

BIST Indices Statements in Respect to ESMA's Guidelines on ETFs and Other UCITS Issues

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BORSA
İSTANBUL

European Securities and Markets Authority (ESMA) enforced Guidelines on ETFs and other UCITS issues on February 18, 2013. The Guideline was updated and revised on August 1, 2014-ESMA/2014/937 (the "Guidelines").

This document is proposed to provide answers to frequently asked questions to Borsa İstanbul specifically in relation to the use of BIST indices in UCITS funds and it has published only for informational purposes. The information included in this document is relevant to sections of the Guidelines, mainly Section V, Guideline 9(a) on Index-Tracking UCITS and Section XIII on Financial Indices.

SECTION V. Index-Tracking UCITS

Guideline No. 9(a)

The prospectus of an index-tracking UCITS should include a clear description of the indices including information on their underlying components. In order to avoid the need to update the document frequently, the prospectus can direct investors to a website where the exact compositions of the indices are published.

Borsa İstanbul Statement

BIST Indices Methodologies (Methodologies) are based on objective rules and they are publicly available on Borsa İstanbul official website (<https://www.borsaistanbul.com/en/sayfa/7859/index-methodologies-and-changes>). Methodologies include the relevant details including data inputs, formula, calculation and dissemination intervals, selection criteria of the index constituents, the information on the approval and periodic review of the Methodology. Borsa İstanbul also publishes Index Periodical Calendars on its official website (<https://www.borsaistanbul.com/en/sayfa/8822/index-periodical-calendar>).

SECTION XIII. Financial Indices

Guideline No. 49

When a UCITS intends to make use of the increased diversification limits referred to in Article 53 of the UCITS Directive, this should be disclosed clearly in the prospectus together with a description of the exceptional market conditions which justify this investment.

Borsa İstanbul Statement

Borsa İstanbul ensures that the indices created are compliant with UCITS diversification rules, stated in the UCITS IV Directive, Article 52. However, it is UCITS' responsibility and decision to confirm the BIST Index that is replicated satisfies the index criteria set out in Article 53 of the UCITS Directive.

Guideline No. 50

A UCITS should not invest in a financial index which has a single component that has an impact on the overall index return which exceeds the relevant diversification requirements i.e. 20%/35%. In the case of a leveraged index, the impact of one component on the overall return of the index, after having taken into account the leverage, should respect the same limits.

Borsa İstanbul Statement

Methodologies, which are publicly available in Borsa İstanbul official website, include the relevant details about weighting of index constituents. For each BIST Index, index constituents along with their weightings are published in Borsa İstanbul official website which are updated after each rebalancing period.

Guideline No. 51

A UCITS should not invest in commodity indices that do not consist of different commodities. Sub-categories of the same commodity (for instance, from different regions or markets or derived from the same primary products by an industrialised process) should be considered as being the same commodity for the calculation of the diversification limits. For example, WTI Crude Oil, Brent Crude Oil, Gasoline or Heating Oil contracts should be considered as

being all sub-categories of the same commodity (i.e. oil). Sub-categories of a commodity should not be considered as being the same commodity if they are not highly correlated. With respect to the correlation factor, two components of a commodity index that are sub-categories of the same commodity should not be considered as highly correlated if 75% of the correlation observations are below 0.8. For that purpose the correlation observations should be calculated (i) on the basis of equally-weighted daily returns of the corresponding commodity prices and (ii) from a 250-day rolling time window over a 5-year period.

Borsa İstanbul Statement

Methodologies, which are publicly available in Borsa İstanbul official website, include the relevant details about weighting of index constituents. For each BIST Index, index constituents along with their weightings are published in Borsa İstanbul official website which are updated after each rebalancing period.

Guideline No. 52

A UCITS should be able to demonstrate that an index satisfies the index criteria in Article 53 of the UCITS Directive and Article 9 of the Eligible Assets Directive, including that of being a benchmark for the market to which it refers. For that purpose: a) an index should have a clear, single objective in order to represent an adequate benchmark for the market; b) the universe of the index components and the basis on which these components are selected for the strategy should be clear to investors and competent authorities; c) if cash management is included as part of the index strategy, the UCITS should be able to demonstrate that this does not affect the objective nature of the index calculation methodology.

Borsa İstanbul Statement

Guideline No 52(a): Methodologies clearly state the objective of the Index.

Guideline No 52(b): Methodologies detail the Index determination process and provide sufficient information including data inputs, formula, calculation and dissemination intervals, selection criteria of the index constituents for Stakeholders to understand how the index constructed, maintained and whether it is suitable to use as a reference in financial products.

Guideline No 52(c): Methodologies will clearly state if cash management is included in a certain index.

Guideline No. 53

An index should not be considered as being an adequate benchmark of a market if it has been created and calculated on the request of one, or a very limited number of, market participants and according to the specifications of those market participants.

Borsa İstanbul Statement

While designing indices, Borsa İstanbul aims to reflect the economic realities of the changes it aims to measure accurately and reliably. The designs of the Indices and their determination processes are described in respective Methodologies. Borsa İstanbul confirms that all its indices were created for all market participants, not a specific client or clients. As stated in Methodologies, Borsa İstanbul has full control over all indices calculated within the scope of the methodologies and is responsible for all processes related to the creation, calculation and publication of these indices. In addition, it is common practice for Borsa İstanbul to develop an index and provide calculation service as a result of a certain request from a client.

Guideline No. 54

The UCITS' prospectus should disclose the rebalancing frequency and its effects on the costs within the strategy.

Borsa İstanbul Statement

The rebalancing period of BIST Indices are stated in Methodologies. The mentioned periods can also be find in Borsa İstanbul official website (<https://www.borsaistanbul.com/en/sayfa/8822/index-periodical-calendar>). Borsa İstanbul does not comment on the rebalancing costs on a UCITS. The UCITS provider should estimate the cost that arises from rebalancing.

Guideline No. 55

A UCITS should not invest in a financial index whose rebalancing frequency prevents investors from being able to replicate the financial index. Indices which rebalance on an intra-day or a daily basis do not satisfy this criterion. For the purposes of these guidelines, technical adjustments made to financial indices (such as leveraged indices or volatility target indices according to publicly available criteria) should not be considered as rebalancing in the context of this paragraph.

Borsa İstanbul Statement

The rebalancing frequency of BIST Indices are stated in Methodologies. The mentioned periods can also be find in Borsa İstanbul official website.

Guideline No. 56

UCITS should not invest in financial indices for which the full calculation methodology to, inter alia, enable investors to replicate the financial index is not disclosed by the index provider. This includes providing detailed information on index constituents, index calculation (including effect of leverage within the index), re-balancing methodologies, index changes and information on any operational difficulties in providing timely or accurate information. Calculation methodologies should not omit important parameters or elements to be taken into account by investors to replicate the financial index. This information should be easily accessible, free of charge, by investors and prospective investors, for example, via the internet. Information on the performance of the index should be freely available to investors.

Borsa İstanbul Statement

Methodologies, which are publicly available in Borsa İstanbul official website, detail the Index determination process and provide sufficient information including data inputs, formula, calculation and dissemination intervals, selection criteria of the index constituents for Stakeholders to understand how the index constructed, maintained and whether it is suitable to use as a reference in financial products. For each BIST Index, index constituents along with their weightings are published in Borsa İstanbul official website which are updated after each rebalancing period.

Guideline No. 57

A UCITS should not invest in financial indices that do not publish their constituents together with their respective weightings. This information should be easily accessible, free of charge, by investors and prospective investors, for example, via the internet. Weightings may be published after each re-balancing on a retrospective basis. The information should cover the previous period since the last rebalancing and include all levels of the index.

Borsa İstanbul Statement

For each BIST Index, index constituents along with their weightings are published in Borsa İstanbul official website which are updated after each rebalancing period.

Guideline No. 58

A UCITS should not invest in financial indices whose methodology for the selection and the re-balancing of the components is not based on a set of pre-determined rules and objective criteria.

Borsa İstanbul Statement

Methodologies, which are publicly available in Borsa İstanbul official website, detail the Index determination process and provide sufficient information including data inputs, formula, calculation and dissemination intervals, selection criteria of the index constituents for Stakeholders to understand how the index constructed, maintained and whether it is suitable to use as a reference in financial products. For each BIST Index, index constituents along with their weightings are published in Borsa İstanbul official website which are updated after each rebalancing period.

Guideline No. 59

A UCITS should not invest in financial indices whose index provider accepts payments from potential index components for inclusion in the index.

Borsa İstanbul Statement

Borsa İstanbul does not accept any payments from potential index components for inclusion to indices.

Guideline No. 60

A UCITS should not invest in financial indices whose methodology permits retrospective changes to previously published index values ('backfilling').

Borsa İstanbul Statement

As stated in Methodologies retrospective changes is not permitted in index values calculated and published in real time. Procedures for eliminating potential errors, including situations that would require recalculation of Indices are included in Methodologies.

Guideline No. 61

A UCITS should carry out appropriate documented due diligence on the quality of the index. This due diligence should take into account whether the index methodology contains an adequate explanation of the weightings and classification of the components on the basis of the investment strategy and whether the index represents an adequate benchmark. The due diligence should also cover matters relating to the index components. The UCITS should also assess the availability of information on the index including: a) whether there is a clear narrative description of the benchmark; b) whether there is an independent audit and the scope of such audit; c) the frequency of index publication and whether this will affect the ability of the UCITS to calculate its net asset value.

Borsa İstanbul Statement

Guideline No 61(a): Methodologies detail the Index determination process and provide sufficient information.

Guideline No 61(b): Within the scope of compliance with IOSCO principles, an independent audit is conducted by PwC Türkiye. The detailed information and the Assurance Report on Borsa İstanbul's Statement of Compliance with the IOSCO Principles for Financial Benchmarks is available at Borsa İstanbul official website (<https://www.borsaistanbul.com/en/sayfa/8448/compliance-with-iosco-principles>).

Guideline No 61(c): As stated in Methodologies indices are disseminated daily in certain intervals. Dissemination intervals may vary by index.

Guideline No. 62

A UCITS should ensure that the financial index is subject to independent valuation.

Borsa İstanbul Statement

BIST indices are valued independently. The detailed information and Independent Practitioner's Assurance Report on Borsa İstanbul's Statement of Compliance with the IOSCO Principles for Financial Benchmarks is available at Borsa İstanbul official website.