



CAPITAL MARKETS BOARD OF TURKEY



***CAPITAL MARKETS AND
NEW TURKISH LIRA CONVERSION***

OCTOBER 2004

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1. Introduction

Capital Markets Board of Turkey (CMB) is the regulatory and supervisory authority in charge of the securities markets in Turkey. It is a legal entity and practices its authority independently and on its own responsibility.

The objective of the CMB is to regulate and ensure the secure, fair and orderly functioning of the capital markets and to protect the rights and benefits of the investors. There are three major legislations that regulate the Turkish Capital Markets. These are;

- Capital Markets Law
- Decree by Law No. 91 (Major legislation for the stock exchanges)
- Turkish Commercial Code

Additionally, Resolution No. 32 regulates the capital movements.

After 1.1.2005 the currency unit of the Republic of Turkey will be New Turkish Lira (TRY) and the conversion rate between the Turkish Lira (TRL) and the New Turkish Lira will be;

$$1.000.000 \text{ TRL} = 1 \text{ TRY}^1$$

The hundredth part of the New Turkish Lira will be the New Kuruş and one New Turkish Lira will be equivalent to a hundred New Kuruş.

Within this context, the CMB is working on the New Turkish Lira conversion process for the secure, fair and orderly functioning of the capital markets and to protect the rights and benefits of the investors.

2. The Working Methodology for the New Turkish Lira Conversion

Under the general coordination of the Central Bank of Turkey, three technical sub-committees have been established. Namely:

- Corporations
- Accounting
- Information Technology

¹ Please note that in Turkey, the fractions are separated with commas, instead of dots. Consequently, separators for thousands are dots instead of commas.

There is also a "Supreme Committee" which is responsible for the supervision of these committees and for the conversion process in general. The CMB is an active member in all of these committees.

All the work related to the conversion process is carried out in close collaboration with the Istanbul Stock Exchange, Istanbul Gold Exchange, Takasbank (ISE Settlement and Custody Bank Inc.), Turkish Derivatives Exchange and the Central Registrar related with operations in the capital markets.

3. The Legal Issues

According to the New Turkish Lira Law;

"All references made to Turkish Lira or Lira in laws and other legislation, administrative procedures, court decisions, legal operations, commercial papers and other documents that produce legal effects as well as means of payment and instruments of exchange shall be considered as having been made to New Turkish Lira". So, for the monetary amounts there is no need for any change in the regulations.

However, there is a special case for the nominal values (par value) of the shares of the joint stock corporations. According to the Turkish Commercial Code the nominal values of the shares of the joint stock corporations should be at least TRL 500 and the increments must be by TRL 100 and the nominal values of the shares of the 232 companies (out of 301) listed in the Istanbul Stock Exchange is TRL 1.000. So, after the conversion, the par values of the shares will be;

TRL 1.000 = 0,1 New Kuruş or 0,001 New Turkish Lira.

The nominal values of the shares can be denominated as 0,1 New Kuruş and they will all have the same rights as today. However, in an environment where the minimum currency unit is 1 New Kuruş, if the nominal values of the shares are denominated as 0,1 New Kuruş, there will be operational difficulties and confusion in measurement of those shares especially for capital issues, dividends and pre-emptive rights.

Draft for an Amendment in the Commercial Code

Accordingly the minimum nominal value stated in the Turkish Commercial Code will be raised to 1 New Kuruş which is today equals to 10.000 TL. The draft law envisages a transition period up to 2009 for the firms for the adjustment. The companies will be able to increase the nominal values of their shares and call for their shareholders to complement their shares to the value of 1 New Kuruş. For example 10 shares of 0,1 New

Kuruş that a shareholder has will be converted into 1 share of 1 New Kuruş. The draft envisages for those shares which are not complement to the value of 1 New Kuruş to be converted into fraction payout certificates. The board of directors of the companies is responsible for this operation.

According to the draft law up to 2009 all rights of the shares that the shareholders currently hold are protected with the law. Even the impact of this on the small investors will be minor. Because the minimum trading unit in the ISE is 1.000 shares. So, situations that an investor has shares less than 1.000 are rare.

4. The Istanbul Stock Exchange

The TRY conversion will have impacts in the ISE markets. The three main markets in the ISE are;

- The Equity Market
- The Bonds and Bills Market
- The Currency Futures Market

The ISE made new arrangements in accordance with the new system and announced it to the public with a notice to members on the 4th of June.

4.1. The Equities Market

Price Dissemination

In the current system the price dissemination is for the market price of a stock of 1.000 Turkish Lira (TRL) nominal value. In other words for a share with a nominal value of 1.000 TRL, the price is disseminated for a single share.

Price levels of the shares of the companies listed in the ISE are given below:

- 3 companies	above TRL 1.000.000
- 4 companies	between TRL 100.000 - TRL 1.000.000
- 35 companies	between TRL 10.000 - TRL 100.000
- 239 companies	between TRL 1.000 - TRL 10.000
- 20 companies	below TRL 1.000

As it can be seen there would be problems if 6 zeros were to be dropped from the current prices in terms of understanding and following the prices since there would be too

many digits. That's why after the conversion the price will be disseminated for the 1 New Turkish Lira (TRY) nominal value i.e. for 1.000 shares if the nominal value of the share is TRL 1.000 and for 2.000 shares if the nominal value is TRL 500.

Two digits will be added to represent New Kuruş in the system.

Price Ticks

The price tick levels have been modified according to the new dissemination methodology.

The current and the new price tick levels are given below.

Stock Price Ranges TL	Stock Price Ranges TRY	Price Ticks TL	Price Ticks TRY
10-2,500	0,01 - 2,50	10	0,01
2,525-5,000	2,52 – 5,00	25	0,02
5,050-10,000	5,05 – 10,00	50	0,05
10,100-25,000	10,10 – 25,00	100	0,10
25,250-50,000	25,25 – 50,00	250	0,25
50,500-100,000	50,50 – 100,00	500	0,50
101,000-250,000	101,00 – 250,00	1,000	1,00
252,500-500,000	252,50 – 500,00	2,500	2,50
505,000 and above	505,00 and above	5,000	5,00

As it can be seen from the table the only material change related with the price tick is for the price level of TRL 2.500- TRL 5.000. After the conversion, for that price level the price tick will be 2 New Kuruş (0,02 YTL) which is now TRL 25. For the adaptation of investors to this change, the price tick level which was TRL 25 has been changed to TRL 20 beginning from 1st October 2004.

- Trading Unit

Current arrangements for the equality of “TL 1.000.000 nominal = 1000 unit = 1 lot” will be changed in accordance with the equality “TRY 1 nominal = 1 unit = 1 lot”

Current	1 lot = 1.000 shares = TRL 1.000.000 (nominal)
New	1 lot = 1 unit = TRY 1 (nominal)

Here, ISE used the term “unit” to show that after the beginning of 2005, one unit will be the bundle of shares with a par value of 1 New Turkish Lira for the Stock Exchange transactions. This “unit” may contain 2000, 1000, 400, 200 etc. shares depending on the par value of the specific share. There are some examples in the below table:

Current Par Value	Current Dissemination Unit	Current Market Price	Par Value After The Conversion	Dissemination Unit After The Conversion	Market Price After Conversion
TRL 1000	1 share	TRL 850	TRY 0,001	1000 shares (TRY 1 = 1 lot)	TRY 0,85
TRL 1000	1 share	TRL 4550	TRY 0,001	1000 shares (TRY 1 = 1 lot)	TRY 4,55
TRL 500	2 share	TRL 350	TRY 0,0005	2000 shares (TRY 1 = 1 lot)	TRY 0,35
TRL 500	2 share	TRL 5350	TRY 0,0005	2000 shares (TRY 1 = 1 lot)	TRY 5,35

Here, it should be noted that, legally there is no change in the number of outstanding shares of the firm. The equality of 1 TRY = 1 unit is only valid only for the transactions in the Istanbul Stock Exchange and legally all the rights of the shares are protected. More specifically, in legal terms the number of the outstanding shares of a firm will not change after the New Turkish Lira Conversion. An example is given below:

Paid in capital = # of outstanding shares x nominal value

Current Situation : TRL 100.000.000	= 100.000 shares	x TRL 1.000
After Conversion : TRY 100	= 100.000 shares	x TRY 0,001

Exceptional Shares

Necessary arrangements have been made for the shares with different nominal value or very high market price. Those shares are;

- Petrokent A.Ş.
- T. İş Bankası A.Ş. Founder Shares
- T. İş Bankası A.Ş. A and B Type shares

Last 2 Trading Day

As a precaution there will be no trading on the 30th and 31st December 2004 in the ISE Equities Market. Considering that the settlement cycle in Turkey for the equities (T+2), this will make the conversion operations easier, especially in terms of clearing and settlement. The process of moving from 2004 – to 2005 will be static process that could be more easily handled compared to a dynamic process with a rolling clearing and settlement process.

Indexes

Since the aim of the indexes is to provide a tool for the investors to watch the market in a practical manner and to give the opportunity to make evaluations and comparisons among years, changes in the manner of the series is not generally preferred. Considering this, necessary amendments will be made in the index formula and the level of all ISE indexes will be same beginning from 2005, i.e. in the first trading session of 2005 the index will begin with the closing value of the last trading day of 2004 without any change. Consequently, the investors can follow the Exchange as they were familiar with.

4.2. The Bonds and Bills Market

Price

The Turkish Treasury declared that the face value of the Turkish Government Securities will be 100 TRY in Treasury auctions and the bids will be given up to 3 digits of New Kuruş (Ex: 98,437 TRY). So, in terms of investor understanding there will be no material difference compared to today since the quotations are given for the face value of 100.000 TL with no digits (Ex: 98.437 TRL). And parallel to this, in the ISE Market the prices will be calculated and the quotations will be given for the face value of 100 TRY and up to 3 digits of New Kuruş.

Amounts of Orders

There will be no material difference since the amounts of orders were already high, so the changes are just the drop of 6 zeros. Minimum and maximum order entry amounts are as follows:

	Small Orders	Normal Orders	Maximum Order Amount
Government Securities	TRY 1.000 nom.	TRY 100.000 nom.	TRY 10.000.000 nom.
Private Sector Debt Securities	TRY 1.000 nom.	TRY 1.000 nom.	TRY 100.000 nom.
Repo-Reverse Repo Market	TRY 1.000 nom.	TRY 500.000 nom.	TRY 10.000.000 nom.

Last Trading Day and Open Transactions

- The transactions will continue on the last trading day of 2004.
- All transactions made in terms of TRL before 1st January 2005 in ISE Bills and Bonds Market will be converted automatically to TRY.
- Debt/credit balances will be converted to TRY by the date of 01.01.2005 and the accounts will be followed with two digits of New Kuruş.
- The payments of the transactions with a due date after 1st January 2005 concluded in 2004 will be made in terms of TRY.

4.3. The Currency Futures Market

Price Dissemination

Price and quotation entries of foreign exchange futures transactions will be made up to 3 digits of New Kuruş.

Price Ticks

The new price tick will be TRY 0,001.

Margin Requirements and Collaterals

Margin accounts will be kept and the profit and losses will be reflected up to two digits and arrangements related to clearing membership collaterals held by Takasbank have been made.

4.4. The IT Infrastructure

The CMB as the supervisory authority required ISE;

- To complete the TRY adjustment operations of the IT systems in coordination with the members until the 8th of October,
- To make a final general test with members during 9-10 October,
- To inform the CMB about the results and the problems encountered.

The first results of these tests show that the conversion project is going as it was planned.

- To provide the exchange members to test whether their software is updated properly to the TRY, the test system of the ISE Equities Market is in use since 8th September. According to the test results, it is observed that the pilot tests were successful and there was not a serious problem reported to the ISE. This "Unrestricted Test" environment will be open to members up to 31th December 2004 and the members will be able to test all of their applications.
- From the beginning of October the "Scenario Test" environment has been provided to the exchange members to check themselves in cases such as the opening of the trading session, order routing, trade matching, trading halts, closing of the trading day etc.
- Beginning from the November a whole trading day will be simulated by the members individually.
- Before the end of November a general simultaneous simulation which will be mandatory for all the exchange members will be held.

5. ISE Settlement and Custody Bank Inc.(Takasbank)

Takasbank is the Central Securities Depository of Turkey and the clearing and the settlement agency of ISE. Besides it is the National Numbering Agency allocating ISINs for securities issued in Turkey.

Takasbank has a customer based custodian system and to participate in this system is compulsory for all ISE members. Sub-custody accounts for the individual investors are opened by their names under the custody account of the ISE members with Takasbank. Each investor has a unique number at Takasbank. The investors are able to

reach their sub-custody accounts and receive information using passwords allocated to them with "ALOTAKAS" - Interactive Voice Response System and through the internet.

For the TRY adjustment Takasbank works in coordination with the ISE in order to implement required changes in the system. In terms of adjusting the IT systems and coordinating the members, the same work plan and time table as the ISE is also required from Takasbank.

Since there will be no transactions in the ISE Equities Market on the 30th and 31st December, the move from 2004 to 2005 will be a static and easier process. There will be no obligations and receivables rolled from 2004 to 2005

To comply with the TRY conversion process some changes has also been made in the Takasbank system.

The accounts held in Takasbank in unit basis will be converted into nominal basis in order to comply with the changes in ISE system. The banks and brokerage houses will be able to hold their securities accounts with two digits of New Kuruş in their accounting systems.

Turkish Association of Securities Dealers (TASD) has been charged by the CMB to inform the banks and brokerage houses and their customers to get rid off holding accounts which will provide more than two digits after the conversion for the sake of their simplicity. The investors will be invited to round up or down their accounts (sell their odd-lot shares or to buy new enough shares to complement their shares to one lot). Actually since the minimum trading unit in the ISE is 1.000 shares, such odd-lot account positions are not taken by the investors knowledgably, but mainly they occurred due to the new capital issues of the existing shares in their accounts. The monetary amount of rounding process is negligible. The market price of all such odd-lot shares amounts to 150 billion Turkish Lira (approximately USD 100.000) and will not have an impact on the market.

The TASD will follow this process and will make the necessary arrangements among the sector. After the conversion the parts of the accounts which will have more than two digits will be followed under an omnibus account of each bank or brokerage house and the details of these accounts will be kept by the related bank or brokerage house.

It has also been announced that it will not be necessary to reprint the existing TL denominated share certificates, but after the beginning of 2005 the new share certificates arising from new capital issues should be printed in TRY denomination.

6. Istanbul Gold Exchange

Istanbul Gold Exchange (IGE) was established on July 27, 1995 and the CMB is appointed with the power of delegation by the Ministry as the regulatory and the supervisory authority for the establishment and functioning of the exchanges on which precious metals are traded. There are three main markets in the IGE. These are;

- Spot Market
(*Gold, silver, platinum*)

- Futures and Options Market
(*Futures and options contracts on gold*)

- Precious Metals Lending Market
(*Gold, silver, platinum and certificates backed by the precious metals lent*)

Since some of the contracts traded in the IGE are denominated in US Dollars or EURO terms and the contracts denominated in TL terms are large enough, the conversion will be relatively easier and the need for changes in the trading rules will be limited.

The necessary work required for the changes on the systems of the exchange is performed by IGE in cooperation with the exchange members. In terms of adjusting the IT systems and coordinating the members, the same work plan and time table as the ISE is also required from Istanbul Gold Exchange.

The reported test results show that there is not any problem in the conversion project of the IGE.

7. Requirements from the Market Participants

In order to follow the work carried by the capital markets participants, “*Summary statement forms*” and “*Monthly information forms*” are required from the;

- Intermediary Institutions (Brokerage houses and banks limited with their capital market activities)
- ISE Listed Companies
- Mutual Funds
- Audit Firms

These forms should be filled and sent in first two business days of each month and contain explanatory statements concerning the adjustment procedures in the accounting

and IT systems. In order to follow the results reported with these forms coordinator institutions are determined.

Coordinators and Related Firms:

- | | |
|-----------------------------------------|-----------------------------|
| • Intermediary Institutions Association | → Intermediary Institutions |
| • Istanbul Stock Exchange | → Listed Companies |
| • Takasbank | → Mutual Funds |
| • Audit Association | → Audit Firms |

The forms will be sent to the coordinating institutions and the coordinators will prepare evolutionary reports. These evolutionary reports will be submitted to the CMB each month within 10 business days. The CMB will take all the precautions when deemed necessary.

Some Examples from the Contents of the “*Summary Statement Forms*”:

- | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Is there any person in charge of New Turkish Lira as Project General Coordinator or is there any authorized person who is in charge of performing such a task? If yes, what are their names and their contact details? • Is there an adoption of a General Working Plan which sets forth concerning the New Turkish Lira Project? If no, then what is the planned target date for the development and adoption of such a plan? • Do the appropriate arrangements for the outsourced software has been done with related firms for the adjustments process? If no, explain • Have your in-house applications including the accounting system been adopted the New Turkish Lira? • Is your infrastructure for your transactions and operations outside the firm adapted to New Turkish Lira? |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

“*Monthly information forms*” is a more technical form and requests firms to state their adjustment as a percentage, for each software application they use.

After the examination of the reports provided by the coordinators and the forms where necessary, it is observed that the necessary work has been done for the in house

software and applications, and for the outsourced ones the necessary agreements have been done with the software firms.

The ISE traded companies are required to publicly disclose their adjustment process and the results of the tests beginning from 12 October.

7.1. The Mutual Funds and the Pension Funds

Price Dissemination and Calculation

- The unit share prices will be calculated and disseminated up to 6 digits of New Kuruş generally because of marketing considerations (sensitivity loss).
- The new nominal value will be 1 Ykr (same as today's TRL 10.000)

Trading Prices of the Mutual Funds

While the investors buy and sell unit shares of the funds, the unit share price will be multiplied by the number of units to be bought or sold and the resulting amount will be rounded according to the rounding criteria of the New Turkish Lira Law.

The differences arising from the rounding off the decimals will be reflected in the Funds' accounts and the Funds will be responsible for taking all the necessary precautions in order to minimize the potential systematic losses or gains due to the rounding off of the decimals. This will mainly be done by assessing the minimum amount of limitations for the number of certificates to be bought and sold. Actually, since those limitations are already widely used depending on the unit share price of the fund, no systematic gains or losses are expected. Funds with low unit share prices have special requirements for investors to buy at least 10 – 100 unit shares. So, since the monetary amount to be bought and sold for each transaction is around 100 million TL (70 \$) and the rounding off effect will be negligible.

8. The New Institutions

Turkish Futures and Options Exchange (TURKDEX)

The exchange was established in July 2002 as a private company. TURKDEX is not yet operational in terms of trading, but planned to become fully operational in 2005. All the derivatives contracts will be traded in this exchange.

The Central Registrar

The dematerialization has not been yet realized, but beginning from the 21 March, 2005 the dematerialization process will take place.

In terms of adjusting the IT systems and coordinating the members, both institutions are enforced to follow the same work plan and timetable as the ISE and Takasbank with the written request of CMB.
