May. The ratio which is around 50% in June, reached 51.7% in November and realized 54.7% at the end of the year.(Table: 4.7; Graph: 4.6)

**GRAPH 4.6****TABLE 4.7**

**SECURITIES BALANCE OF FOREIGNERS AT TAKASBANK AND TRADING VOLUME**

(2000-DECEMBER 2004)

	Foreigners' Securities in Custody (\$ Million)	Ratio of Foreigners' to Total Securities in Custody (%)	Purchases (\$ Million)	Sales (\$ Million)
2000	7,404	40.9	15,138	18,272
2001	5,635	49.2	6,324	5,815
2002	3,450	43.0	6,427	6,442
2003	8,690	51.5	9,173	8,163
2004	15,283	54.7	19,399	17,969
January	8,772	50.9	1,514	1,533
February	9,762	51.8	1,696	1,332
March	10,543	50.8	2,064	1,908
April	8,431	50.0	1,594	1,690
May	7,827	49.6	1,156	1,216
June	8,277	50.6	1,038	907
July	9,230	50.9	1,133	1,243
August	9,710	50.4	1,020	1,065
September	10,795	50.9	1,854	1,671
October	11,564	50.9	1,691	1,654
November	12,053	51.7	1,965	1,754
December	15,283	54.7	2,472	1,998

Source: Takasbank-ISE

#### 4.3.4. Bonds and Bills Market Transactions

In the Bonds and Bills Market of the ISE, the whole transaction volume, consisting of outright transactions and repo/reverse repo transactions, after reaching a record high of YTL 720 billion (1.1 trillion US Dollar) in 2000, in 2001 and 2002 experienced a real slowdown. In 2002, total trading volume in US Dollar fell by 17.5% and amounted to US \$ 548 billion. In 2003, trading volume increased by %49.6 and amounted to YTL 1,254 billion, while in dollar terms it increased by 54.4% and amounted to US \$ 0.9 trillion (Table: 4.8).

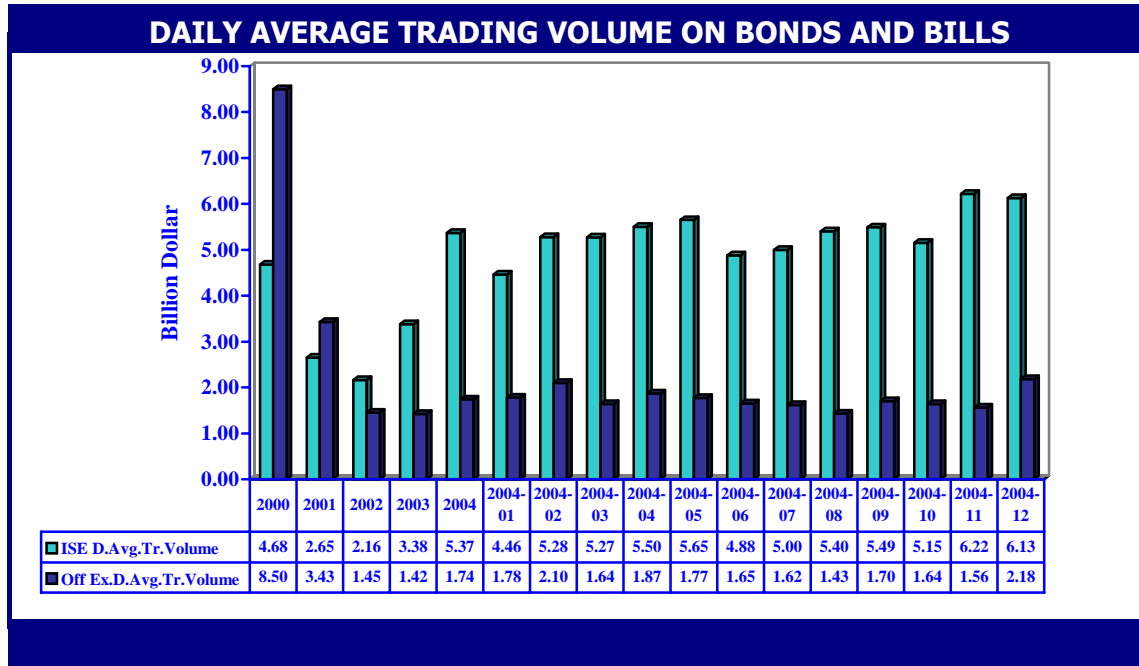
The increase in trading volume that began in 2003 continued in 2004 and realized 1,924 billion YTL, which in dollar terms amounts to US \$ 1,3 trillion. These figures indicate an increase of 53.4% and 59.9% over the previous year in YTL and dollar terms respectively.

Daily average trading volume increased by nearly 58.8% in the same period, and realized US \$ 5.4 billion. On a monthly basis, daily average trading volume showed a cyclical fluctuations beginning from January, an increasing trend beginning from October and reached its highest level in December (Table: 4.8; Graph 4.7). With respect to relative shares, repo transactions constituted 80.6% of all transactions.

In 2004, trading volume of outright transactions executed off exchange and registered to the Exchange was YTL 223.6 billion (US \$ 157,7 billion) and repo transactions was YTL 398,7 billion (US \$ 281,3 billion). The trend in daily average trading volume of off exchange transactions is parallel to the ones in the Exchange (Graph 4.7).

**TABLO 4.8**

<b>TRADING ON THE ISE BONDS AND BILLS MARKET</b>				
<b>(2001-2004)</b>				
	2001	2002	2003	2004
<b>BONDS AND BILLS MARKET</b>				
<b>Outright Transactions</b>				
Billion YTL	40	102	213	373
Billion \$	37	67	144	263
<b>Repo Transactions</b>				
Billion YTL	696	736	1,041	1,551
Billion \$	627	481	702	1,090
<b>Total</b>				
Billion YTL	736	838	1,254	1,924
Billion \$	664	548	846	1,353
<b>DAILY AVERAGE</b>				
Billion YTL	2.9	3.3	5.0	7.6
Billion \$	2.6	2.2	3.4	5.4

**GRAPH 4.7**

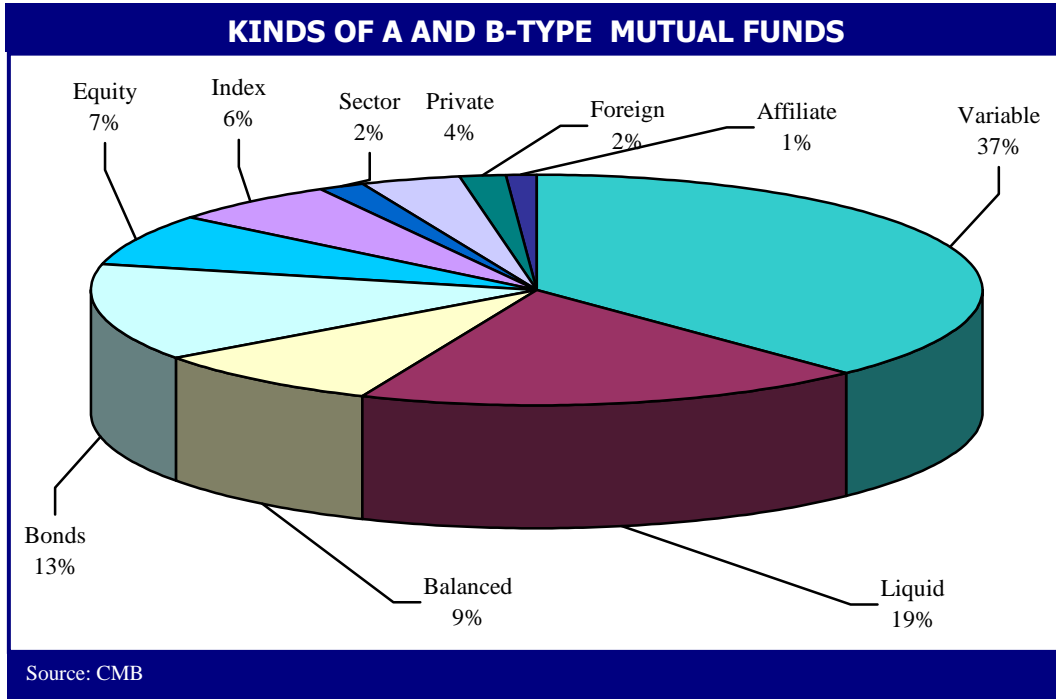
#### 4.4. COLLECTIVE INVESTMENT SCHEMES

##### 4.4.1. Mutual Funds

Two different types of mutual funds, Type A and Type B, exist in Turkish capital markets. Type A mutual funds are required to invest at least 25% of their assets in equities that are issued by Turkish companies, whereas mutual funds that have no such obligation are classified as Type B. These two main group of funds are subdivided into 12 categories of mutual funds which are classified according to the financial instruments the fund portfolio consists of. These are Variable, Balanced/Mixed, Affiliate Companies, Sector, Equity, Private, Index, Notes and Bonds, Liquid, Gold, Precious Metals and Foreign Securities Funds.

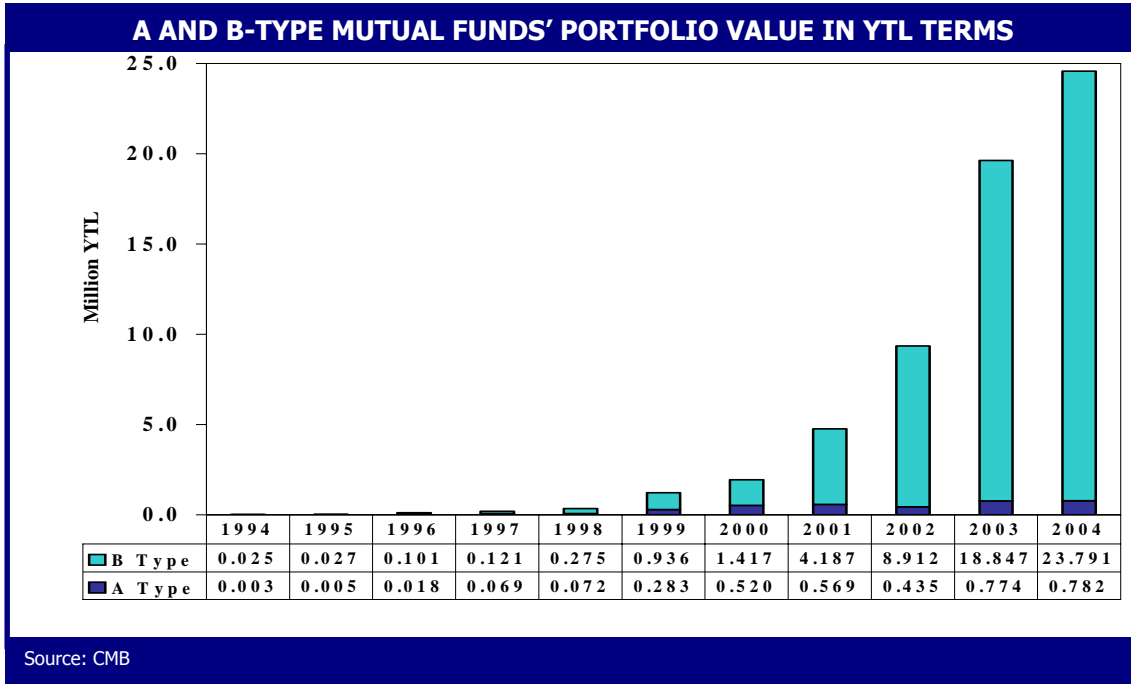
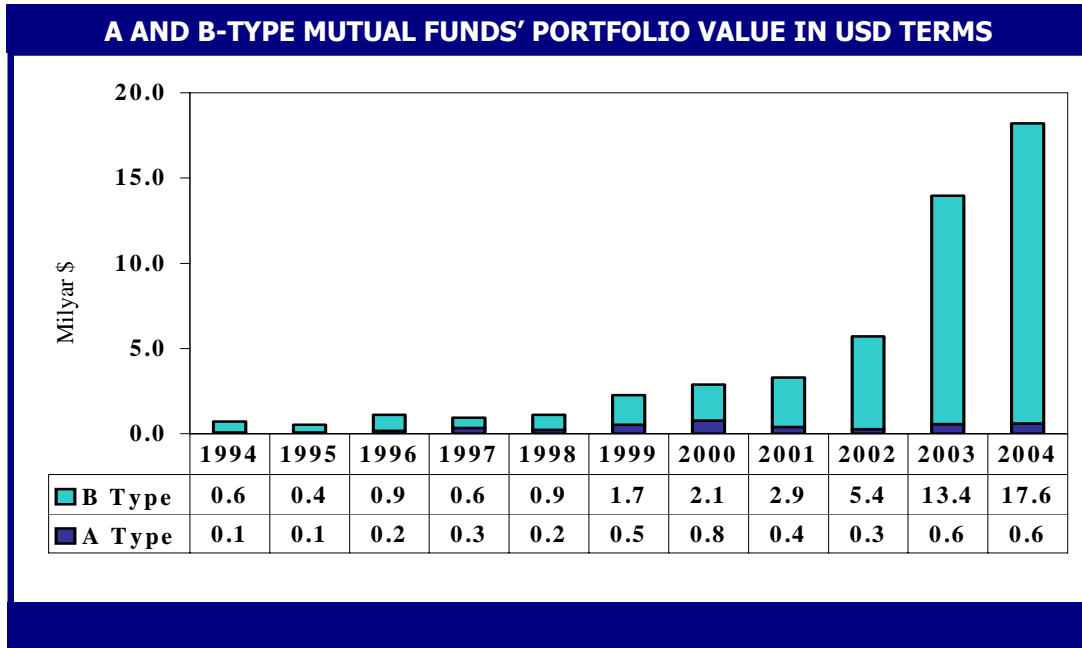
There are 253 mutual funds in Turkey as of 2004-end. Among the mutual funds, variable (95) and liquid funds (47) are the most pervasive kinds such that 56% of total mutual funds are formed by these two kinds of funds. Third and fourth prominent categories are notes and bonds funds with 13% share and balanced funds with 9% share (Graph: 4.8)

**GRAPH 4.8**



In 2004, the total portfolio value of mutual funds, the first of which was established in 1987, increased by 24% (29% in USD terms) to YTL 24.5 billion (US \$18.2 billion) compared to the previous year. Besides, there are 47 foreign mutual funds whose total value of participation certificates in circulation in Turkey is US \$ 20 million as of the end of 2004.

In 2004, the portfolio value of A-Type funds increased only by 1% compared to the last year's figure, to YTL 783 million while the portfolio value of B-Type mutual funds increased by 26% from YTL 18.8 billion (US \$ 13.4 billion) to YTL 23.8 billion (US \$ 17.7 billion) (Graph: 4.9; Graph: 4.10).

**GRAPH 4.9****GRAPH 4.10**

#### 4.4.1.1 A-Type Mutual Funds

As of the end of 2004 in the Turkish capital markets, there are 123 A-Type funds with the total fund value of YTL 780.6 million. The share of equities in the portfolio composition of A-Type funds, increased from 33.7% in 1994 to 68.0% in 2004.



TABLE 4.9

## PORTFOLIO COMPOSITION OF A-TYPE MUTUAL FUNDS (%)

Years	Gov. Bonds	Foreign Gov. Bonds	Treasury Bills	Foreign Treasury Bills	Reverse Repo	Repo	Gold	Corporate Bonds	Equities	Foreign Equities	Other	Total Portfolio Value	
												(\$ Million)	(YTL Thousand)
1994	1.30		64.43					0.59	33.68			81	3,105
1995	0.48		63.21					0.11	36.20			73	4,486
1996	0.33		67.30						32.36			166	17,956
1997**	1.76		15.44*		34.06	9.48	0.03		39.08		0.16	338	69,435
1998	4.95		10.69*	0.20	44.54		0.06		39.56		0.21	229	71,879
1999	9.75		3.99*		30.61	0.22			55.40		0.02	522	283,443
2000	11.09	0.15	0.23*		42.40	0.30			45.73		0.10	770	520,294
2001	6.12		9.66		22.44				61.77	0.01		393	568,737
2002	3.83		9.28		32.37				54.46	0.07		265	434,884
2003			17.66*		18.36				63.95	0.03		552	774,577
2004		0.39*	20.23*		10.85				68.00		0.52***	583	782,590

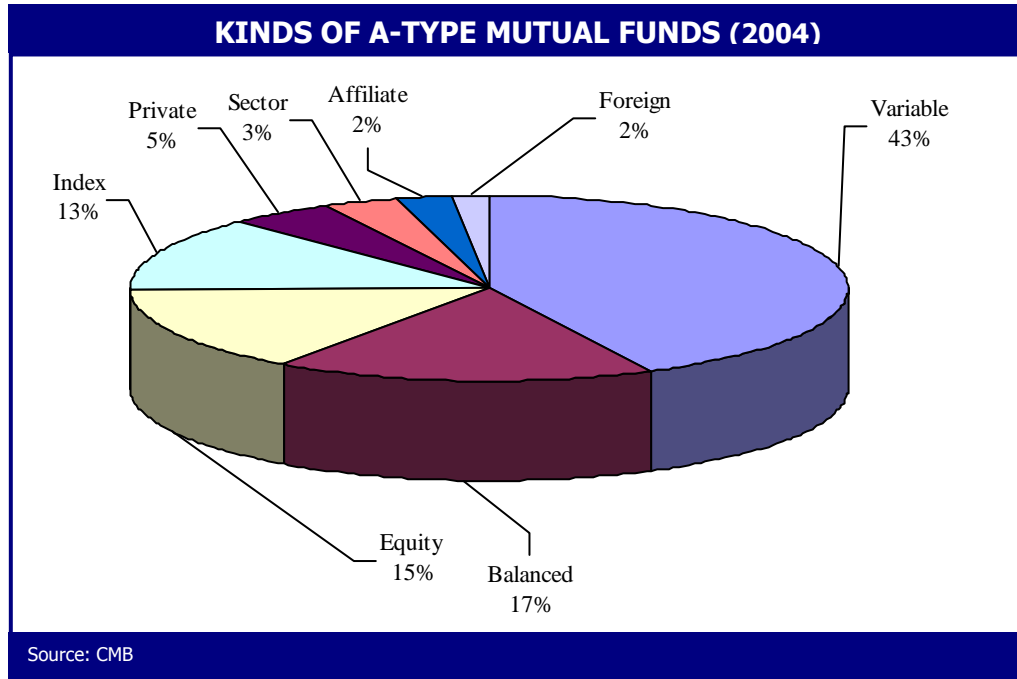
\* Sum of Government Bonds and T-Bills.

\*\* Since this year reverse repos are separated from government bonds and T-Bills.

\*\*\* ISE Money Market transactions

Source: CMB

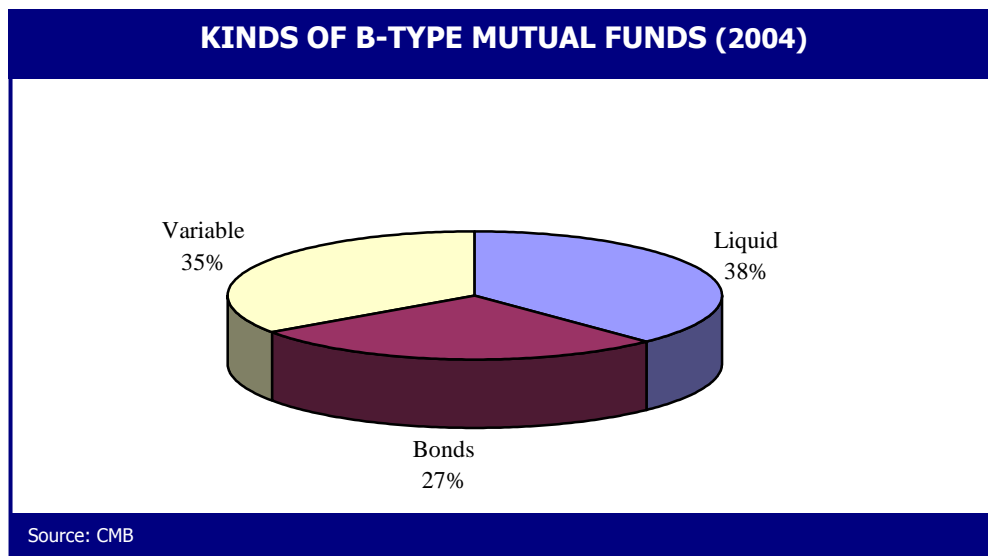
**GRAPH 4.11**



#### 4.4.1.2 B-Type Mutual Funds

As of the end of 2004, in the Turkish capital markets, there are 130 B-Type funds with the total fund value of YTL 23.8 billion. Among B-Type funds the most pervasive kind is liquid funds with 36% share (47 funds) followed by variable funds with 33% share (43 funds). In terms of portfolio value, liquid funds with 76% (approximately YTL 18.1 billion) have the biggest share (Graph: 4.12).

**GRAPH 4.12**



Throughout earlier years (1987-1991), portfolios of B-Type funds consisted heavily of corporate securities, while in the last years this composition shifted completely towards a composition with a higher share of repo and government securities. As of the end of 2004, the share of government bonds and T-Bills in the portfolio has been 68.8% while the share of reverse repo has been 28.3% (Table 4.10).

When the portfolio composition of both types of funds are considered together, it is seen that, as of 2004, 27.7% of the portfolios consisted of reverse repo, 67.3% consisted of government bonds and T-Bills and 2.2% consisted of equities (Table 4.11).

**TABLE 4.10**

PORTFOLIO COMPOSITION OF B-TYPE MUTUAL FUNDS (%)													
Years	Gov. Bonds	Foreign Gov. Bonds	Treasury Bills	Foreign Treasury Bills	Reverse Repo	Corporate Bonds	Foreign Corporate Bonds	Equities	Foreign Securities	ABS	Other	Total Portfolio Value	
												(\$ Million)	(YTL Million)
1994	1.76	0.34	90.10			0.14	1.80	1.47	0.54	2.94	0.69	644	25
1995	12.60	1.68	83.06			0.02	2.00	0.36	0.13	0.03	0.09	433	27
1996	1.50	0.20	95.73			0.01	1.28	0.95	0.20	0.01	0.06	930	100
1997**	6.64	0.38	21.02	4.00	63.79			1.34	0.27		2.23	587	121
1998	5.78	0.15	34.36	0.06	59.09			0.33	0.11		0.12	876	275
1999	18.52	0.10	11.20	0.01	68.92			0.88	0.10		0.28	1,725	936
2000	13.24	0.16	0.00	0.01	86.36			0.17	0.03		0.04	2,100	1,417
2001	8.53	0.12	26.74	0.00	64.50			0.05	0.003		0.07	2,895	4,187
2002	9.25	0.06	41.79	0.04	48.81			0.03	0.001		0.02	5,426	8,912
2003			68.99*		30.97			0.96				13,442	18,847
2004			68.81*		28.25			0.05			2.89***	17,726	23,791

\* Sum of T-Bills and government bonds  
\*\* Since this year reverse repos are separated from government bonds and T-Bills  
\*\*\* ISE Money Market transactions  
Source: CMB

**TABLE 4.11**

TABLE III

PORTFOLIO COMPOSITION OF A AND B-TYPE MUTUAL FUNDS (%)												
Years	Gov. Bonds	Foreign Gov. Bonds	Treasury Bills	Foreign Treasury Bills	Reverse Repo	Repo	Gold	Equities	Foreign Securities	Other (*)	Total Portfolio Value (\$ Million) (YTL Million)	
1997	4.86	0.24	18.98	2.54	52.93	3.46	0.22	15.12	0.17	1.47	925	190
1998	5.61	0.12	29.46	0.09	56.08		0.02	8.45	0.09	0.14	1,105	347
1999	16.48	0.08	9.52	0.01	60.02	0.05		13.55	0.08	0.22	2,247	1,219
2000	12.66	0.16	0.06	0.01	74.56	0.08		12.40	0.02	0.06	2,870	1,938
2001	8.24	0.10	24.70	0.00	59.47			7.43	0.01	0.06	3,288	4,756
2002	9.00	0.06	40.28	0.04	48.04			2.56	0.00	0.02	5,691	9,347
2003			66.96**		30.97			2.56			13,995	19,622
2004			67.26**	0.02	27.69			2.22		2.82***	18,309	24,573

\* This item is composed of corporate bonds, foreign corporate bonds, corporate bills and foreign corporate bills.

\*\* Sum of T-Bills and government bonds

\*\*\* ISE Money Market transactions

Source: CMB

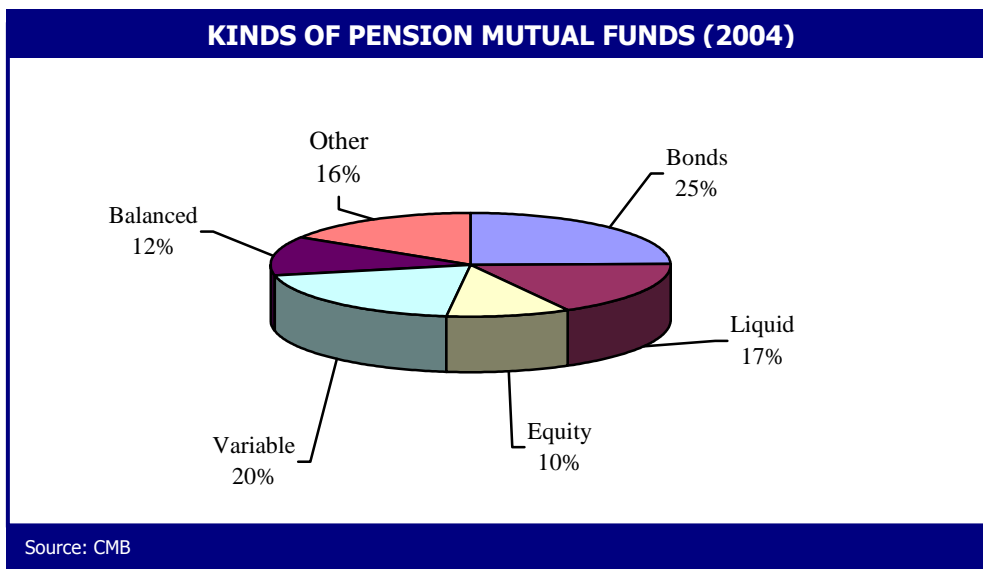
#### 4.4.1.3 Foreign Mutual Funds

As of 2004-end, the number of foreign mutual funds whose participation certificates are registered with the Board is 47. Among these funds, USD based funds have a net asset value of US \$ 13,325 million; Euro based funds have a net asset value of € 16,285 million. On the other hand, the total value of participation certificates in circulation in Turkey is US\$ 20 million (US \$15,6 million and € 3.2 million).

#### 4.4.1.4 Pension Funds

Individual Retirement Savings and Investment System was put into place in 2003. As of the end of 2004, the number of retirement mutual funds offered to public is 81. Portfolio value of these funds is YTL 297.9 million, and their total value is YTL 295.8 million. Among the pension funds the most pervasive kind with 25% share is the funds investing in government debt instruments (number of these funds is 20) followed by balanced/mixed funds (number of these funds is 16) and money market liquid funds investing in government debt instruments (number of these funds is 14) (Graph:4.13)

**GRAPH 4.13**



#### 4.4.1.5 Exchange Traded Funds

Following the publication of the Communiqué on Principles Regarding Exchange Traded Funds on the Official Gazette dated 13 April 2004, Dow Jones Istanbul 20 A Type Exchange Traded Fund, has been sold to public at the beginning of the year 2005.

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

#### 4.4.2. Investment Trusts

Three types of investment trusts operate in Turkey, which are A-Type Investment Trusts, Real Estate Investment Trusts and Venture Capital Investment Trusts.

##### 4.4.2.1 A-Type Investment Trusts

As of the end of 2004, there are 23 A-Type investment trusts with YTL 144.9 million paid in capital, YTL 297.6 million market capitalization and YTL 314.4 million net asset value, in the Turkish capital markets (Table 4.12). The portfolios of these companies are composed of corporate securities (58.78%), government bonds and T-Bills (30.34%) and reverse repo (8.13%)

Besides, there is one B Type Investment Trust established in the year 2004 but has not been offered to public yet.

**TABLE 4.12**

<b>THE EXISTING SITUATION OF A-TYPE INVESTMENT TRUSTS (2004)</b>						
A-Type Investment Trusts	Date of Establishment	Registered Capital (YTL Thousand)	Paid in Capital (YTL Thousand)	Net Asset Value (*) (YTL Thousand)	Outstanding Shares (Thousand)	Market Value (YTL Thousand)
1 AK Inv. Trust	18.09.1998	40,000	18,000	33,623.4	18,000,000	23,940
2 ALTERNATİF Inv. Trust	14.09.1995	6,000	6,000	11,253.3	6,000,000	11,940
3 ATA Inv. Trust	20.03.1997	5,000	500	2,786.7	500,000	3,750
4 ATLANTİS Inv. Trust	19.08.1994	1,000	2,000	5,196.8	2,000,000	4,040
5 ATLAS Inv. Trust	22.10.1993	10,000	858	3,666.9	858,000	3,775
6 AVRASYA Inv. Trust	01.03.1996	10,000	4,720	6,333.8	4,720,032	6,278
7 BUMERANG Inv. Trust	17.05.1995	10,000	2,500	2,969.9	2,500,000	3,200
8 DENİZ Inv. Trust(1)	05.05.1995	5,000	4,995	9,567.3	4,995,000	18,382
9 ECZACIBAŞI Inv. Trust	15.06.1998	5,000	9,975	15,649.0	9,975,000	12,469
10 EVREN M.K.Inv. Trust	19.10.1994	10,000	3,800	1,030.1	3,800,400	8,513
11 FİNANS Inv. Trust	17.11.1995	50,000	9,750	18,468.7	9,750,000	13,065
12 GARANTİ Inv. Trust	09.07.1996	1,000	1,000	2,244.9	1,000,000	7,050
13 GEDİK Inv. Trust	12.03.1998	2,000	1,925	2,534.9	1,925,000	3,427
14 PERA Inv. Trust (2)	21.01.1992	4,000	3,996	11,215.2	3,996,000	12,148
15 İNFO Inv. Trust	22.09.2003	10,000	3,000	3,132.3	3,000,000	3,750
16 İŞ Inv. Trust	16.08.1995	135,000	30,000	115,683.3	30,000,000	94,200
17 MUSTAFA YILMAZ Inv. Trust	05.08.1994	5,000	2,700	3,003.9	2,700,000	5,184
18 TAÇ Inv. Trust	22.08.1994	20,000	1,995	7,978.9	750,000	7,781
19 TSKB Inv. Trust	10.11.2000	6,000	6,000	7,869.5	6,000,000	10,740
20 VAKIF Inv. Trust	13.06.1991	5,000	2,550	9,760.0	2,550,000	11,781
21 VARLIK Inv. Trust	10.02.1998	1,000	1,000	1,942.5	500,000	2,280
22 YAPI KREDİ Inv. Trust	02.10.1995	50,000	24,640	34,720.6	24,640,000	24,886
23 YATIRIM FİNANSMAN Inv. Trust	31.12.1998	5,000	3,000	3,799.3	3,000,000	5,010
<b>TOTAL</b>			<b>144,904</b>	<b>314,431.2</b>		<b>297,589</b>

(\*) NET ASSETS= Portfolio Value+Liquid Assets+Accounts Receivable-Accounts Payable  
(1) The title of Demir Invest. Trust has been changed to Deniz Invest. Trust  
(2) The title of Global Invest. Trust has been changed to Pera Invest. Trust  
Source: CMB

#### 4.4.2.2 Real Estate Investment Trusts

There are 9 real estate investment trusts in Turkey which have a total net asset value of YTL 1,376 million and YTL 2,050 million market capitalization. The portfolio of these real estate investment trusts whose shares are listed on the ISE is composed of real estate investments (85.72%) and money and capital market instruments (12.5%). Detailed information on real estate investment trusts is given in Table 4.13.

**TABLE 4.13**

**THE EXISTING SITUATION OF REAL ESTATE INVESTMENT TRUSTS (2004)**

	Real Estate Investment Trusts	Date Of Estab.	Registered Capital (YTL Thousand)	Paid in Capital (YTL Thousand)	Net Asset Value (*) (YTL Thousand)	Outstanding Shares (Thousand)	Market Value (YTL Thousand)
1	ALARKO REAL ESTATE INV. TRUST	31.07.1996	20,000	3,565	156,149.7	3,565,000	89,125
2	ATAKULE REAL ESTATE INV. TRUST	21.08.2000	100,000	63,000	94,582.1	63,000,000	485,100
3	EGS REAL ESTATE INV. TRUST	01.10.1997	75,000	73,800	78,259.2	73,800,000	27,500
4	GARANTİ REAL ESTATE INV. TRUST	25.07.1997	50,000	23,250	78,596.5	23,250,000	671,580
5	İHLAS REAL ESTATE INV. TRUST	23.12.1997	35,000	22,108	26,652.5	22,108,000	23,435
6	İŞ REAL ESTATE INV. TRUST	06.08.1999	500,000	329,996	765,024.3	329,996,000	633,535
7	NUROL REAL ESTATE INV. TRUST	03.09.1997	50,000	10,000	43,325.9	10,000,000	30,400
8	VAKIF REAL ESTATE INV. TRUST	26.11.1996	5,000	5,000	44,084.8	5,000,000	23,100
9	YAPI REAL ESTATE INV. TRUST	24.12.1996	100,000	40,000	89,915.5	40,000,000	66,400
	<b>TOTAL</b>			<b>570,719</b>	<b>1,376,590.5</b>		<b>2,050,175</b>

Source: CMB

#### 4.4.2.3 Venture Capital Investment Trusts

As of the end of 2004, there are 2 venture capital investment trusts in Turkey whose total portfolio value is YTL 146.6 million (US \$ 77.2 million). The portfolio of İş Venture Capital Investment Trust, which is about YTL 135 million, is composed of venture capital investments (50.48%) and securities (49.52%), whereas the 80.12% of the portfolio of Vakıf Venture Capital Investment Trust is composed of venture capital investments and 19.88% is composed of securities.

### 4.5. PORTFOLIO MANAGEMENT COMPANIES

As of the end of 2004, there are 21 portfolio management companies in Turkey. The total value of portfolios managed by these companies is YTL 24,452 million. 17% of the portfolios managed, belongs to individuals, 80% belongs to institutional investors and 3% belongs to corporations (Table 4.14). In terms of US \$, the portfolio value reached to US \$ 18,104 million in 2004 from US \$ 12,741 million in 2003, with a rise of 42%.

**TABLE 4.14**

<b>THE EXISTING SITUATION OF PORTFOLIO MANAGEMENT COMPANIES (2004)</b>									
	Portfolio Management Companies (PMC)	Number of Clients				Assets Under Management (YTL Million)			
		Indiv.	Inst.	Corpo.	Total	Indiv.	Inst.	Corpo.	Total
1	Ak PMC	0	21	0	21	3,769.7	0	0	3,768.7
2	Ata PMC	0	10	0	10	0	90.2	0	90.2
3	Bender PMC	0	6	0	6	0	42.0	0	42.0
4	Dış PMC	9	14	1	24	5.6	185.7	30.7	221.9
5	Eczacıbaşı-Ubp PMC	221	12	1	234	12.3	113.9	6.6	132.8
6	Deniz PMC	17	0	0	17	2.0	0	0	2.0
7	Finans PMC	698	12	17	727	57.8	688.1	6.8	752.7
8	Garanti PMC	1	24	17	42	1.6	2,855.6	158.1	3,015.3
9	Global PMC	80	7	2	89	7.9	40.5	3.5	51.9
10	HSBC PMC	0	7	0	7	0	1,316.8	0	1,316.8
11	İktisat PMC (*)	-	-	-	-	-	-	-	-
12	Inter PMC	11	4	1	16	9.2	10.7	2.4	22.3
13	İsviçre PMC	229	5	16	250	10.9	16.0	31.1	58.0
14	İş PMC	0	42	0	42	0	5,618.8	0	5,618.8
15	Kent PMC (*)	-	-	-	-	-	-	-	-
16	Koç PMC	426	22	21	469	93.9	2,965.4	252.6	3,311.9
17	Oyak PMC	139	13	6	158	17.2	763.9	10.0	791.2
18	Teb PMC	111	16	3	130	59.4	673.5	1.6	734.5
19	Vakıf PMC	0	9	1	10	0	27.6	243.5	271.1
20	Yapı Kredi PMC	0	21	0	21	0	2,644.8	0	2,644.8
21	Ziraat PMC	0	10	0	10	0	1,605	0	1,605
	<b>Total (YTL)</b>	<b>1,942</b>	<b>255</b>	<b>86</b>	<b>2,283</b>	<b>4,046.6</b>	<b>19,659.1</b>	<b>746.9</b>	<b>24,452.6</b>
	<b>(USD)</b>					<b>2,996.2</b>	<b>14,555.8</b>	<b>553.0</b>	<b>18,105.0</b>

Source: IGE

\* The companies are under liquidation process.

#### 4.6. THE FUTURES AND OPTIONS EXCHANGE INC.

Futures and Options Exchange (FOE Inc.) is the first private exchange in Turkey, established upon the decision of Council of Ministers number 2001/3025 published in the Official Gazette number 24558 on September 10, 2001, based on the decision of the CMB number 9/1101 on August 17, 2001 and, in accordance with the Article 40 of the CML No. 2499.

The exchange is organized in the form of joint stock corporation, parallel to developments in the world, with the purpose of establishing and improving markets in which futures and options contracts and the capital market instruments composed of all kinds of



derivative instruments are traded, and ensuring the functioning of these markets under conditions of free competition with security and stability, within the framework of principles of honesty and transparency. The exchange became a legal entity on July 4, 2002 after Article of Association was published on the Turkish Trade Registry Gazette. The principles of trading, membership, settlement and operation were determined in the Regulation of Futures and Option Exchange, published in the Official Gazette on March 27,2004.

Permission of operation was given to the Exchange on March 5, 2004. Membership entrance fee, membership deposit, exchange fee, brokerage commission and the contents of future contracts were approved by CMB on November 30, 2004. Accordingly, it was decided that futures contracts on Aegean Standard 1 Base Quality Cotton, Anatolia Red Hard Base Quality Wheat, Turkish Lira/ Dollar parity, Turkish Lira/ Euro parity, treasury bonds of 91 and 365 days, ISE 30 and ISE 100 Indexes would be traded on the Exchange and settled by the ISE Settlement and Custody Bank Inc.<sup>2</sup>

#### **4.7. CENTRAL REGISTRY INC. AND INVESTORS PROTECTION FUND**

With Article 10/A of the amendments to the CML, Central Registry (CR), a private legal entity, was regulated to keep the records on capital markets instruments and the related rights in book entry form. According to Regulation Regarding the Establishment and Operating Principles of the Central Registry for Dematerialized Securities, which promulgated by the Council of Ministers, the CR is established as a joint-stock corporation. In this regard, the CR was established in form of joint-stock corporation on September 26, 2001 after Article of Association of the CR was published on the Turkish Trade Registry Gazette. Its shareholders are the ISE, Takasbank, TSPAKB and the IGE. Its Board of Directors consists of 7 members and Chairman of the Board of Directors is assigned by the CMB, based on the article 5 of the relevant regulation.

The CR is empowered to keep the records in electronic format with respect to issuers, intermediary institutions and owners of rights, to monitor the consistency of these records and to represent and administer the Investors Protection Fund. Until the end of 2002, various projects for establishing the technical and legal infrastructure have been carried out. The Communiqué Regarding Principles for Dematerialized Securities became effective on December 22, 2002. Accordingly, the initiation of dematerialization process has been occurred.

Within the context of dematerialization of mutual fund participation certificates and shares, for the members to make preparations and inform the customers about the transition process, the principles with respect to membership were approved by the CMB on 22.07.2004 and amendments, parallel to this, were made in the Regulation and the Communiqué of the Central Registry.

With the CMB Decision on 15.10.2004, starting from 25.04.2005 the dematerialization process of mutual fund participation certificates will be initiated with selective institutions and then completed no later than October 2005. All the shares of companies, that are traded on the Exchange, is envisaged to be fully materialized in 2005.

The Investors Protection Fund started to operate by registration of the establishment of the CR, which represents the Fund, with the Trade Registry on November 21,2001. Its objectives are to meet the liquidation expenses and to carry out the functions provided for in Article 46/B in accordance with the principles envisaged in the CML with respect to intermediary

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<sup>2</sup> The Exchange commenced its operations on February 4, 2005 and as of the publishing date of this annual report, all the contracts, except ISE 100, are traded.

institutions for which a gradual liquidation or bankruptcy decision is made and, on the condition that the provisions of the Banks Law are reserved, the banks in the scope of paragraph (a) of Article 50 of the CML the operations of which are terminated by a decree of the Council of Ministers, to cover the cash payments and share delivery obligations arising from share transactions for their customers due to capital market operations and transactions in which they engaged.

The initial assets of the Investors Protection Fund were granted by the ISE at the amount of YTL 10 million in 2001. Other sources of the Fund are annual dues to be deposited by the intermediary institutions, administrative pecuniary fines imposed by the CMB, the ISE and TSPAKB, temporary dues for which the amount is determined by the CMB and the yield of the Fund assets. The fund invested their assets in government bonds, T-Bills, deposits and reverse repo. The value of their assets reached YTL 29,600 billion as of the end of 2004. The gradual liquidation process for the Karon Securities Inc and the Data Securities Inc. for which the gradual liquidation decision was made in 2002 and 2003 respectively, continued. In 2004, the loss of customers of the securities incorporations cited above and the Aks Securities Inc. were compensated by the Fund.

The cash payments arising from share transactions for their customers due to capital market operations and transactions of intermediary institutions for which a gradual liquidation or bankruptcy decision is given, are made by the Fund within a limited amount, determined by CML and increased by revaluation rate each year. The maximum amount for each customer to be paid from the Fund's assets is 36,622 YTL for the year 2004. The Fund paid a total of 585,245 YTL to the investors accordingly.

#### 4.8. THE ISTANBUL GOLD EXCHANGE

Istanbul Gold Exchange (IGE), established on July 26, 1995, incorporates three markets, namely the Precious Metals Market, the Futures and Options Market and the Precious Metals Lending Market.

The trading volume in terms of TL/gr in IGE Precious Metals Market decreased from YTL 1,6 billion in 2000 to \$ 0.5 billion in 2001 due to the effect of economic crisis. In 2004, it decreased by 19.1% to YTL 1.1 billion relative to the previous year. The trading volume in terms of \$/Ounce transactions increased by 63.2% and reached 2.9 billion dollar relative to the previous year (Table: 4.15).

**TABLE 4.15**  
**ISTANBUL GOLD EXCHANGE**

Years	Amount of Transactions			Trading Volume	
	TL/Gr	\$/Ounce	Total	(YTL Million)	(\$ Million)
1997	178,121	113,367	291,488	287	1,215
1998	265,532	173,748	439,280	684	1,640
1999	277,734	213,740	491,474	1,052	1,908
2000	299,740	129,430	429,170	1,681	1,160
2001	57,888	83,884	144,742	499	741
2002	47,837	95,149	142,986	749	942
2003	77,643	155,016	232,659	1,320	1,782
2004	58,839	221,425	280,264	1,068	2,909

Source: IGE

#### **4.9. THE ISE SETTLEMENT AND CUSTODY BANK INC.**

ISE Settlement and Custody Bank Inc., namely Takasbank, is one of the most crucial institutions in Turkish financial markets. It is an investment bank providing clearing, settlement and custody services for the ISE markets (Stock Market, Bond and Bills Market, Derivatives Market) and for portfolio assets of individual mutual funds and investment trusts, as well as conducting corporate actions concerning capital increases (bonus shares and exercise of pre-emptive rights) and payment of dividends. In addition to these services, Takasbank provides the ISE members with a range of banking services such as credit services for cash within Takasbank Money Market (TMM) and credit services for securities, including Securities Purchasing Loans (SPL) and Securities Lending/Borrowing Facility (SLBO).

The total number of institutions benefiting from the services provided by Takasbank is currently 660. As of the end of 2004, 25.4 million stock certificates with a total nominal value of YTL 8.5 billion, 88.4 billion shares and 6.1 million mutual fund participation certificates composed of 154 billion shares have been deposited in Takasbank's fungible custody. 1,5 million stock certificates with a total nominal value of YTL 0.9 billion have been deposited in non-fungible custody. A total of 3,200,000 stock certificates with a total nominal value of YTL 106 million have been renewed. By the end of year 2004, the number of open accounts is 2,177,516 with 1,072,663 having a balance. This number reflects an increase by 4.8% in comparison with the previous year (Table: 4.16).

**TABLE 4.16**  
**TAKASBANK STATISTICS (2004)**

Number of Institutions Benefiting from Services	660
Stocks Deposited in Fungible Custody (Billion Nominal YTL)	8.5
Stocks Deposited in Fungible Custody (Million Unit)	25.4
Shares Deposited in Fungible Custody (Billion Unit)	154
Portfolio Values of Mutual Funds and Investment Companies (Billion YTL)	25.07
Mutual Fund Participation Certificates (Million Unit)	6.1
Stocks Deposited in Non-Fungible Custody (Nominal Billion YTL)	0.88
Stocks Deposited in Non-Fungible Custody (Million Unit)	1.5
Stocks Replaced by Issuing Corporations (Million Nominal YTL)	106
Number of Stocks Replaced (Million Unit)	3.2
Total Number of Open Accounts	2,177,516
Number of Accounts with Having a Balance	1,072,663
Accounts with Having a Balance/Total Population (%)	%1.5
Number of Institutions Using Stock Market Settlement System	
- Brokerage Houses	101
- Banks	17
- Mutual Funds/Investment Companies	307
- Portfolio Management Companies	21
Securities Settlement (Billion YTL)	63.67
Cash Settlement (Billion YTL)	19.78
Settlement of Bonds and Bills (Billion YTL)	1,069
Cash Settlement (Billion YTL)	209.6
Payments of Principals and Interests for T-Bills and Bonds (Billion YTL)	1.09
Redemption Payments (Billion YTL)	29.85
Electronic Fund Transfer (EFT)	
- Incoming (Billion YTL)	595.6
- Outgoing (Billion YTL)	596.3
Takasbank Money Market Daily Average Trading Volume (Million YTL)	374.77
Takasbank Money Market Trading Volume (Billion YTL)	94.44

Source: Takasbank

#### **4.10. ASSOCIATION OF CAPITAL MARKETS INTERMEDIARIES OF TURKEY**

Association of Capital Markets Intermediaries of Turkey (TSPAKB) is a self-regulatory organization having the attribute of a civil institution possessing a legal entity. The Association has been established according to the amendments in the article 40/B and 40/C of the CML, which are added to CML numbered 2499 with the law dated 15.12.1999 and numbered 4487. The Status of the Association became effective on February 11, 2001.

The aim of the TSPAKB is to ensure the functions given by the law and status by developing the capital market and intermediary activities, making the members of the association work in corporation and in care and discipline as required by capital market, protecting the economic benefits of the members, preventing unfair competition, illuminating the members on professional issues. According to the article 40/B of the CML, the TSPAKB

has been charged and authorized to make investigations to provide the development of the capital markets and intermediation activities, creating professional rules for making association members work in care and discipline as capital market require, preventing unfair competition, taking necessary actions in these subjects, making regulations in subjects released by the law or determined by the CMB, carrying out, supervising, cooperating with member institutions in related matters in order to give disciplinary punishments as foreseen in associations' status, illuminating the members by monitoring the professional developments, administrative and legal regulations.

TSPAKB, which is a self-regulatory institution, gave extensive way to carry out every kind of education and surveillance activity to the investors and social stakeholders, also it has organized educational activities in order to aid the staff of intermediary institutions in preparing for licensing examinations. Within these activities it took a major role to transmit the opinions and suggestions of intermediary institutions to the CMB about in most fields of the CMB's activities.

#### **4.11. INTERMEDIARY INSTITUTIONS**

In total there are 154 intermediary institutions, 112 of which are brokerage houses (12 of them are temporarily closed) and 42 are banks, operating in Turkey by the end of 2004.

In 2004, activities of 15 brokerage houses have been temporarily stopped, and while 4 of these brokerage houses have been granted operating permission again, all of the licences of 4 of them and another one have been permanently cancelled. As of the end of 2004, the temporary closed position of 7 brokerage houses is persisting. As of the end of 2004, the information about the licenses of the brokerage houses, investment banks, commercial banks, precious metal intermediary institutions, and authorized companies is given below (Table 4.17).

**TABLE 4.17**

<b>LICENSES OF INTERMEDIARY INSTITUTIONS</b>			
Type of License	Brokerage Houses	Investment Banks	Commercial Banks
Intermediation of Sale and Purchase of Capital Market Instruments	112	10 (off-the-exchange for equity shares)	32 (off-the-exchange for equity shares)
Public Offering	60	3	-
Portfolio Management	54	2	-
Investment Consultancy	51	3	-
Repurchase and Reverse Repurchase Transactions	69	10	31
Margin Trading, Short Selling, and Lending and Borrowing of Securities	96	-	-
Intermediation of Sale and Purchase of Derivative Instruments	-	-	18
Intermediation of Sale and Purchase of Gold and Foreign Currency Contracts*	4	-	1

\*According to the Regulation of The Establishment and Operating Conditions of Precious Metals Exchange Intermediary Institutions and the Regulation of Membership Conditions of Precious Metals Exchange issued by Treasury Undersecretariat, 2 precious metals brokerage houses and 3 authorized institutions have the certificate of authorization for intermediation of gold and foreign exchange based futures and options contracts.

The brokerage houses are operating countrywide by 228 branches, 71 liaison offices and 31 agencies established with banks as of 2004-end.

The transactions exercised in the ISE and over the counter by the intermediary institutions in years 2002, 2003 and 2004 are comparatively given below.

**TABLE 4.18**

<b>TRANSACTIONS OF INTERMEDIARY INSTITUTIONS</b>						
	<b>2002</b>		<b>2003</b>		<b>2004</b>	
	YTL Billion	\$ Billion	YTL Billion	\$ Billion	YTL Billion	\$ Billion
In Equity Market						
- Brokerage House	213	142	293	200	417	296
In Bonds and Bills Market						
- Brokerage House	457	410	629	552	857	723
-Bank	1,195	1,053	1,731	1,494	2,939	2,422
Total Transaction Volume	<b>1,865</b>	<b>1,605</b>	<b>2,653</b>	<b>2,246</b>	<b>4,213</b>	<b>3,441</b>

Note: The transactions have been recorded for both parties above.

## 5. ACTIVITIES OF THE CMB IN 2004

Although the developments for Turkish capital markets dates backed to the Ottoman Empire, an efficiently functioning and healthy capital market could only be established in 1980s.

The CMB launched new instruments and institutions with the aim of regulating, supervising and developing of capital markets, based on the CML, which became effective in 1981. At first, the regulation of primary markets was focused, while the establishment of secondary markets were also carried out. In this regard, "Istanbul Securities and Foreign Exchange Bourse" was reopened under the name of "Istanbul Stock Exchange" at the end of 1985.

Turkish capital markets developed rapidly under the regulations made at the beginning of 1980s and therefore the indications of both primary and secondary markets improved substantially.

The CMB attributed great importance to improve communication with investors, issuers and other institutions in 2004 too. In this context, a system has been established for receiving and evaluating the complaints and proposals of the related parties, and it has been benefited greatly from this system on making regulations. Especially, it has been worked with the ISE, the IGE and the TSPAKB in close cooperation.

Besides, investors and other stakeholders have been given the opportunity to submit their requests of information and complaints through the CMB's web site around the clock.

The Executive Board held 51 meetings and made 1,750 decisions in various subjects under its competence in 2004.

### 5.1. REGULATION

The CMB, one of main functions of which is to make regulations within the framework of authority delegated by the CML, has made several regulations concerning the capital markets institutions, instruments, markets and investor protection. The regulations became effective in 2004 are classified below.

#### 5.1.1. Regulations

1. Regulation of Futures and Options Exchange (Published in the Official Gazette on 27.03.2004).
2. Amendment in the relevant regulation regarding the chief executive officer of the futures and options exchange to be a member of the board of directors and determining the working principles of Guarantee Fund (Published in the Official Gazette on 27.03.2004)
3. Amendment in the relevant regulation regarding giving the orders both in the form of lot and the number of shares, and the cancellation of the orders of members that are not realized in ISE Equities Market (Published in the Official Gazette on 24.06.2004).
4. Amendment in the relevant regulation regarding the listing rules of ISE National Market, listing procedures of merger and acquisition of companies and requirements

of companies listed in ISE about dissemination of information (Published in the Official Gazette on 24.06.2004).

5. Amendment in the relevant regulation regarding fortification of incompatibilities among the members of CR and between the members and CR about the operation of the system, membership rules, temporary and permanent suspension of membership (Published in the Official Gazette on 10.09.2004).

#### 5.1.2. Communiqués

1. With the amendment in Communiqué on Principles Regarding Sales Method of Capital Market Instruments Through Public Offering, the issuers are obliged to allot at least 30% of the shares to be offered to the public to small individual investors when sales amount is TL 100 trillion or more, in cases where the amount is less than TL 100 trillion they are obliged to allot at least 50% of the shares to be offered to the public (Official Gazette dated 10.06.2004 ).
2. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis, Communiqué on Principles Regarding Public Disclosure of Material Events is amended (Official Gazette dated 07.07.2004).
3. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis, Communiqué Regarding Issuers' Conditions of Exemption and Deregistration from the Board is amended (Official Gazette dated 07.07.2004). With that amendment, exemptions for issuing prospectus is determined.
4. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis Communiqué on Principles Regarding Registration of Bonds with The Board is amended (Official Gazette dated 07.07.2004).
5. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis Communiqué on Principles Regarding Registration of Gold, Silver and Platinum Bonds with The Board is amended (Official Gazette dated 07.07.2004).
6. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis Communiqué on Principles Regarding Registration of Commercial Papers with The Board is amended (Official Gazette dated 07.07.2004).
7. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis Communiqué on Principles Regarding Registration of Participated Dividend Shares with The Board is amended (Official Gazette dated 07.07.2004).
8. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis Communiqué on Principles Regarding Registration of Asset Backed Securities and Principles Regarding the Establishment and Activities of General Finance Companies is amended (Official Gazette dated 07.07.2004). With that amendment, it is required that the sale of the asset backed securities and payment of their periodical interest be performed by intermediary institutions.



9. To simplify the regulation, to annihilate problems encountered during enforcement and to align regulations with EU acquis Communiqué on Principles Regarding Registration of Profit and Loss Sharing Certificates with The Board is amended (Official Gazette dated 07.07.2004).
10. Within the process of dematerialization of capital market instruments, communiqué amendment regarding the acceptance to membership, announcement of the decision of dematerialization, delivery of capital market instruments, creation of property rights, recording, functioning of accounts, right in rem and keeping CR records (Published in the Official Gazette on July 31,2004).
11. With the Communiqué Serial: VI, No: 16 on Amending the Communiqué Regarding The Principles About Venture Capital Investment Trusts published in the Official Gazette dated 7 January 2004, it was stated that the requirements for the Board members or the shareholders which have more than 10% of shares of the venture capital investment trust shall not be relevant for public institutions and other institutions which are considered to be like public institutions.
12. With the Communiqué on Amending the Communiqué on Principles Regarding Portfolio Management Operations and Institutions Which are Authorized to Offer Portfolio Management Service (Serial: V, No 75) published in the Official Gazette dated 07 January 2004, the portfolio management companies dealing with only the portfolio management of the institutional investors but not providing portfolio management services to any other person or institution are exempted from the necessity to sign an agreement with the Custodian Institution. In addition, the regulation related to the executive board members are amended, and the application date of the obligation to sign an agreement with the Custodian Institution has been postponed to 2/1/2005.
13. With the Communiqué on Amending the Communiqué on Principles Regarding Portfolio Management Operations and Institutions Which Are Authorized to Offer Portfolio Management Service (Serial: V, No: 79) published in the Official Gazette dated 31 December 2004, application date of the obligation to sign an agreement with the Custodian Institution has been postponed from 02/01/2005 to 30/6 /2005.
14. With the Communiqué on Principles Regarding Exchange Traded Funds published in the Official Gazette dated 13 April 2004, the principles on establishment, rules and principles of operation of exchange traded funds, public offering of their participation certificates and related public disclosure requirements have been regulated.
15. With the Communiqué on Amending the Communiqué on Real Estate Investment Companies (Serial: VI, No: 17) published in the Official Gazette dated 18 May 2004, mainly, the issues regarding the founders, the requirements that the founders and the real or legal persons that own directly or indirectly 10% or more of the capital shares must have, application for registration, public offering, registration with the board, the qualifications for the board of directors and auditors, management of company's portfolio, portfolio restrictions and periodical statements and reports have been amended.
16. With the Communiqué Serial: VII, No: 24 on Amending the Communiqué on Principles Regarding Mutual Funds published in the Official Gazette dated 08 October 2004, parallel to pension funds, transactions made at ISE Settlement and Custody Bank Inc. money market have been included in the portfolio values of mutual funds, and for the funds other than liquid funds, recording the commission collected in

redemption of participation certificates as revenue of the fund or the founder was made possible.

17. With Communiqué Serial VII, No: 25 on Amending the Communiqué on Principles Regarding Mutual Funds, published in the Official Gazette dated 31 December 2004, the limitations for including exchange traded funds into fund portfolios are set.
18. The Communiqué amending the Communiqué Regarding The Principles On Intermediary Activities and Intermediary Institutions (Published in the Official Gazette on January 6,2004).
19. The Communiqué on Principles of Public Disclosure by Intermediary Institutions (Published in the Official Gazette on January 6,2004).
20. The Communiqué amending the Communiqué on Margin Trading, Short Selling, and Lending and Borrowing of Securities (Published in the Official Gazette on February 28,2004).
21. The Communiqué Amending Some Articles of the Communiqué Regarding the Accounting Standards in the Capital Markets has been put into force (Published in the Official Gazette on December 21,2004). With the amendment, applying International Financial Reporting Standards is regarded as applying the Communiqué regarding the Accounting Standards in the Capital Markets.
22. The Communiqué Amending Some Articles of the Communiqué Regarding the Financial Reporting in Hyperinflationary Economies has been put into force with the aim to amend the dividend distribution rule (Published in the Official Gazette on February 28,2004).

#### 5.1.3. Rulemaking Decisions of the Board

1. In the context of application of Supplementary Article 2 of Communiqué Serial: I No:26, the verdict about the procedures for ISE Settlement and Custody Bank on tracking the shares registered with the Board of ISE listed companies (16.01.2004 ).
2. The verdict on procedures to be followed by publicly traded companies in their capital increases from internal resources (20.02.2004).
3. The verdict defining the qualification of financial statements which are included in the prospectus and circulars at initial public offerings where the financial statements of year 2003 are used (11.03.2004).
4. The verdict on the preparation of disclosure forms in English for the disclosures of foreign investors in accordance with Communiqué Serial: VIII, No: 39 (22.10.2004 ).
5. The verdict on procedures to be performed by publicly traded companies in their capital increases and dividend distributions in the context of conversion to the New Turkish Lira (03.11.2004).
6. The verdict requiring ISE listed companies have an investor relations section on their internet sites including Corporate Governance Compliance Report (10.12.2004).
7. The verdict requiring the publicly held companies not traded on ISE publish their announcements in accordance with Capital Markets Regulations on the newspapers

that are easily accessible, continuous and whose publication periods are set and which have the right to issue official announcements and are distributed timely (16.12.2004).

8. The verdict requiring ISE traded publicly held firms to distribute at least 30% of their distributable profits for 2004 (30.12.2004).
9. Amendment to the Article 7 "Capital and Shareholders" of Articles of Association of CR regarding the increase of capital from YTL 3 million to YTL 6 million (Board Decision, March 5, 2004).
10. Amendment to the Articles of Association of FOE regarding the CEO to be the member of board of directors (Board Decision, March 5, 2004).
11. Permission of operation for FOE (Board Decision, March 5, 2004).
12. Amendment to the ISE Wholesale Market Circular (Board Decision, April 22, 2004).
13. Approval of "Notice on Principles Regarding Public Disclosure of Material Events and Other Events and Delivery to ISE" (Board Decision, June 3, 2004)
14. Principles of deposits for the members of ISE whose operations are suspended upon their request and then began again (Board Decision, June 17, 2004).
15. Determination of membership fee and membership conditions of CR (Board Decision, July 22, 2004).
16. Principles of deposit and membership fee for the intermediaries in case of merger, transfer and acquisition (Board Decision, August 12, 2004).
17. Principles regarding ISE's signing of memorandum of understanding (MOU) (Board Decision, September 16, 2004).
18. Procedures regarding the recording of stock certificates and balance within Takasbank under the framework of New Turkish Liras workings (Board Decision, September 30, 2004).
19. Announcement regarding the dematerialization of equities (Board Decision, October 06, 2004).
20. Amendment to the ISE Off Exchange Odd-Lot Transactions Circular (Board Decision, October 10, 2004).
21. Approval of the contents of future contracts on Aegean Standard 1 Base Quality Cotton, Anatolia Red Hard Base Quality Wheat, Turkish Lira/ Dollar parity, Turkish Lira/ Euro parity, treasury bonds of 91 and 365 days, ISE 30 and ISE 100 Indexes (Board Decision, November 11, 2004).
22. Determination of FOE's entrance fee, transaction fee, brokerage commission and membership deposit (Board Decision, November 11, 2004).
23. Exempting the intermediation in forward contracts which are traded on specialized product exchanges and do not bear the features of future contracts from capital market regulations (Board Decision, December 30, 2004).

24. Determination of Takasbank as the settlement center for the transactions executed in the FOE (Board Decision, December 10, 2004).
25. Fundamentals of electronic trading system of CR (Board Decision, December 30, 2004).
26. Fundamentals of trading system of FOE (Board Decision, December 30, 2004).
27. Decision regarding the forward value date transactions that the mutual funds and investment trusts can involve in (Dated 05 April 2004, No: 9/216).
28. Decision regarding the foreign securities that can be included in the mutual fund portfolios (Dated 26 March 2004, No:12/356 ).
29. Decision about setting the principles regarding the custody of the mutual fund participation certificates until the participation certificates are fully dematerialized. (Dated 06 May 2004, No: 19/557)
30. It was decided that the Venture Capital and Real Estate Investment Trusts could increase their capitals before the public offering of the shares within the framework of the Turkish Commercial Code (Dated 10 June 2004, No: 24/705 ).
31. Decision regarding the display of the unit price and the initial value of the mutual funds and pension funds, in order to match with the regulations regarding the New Turkish Lira (Dated 26 August 2004, No: 36/1084).
32. Decision regarding the principles on the option and/or futures contracts that the Venture Capital Investment Trusts shall involve in (Dated 23 September 2004, No:39/1206).
33. It was decided that, the money market pension funds may involve in the transactions made in the ISE Settelemet and Custody Bank Money Market (Dated 30 September 2004, No: 40/1238).
34. Decision regarding the real or legal persons that are not allowed to involve in transactions related to exchange traded funds (Dated 23 December 2004, No:50/1694).
35. Decision regarding the redetermination of the some of the minimum amounts valid for the applications of the mutual funds and investment trusts (Dated 30 December 2004, No: 51).
36. Decision regarding the disclosure of the material events and financial statements of the Exchange Traded Funds (Dated 30 December 2004 No: 51/1746).
37. The principles on the contracts between intermediary institutions and their costumers which to be signed according to Article 11 of the Communiqué on Margin Trading, Short Sales and Lending and Borrowing of Securities have been announced in Capital Markets Board's web sites and posted to Association of Capital Markets Intermediaries of Turkey (Published in the Capital Markets Board's weekly Bulletin numbered 2004/3)
38. It has been decided that the investors who default due to exceptional reasons out of his/her own intention should be notified to the ISE, and these investors should not be

regarded within the context of Article 35 of the Communiqué on Margin Trading, Short Selling, and Lending and Borrowing of Securities (Date: 28.05.2004, Number: 22/639).

39. The applicability of the decision regarding the determination of minimum commissions of intermediary institutions on secondary stock market transactions as 0.2% (excluding tax) and also making it possible to pay back the maximum 75% of monthly collected commissions to determined customers has been extended until 30.06.2005 (The meeting dated 30.12.2004 and numbered 51).
40. Notice regarding the evaluation of the applications of firms which demand exemptions from publication and auditing of financial statements of the year 2003 (Date:19.03.2004, No:11/308).
41. Decision amending the predetermined dates of finalization and publication of financial statements of companies, whose stocks are traded on the stock exchange (Date:03.06.2004, No:23/678).
42. Notice regarding the presentations of financial statements and reports which are disclosed to the public by the issuers and capital market institutions in terms of New Turkish Lira (Date:30.11.2004, No:47/1566).
43. Notice regarding the formats of financial statements prepared according to Communiqué on Principles in Relation to Accounting Standards in Capital Markets which is compatible with IFRS/IFRS (Date:10.12.2004, No:1604).

## **5.2. ONGOING REGULATORY AND OTHER ACTIVITIES**

The ongoing regulatory activities which have been started in 2004 are given below:

- Simplifying the legislation and providing harmonization with EU acquis,
- Setting standards on disclosing forward looking information,
- Continuous update of Corporate Governance Principles and enabling the widespread use of them,
- Harmonizing the regulation of corporate mergers and divisions with EU acquis without impeding the global competition,
- Setting standards on conditions to publish or not to publish prospectus in public offerings,
- Enabling the prospectuses to be published on the internet sites of the companies or the intermediary institutions whose shares are to be offered to public, and enabling the investors to reach the prospectuses on the internet within the Public Disclosure Project,
- Requiring the publicly held firms to continuously publish material information already announced and have a potential effect on the price, for a certain period on their internet sites,

- Limiting the authority given by the general assembly of the corporations to the board of directors to increase capital to five years at most,
- Amending the Communiqué Serial:IV No:9 Issuers' Conditions of Exemption and Deregistration from the Board to update the numbers in the Communiqué,
- Harmonizing the Communiqué Serial: III, No:20 Principles Regarding Registration of Foreign Capital Market Instruments and Their Sales
- Preparing the regulations regarding the companies' purchase of their own shares,
- Revising the communiqué about asset backed securities for enabling the issuance of asset backed securities based on rent income,
- Forming a data base in order to be capable of reaching all the information about the work done in the electronic environment and improving the Department of Corporate Finance Automation Project which has started with the goal of benefiting from the information already preserved in that data base,
- Forming OTC markets with the goal of supplying Small and Medium Sized Corporations with funds from the capital markets,
- Making ISE and Istanbul Gold Exchange for-profit joint stock corporations,
- Activating the markets in the Istanbul Gold Exchange,
- Restructuring the Exchange Money Market in the ISE Settlement and Custody Bank Inc.,
- Forming a currency market in the Istanbul Gold Exchange,
- Completing the software and test studies of the CMB-ISE Supervision System and constituting the related infrastructure, process and organization,
- Safekeeping of government debt securities in customer name based system,
- In the context of the EU regulations, abandoning the restrictions on founders of the mutual funds, enabling the establishment of open ended mutual funds which have legal entity and umbrella funds, making it possible for investment trusts to be able to acquire their own shares, determining the custody principles for both the institutional and individual investors,
- Making the amendments in the related laws in order to establish a mortgage finance system in Turkey,
- Determining the working, valuing and reporting standards for the expertise companies.
- The renewal of the regulations regarding the investment trusts in order to match with the EU criteria,
- Harmonizing the capital adequacy regulations with the EU regulations,
- Constituting brokerage houses which do not provide custody services,

- Forming a lending and borrowing market of securities,
- Revising the regulations on intermediary institutions' required capitals and activities,
- Making the independent auditing regulations parallel with international auditing standards.

### 5.3. REGISTRATION

According to the CML, capital market instruments to be issued or to be offered to the public are required to be registered with the CMB. In a registration system where public disclosure is essential, applications made for the issuance of capital market instruments are evaluated on the basis of whether or not prospectus and circular concerning the corporation and capital market instrument to be offered to the public contain necessary information prescribed by legislation. The examination of application for issuance is implemented by taking the legal and financial aspects into consideration. In addition to that, an investigation is made at the company's main office and production facilities for all of the initial public offering applications and some of the other applications where it is deemed necessary.

In the event it is decided that the explanations are not sufficient and do not reflect the truth fairly such that an exploitation of the public may occur, the CMB may deny registration of the capital market instruments by stating the reason for such a denial. The registration of the capital market instruments by the CMB, however, is not an official assurance.

In that respect, in 2004, applications regarding the registration of stocks (issued by publicly-held companies, investment trusts, real estate investment trusts, venture capital investment trusts), bank bills (issued by the non-depositing banks) and mutual fund participation certificates that are to be issued or to be offered to the public are reviewed by the CMB. In the table below, the figures are given regarding those applications and their results:

**TABL 5.1**

<b>THE REGISTRATION APPLICATIONS AND REALIZATIONS FOR 2004</b>		
<b>Applications</b>	<b>Number of Applications</b>	<b>Actual Registration</b>
Stocks		
Publicly-held Companies	213	206
Real Estate Investment Trusts	7	6
Venture Capital Investment Trusts	2	2
Investment Trusts	36	36
Corporate Bonds	-	-
Mutual Fund Participation Certificates	66	63
Pension Funds	9	9
Bank Bills	-	-
<b>Total</b>	<b>333</b>	<b>322</b>



## 5.4. AUTHORIZATION

### 5.4.1. Authorization of Intermediary Institutions

The necessary conditions for the intermediary institutions, which will carry out capital market activities, are specified by the CMB. In this framework, brokerage houses and banks are obliged to get the permission of the CMB for doing capital market activities, setting up branches and liaison offices, changing their partnership structure and making amendment to the articles of association .

The information about the activities that can be performed with the permission of the CMB and the institutions enabled to perform these activities at present are presented below.

**TABLE 5.2**

<b>ACTIVITIES SUBJECT TO AUTHORIZATION OF THE CMB AND THE INSTITUTIONS THAT CAN CARRY OUT THESE ACTIVITIES</b>			
Type of Activity	Brokerage Houses	Non-depositing Banks (Investment Banks)	Commercial Banks
Intermediation for Trading Securities	✓	✓ Off-the-exchange	✓ Off-the-exchange
Intermediation for Public Offering	✓	✓	
Repurchase and Reverse Repurchase of Securities (Repo-Reverse Repo)	✓	✓	✓
Portfolio Management	✓	✓	
Investment Consultancy	✓	✓	
Margin Trading, Short Selling and Lending and Borrowing of Securities	✓		
Intermediation for Sale and Purchase of Derivative Instruments	✓	✓	✓
Intermediation of Sale and Purchase of Gold and Foreign Currency Contracts*	✓	✓	✓

\*According to the Regulation of The Establishment and Operating Conditions of Precious Metals Exchange Intermediary Institutions and the Regulation of Membership Conditions of Precious Metals Exchange issued by the Undersecretariat of Treasury, the certificate of authorization for intermediation of gold and foreign exchange based futures and option contracts have been assigned to the intermediaries that have been given permission for establishment and operation, and authorized institutions.

The applications to be authorized for the above mentioned activities are investigated by the CMB experts and are submitted to the Executive Board in order to be decided.

The information about applications of intermediary institutions in 2004 is given in the table below.



**TABLE 5.3**

<b>APPLICATIONS OF INTERMEDIARY INSTITUTIONS</b>		
Type of the Application	Number of Applications	Number of Completed Applications
Permission for Operation	53	3
Establishing Field Offices	20	16
Change of the Structure of the Partnership	24	21
Amendments to the Article of Association of the Brokerage Houses	51	51
<b>TOTAL</b>	<b>148</b>	<b>91</b>

#### 5.4.2. Authorization of Collective Investment Schemes

To provide more effective public disclosure and more transparent operation of the collective investment schemes, CMB's permission is required for the following processes.

- Establishment, amendments to the bylaws, changes in the founders or type of fund as well as merger and termination of Mutual Funds.
- For investment trusts and real estate investment trusts, establishment, amendments to the article of association, increases in the registered capital and obtaining portfolio management licenses.
- For portfolio management companies, establishment, obtaining the portfolio management license and the investment consultancy license.

The statistics regarding the applications of the collective investment schemes in 2004 are given in the table below.

TABLE 5.4

APPLICATIONS OF COLLECTIVE INVESTMENT SCHEMES										
	MUTUAL FUNDS*		INVESTMENT TRUSTS**		REAL ESTATE INVESTMENT TRUSTS		PORTFOLIO MANAGEMENT COMPANIES		TOTAL	
Type of Application	Number of Applications	Applications Finalized	Number of Applications	Applications Finalized	Number of Applications	Applications Finalized	Number of Application	Applications Finalized	Number of Applications	Applications Finalized
Establishment		35	5	3	1	-	-	-	43	38
Registration	75	72	20	20	5	4	-	-	100	96
Kind Change	14	14	-	-	-	-	-	-	14	14
Merger	6	6	-	-	-	-	-	-	6	6
Termination	37	-	-	-	-	-	1	-	1	-
Founder Change	-	-	-	-	-	-	-	-	-	-
Capital Increase	-	-	18	18	2	2	2	2	22	22
Registered Capital Increase	-	-	9	9	-	-	-	-	9	9
Portfolio Management License	-	-	-	-	-	-	5***	2	5	2
Investment Consultancy License	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>									<b>200</b>	<b>187</b>
*Pension mutual funds are included. **Venture capital investment trusts are included *** Applications for opening branches and agencies.										

#### 5.4.2. Authorization of Publicly-Held Companies

Both publicly-held companies whose shares are traded on the exchanges and other publicly held companies whose shares are not traded have to get the permission of the CMB with the aims of making the procedures of capital stock increases easier and protecting the shareholders of publicly held companies, for the transactions given below:

- Adopting the registered capital system and increasing the registered capital within that system,
- Mergers, acquisitions and divisions,
- Amendments to the articles of associations,
- Collecting proxies or acquiring shares by tender offers, applications for exemptions from mandatory tender offer obligation,
- Employee stock ownership plans of multinational companies regarding the employees of their subsidiaries located in Turkey,
- Paper imports for printing common stocks,
- Resale of stocks prohibited from trading on the Exchange,
- Registration of the companies with the CMB,
- Deregistration of the companies with the CMB,

In that respect, the figures regarding such applications to the CMB for 2004 are given in the table below.

**TABLE 5.5**

<b>APPLICATIONS OF PUBLICLY-HELD COMPANIES</b>		
<b>Subject</b>	<b>Number of Applications</b>	<b>Realizations</b>
Adopting Registered Capital System and Increasing Registered Capital	45	42
Mergers, Acquisitions and Divisions	10	10
Tender Offers and Requests for Exemption from Mandatory Tender Offer Obligation	23	21
Amendments to the Articles of Association	247	243
Employee Stock Ownership Plans of Multinational Companies	6	6
Registration of Companies	8	6
Deregistration of Companies	34	31
Permissions for Paper Imports	89	89
Registration of the part of the capitals of listed firms that are not yet registered with CMB	107	107
Resale of Stocks Prohibited from Trading On the Exchanges	14	14
<b>Total</b>	<b>583</b>	<b>569</b>

#### 5.4.4. Authorization of Independent Auditing Firms

Independent auditing firms are responsible for,

- examination of the issuers and capital market institutions' financial statements which are disclosed to the public or required by the CMB with respect to the compliance with generally accepted accounting principles, definitions, standards and principle of fairly reflection of the accuracy and reality of information, and,
- preparation of audit reports.

Applications of firms, which demand for operating in independent auditing business in capital markets are examined by the CMB and firms, which acquire the qualifications, are taken to the list of entitlement to provide such service. In 2004, 6 applications for the establishment of independent auditing firms have been considered and in this scope the number of authorized independent auditing firms has reached 83.

#### 5.4.5. Authorization of Rating Agencies

According to Communiqué on Principles in Relation to Ratings and Rating Agencies (Serial VIII, No: 40); rating activities include credit rating and the rating of conformity to corporate governance principles. In this Communiqué a credit rating is defined as an independent, unbiased and fair evaluation and classification of the creditworthiness of corporations and capital market institutions and the default risk as to the timely payment of interest and repayment of principal in accordance with the terms of obligations by the rating agencies, and a rating of conformity to corporate governance principles is defined as an independent, unbiased and fair evaluation and classification of corporations' and capital market institutions' conformity to "Corporate Governance Principles" issued by the Board.

In Turkey only one rating agency (Fitch Ratings Financial Rating Services) is authorized to provide credit rating activities. CMB also recognized Standard and Poor's Corp., Moody's Investor Service Inc. and Fitch Ratings Limited in relation with credit rating activities; and Deminor Ratings S.A. in relation with rating of conformity to corporate governance principles as international rating agencies.

### 5.5. SURVEILLANCE

In order to assure protection of investors, fair, effective and transparent operation of markets as well as to decrease systematic risk, surveillance of capital markets is performed:

- By taking prompt action to correct violations of laws and regulations detected via closely monitoring the publicly held corporations, capital market institutions, risks and transactions,
- By renewing the legislation in the light of enforcement problems and monitoring activities.

In this context, information regarding oversight and surveillance done by CMB throughout 2004 is given in the following sections.

## 5.5.1. Surveillance of Publicly-Held Companies

### 5.5.1.1. Review of Financial Statements

Publicly-held companies whose shares are listed on exchanges are obligated to disclose their quarterly financial statements and submit a copy to the CMB as well, whereas other publicly held companies fulfil this obligation for only annual financial statements. In addition, annual and semi-annual financial statements of companies whose shares are traded on the ISE and annual statements of other publicly-held corporations are subject to independent auditing and independent auditing reports are also disclosed.

In this sense, review of financial statements as of 31.12.2003 and 30.06.2004 for publicly held companies whose shares are traded on the ISE has been completed (financial statements of publicly-held banks and insurance companies are overseen in accordance with the provisions of article 50 of the CML), compliance with the regulations and accounting standards is monitored and in cases where lack of conformity to standards is detected companies are notified and financial statements are corrected. Number of reviews made in this context throughout 2004 is 536.

### 5.5.1.2. Oversight of Disclosure of Material Information

Material information is required to be disclosed to public in cases of significant developments and events that may affect decision-making process of investors and prices of capital market instruments. In this context, corporations and/or issuers of securities shall reveal material information in conformity to principles preset by CMB such as important information regarding their capital structure, fixed assets, operations, financial health and affiliates.

In this scope, the disclosure of material information by publicly-held companies are monitored, penalties for companies that do not fulfil this obligation are determined and the implementation of these penalties are secured. When an unusual price movement of stocks of publicly-held companies is detected, first the case is scrutinized on the basis of whether this price movement stems from the disclosure of a material information or not, then companies that do not or partially disclose information are examined, and finally penalties are given to those companies found faulty. On the other hand, the material information of other publicly-held companies is disclosed on the CMB's Weekly Bulletin.

### 5.5.1.3. Attendance at Shareholders' Meetings

Among oversight activities throughout 2004, in compliance with provisions of article 46/j of CML, capital market experts attended to 2003 annual shareholders' meetings of 73 companies listed on the ISE as observer to state the problems and wrongful acts, and filed the observations made for each shareholders' meeting.

## 5.5.2. Surveillance of Collective Investment Schemes

The periodical tables and reports of the collective investment schemes are monitored continuously and in case of incompliance with the regulations, the necessary measures are taken and the required sanctions are imposed.

A system of the electronic monitoring of mutual funds' and investment trusts' portfolio structures has been developed. In 2001, the necessary technical adjustments have been made to receive the information at the date of transaction (T) which was previously

received at the date of clearing (T+2). With this system, the information submitted to CMB was also analyzed in 2004 and necessary measures were taken in case of incompliance to the regulations.

### 5.5.3. Surveillance of Intermediary Institutions

#### 5.5.3.1. Surveillance of Financial Structure

According to the Communiqué on Principles Regarding The Capital of Brokerage Houses and Capital Adequacy, brokerage houses are required to submit the capital adequacy statements and the data of their activities every 15 days to the CMB. For the surveillance of the brokerage houses' financial structures, the mentioned statements have been examined throughout the year 2004 and the necessary warnings have been made and actions have been taken for the purpose of ensuring capital adequacy requirements. Owing to these surveillance activities, brokerage houses have been ensured to have a strong capital structure by arranging their asset structures.

#### 5.5.3.1 Monitoring

The fulfilment of the requirements which are stated in the relevant Communiqués for the partners and the employees of brokerage houses are monitored by the TSPAKB.

Changes in organization, location, technical equipment, accounting and record-keeping system of the brokerage houses and their field offices are reviewed by the Board.

Throughout the year 2004, on-site examinations were conducted at 65 intermediary institutions' head offices in accordance with surveillance and monitoring activities.

### 5.5.4. Surveillance of Independent Auditing Firms

Independent auditing firms are examined by the CMB on qualifications of personnel, conditions for establishment, principles of operations and auditing contracts, in line with capital market regulations. Besides in order to enhance working efficiency of auditing sector, within the framework of complaints about independent auditing firms, auditing activities are overseen by the CMB in the place of the auditing firms.

### 5.5.5. Surveillance of Rating Firms

Rating firms are examined by the CMB on qualifications of personnel, organization, conditions for establishment, principles of operations and rating contracts, in line with capital market regulations.

### 5.5.6. Market Surveillance

In order to determine whether abnormal movements in price and transactions stem from natural dynamics of the market, movements in price and trade volume are monitored by evaluating and comparing them in terms of orders, transactions, members, relevant indices and historical data. In case the results of such monitoring actions reveal that the movements in price and transactions do not derive from the natural dynamics of the market, then a more detailed examination and inquiry is conducted. In that context, price and volume fluctuations in 90 shares have been analysed in 2004.

In order to perform these tasks on an on-line and real time basis which currently are done by limited facilities, the collaboration with the ISE for the development of a joint surveillance system which is envisaged to be concluded in 2005, continues so that by means of this project, the efficiency of current surveillance system is expected to be improved substantially.

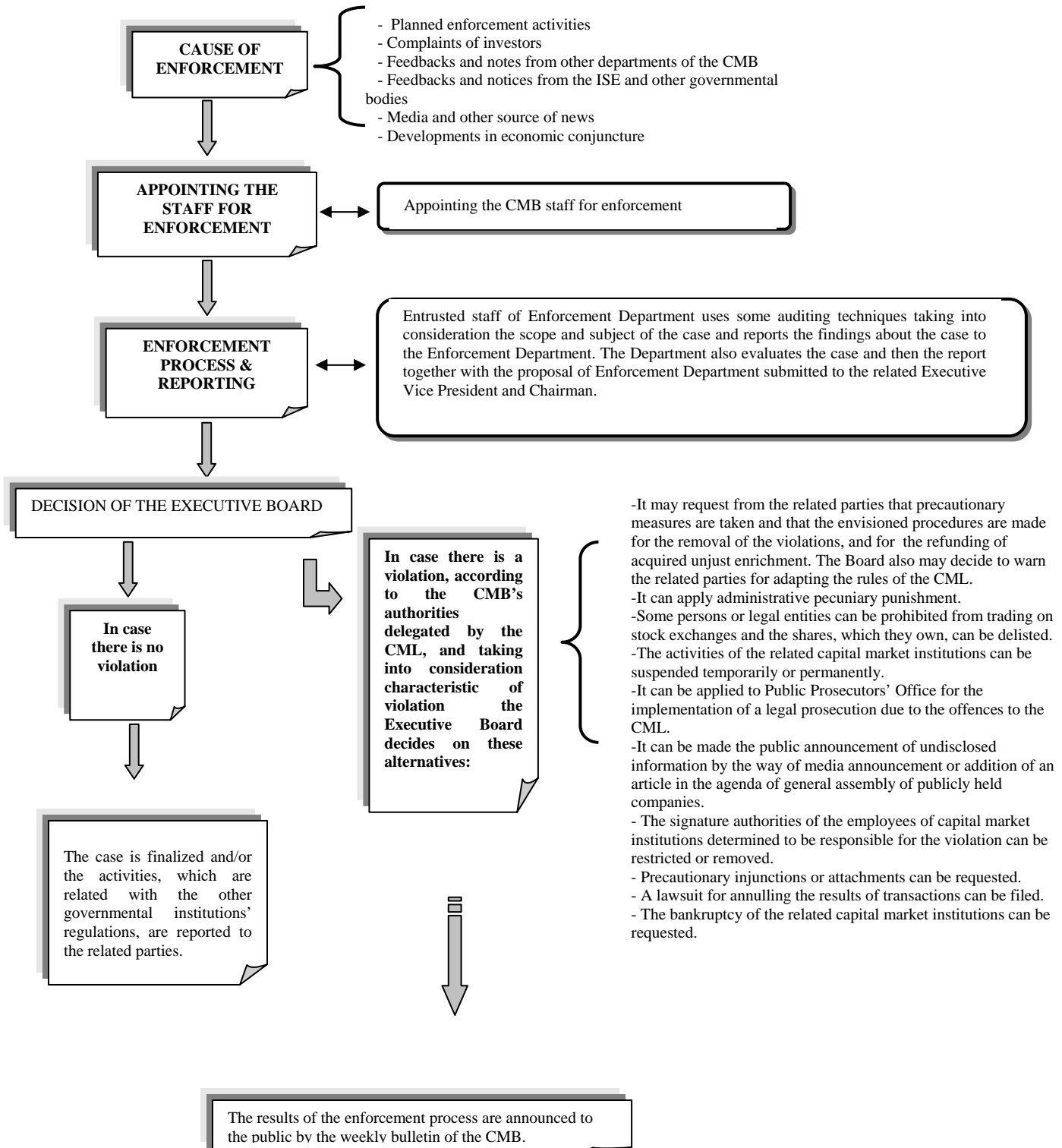
## **5.6. ENFORCEMENT**

The objectives of the CMB's enforcement are to prevent violations, corruptions and other unlawful practices causing disadvantages for the interest of market participants and for the efficiency, integrity and reliability of capital markets and to apply the provisions of CML.

All practices, impairing the efficiency, fairness and confidentiality of capital markets, have been subjected to close scrutiny and the CMB has enforced the CML without any concession. In the enforcement process, not only are instructive and constructive methods of approach applied, but also in case a violation of any regulation was determined, it has been reported to related governmental organizations immediately.

The CMB's enforcement process begins with the determination of a possible violation and the Chairman of the CMB appoints experts or assistant experts to examine the case in hand. Experts may make remote examination or prefer to make an investigation on the spot. Findings are reported to the Executive Board to give a verdict on whether the case involves any violation of legislation. In case the Executive Board reaches such a verdict, prompt action is taken under the provisions of CML. The CMB's auditing process is shown below as a diagram:

## ENFORCEMENT PROCESS





In 2004, 3,904 particular documents are registered by the Enforcement Department. 2,416 of these documents are related with some complaints and denouncements from outside and 1,488 of them are related with feedbacks and notes from the other departments of the CMB.

On the other hand, Enforcement Department sent totally 1,959 paper to the other departments of CMB, investors, capital market institutions, and governmental organizations in 2004. 102 of these papers are related with the warnings of CMB for related parties about the results of Department's enforcement activities; 266 of them are the responses for the request of information, 299 of them are the request of information and 1,292 of them are the information about the results of enforcement activities.

189 reports and 178 proposals of enforcement results submitted to the Executive Board in the year of 2004. The distribution of the proposals and reports by subject are classified in Table 5.6 below.

**TABLE 5.6**

<b>SUBJECTS OF ENFORCEMENT ACTIVITIES</b>				
	Reports	Proposals	TOTAL	%
Brokerage Houses	20	57	77	21.0
Unlicensed Capital Markets Activities	7	4	11	3.0
Publicly Held Companies	33	48	81	22.1
Unregistered Public Offerings	1	4	5	1.4
Insider Trading	3	0	3	0.8
Manipulation	106	31	137	37.3
Independent Auditing Firms	5	0	5	1.4
Capital Market Institutions	6	5	11	3.0
Other (Administrative Pecuniary Punishments, Short Sales etc.)	8	29	37	10.1
<b>TOTAL</b>	<b>189</b>	<b>178</b>	<b>367</b>	<b>100.0</b>

The main part of enforcement activity consists of market manipulation cases, which started heavily on the denouncements of the ISE. And also, the other sources of information and the findings of the supervision by the CMB may cause to start an enforcement process about market manipulation cases. Information about market manipulation cases, which started with the ISE denouncements, is given in Table 5.7 below.

**TABLE 5.7**

<b>THE DENUNCIATIONS OF THE ISE ABOUT MANIPULATION CASES</b>	
The number of cases continued from 2003	182
The number of cases denounced from the ISE in 2004	68
<b>TOTAL</b>	<b>250</b>
The number of cases concluded in 2004	95
The number of cases transferred to 2005	155

Due to rapidity and efficiency, one of the important sanctions about market manipulation is to prohibit the perpetrators of the market manipulation cases from trading on the stock exchanges and to remove their stocks from the CMB registration.

In 2004, as a result of enforcement activities, 226 persons or legal entities were prohibited from trading on stock exchanges of which 71 had been prohibited before. At the end of 2004, the number of prohibited natural persons or legal entities reached 399.

In 2004, in addition to the above-mentioned sanctions, in 66 cases the Executive Board decided to apply Public Prosecutors' Office to implement a legal prosecution for the violation of various provisions of the CML against related legal entities and/or persons, and in 20 cases it was decided to write legal warning to the legal entities or persons to the adaptation for the CML.

One of the most important administrative sanctions is the administrative pecuniary punishment. In 2004, for 11 persons and 21 legal entities administrative pecuniary punishment was applied by the CMB. Violations of regulations regarding intermediary activities, the public disclosure and the standards and principles of financial statements are the major causes of the administrative pecuniary punishments.

One other task of Enforcement Department staff is to investigate some cases on behalf of Financial Crimes Investigation Board (FCIB). In 2004, the FCIB demanded 8 new investigations from the CMB. Also, 19 investigations were resulted and reported to the FCIB. At the end of 2004, the information about the investigations on behalf of the FCIB is given in Table 5.8 below.

**TABLE 5.8**

<b>THE ENFORCEMENT ACTIVITIES ON BEHALF OF THE FCIB</b>	
The number of cases continued from 2003	17
The number of cases demanded in 2004	8
<b>TOTAL</b>	<b>25</b>
The number of cases concluded in 2004	19
The number of cases transferred to 2005	6

## **5.7. ACCOUNTING AND AUDITING STANDARDS**

### **5.7.1. International Financial Reporting Standards**

Communiqué on Principles in Relation to Accounting Standards in Capital Markets which is compatible with IFRS will be effective for all domestically listed companies, brokerage firms, portfolio management companies and their subsidiaries, associates, joint ventures (which are not excluded from consolidation) by the year 2005. Balance sheet, income statement, cash flow statement and statement of changes in equity should be prepared according to this Communiqué. However, banks and insurance firms are subject to the provisions of their special laws with respect to accounting standards.

This Communiqué is applied for the first interim financial statements after 01.01.2005. But it can also be applied for financial statements dated 31.12.2003 or following

annual or interim financial statements. Besides, companies that prepare and present financial statements in accordance with IFRS, are accepted as they are conformed with this Communiqué.

Another task in the field of accounting standards is the performing of the secretarial activities of the Turkish Accounting Standards Board (TASB), which is established with respect to the CML in order to determine and issue national accounting standards compatible with international regulations. The TASB is currently affiliated to the Ministry of Finance. Its aim is to provide development and adoption of national accounting principles, so that financial statements will be relevant, reliable, comparable and understandable.

### 5.7.2. Independent Auditing Standards

Due to the accounting scandals breaking out in the international financial markets most investors suffered from great losses, and the efficiency of disclosure requirements and independent auditing has become questionable.

The CMB, which is given the authority of determining the rules and principles about independent auditing with respect to the CML, uses this power in making of various regulations in order to guide the application in a correct and efficient way.

In the year 2004, all of the regulations were reviewed from the point of the development of efficient independent auditing, and harmonization of the regulations with internationally accepted principles.

## 5.8. CASES, WRITTEN APPLICATIONS TO THE PUBLIC PROSECUTORS AND ADMINISTRATIVE MEASURES

In the article 49 of the CML, the implementation of a legal prosecution due to the offences identified in Article 47 of the CML is conditional upon the written application to be submitted to the Public Prosecutor's Office by the Board.

Also in the same article, it has been regulated that, Public Prosecutors who have been informed that the provisions of CML have been violated may request an investigation by informing the Board. By this legal prosecution system, violation of the CML has not been considered enough for the prosecution but the application of the CMB as the supervisory and regulatory authority has been regulated as a preliminary condition for prosecution.

After evaluating the findings which arise from Board's own investigation and audit within the concept of the integrity of the event, balance of interests, general meaning of the Law and public interest, the Board applies to the Prosecutor. This system, unique to the laws with technical issues such as the Banking Law, provides a system that on one hand the Board is entitled to consider cases in a public interest oriented way, on the other hand judging process would be faster and more efficient by bringing the well examined and reported cases before the Public Prosecutors and thus by not occupying the Courts with unnecessary cases. In this framework, the commencement of a legal prosecution due to the offences identified in Article 47 of the CML is conditional upon the written application to be submitted to the Public Prosecutor's Office by the Board. Besides, Public Prosecutors who have been informed in any wise may request an investigation by informing the Board.

In the crimes committed in financial markets, usually there has been more than one connected actions that violate the Law. However, investigations for the actions identified in article 47 of the CML, have been carried on as mentioned above, and the offences which also violate the Turkish Penal Code and other laws, has been investigated according to the general rules or the provisions of the related specific laws.

On the other side, actions of annulment against administrative acts of the Board and full remedy actions with the allegation of damages caused by these kinds of acts or actions have been brought to courts. Furthermore, several compensation cases have been brought against the Board before the civil courts. In order to protect the rights of investors, the Board has filed declaratory actions and implemented declaratory decisions.

According to the Article 46/I-(i) of the CML, the Board takes necessary measures to ensure the prevention of natural or legal persons that are determined by the Board to have directly or indirectly participated in acts enumerated in the provisions of subparagraph A of Article 47 of the CML from engaging temporarily or permanently in transactions on exchanges and other organized markets.

With the aim of ensuring the security and stability in the securities markets, pecuniary punishments have been imposed by the Board, concerning natural and legal persons who are determined to have acted in violation of the regulations, standards and forms or general and particular decisions made by the Board based on the CML.

#### 5.8.1. Cases Against the Acts of The Board

##### 5.8.1.1 Administrative Cases

As of the end of 2004, information about actions which have been commenced with the request of stay order and/or annulment or full remedy actions in last 3 years, have been given in the table below.

**TABLE 5.9**

**ADMINISTRATIVE CASES AGAINST THE BOARD ACTS IN LAST 3 YEARS  
(ACCORDING TO THE TOPICS)**

Year	Number of Cases	Administrative Pecuniary Punishment	Transaction Prohibition	Imar Bank (full remedy actions)	The Others	Number of Adjudicated Cases	Number of Pending Cases
2002	282	57	150	0	75	157	125
2003	760	84	47	303	326	8	752
2004	12.455	42	54	12.170	189	40	12.415
<b>TOTAL</b>	<b>13.497</b>	<b>183</b>	<b>251</b>	<b>12.473</b>	<b>590</b>	<b>205</b>	<b>13.292</b>

##### 5.8.1.2 Civil Cases

As of the end of 2004, information about cases commenced in the civil and commercial courts against the non-administrative actions and acts of the Board in last 3 years, have been given in the table below.

**TABLE 5.10**

<b>CIVIL CASES AGAINST THE BOARD IN LAST 3 YEARS</b>			
Year	Number of Cases	Number of Pending Cases	Number of Adjudicated Cases
2002	1	0	1
2003	4	2	2
2004	30	16	14
<b>TOTAL</b>	<b>35</b>	<b>18</b>	<b>17</b>

## 5.8.2. Cases Commenced By The Board

### 5.8.2.1 Penal Actions/Written Applications To The Public Prosecutor

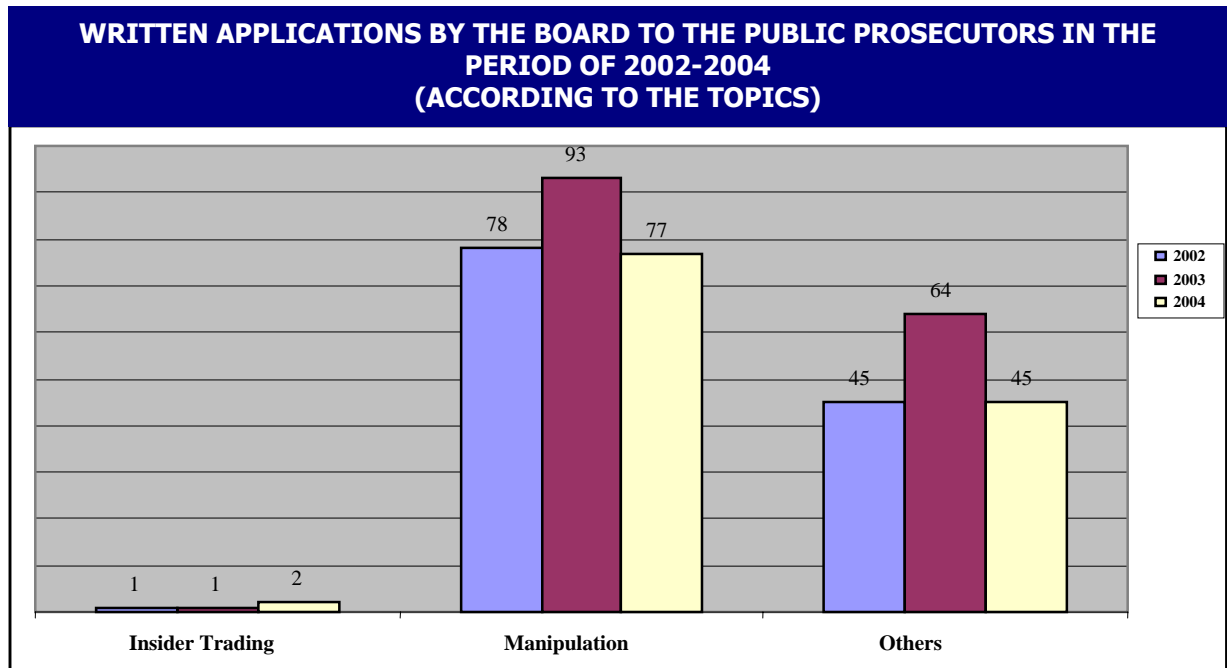
Following examination and auditing of the relevant departments of the Board, with the decision of the Decision Making Body of the Board, the number of applications which has been made to the Public Prosecutors by the Board, in the framework of the Article 49 of the CML and Article 235 of The Turkish Penal Code, against the real and legal persons determined to have acted in violation of the regulations in 2004 is 124.

As of the end of 2004, information about the written applications to the Public Prosecutor and the cases commenced upon these written applications in which the Board has participated in as an intervener in last 3 years have been given in the table below.<sup>3</sup>

**TABLE 5.11**

<b>THE WRITTEN APPLICATIONS BY THE BOARD TO THE PUBLIC PROSECUTOR AND THE CASES WHICH HAVE BEEN COMMENCED UPON THESE WRITTEN APPLICATIONS IN LAST 3 YEARS</b>							
Year	Number of Written Applications	According to the Topics			According to the Judging Stage		
		Insider Trading	Manipulation	Others	Investigation by the Public Prosecutor	Pending Cases	Adjudicated Cases
2002	124	1	78	45	41	40	43
2003	158	1	93	64	67	84	7
2004	124	2	77	45	78	46	0
<b>TOTAL</b>	<b>406</b>	<b>4</b>	<b>248</b>	<b>154</b>	<b>186</b>	<b>170</b>	<b>50</b>

<sup>3</sup> For further information see: <http://www.spk.gov.tr>

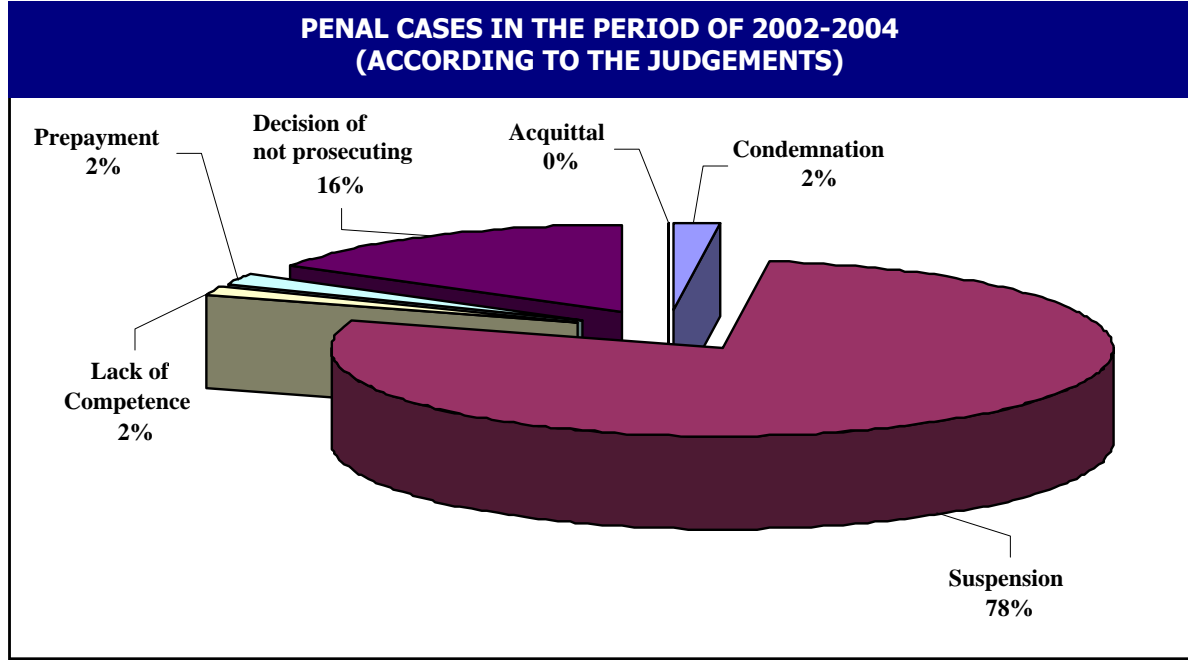
**GRAPH 5.1**

As of the end of 2004, information about the cases which have been commenced as a result of the written applications of the Board to the Public Prosecutor and the ones that have been adjudicated, have been given in the table below.

**TABLE 5.12**

THE CASES WHICH HAS BEEN COMMENCED AS A RESULT OF THE WRITTEN APPLICATIONS OF THE BOARD TO THE PUBLIC PROSECUTOR AND HAS BEEN ADJUDICATED							
Year	Adjudicated	Condemnation	Suspension	Lack of Competence	Prepayment	Decision of not prosecuting	Acquittal
2002	43	0	38	1	0	4	0
2003	7	1	1	0	1	4	0
2004	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>50</b>	<b>1</b>	<b>39</b>	<b>1</b>	<b>1</b>	<b>8</b>	<b>0</b>

Suspension: The sentences which have been given according to the Law No.4616 about suspension.  
Lack of competence: The sentences which the courts send the court files to the Board because of the amendment that converts the sanction of the offence in the article 47/B-5 into an administrative pecuniary punishment.

**GRAPH 5.2****TABLE 5.13**

**THE WRITTEN APPLICATIONS BY THE BOARD TO THE PUBLIC PROSECUTOR AND  
THE CASES WHICH HAVE BEEN COMMENCED UPON THESE WRITTEN APPLICATIONS IN LAST 3 YEARS  
(ACCORDING TO THE JUDGING STATE AS OF THE END OF 2004)**

Years	Number of Written Applications			
		Investigation by the Public Prosecutor	Pending Cases	Adjudicated Cases
2002	124	4	52	68
2003	158	15	123	20
2004	124	60	61	3
<b>TOPLAM</b>	<b>406</b>	<b>79</b>	<b>236</b>	<b>91</b>

**ADJUDICATED CASES**

Year of Written Applications	Adjudicated	Condemnation	Suspension	Prescription of the Offence	Lack of Competence	Prepayment	Decision of not prosecuting	Acquittal (*)
2002	68	4	6	41	1	4	5	7
2003	20	4	1	1	1	1	6	6
2004	3	1	0	0	0	1	0	1
<b>TOPLAM</b>	<b>91</b>	<b>9</b>	<b>7</b>	<b>42</b>	<b>2</b>	<b>6</b>	<b>11</b>	<b>14</b>

(\*) The Board has appealed to the Supreme Court against acquittal decisions.

### 5.8.2.2 Civil Cases

As of the end of 2004, information about declaratory actions, actions in personam and etc. which have been commenced in the civil and commercial courts in last 3 years have been given in the table below.

**TABLE 5.14**

<b>THE CIVIL CASES COMMENCED BY THE BOARD IN LAST 3 YEARS</b>			
Year	Number of Cases	Number of Pending Cases	Number of Adjudicated Cases
2002	12	10	2
2003	12	6	6
2004	22	11	11
<b>TOTAL</b>	<b>46</b>	<b>27</b>	<b>19</b>

### 5.8.2.3 Bankruptcy Cases

Although it has a character of civil case, as it shows procedural differences, the cases that have been commenced with the request of bankruptcy of corporations or intermediary institutions have been preferred to be given under a separate title. The information about these cases as of the end of 2004 have been given in the table below.

**TABLE 5.15**

<b>THE BANKRUPTCY CASES COMMENCED BY THE BOARD IN LAST 3 YEARS</b>			
Year	Number of Cases	Number of Pending Cases	Adjudication of Bankruptcy
2002	0	0	0
2003	0	0	0
2004	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 5.9. ACTIVITIES FOR HARMONISATION OF LEGISLATION WITH THE EU ACQUIS

After the publication of Accession Partnership drawn up by the EU Commission in 2003, Turkish National Programme which states our country's commitments was published in July 2003. The CMB's responsibilities for the adoption of the acquis have been set out in freedom to provide services, free movement of capital and company law sections of the National Programme.

Within this context, the harmonisation of the legislation parallel with the commitments for 2004 in the National Programme was completed and cooperation with other institutions regarding the EU activities has been continued. A project proposal to benefit from the EU assistance was prepared and the project was approved by the EU Commission. Relationships with the competent authorities being responsible for the capital markets of EU



member states and candidate countries and Committee of European Securities Regulators were also enhanced in 2004.

#### 5.9.1. Coordination with Other Institutions

- In Brussels, participated in the meeting of Economic and Monetary Issues, Capital Movement and Statistics Sub- Committee established by the Turkey-EU Association Council to exchange information between Turkey and the EU; the developments in the capital markets and activities of the collective investment schemes were presented in July 2004.
- Participated to the works on the preparation of Turkey's Contribution to 2004 Regular Report for Turkey and transmitted comments and explanations regarding the subjects under the CMB's responsibility in Regular Report 2004 to the Secretariat General for EU Affairs to be sent to the Commission.
- Participated in the preparation of Pre-Accession Economic Programme, a section of the text regarding the CMB's responsibility was prepared.
- Participated in the meeting of "Enhanced Economic Dialog" in September 2004.
- Continued to participate in the works on liberalization of services between Turkey and the EU. Participated the negotiations carried out by Ministry of Foreign Affairs regarding the liberalization of services and public procurement between Turkey and the EU within the perspective of financial services on behalf of the Board.
- Participated actively meetings on the subject of "auditing and accounting" which were held in March 2004 in Rome/Italy and in November 2004 in Ankara organized within the "Euro-Med Market" project, commenced in 2003 which is coordinated by Secretariat General for EU Affairs with the goal of strengthening Europe-Mediterranean market and supporting Mediterranean countries.
- Contributed to the preparation of European Charter for Small Enterprises 2004 Turkey Report.
- Participated actively in the meetings on the subjects of capital movements in September 2004, company law in November 2004 and freedom to provide services in December 2004 within the framework of Europa Bridges of Knowledge Programme jointly organized by Secretariat General for EU Affairs and Economic Development Foundation.
- A conference was organized to determine a road map for the capital markets during the EU accession process with the participation of all market participants.
- Contributed to the translation of the EU legislation into Turkish, with the coordination of the Secretariat General for EU Affairs.
- Prepared 6 EU Bulletin in order to inform the Board about the developments regarding legislation in securities and financial services field in the EU in 2004.

#### 5.9.2. Activities to Benefit From the EU Assistance

- Technical assistance was provided on safekeeping process of securities (13-14 October 2004) regarding the EU legislation and member state implementation by Technical Assistance Information Exchange Office of EU Commission providing

technical assistance to the candidate countries for the adoption of the EU legislation and strengthening administrative capacity. Furthermore, it is expected that the technical assistance will be provided in the forthcoming period by TAIEX regarding capital adequacy (workshop), market abuse (workshop), UCITS (workshop), public offering (workshop), cross border securities transactions (workshop), financial future and option markets (study visit), financial reporting and accounting standards (study visit) which were approved by the EU Commission.

- With the aim of receiving assistance to harmonize capital markets with the EU legislation and practices, a project proposal was prepared within the context of the Programming of EU Pre-accession Financial Assistance for 2004,. During the preparation of the proposal;
  - Technical assistance has been provided by EU funds, three consultants worked with the CMB in February-April 2004.
  - Gap analysis and an action plan were prepared by the consultants.
  - A workshop was held on 25.03.2004 with the participation of all related institutions and after the workshop gap analysis, action plan and proposal were completed.
  - Prepared project fiche "Assisting the Capital Markets Board of Turkey (CMB) to Comply Fully with European Union Capital Markets Standards" was submitted to the EU Commission together with the other proposals in April 2004 by Ministry of Foreign Affairs and the project was approved by the EU Commission.
- CMB will be matched with a securities regulatory authority of an EU member state in the forthcoming period and the legislation in parallel with the EU legislation will be prepared with the experts of the twinning partner within the two years period. During the same period, technical assistance will be provided by foreign experts to determine necessary IT infrastructure for the implementation of Turkish capital market legislation which is in harmony with the EU legislation.

### 5.9.3. Activities for Harmonisation of the Legislation

In 2004 Regular Report published by the EU on 6 October 2004, it was stated that progress made in capital markets regarding harmonisation of Turkish legislation with the EU legislation and the international standards was an improvement.

Requirements for the price stabilization for financial instruments harmonised with the EU legislation in the Communiqué on Principles Regarding Registration with the Capital Markets Board and Sales of Shares, the extension of the period for keeping of documents related to financial transactions to 5 years, regarding the transparency requirements publishing of the communiqué in compliance with international financial reporting standards, requirements regarding the material events, exemptions and amendments regarding the registration of securities were specified as improvements on the harmonisation efforts.

On the other hand, it was emphasized that Turkey has more conservative legislation than the EU regarding the capital adequacy requirements for investment firms and credit institutions; furthermore, failing to cover losses from instruments other than equities by the investor compensation scheme, necessity of some efforts to align the rules on the public offerings with the EU standards, lack of forward-looking statements in prospectuses,

regulations related to the collective investment undertakings, regulations regarding insider trading and market manipulation and allowing banks established in Turkey to only engage in equity trading at the stock exchange through their subsidiaries were listed as main disharmony issues and it was stated that more alignment needed on these issues.

- Parallel with the National Program with the purpose of harmonisation with the EU acquis various communiqués were amended in June 2004;
  - During the public offering of the participation shares, if the issues disclosed to the public change, what should be done and how the announcements and advertisements will be done were regulated.
  - Appropriate exemptions in respect of our market structure and practice regarding publishing the prospectuses were regulated by communiqué.
  - Regulations regarding the material events were reviewed and definition of controlled undertaking and the determination of voting rights or capital portion of natural and legal persons supposed to act in concurrence have been introduced. When the rights of shares are changed for which bonds' holders have right to convert their bonds, the public disclosure is required in line with the relevant EU directive.
  - With the amendments on several securities' communiqués, in the public offering of corporate bonds, profit and loss sharing certificates, asset backed securities, commercial papers, participation shares, gold, silver, platinum bonds, it was required that payments made by using intermediary institutions.
  - Taking into consideration of the EU regulations, contents of the prospectuses which are used in public offerings were enhanced.
- Furthermore, within the framework of strengthening institutional capacity in the National Program;
  - Implementing Regulation of the Futures and Options Exchange was published in March 2004. The implementing regulation contains provisions regarding trading of future and option contracts on the Exchange, membership, clearing and settlement, guarantee fund, organisational structure, matters of dispute, sanctions, personnel rights and responsibilities.
  - Communiqué on Dematerialized Capital Market Instruments was amended in July 2004 and the flexible membership enabling different members to participate in the system was introduced to provide efficient surveillance on the dematerialization system. The facility of using temporarily or permanently technical facilities of the other members was envisaged and some technical details of accounts and transfers were clarified to ensure efficient monitoring and controlling of dematerialized capital market instruments.
- Monitoring forms were updated periodically in the National Data Base compiled by the Secretariat General for EU Affairs to transmit information regarding the harmonisation of legislation to the EU Commission.
- Within the framework of our commitments in the National Program, amendments and new regulations were notified monthly to the Secretariat General for EU Affairs.

#### 5.9.4. Consultative Group and Committee of European Securities Regulators

- The meeting of the Consultative Group that was established by the competent authorities for supervising capital markets of the candidate countries of the EU to exchange information and to cooperate in the implementation of the EU legislation and directives, and of which CMB became a member in September 27 2002 was hosted on February 13-14, 2004 in Istanbul by the CMB. 7 representatives of the securities regulators participated as a permanent or as an observer member, and current and future activities of the Consultative Group were discussed in the meeting. Mr. Doğan Cansızlar, chairman of CMB, was elected as the chairman of the Group in the meeting held on May 18, 2004. The Group also met on December 3, 2004. Representative of Committee of European Securities Regulators (CESR) also participated in this meeting and gave information regarding the works on settlement systems carried out in the EU and CESR.
- In order to enhance the cooperation with the CESR, members of which are the regulatory authorities of the EU and European Economic Area, Mr. Doğan Cansızlar, Chairman of CMB, as a chairman of the Consultative Group met with the chairman of CESR in September 2004. A representative of CESR attended the following Consultative Group meeting which was held in December 2004, thereby the efforts for enhancing cooperation were supported.

### 5.10. INTERNATIONAL RELATIONS

As globalization has dramatically increased cross border capital flows and financial transactions, international affairs have been of great importance. In this context, part of the CMB's activities is establishing more stable and orderly functioning capital markets by benefiting from international practices and experiences as well as enhancing cooperation with other regulatory authorities.

The CMB has attached great significance to multilateral and bilateral relations internationally, and as a member of the International Organization of Securities Commissions (IOSCO), the CMB has had close relations with IOSCO. On the other hand, in parallel with the globalization trend, the CMB has been carrying out negotiations in order to sign memoranda of understanding on cooperation and the exchange of information with foreign capital market authorities.

#### 5.10.1. International Organization of Securities Commissions

IOSCO is an organization assembling the regulatory/supervisory authorities in securities markets to create common standards in the regulation and supervision of global capital markets through international cooperation and information sharing.

The CMB became member of IOSCO in 1988, since then it has been participating in IOSCO operations. In that regard, the CMB has been actively participating in the work of the committees and working groups listed below and has been contributing to the constitution of policies in line with the realization of IOSCO goals and objectives.

- Presidents' Committee
- Emerging Markets Committee (EMC)

- European Regional Committee (ERC)
- EMC Working Groups
- EMC Advisory Board
- Implementation Committee
- Screening Group
- Islamic Capital Markets Task Force

On the other hand, the Chairman of the CMB Dr. Doğan CANSIZLAR has been the Chairman of the EMC since the 27th IOSCO Annual Conference held in Istanbul in May 2002. Chairman Dr. CANSIZLAR has been re-elected as Chairman by the EMC for a second two year term during the 29<sup>th</sup> IOSCO Annual Conference held in Amman in May 2004. In order to carry out the activities connected with the Chair of Emerging Markets Committee more efficiently, a Group, which is responsible for the relations with IOSCO was established in June 2002 within the CMB. The main duties of the Group include;

- Coordinating the cooperation and relations with the IOSCO committees/working groups and the IOSCO General Secretariat;
- Coordinating the CMB's involvement in IOSCO related projects;
- Submitting comments on the work of the CMB with respect to compliance with the IOSCO principles; and
- Keeping the CMB professional staff informed of the projects carried out within IOSCO.

In that context, the activities that the CMB took part in 2004 are summarized below.

#### 5.10.1.1 The Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation

IOSCO Objectives and Principles of Securities Regulation (Principles) have been approved by the IOSCO Presidents' Committee in 1998. Accordingly the objectives of securities regulation are set out as follows;

- The protection of investors
- Ensuring that markets are fair, efficient and transparent;
- The reduction of systemic risk.

The 30 principles that are recommended to be followed by securities regulators are organized under the 9 main headings listed below:

- Principles Relating to the Regulator
- Principles for Self-Regulation
- Principles for the Enforcement of Securities Regulation

- Principles for Cooperation in Regulation
- Principles for Issuers
- Collective Investment Schemes
- Market Intermediaries
- Secondary Markets
- Clearing and Settlement

The Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation (Assessment Methodology) that was drawn up by the Implementation Committee with the objective of enabling securities regulators to assess the level of implementation of the Principles in their respective jurisdictions, was approved by the Presidents' Committee during the 28<sup>th</sup> IOSCO Annual Conference held in Seoul in October 2003. For each principle the Assessment Methodology contains;

- Key issues,
- Key questions,
- Benchmarks,
- Explanatory notes,

The level of implementation of the Principles in the related jurisdiction is determined by applying the benchmarks to the responses provided to the key questions.

In late 2003, IOSCO has initiated a technical assistance program for the application of the Assessment Methodology. The CMB has participated in the pilot phase of that program. In the context of the program, firstly responses to the key questions in the Assessment Methodology were prepared with the contributions of all the related departments within the CMB. These responses and the related laws, rules and regulations were then forwarded to the IOSCO experts appointed to work with the CMB in the pilot program. The IOSCO experts then notified the CMB on the issues which required further explanation. Following that a 3 day on-site visit to the CMB was organized for a discussion of all the information provided by the CMB within the context of the program. The IOSCO experts have notified the CMB on their comments the issues that were not in compliance with the Principles and the issues that required further information. Accordingly, The Assessment Methodology Report and the Action Plan which shall contain the necessary amendments in the laws, rules and regulations as well as practices and the timing related thereto will be finalized in the first half of 2005.

#### 5.10.1.2 Emerging Markets Committee (EMC)

In 2004, the principal activity of the EMC has been identifying and meeting the needs of EMC members for training and education. As a result of a proposal by the CMB as the EMC Chair, the organization of regional training seminars designed to meet specified training needs, each year by volunteer EMC members was decided upon, during the 28<sup>th</sup> IOSCO Annual Conference held in Seoul in October 2003. In that context, 4 regional training seminars were organized in 2004 in the Europe, Asia-Pacific, Inter-America and Africa-Middle East regions. The CMB has also hosted a training seminar on "Market Abuse" for the

European region. Information concerning the EMC Regional Training Seminars organized in 2004 are listed below.

**TABLE 5.16**

<b>THE EMC REGIONAL SEMINARS ORGANIZED IN 2004</b>		
Theme	Date	Host
The Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation	April 2004	India
Market Abuse: How Do Both Sides of the Atlantic Do?	April 2004	Turkey
The Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation and the IOSCO Multilateral MOU	June 2004	Ecuador
The Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation	December 2004	Bahrain

At the “Market Abuse” seminar hosted by the CMB in Istanbul in April 2004, representatives from the US SEC, UK FSA, Capital Markets Commission of Greece, Autorité des Marchés Financiers of France and the Chairman of EMC Working Group 4 provided presentations on the regulations in the European Union and the USA, concerning the prevention of fraudulent activities such as market manipulation, insider trading and on the IOSCO Multilateral MOU. 26 representatives from a total of 18 jurisdictions have attended the seminar.

Apart from this, representatives of the CMB have attended several training programs organized abroad. Furthermore, a representative from the IOSCO Group has participated in the Seminar Training Program organized by the IOSCO General Secretariat concerning the Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation in Madrid between 15 – 19 November 2004, as a speaker in order to share the experiences related to the technical assistance program.

Apart from activities related with training, the working groups within the EMC have continued their activities in line with the Action Plan that was adopted in 2003 with the objective of improving the effectiveness and efficiency of the activities thereof. The CMB has participated actively in all of the projects carried out by these working groups.

The CMB has also participated in the Executive Committee, which takes the decisions relevant for the realization of IOSCO objectives and submits them to the Presidents’ Committee for approval. Furthermore, as EMC Chair, the CMB has participated as an observer in the meetings of the Technical Committee, which is comprised of the regulatory authorities from jurisdictions with developed securities markets in terms of volume and structure.

#### 5.10.1.3 Other Working Groups

Other working groups in which the CMB has participated in 2004 are listed below:

**IOSCO Multilateral MOU Screening Group:** The IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information (MMOU) has been approved during the 27th IOSCO Annual Conference held in Istanbul in May 2002. The Screening Group was established to assess the applications of regulatory authorities that wish to become signatories to the MMOU. In that context the CMB has been a member of the Screening Group since its establishment and has been contributing to the



assessment and finalization of the applications of IOSCO member institutions to become signatories to the MMOU. The final decisions concerning the applications are made upon the recommendation of the Screening Group, by the Committee of Chairs comprised of the Chairmen of the Executive, Technical and Emerging Market Committees. As the Chairman of the EMC the Chairman of the CMB, Dr. Doğan CANSIZLAR also participates in the Committee of Chairs. Furthermore the CMB has become a signatory to the MMOU in the year 2002, the total number of signatories to the MMOU stands at 26 as of the end of 2004.

**Implementation Committee:** It was created in 1999 with the objectives of development of implementation and assessment methodologies for the IOSCO Objectives and Principles of Securities Regulation and exploring the mechanisms of cooperation with international financial institutions (in particular International Monetary Fund and World Bank) in their use of the Principles. The Assessment Methodology prepared by the Committee in order to enable IOSCO member jurisdictions to assess the degree of compliance of their securities regulations with the Principles, has been approved during the 28th IOSCO Annual Conference held in October 2003 in Seoul. Following the approval of the Assessment Methodology, the pilot phase of the technical assistance program, as explained in further detail above was initiated. Moreover in order to facilitate the use of the Assessment Methodology, the Implementation Committee has developed in the year 2004 an electronic version of the Assessment Methodology (e-methodology), which provides easy access to all related information and documents and enables the achievement of clear results from the implementation of the Assessment Methodology. The e-methodology was approved during the 29<sup>th</sup> IOSCO Annual Conference held in Amman in May 2004. The Implementation Committee has also been working on the translation of the Assessment Methodology into other languages and the preparation of a “frequently asked questions” document in order to assist the organizations that will apply the Assessment Methodology. The CMB has been contributing to these projects as well.

**Task Force on Islamic Capital Markets:** It was created in 2002 to examine the developments regarding Islamic capital markets in IOSCO member countries and to identify any regulatory gaps and issues. The CMB has participated in the work of the Task Force concerning the circulation of a survey and the preparation of a related report. The report prepared by the Task Force has been published at the IOSCO Internet web site following its approval by the Executive Committee in May 2004.

#### 5.10.1.4 Financial Stability Forum (FSF)

The Forum was convened in April 1999 by the Finance Ministers and Central Bank Governors of G7 countries to promote international financial stability, improve the functioning of markets, and reduce systemic risk. It brings together representatives of national authorities such as central banks, departments of treasury and regulators from 11 countries<sup>4</sup>, international financial institutions<sup>5</sup>, international groupings of regulators and supervisors<sup>6</sup>, committees of central bank experts<sup>7</sup> and the European Central Bank. The FSF holds regular meetings twice a year (in March and September). FSF also holds occasional regional meetings with the authorities from the respective regions in order to discuss the economic and financial conditions in different parts of the world. As representatives of IOSCO, the CMB Chairman as Chair of the IOSCO Emerging Markets Committee attended, together with the

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<sup>4</sup> Australia, Canada, France, Germany, Hong Kong, Italy, Japan, The Netherlands, Singapore, UK, USA.

<sup>5</sup> IMF, World Bank, Bank for International Settlements (BIS), Organization for Economic Co-operation and Development (OECD).

<sup>6</sup> IOSCO, International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB), Basel Committee on Banking Supervision (BCBS)

<sup>7</sup> Committee on Payment and Settlement Systems (CPSS), Committee on the Global Financial System (CGFS)



Technical Committee Chairman, the Forum meeting that was held in March and September 2003. The global macroeconomic situation and developments affecting financial markets, weaknesses in market foundations and the measures taken by market participants, national regulatory authorities and international institutions to confront these weaknesses were among the issues discussed by the FSF at its mentioned meetings.

The objective of FSF entails, by bringing together the representatives of central banks, treasury departments and regulators from developed markets with international organizations working in various fields such as the IMF, the World Bank and other international standard setters to review the condition of global economics and financial markets, to specify the measures to be taken, and to ensure increased coordination and exchange of information among related authorities. The FSF steers and supports the multilateral plan to improve stability of the global financial system, while the necessary measures are taken by national and international authorities.

Although Turkey is not a member of FSF, the CMB Chairman Dr. Doğan CANSIZLAR attends the FSF meetings, where high level discussions are held on issues relating to global economics and the global financial system as an IOSCO representative

As representatives of IOSCO, the CMB Chairman as Chair of the IOSCO Emerging Markets Committee has attended, together with the Technical Committee Chairman, 5 FSF meetings since the year 2003.

#### 5.10.1.5 Meetings

The CMB has participated in the following meetings with regard to IOSCO activities in the year 2004:

**TABLE 5.17**

<b>IOSCO MEETINGS THE CMB HAS PARTICIPATED IN</b>		
<b>Meeting</b>	<b>Date</b>	<b>Location</b>
Technical Committee	3 – 6 February 2004	Madrid
Emerging Markets Committee Advisory Board		
Executive Committee		
Financial Stability Forum	29 – 30 March 2004	Rome
Implementation	1 April 2004	Mumbai
IOSCO Annual Conference	17 – 20 May 2004	Amman
- Emerging Markets Committee Working Groups		
- Emerging Markets Committee		
- European Regional Committee		
- Technical Committee		
- Executive Committee		
- SRO Consultative Committee		
- Presidents' Committee	10 August 2004	Mumbai
- Consultative Group (EU member candidates)		
EMC Corporate Governance Task Force	8 – 9 September 2004	Washington D.C.
Financial Stability Forum	7 October 2004	Madrid
Screening Group	8 October 2004	Jakarta
EMC Working Group 2: Exchange Demutualization	25 – 27 October 2004	Montréal
Technical Committee		
Emerging Markets Committee Advisory Board		
Executive Committee	28 – 29 October 2004	New York
IOSCO Executive Committee Conference	19 November 2004	Lisbon
European Regional Committee	2 – 5 December 2004	Cairo
Emerging Markets Committee		

#### 5.10.1.6 Other Activities

In 2004 the CMB has offered programs with the objective of sharing information on Turkish capital market regulations, applications and experiences to the representatives of national authorities from Tanzania, Kazakhstan, Kyrgyzstan and the Sultanate of Oman.

#### 5.10.2. Memoranda of Understanding

The initiatives for signing Memoranda of Understanding for cooperation with capital markets regulatory and supervisory authorities have been continued in the year 2004. In that regard, information concerning the bilateral MOUs that have been signed by the CMB is presented in the table below.

**TABLE 5.18**

<b>BILATERAL MOUs SIGNED BY THE CMB</b>		
<b>Jurisdiction</b>	<b>Institution</b>	<b>Date</b>
UK	HM Treasury	August 1999
	Financial Services Authority	
	London Stock Exchange	
France	Commission des Operations de Bourse (Autorité des Marchés Financières)	May 2000
Germany	BAWe (BaFin)	May 2000
Sweden	Finansinspektionen	June 2001
Italy	Commissione Nazionale per le Società e la Borsa	June 2001
USA	Commodity Futures Trading Commission	June 2001
Australia	Australian Securities and Investment Commission	June 2001
Greece	Capital Markets Commission	October 2001
Malta	Malta Stock Exchange	June 2001
	Malta Financial Services Center (Malta Financial Services Authority)	April 2002
Albania	Albanian Securities Commission	September 2003
Romania	Romanian National Securities Commission	October 2003
Bulgaria	Financial Supervision Commission	December 2004

Consultations with a number of foreign counterpart authorities in relation to a bilateral MoU are also being carried out.

### 5.11. PUBLICITY AND EDUCATION

In the context of the disclosure functions of the CMB, booklets were published, and meetings for publicity and investor education were held, and training programs were carried out for junior staff.

#### 5.11.1. Publicity and Informational Activities

39 publicity meetings were held in different institutions such as universities, government institutions and private institutions. On the other hand 5 publicity meetings were held with close collaborations with chambers of commerce and industry. Almost 2000 participants joined those meetings.

In order to channel the savings of Turkish citizens residing abroad into Turkey and help them to invest in more secure and efficient instruments, two meetings have been held

in Zurich (Switzerland) and Stockholm (Sweden) (one meetings for the foreign investors in Stockholm) in a close cooperation with the Ministry of Foreign Affairs.

#### 5.11.2. Activities of External Affairs and Education Unit

The Unit of External Affairs and Education was established to carry out foreign relations of the CMB, except special groups such as IOSCO, and educational activities of the staff in order to improve their general and technical knowledge level and to increase public awareness about capital markets, instruments and institutions.

In this context, the Unit's activities are as follows:

- To carry out exams for recruitment of junior professional staff,
- To coordinate activities regarding delegating power to junior professional staff and their competence exams,
- To prepare educational activities and programs for the staff to be sent abroad,
- To determine the educational needs of staff and to plan and coordinate the education/training programs ongoing basis,
- To meet the demands for education from different institutions and universities,
- To accumulate the information about the professional staff.

Advisory functions for the competence theses of 19th period junior professional staff and junior lawyers have been carried out and competence exams were prepared. On the other hand, an in house training program was prepared and held for the officials of the Board, for two months.

Participation of the Board staff for 12 short term training program, 3 publicity meeting (one is for the foreign investors in Stockholm), 26 seminars and conferences and 59 other meetings in abroad were realized. 171 staff joined these meetings.

#### 5.11.3. Activities of Group of Investor Requests

The Group of Investor Requests was established based on in house Circular dated January 15th, 2003. The main duties of the Group are as follows:

- To evaluate investors' complaints and proposals and conclude the investors' requests by preparing answers in due time and sufficiently,
- To form a set of standards in replies and convey complaints and proposals to the related departments in case it is needed,
- To convey the complaints to the Enforcement Department that require remote examination and not solved with the existing documents and information,
- To keep records of investors' requests and follow requests conveyed to the related departments.

Since the Law of Information Request, which came into force in April 2004, requires public institutions to establish information units, it was decided by the in house Circular

dated June 9<sup>th</sup>, 2004 that the Group of Investor Requests will also function as information request office.

The Group consists of four rotating experts and three permanent administrative staff under the chairmanship of one Deputy Head of Department, and in coordination of two Vice Presidents.

Requests are handled in two groups: Complaints and proposals are replied within 30 days in the framework of Law on Using the Right of Petition, or conveyed to the related institutions to be concluded. Other requests within the context of the Law of Information Request are concluded within 15 business days or conveyed to the related institutions. Brief information on requests made in 2003 and 2004 are shown in the following table.

**TABLE 5.19**

<b>ACTIVITIES OF GROUP OF INVESTOR REQUESTS</b>			
	Requests		
	Within the Context of the Law of Petition	Within the Context of the Law of Information Request	Total
2003	3.094	-	3.094
2004	2.753	181	2.934
2003-2004 TOTAL	5.847	181	6.028
REQUESTS CONCLUDED	5.692	167	5.859
PERCENTAGE OF CONCLUDED REQUESTS	97,34%	92,26%	97,20%

## **5.12. INFORMATION SYSTEMS AND TECHNOLOGICAL INFRASTRUCTURE**

The development, running and modernizing of the information systems that support the functions of the CMB are carried out by the Department of Information Systems. The activities that had been performed in 2004 can be summarized as follows.

### **5.12.1. Capital Markets Integrated Information Systems (Sp-Net)**

The CMB's primary missions are to protect the rights of investors and to ensure fair, transparent, effective and orderly functioning of the markets. In this concept and especially when the latest improvements in information technologies are taken into account, it is inevitable for the CMB to benefit from information technologies to the maximum extent. The Capital Markets Integrated Information Systems Project, which includes the whole process of restructuring the Information Systems of CMB, was initiated for this purpose.

It is aimed to establish general and specific purpose Management Information Systems to help CMB to monitor and control the markets on all kinds of actions such as manipulation, speculation, insider trading, public disclosure, etc. by means of Sp-Net Project. In this scope, information systems requirements were determined and implementation efforts have been started. As a result of the efforts undertaken, an information system infrastructure that can be assumed as a model for our nation's information system applications will be created.

Sp-Net consists of many sub-projects. All of these projects are being developed in order to assist the surveillance, enforcement and decision-making functions of the CMB.

As all parts of the society in the world use or subject to use Management Information Systems (MIS) at today's information age, the CMB's information systems are being developed by taking the advantages of all opportunities supported by contemporary information technologies.

#### 5.12.2. Goals of Sp-Net

By use of Sp-Net, it is aimed to access information in a secure, rapid and efficient way and to take an effective part in the capital markets by setting up a Management Information System that is composed of Market Surveillance, Early Warning and Interference Information System, Public Disclosure System, Institutional Information Systems and Document Management and Archiving Systems. Also, it is intended to take a more active place in the Internet world.

By this project the following issues can be realized:

- Dissemination of information about the publicly held companies from a central electronic platform,
- Meeting of Capital Markets Board, Istanbul Stock Exchange, Istanbul Gold Exchange, Central Registry Agency, ISE Settlement and Custody Bank, The Association of Capital Market Intermediary Institutions of Turkey, Intermediary Institutions and publicly held companies on a shared electronic platform, to provide the surveillance and enforcement of the markets from here by establishing an effective database,
- Enabling the freedom of getting information of public, the use of internet infrastructure for this purpose,
- Providing market transparency, quick and on time informing, market-based enforcement,
- Foundation of surveillance and early-warning infrastructure,
- Establishment of Disaster Recovery Centers of Capital Markets Board, Istanbul Stock Exchange, Istanbul Gold Exchange, Futures and Options Exchange Inc., The Association of Capital Market Intermediary Institutions of Turkey, Central Registry Agency, ISE Settlement and Custody Bank,
- Increasing the IT usage and rendering the paperless office

#### 5.12.3. Sub-Projects of Sp-Net

Sp-Net is designed to contain more than one project each of which is at utmost importance. These projects require expertise in various fields. Each one of them addresses different user groups.

##### 5.12.3.1 Surveillance System Project

A project named Market Surveillance Information System/Early Warning and Interference Information System was started in order to ensure the transparent, reliable and orderly functioning of the markets and to protect the rights of investors by determining the various illegal activities (manipulation, insider trading, etc.) promptly and taking proper actions during the trading activities at ISE. This project is also known as CMB – ISE

Surveillance System Project (CISS).

CISS is a joint project for building a computer based market surveillance system to monitor securities trading activities in real time as well as to detect and investigate anomalies in trading promptly. CISS was begun in May 2001 and is being developed by the CMB's and the ISE's own personnel and resources. Technical team has begun to work based on the functional definition documents prepared by the CMB's and the ISE's personnel. Systems analysis, design and coding phases of the project has been completed, and testing efforts are being carried on.

CISS will be used by the experts of CMB and ISE and set up on special hardware and run in a real-time manner. CISS will begin to work as the session begins at ISE and will give real time warnings about abnormal security trades.

#### 5.12.3.2 Public Disclosure System

One of the most important projects of Sp-Net is Public Disclosure System Project (PDP). PDP is being developed by the Information Technologies and Electronics Research Institute of the Scientific and Technical Research Council of Turkey (BILTEN), the CMB and the ISE. By this project, publicly held companies and intermediary institutions will disclose their financial statements, balance sheets and special circumstances electronically via a secure computer network in order to inform the public about their activities. It is determined to use Public Key Infrastructure (PKI) technology to ensure data security criteria in this project. In this manner, this project will be a good example to contemporary applications that use latest software technologies and improve the productivity. PDP will be the first application in Turkey that use PKI technology, also known as digital certificates and digital signatures.

BILTEN has undertaken the Certification Authority function, that has the responsibilities such as forming, saving and delivery of digital signatures. The development, pilot application and training phases of the project has been finished. The temporary acceptance of the project has also been done. The set up and certificate delivery processes of nearly 500 companies have been continuing. The project covers publicly held companies that are listed on ISE and the intermediary institutions. Independent auditing companies is included in the project on condition that their role is limited to sign financial statements only. The companies in the project has begun to send announcements to the system as of December 1, 2004. The permanent acceptance efforts has been continuing.

#### 5.12.3.3 Institutional Information Systems

Institutional Information Systems consists of a number of projects that are designed to improve and accelerate the surveillance and enforcement processes conducted by the CMB experts. These are:

- **Surveillance and Enforcement System :**

This system has been developed for assisting CMB experts in their surveillance and enforcements activities. The system processes, stores and reports the information, originating either from the CMB itself or from other institutions, needed by experts during surveillance and enforcement functions.

It is being used by the Department of Intermediary Activities, Department of Enforcement, Department of Institutional Investors, Department of Legal Consultancy

and Department of Accounting Standards.

This project has been completed, but improving and maintenance activities are being carried on. New function/module requests are also handled as part of the improving activities. Part of the information that is saved to the database by means of this system is disclosed on the CMB Web Site on a real-time basis to inform the public.

- **Mutual Funds and Investment Trusts Daily Reporting System :**

This is an application that monitors the portfolio of mutual funds, investment trusts and pension mutual funds on a daily basis. Portfolio data is automatically transferred to the system from the ISE Settlement and Custody Bank and stored at the relevant database.

By means of this application, the portfolio information related to the mutual funds, investment trusts and pension mutual funds could be reported and the companies that do not comply with the criteria designated by legislations can be determined.

This application is being used by the Department of Institutional Investors. Continuous improvement and maintenance activities are being carried on.

- **Capital Adequacy System :**

This system is aimed at improving and strengthening financial structures of intermediary institutions, portfolio management companies and banks. It includes data about the intermediary institutions accounts, client accounts, the ISE Settlement and Custody Bank accounts and other related accounts displaying the financial structure of the companies. The goal of this system is to ensure the included companies to obey the CMB's financial criteria, to strengthen their financial structures and to minimize their risk window so that their clients invest via a more trustworthy and stable firm.

The system, which primarily started with intermediary institutions, is now expanded to cover portfolio management companies and banks.

- **Information System of Department of Corporate Finance :**

The purpose of this project is to develop an integrated information system that is appropriate to the work-flow in the Department of the Corporate Finance, to ease the monitoring of tasks, to form a consistent database and to automate the writing of various reports and documents.

All of the applications related to the Department of Corporate Finance, their stages, results, all kinds of documents that are written in the department and the information about the publicly held companies will be stored in a shared database.

Four modules of the system are put in use. In addition to the improvement activities of these modules, development of other modules are being continuing. System is being used by the Department of Corporate Finance.

- **Monitoring System of Department of Intermediary Institutions :**



This is a monitoring system that gives warnings about the intermediary institutions that exceed the various limitations determined by the Department of Intermediary Institutions experts in trading activities. The inspection is done on the data that is automatically taken from the ISE Settlement and Custody Bank on a daily basis.

System is being used in the Department of Intermediary Activities. The development phase of the project has been completed, but testing activities are being continuing.

- **Matching System :**

This is an application program which matches the orders placed at the ISE and the collected distribution lists of the intermediary institutions. When the project was first put into design, the trading in ISE was being done in the base of intermediary institutions and it was impossible to know the client that gives the order. The possible clients that give the orders are analyzed by this program by examining the order list of ISE and the distribution list of the intermediary institutions.

When the obligation of indicating the client numbers in the orders was brought into force, a new version of the program was released. This version of the program examines the orders in the ISE order list and by means of the client numbers in this list, finds the corresponding client names from ISE Settlement and Custody Bank's client files. So, the access to the client names during the enforcement processes have been made easier.

The former version of the program is being used for older order lists that do not have client numbers. This application program is being used by Department of Enforcement.

- **Document Management and Archiving System (Paperless Office) :**

This project is about to realize the concept of paperless office by storing, sharing and archiving of every information, document and written or printed material electronically. By this project, it is aimed to accelerate the jobs and to improve the productivity.

This project was begun by the purpose of forming a shared platform to access all the documents that are in circulation at CMB and transferring the archived documents to electronic media. This system is intended to be used by all departments of CMB. First of all, systems analysis activities were done and users' expectations were identified. According to the requirements, implementation phase was completed and system was begun to be used at all departments of CMB.

#### 5.12.3.4 Disaster Recovery Center

All the information (data, data structures, databases and source codes of applications) related to the information systems of Capital Markets Board, Istanbul Stock Exchange, Futures and Options Exchange Inc., ISE Settlement and Custody Bank, Istanbul Gold Exchange, Central Registry Agency, The Association of Capital Market Intermediary Institutions of Turkey will be collected and stored in the Information System Center at the new building of the CMB - ISE, acting as a Disaster Recovery Center. Each of the institutions' disaster recovery scenarios are continuing to be developed.



#### 5.12.3.5 The CMB Web Site

Static and dynamic pages reside on the web site of CMB. Dynamic pages are related with internal database structures and are used to retrieve requested data dynamically from the database.

The appearance and user interface of legislation section in CMB Web Site has been totally renewed in 2004. In that way, access to legislation and search function in it has been improved.

Again in 2004, a new user interface was created in the section "Investor Corner" in order to assist citizens to send their complaints, opinions and suggestions to the CMB electronically. By means of this section, citizens can send their complaints, opinions and suggestions about various subjects to the CMB via electronic-mail. A similar arrangement was done again in the same section under the name of "Application for Information Request". Citizens can send their applications in the scope of Law of Information Request that was published in the Official Gazette in October 24, 2003 to the CMB electronically by using the user interface placed here.

Main headings of information contained in the web site are as follows:

- **Information about the CMB** (*The Mission of the Board, organization structure and human resources, CMB's telephone directory, communication ways with the CMB*),
- **Capital Markets Legal Framework,**
- **News and Announcements** (*Monthly and Weekly Bulletins, press announcements, licensing exam announcements, up to date communiqués, draft communiqués, announcements regarding applications*),
- **Investors Corner** (*Key points to consider while investing money, FAQ, areas where investors can send their questions and complaints, application for information request*),
- **Capital Market Institutions and Companies** (*Besides links to the web sites of relevant institutions, this section also includes statistical and periodical information about Intermediary Institutions, Publicly Held Companies, Mutual Funds, Investment Trusts, Portfolio Management Companies, Real Estate Appraisal Companies, Independent Auditing Companies and portfolio information of Mutual Funds*),
- **Legal Cases** (*List of people prohibited from trading, information about legal processes*),
- **CMB Publications** (*Research Reports, Competence Theses, documents related to various seminars and lectures, annual reports of Board's activities* )
- **Subscription System** (*Everyone who subscribes to CMB's web site by means of this system will receive information about announcements, communiqués, draft communiqués, weekly and monthly bulletins and press announcements according to their subscription choices via email.*)

#### 5.12.4. Adaptation Efforts to New Turkish Lira

The objective of the efforts taken place in the Department of Information System about adaptation to new Turkish Lira was to make all the application software to be compatible with the new currency system, to transform all the data stored in the databases to appropriate format, and to coordinate the adaptation efforts in the capital markets. These operations was begun as of May 2004.

During the process, publicly held companies, intermediary institutions and independent auditing companies were sent a report template to be filled on a monthly basis. By means of these reports, CMB monitored the whole process continuously.

The adjustment of all of the CMB's application software that includes monetary data was done during this process. New versions of these applications were put in use as of 31 December, 2004 and all the monetary data was transformed to new Turkish Lira format.

# SPK

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