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Turkish Capital Market and the Istanbul Stock Exchange (ISE) Towards Harmonization and Competition with the European Capital Markets

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Turkish Capital Market and the Istanbul Stock Exchange (ISE) Towards Harmonization and Competition with the European Capital Markets

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Abstract

The process of full membership of Turkey to the EU which was accelerated with the confirmation of Turkey's candidate status covers the harmonization of the Turkish capital markets with the financial markets of the EU. The competitive environment created by transition to the single currency system in the EU affects the activities of all financial institutions and requires the concerned parties to be ready for the new formations. This study provides a detailed and comparative investigation on the issues that are important for the harmonization of the Turkish capital market to the capital markets in the EU and for increasing the dimension of competition. The regulations within the framework of the integration of the financial markets in the EU and financial Action Plan are examined in detail. This study contributes to the establishment of a financial action plan for Turkey en route to the full membership and to the harmonization of the Capital Markets Board (CMB), the Istanbul Stock Exchange (ISE) and the brokerage houses to the EU.

I. Introduction

The European Union has entered a new phase of expansion from the end of 1999 onward. With the inclusion of new members, the Union is on the edge to accelerate its integration in economic, monetary and even political aspects in 2000s. Now the agenda of the European Union, which surpassed a certain time-span especially in achieving the economic and monetary unity so far, includes the amendments to the existing regulations of the Union as well as the completion of the process of the legal and technical harmonization of the candidate countries.

The progress toward the financial integration of the European Union as foreseen in the Rome Treaty of 1957, the White Paper of 1986, the Single European Act of 1987 and the Maasricht Treaty of 1992 is tried to be realized through lifting all physical, technical and financial barriers, setting out a common trade policy, liberalization of the circulation of the goods, capital, services and people, coupled with benefits expected from the economic and monetary union and the transition to the single currency “Euro” toward creating a common internal market working under effective competition conditions. The integration of the single financial services consisting of banking, securities markets and exchanges and insurance sectors is tried to be realized through elimination of the legislative and the implementation differences among the member states within the framework of common principles applicable to single license, reciprocal recognition and control and surveillance of the host country which are regulated by various EU’s Directives.

The integration of the capital markets and exchanges into the single European financial area is the main topic of this paper.

Beside the production of real goods and services, the quality of the financial services and financial management and planning also play a significant role in the continuity and stable growth of the companies in an ever-changing economic environment. While the financial products are exchanged freely on the one hand, the issuers of the financial instruments are expected to abide by the regulations aimed at protecting the investors to a certain degree on the other.

The financial services provided mostly by the banks in the local capital markets will transform into an integrated financial system which will earn an operational efficiency to all financial institutions in a consolidated structure to be built upon an integrated market.

Financial integration of Turkey, which was officially confirmed to be the candidate for full membership to the expanding European Union in

1999 after the Ankara Treaty of 1963 and the Custom Union Agreement in effect, with the European Union requires the legal and technical harmonization of Turkey which will take a certain period of time. While the legal structure of Turkey is being aligned with that of the EU to this end, the micro and macro economic and financial performance of Turkey must be elevated so as to compete with the EU-member countries.

This paper investigates the capital market operations and services and the interactions between the securities markets in the EU and the dimension of competition toward the integration of the EU in the financial services, compared with Turkey. The section 2 outlines the legal structures in the EU and Turkey regarding the capital markets, followed by the purpose, the priorities and the policy revisions within the framework of the “Financial Action Plan” toward the integration of the financial markets in the EU, compared with the situation in the corresponding Turkish capital markets. The section 3 examines the legal infrastructure and points out the priority-given regulations. The section 4 is mostly dealt with technical harmonization comparisons as to the market characteristics and the competitive positions providing a summary of the developments in the practices beyond the legislation. In the Evaluation and Conclusions sections, which of the targets regarding the legal and technical structure should be given priority by the member countries and Turkey towards the harmonization and integration of the financial markets are determined and the policies and strategies to be pursued to this end are evaluated. Finally, section 6 lists the priorities of the ISE in its harmonization and competition with the European exchanges.

II. Legal Framework in the European and Turkish Financial Markets

2.1. Legal Development of the financial Markets in the EU

The legal background of the European Union is basically the Rome Treaty (1957), the Single European Act (1987) and the Maastricht Treaty (1991).

Especially the Single European Act (1987) had accelerated the creation of the Internal Market. In the context of the provisions regarding the establishment of the European financial markets, the objective was to ensure an economic and financial integration which would be essentially based on the principle of “mutual recognition” and where the “single license” would be valid for the credit institutions and other financial institutions.

Measures taken for creation of a single financial market within the

European Union were mainly consisted of permitting the banks, insurance companies and investment companies to incorporate companies, open offices and obtain operational rights within the Union until 1992. In the Maastricht target and plan, the conditions regarding the financial deregulation have been detailed further as subject to the liberalization of the financial services and the movement of the capital according to the subsequent developments. One of the matters dealt with in two categories is the process of integration and the harmonization of the corporate law. Direct investors, portfolio investors and foreign investors are required to monitor the profitability and financial adequacy of a company. To this effect, the Council had issued a regulation regarding Article 54 of the Rome Treaty in order to facilitate the implementation. Directives regarding the annual accounts, minimum capital requirements, competence of the auditors, national and international mergers and the establishment of a European company have been adopted. Accordingly, the companies listed in the exchanges in the capital markets have to meet the minimum requirements, submit the information and documents required for application in complete and submit the semi-annual financial statements after the listing. The rules in the second category are related to the financial intermediators. The First Banking Directive (1977) has brought a series of rules regarding the uniform criteria and the control procedures applicable to the banks in the member countries. Other Directives are related with the annual statements the banks have to submit and deal with the definition of the financial assets, the capital adequacy, the liquidity ratios and the characteristics of certain financial instruments.

It can be said that the capital markets in Europe exhibited a disintegrated structure until 1990s due to the fact that exchange restrictions were in effect in most of the member states. The Directives of 1960 and 1962 brought liberalization to certain capital movements, but the dynamism brought by the White Paper (1985) fuelled the subsequent significant developments. Another important Directive has been issued regarding the investment funds. A separate Directive was adopted in 1986 regarding the long term commercial activities and the bond issues of the member states and the deregulation of the unlisted securities. A new Directive was issued in 1988 regarding the deregulation of the capital transactions. The Directive of October 1989 envisaged the deregulation of the Undertakings for Collective Investments in Transferable Securities (UCITs).

The Second Banking Directive (1989) set forth the principles applicable to the securities services provided by a bank having the single bank-

ing license, but the non-banking financial institutions were not allowed to enjoy the rights and benefits provided by the Directive. For this reason, with the adaptation of the Directive Act 1988 of the Commission as the “Directive on the Investment Services” in 1993, full competition among the investment institutions operating in the same market was encouraged and the principle of “single license” was adopted for the non-banking intermediary firms.

Remote marketing of financial products and services is one of the priority issues of the EU for the purpose of making the capital deregulation work effectively. To this effect, the Directives proposed by the Commission in 1990, 1997 and 1998 have been accepted. The Commission sent to the Parliament and the Council, a new proposal amending the last two Directives in 1999.

2.2. Financial Services and Recommendations and Similar Regulations in Turkey

Table 1: Financial Services and Recommendations and Similar Regulations in Turkey

Subject	Relevant Law, By-law, Regulation in the EU	Date and Reference	Similar Regulations in Turkey
Code of Conduct	77/534/EEC	25.07.1977	<ul style="list-style-type: none"> • Capital Markets Law; No. 2499, 28.07.1981 • Law No. 3794, 29.04.1992 • Law No. 4487, 15.12.1999
Directive on the Coordination of Listing Criteria of the Exchanges; Listing Requirements; Information to be Disclosed to the Public by the Listed Companies; Information and Prospectus to be Circulated for the Initial Public Offerings	79/279/EEC; 80/390/EEC; 82/121/EEC; 89/298/EEC; 94/18/EC.	1. 5.03.1979 O.J.L. 66, 16.03.1979; 2. 17.03.1980 O.J.L 100, 17.04.1980; 3. 30.6.1983 O.J.L 48, 20.2.1982; 4. O.J.L 124, 5.5.1989 Effective from: 17.4.1991 5. 10.05.1994 O.J.L 135, 30.08.1994	<ul style="list-style-type: none"> • "Communiqué on Financial Statements and Reports in the Capital Market", Series 11, No. 1; published on the Official Gazette: 29.01.1989. • "Communiqué on Interim Financial Statements", Series 11, No. 3; published on the Official Gazette: 26.07.1989. • "Communiqué on Consolidated Financial Statements", Series 11, No. 10; published on the Official Gazette: 28.03.1992. • "Communiqué on Disclosure of Special Situations to the Public", Series 8, No. 20; published on the Official Gazette: 6.7.1993. • "Communiqué on Sales Methods of Capital Market Instruments in Public Sales", Series 8, No. 22; published on the Official Gazette: 27.10.1993. • "Communiqué on Registration by the Board and Sale of Stock Certificates", Series I, No. 26; published on the Official Gazette: 15.11.1996. • Regulation for the Establishment and Functions of Securities Exchanges; published on the Official Gazette: 06.10.1984. • Rules and Regulations on Listing on the ISE; published on the Official Gazette: 19.02.1996

Insider Trading	89/592/EEC	13.11.1989, O.J. L 334, 18.11.1989, Effective from 1.6.1992	<ul style="list-style-type: none"> • Capital Markets Law (CML) 3794, 29.04.1992, Article 47/A • Capital Markets Law (CML) 4487, 15.12.1999, Article 47/A
Large Amount of Purchases and Sales of Stocks of a Publicly Traded Holding	88/627/EEC	O.J. L 348, 17.12.1988 Effective from 1.1.1991	<ul style="list-style-type: none"> • "Communiqué on the Determination of Participation Limits of Joint Stock Companies Subject to CML", Series 4, No. 13; published on the Official Gazette: 19.7.1995 (the Government Decree No. 558, on which the Communiqué is based, has been abolished) • "Communiqué on Disclosure of Special Situations to the Public", Series 8, No. 20; OG 6.7.1993. • "Concerning Principles on Votes by Proxy in the General Meetings of Shareholders of Joint-Stock Companies Held by the Public and Collection of Proxies or Shares by way of Notice", Series 4, No. 8; OG 09.03.1994.
Capital Adequacy in Investment Companies and Credit Institutions	93/6/EEC; 98/31/EC; 98/33/EC	1. 15.03.1993, O.J. L 141, 11.06.1993 2. O.J. L 204, 21.07.1998, p. 13 3. O.J. L 204, 21.07.1998, p. 29	<ul style="list-style-type: none"> • Capital Markets Law 2499 (3794, 4487); Article 31-34 • "Communiqué on Capital and Capital Adequacy of Brokerage Houses", Series 5, No. 34; OG 26.6.1998.
Liberalization of Securities Investment Services	93/22/EEC; 95/26/EC	1. 10.5.1993, O.J. L 141, 11.06.1993 2. O.J. L 168, 18.07.1995, p. 7	<ul style="list-style-type: none"> • "Communiqué on Intermediation Activities and Intermediary Institutions", Series 5, No. 46; OG 07.09.2000 • "Communiqué on Portfolio Management and Investment Consultancy ...", Series 5, No. 29; OG 19.12.1996, Series V, No.47, OG 07.09.2000.
Coordination of Regulations regarding UCITS	85/611/EEC; Commission's Proposal	1. 20.12.1985 O.J. L 375, 31.12.1985 2. 17.07.1998	<ol style="list-style-type: none"> 1. CML, Article 37, 38 2. "Communiqué on Financial Statements and Reports of Mutual Funds", Series 11, No. 6; OG 28.2.1990 3. "Communiqué on Mutual Funds", Series 7, No. 2. 4. "Communiqué on the Registration by the Board and Sale of Foreign Mutual Fund Shares", Series 7, No. 14; OG 6.11.1998

Use of State Guaranteed Bonds and Similar Private Sector Bonds for UCITs	88/220/EEC	1.4.1992, Greece and Portugal O.J. L 100, 19.4.1988 Effective from 1.10.1989	1. CML 2499 (3794, 4487), Article 37,38 2. "Communiqué on Mutual Funds", Series 7, No. 2 3. "Communiqué on the Registration by the Board and Sale of Foreign Mutual Fund Shares", Series 7, No. 14; OG 6.11.1998
Liberalization of Management of Funds Held by and Investments made by Pension Institutions	Proposal	12.11.1991, Revised Proposal: 26.5.1993. O.J. C 171, 22.6.1993	<ul style="list-style-type: none"> In Turkey, pension institutions (Social Security Administration, Pension Fund and Self-Employers Security Administration - Bağkur) are subject to restrictions in their investment. Works on establishment of private pension institutions are in progress.
Scheme for Fund for Compensation of Investors' Losses	Proposal COM (94) 585	O.J. 382, 31.12.1994	<ul style="list-style-type: none"> "Regulations on the Operation of Securities Compensation Fund"; OG 24.9.1982. Circular on Securities Compensation Fund: OG 01.02.1983 "Fund for Protection of Investors"; CML 2499; 15.12.1999, Article 46/A "Fund for Protection of Investors"; CML 4487; 15.12.1999, Article 23, 24
Implementation of a Common System for Taxation of Firms Operating in Different Countries; Disclosure on the Tax Return.	90/435/EEC 77/388/EEC 77/89/EEC	O.J. L 145, 13.6.1977	<p>Legal references to be dealt with in Turkey for harmonization in taxation:</p> <ul style="list-style-type: none"> Income Tax Law, 193, 31.12.1960 Corporations Tax Law, 5422, 3.6.1949 Code of Tax Procedure, 213, 4.1.1961 Stamp Duty Law, 488, 1.7.1964 <p>Treaties signed with the EU countries for prevention of double-taxation and tax evasion.</p>

2.3. Financial Action Plan in the EU and Turkey’s Situation

Table 2: Financial Action Plan in the EU and Turkey’s Situation

Raising Capital on an EU-Wide-basis			
Action	Objective	Target Time	Turkey
Upgrade the Directives on Prospectuses through a possible legislative amendment	<ul style="list-style-type: none"> Overcoming obstacles to the effective mutual recognition of prospectuses. 	2002	Prospectus standards must be made similar to those used in the EU. This includes the disclosure by the companies of profit and loss forecast as of the year-end, together with the reasons of the forecast.
Update the Directive on Regular Reporting (82/121/EEC)	<ul style="list-style-type: none"> Increase the confidence in the markets through more frequent and better quality information flow. Attracting more capital into the market. 	2002	<ul style="list-style-type: none"> Reaching full efficiency in public disclosure; accelerating the works on transmitting the company information to the investors on a real time basis. Increasing the growth efficiency in conjunction with other market factors which increase the transparency of the market.
Establishing a Common Legal Framework for Integrated Securities and Derivatives Markets			
Issue a Commission Communication on distinction between "sophisticated" investors and retail investors	<ul style="list-style-type: none"> Common interpretation of use of investor protection rules Determining conditions under which host country business rules apply to cross-border securities transactions 	2002	<ul style="list-style-type: none"> Protection of the investors is one of the fundamental principles of the Capital Markets Law. Ensuring a parallelism with the works of the relevant Commission in order to establish the common standards towards the harmonization with the EU.
Directive to address market manipulation	Enhancing market integrity by reducing the possibility for institutional investors and intermediaries to rig markets. Setting common principles for trading floors to enhance investor confidence in an embryonic single securities market	2003	<ul style="list-style-type: none"> Surveillance and inspection activities regarding manipulative transactions are carried out by the ISE and the Capital Markets Board (CMB). Although there is no a material harmonization problem in terms of regulations, the harmonization as to the judicial efficiency has to be attained. With the elevation of the efficiency

Establishing a Common Legal Framework for Integrated Securities and Derivatives Markets			
Action	Objective	Target Time	Turkey
			of the markets, coupled with efficient surveillance and inspection activities, the artificial market operations will decrease.
Green Paper on upgrading the Investment Services Directive	<ul style="list-style-type: none"> • Wide-ranging review of Investment Services Directive (ISD) to ensure integration and efficiency for investment services; • Tackle remaining obstacles to market access for brokers/dealers, obstacles to remote membership and restrictions on trading in T-bonds. 	2000	<ul style="list-style-type: none"> • Beside ensuring the harmonization with the investment services Directive in its present form, the system of remote membership targeted to be introduced in the EU should be put into operation in Turkey • Acceleration of the technical works regarding the investment services
Towards a Single Set of Financial Statements for Listed Companies			
Amend 4th and 7th Company Law Directives to allow fair value accounting	Enabling European companies to account for certain financial assets at fair value, in accordance with the International Accounting Standards.	2001	Transition of Turkey to the International Accounting Standards must be accelerated, as they are widespread around the world and the EU is at the stage of implementation. Especially the high inflation rate in Turkey makes the use of inflationary accounting compulsory. However, if the current program in effect for decreasing the inflation rate proves to be successful, this constraint will have been eliminated.
Commission Communication updating the EU accounting strategy	Improvement of the EU Directives in accordance with the International Accounting Standards.	2003	In parallel with the International Accounting Standards, the financial statements used in Turkey must be made comparable with those used by the EU companies.
Modernization of the accounting provisions of the 4 th and 7 th Company	Bringing the 4 th and 7 th Directives in line with the needs of the single market and to take	2002	Harmonization similar to the amendments to be made to the accounting standards of the EU regarding the

Towards a Single Set of Financial Statements for Listed Companies			
Action	Objective	Target Time	Turkey
Law Directives	into account developments in international accounting standard-setting.		companies publicly traded in the capital markets must be ensured.
Commission Recommendation on EU auditing practices	Taking measures in the areas of quality assurance and auditing standards.	end of 1999	Ensuring harmonization in the regulations with the European Union in terms of auditing standards and quality in the capital markets as well as increasing the quality of implementation.
Containing Systemic Risk in Securities Settlement			
Implementation of the Settlement Finality Directive	Common and coherent application of the Directive throughout the EU to ensure smooth functioning of systems	2002	Completion of the works in progress towards integration of the Turkish Settlement and Custody Bank with the settlement systems of the EU member countries.
Directive on cross-border use of collateral	Legal certainty as regards validity and enforceability of collateral provided to back cross-border securities transactions	2003	Giving priority to ensure harmonization with the EU in the regulations of the Turkish Settlement and Custody Bank regarding the guaranteeing and clearing related to the cross-border transactions.
Towards a Secure and Transparent Environment for Cross-Border Restructuring			
Political agreement of the proposed Directive on Take Over Bids	Creating EU-wide clarity and transparency in respect of legal issues.	2000	Enlarging the scope of regulations regarding the company acquisitions and takeovers in the capital markets and establishing the clarity and transparency criteria.
Political agreement on the "European Company Statute"	Creating optional legal structure to facilitate companies to place pan-European operations on a rationalized single legal umbrella. Clarifying scope for participation by employees-thereby create further common ground in respect of corporate governance practices.	2000	From full membership of Turkey onward, correction of omissions and defects in the regulations and their implementation in this area in accordance with a working schedule.
Review of EU corporate governance practices	Identification of legal or administrative barriers and resulting differences in corporate	2000	Lifting the regulatory constraints on the corporate management models of the companies in the capital markets

Towards a Secure and Transparent Environment for Cross-Border Restructuring			
Action	Objective	Target Time	Turkey
	governance regimes.		in order to ensure harmonization with the EU in this area.
Amend the 10 th Company Law Directive	Create the possibility for companies to conduct cross-border mergers.	2002	Creating a legal environment appropriate for mainly the local and then the cross-border mergers and takeovers.
14 th Company Law Directive	Allow companies to transfer their management to a real person/legal entity in another country and moving the head office of the company to another country.		Reviewing and revising the Turkish Commercial Code, the tax code and the other relevant regulations to this end.
A Single Market which Works for Investors			
Commission Communication on Funded Pension Schemes	Consultation on prudential framework for second-pillar pension fund schemes to protect beneficiary rights through stringent prudential safeguards and rigorous supervision.	-	With the enactment of the bill of private pension funds by the Turkish Parliament, a great step will have been taken toward harmonization with the EU regarding the protection of the participants in the pension funds.
Political agreement on the proposed Directives on UCITs	Proposal 1 will remove barriers to the cross-border marketing of units of collective investment through diversification of the assets in which funds can invest. Proposal 2: Widening the activities of portfolio management companies and thus ensuring access across Europe	2000	<ul style="list-style-type: none"> • Allowing flexibility to the mutual funds in their investment in the securities of the EU companies • Lifting the restrictions on the cross-border marketing and sales of the mutual funds
Directive on the Prudential supervision of pension funds	Preparing a Directive proposal for prudential supervision of pension funds. It will take into account the diversity of pension funds currently operating in the EU and will cover authorization, reporting, fit and proper criteria, and rules on liabilities and investments.	2002	<ul style="list-style-type: none"> • Following the enactment of the private pension schemes law, the rules applicable to the licensing, reporting, harmonization criteria, assets and investments and the principles and rules applicable to the "prudential management and audit" should be regulated. • In the regulations, emphasis should be given to ensure harmonization with the EU standards.

Open and Secure Retail Markets			
Action	Objective	Target Time	Turkey
Political agreement on proposal for a Directive on the Distance Selling of Financial Services	Proposal aims to bring about convergence of rules on business-to-consumer marketing and sales techniques. This will limit exposure of consumers to undesirable marketing techniques.	2000	Ensuring further development in new marketing and selling techniques and rules in line with the developments in technology for maximization of the consumer (investor) satisfaction.
Commission communication codifying clear and comprehensible information for purchasers	Establish over-arching view of basic information requirements clients need in order to assess credential of (cross-border) service suppliers, security/performance of services offered by latter (plus redress). Examine extent to which these requirements are complied for range of retail financial services.	2000	Increasing the level of giving trust of the clients (investors) and supplying them with adequate information and increasing reliability in the services related to the cross-border transactions.
Recommendation to support best practice in respect of information provision (mortgage credit)	The Commission will publish a communication to endorse understanding in respect of information to be provided in event of cross-border provision of mortgage credit services.	end of 1999	Elimination of differences in this area until full membership to the EU.
Commission report on substantive differences between national arrangements relating to consumer-business transactions	The report will catalogue obstacles to cross-border business-to-consumer transactions for relevant financial services. This will provide analysis of whether, how and why host-country consumer rules apply and determine conditions under which equivalence of national rules does/does not exist. Provide objective and empirical basis for discussion with member states and the European Parliament on how to facilitate cross-border provision of retail financial services without jeopardizing consumer safeguards.	end of 2000	Elimination of the differences with the member countries and ensuring the proximity with these countries by taking into account the process toward the full membership within the framework of regulating the rules of cross-border financial services marketing.

Open and Secure Retail Markets			
Action	Objective	Target Time	Turkey
Interpretative Communication on the freedom to provide services and the general good in insurance and proposal for amendment of Insurance Intermediaries Directive	Greater legal certainty and clarity for Member States, insurance undertakings and citizens, contributing to the creation of the single market. Facilitation of the free provision of services by insurance intermediaries and enhanced consumer protection by updating and introducing safeguards on professionalism and competence. Improvement of the professional standards in the insurance services for protection of the insured and clarification of the relevant insurance rules	2002	<ul style="list-style-type: none"> • Clarification of the rights and obligations within the triangle of insurance companies, agencies and insured which impede the growth of the insurance sector. • Defining the professional ethic rules and increasing the level of benefit of the insured.
Commission Communication on a single market for payments	An indicator will be provided for public and private agencies with a role to play in insuring that secure and cost-effective retail payments can be effected on a cross-border basis. At present, such transactions incur charges which are much higher in average than those within domestic payments systems– a situation which is untenable within a single currency zone. The Communication will focus heavily on credit transfers but will also address card payments, cheques and cash.	1999	Reaching the quality level of the EU countries in credit transfers, settlements by check and cash which payments which give the priority to reliability and low cost.
Commission Action Plan to prevent fraud and counterfeiting in payment systems	Agree on ways to prevent fraud, e.g. in organizing the exchange of data or increasing the reliability of technical systems.	end of 1999	Taking technical measures for prevention of forgery and fraud in the system of settlements as soon as possible independent of the process toward full membership to the EU and cooperating with other countries as necessary and ensuring the harmonization after the full membership
Commission Green Paper on an electronic	A clear and coherent policy for the whole financial sector, which	2000	Regarding the electronic trading of the finance sector, effective

Open and Secure Retail Markets			
Action	Objective	Target Time	Turkey
commerce policy for financial services	takes account of existing rules, wider international developments, and technological progress.		regulations should be employed and technological advancement should be ensured effectively and in harmony with the world, including the EU
Adopt the proposed Directive on the winding-up and liquidation of insurance undertakings	Provide a coherent legal framework for the winding-up and liquidation of insurance companies in the single market	2001	Insurance regulations should include regulations similar to those in effect in the EU countries regarding the dissolution of the private insurance companies.
Adopt the proposed Directive on the winding-up and liquidation of banks	Common rules on winding-up and liquidation will establish common principles for procedures to be followed in event of bank insolvency, identify responsible authority.	2001	Significant amendments regarding the dissolution of banks have been recently made; such common rules and procedures ensuring harmonization with the EU should be established by the Supreme Board of Banking with reference to the Banking Law
Adopt the proposal for an Electronic Money Directive	Establish of the legal framework on the use of e-money for support of the cross-border electronic transactions	2000	The relevant EU Directive should be taken as a reference when enlarging the scope of provisions in the national regulations regarding the scope of electronic money
Amendment of the money laundering directive	Combat fraud and money laundering in the financial system	2001	Efficiency of the regulations in effect in Turkey regarding the money laundering should be maintained with reference to the works of the OECD and the regulations in the EU
Commission Recommendation on disclosure of financial instruments	Enhanced disclosure of the activities of banks and other financial institutions to allow investors to take informed decisions, and to foster market transparency and discipline as a complement to prudential supervision	1999	The public disclosure criteria in Turkey should be made more effective as in the EU within the framework of the Capital Markets Law and the Listing Regulations of the ISE
Amend the Directives governing the capital framework for banks and investment firms	Work on a review of the bank capital framework to reflect market developments is running in parallel with that of the G-10 Basle Committee on Banking supervision.	2002	With the enactment of the new Banking Law, various regulations have been issued regarding the banks whose capital structures have been reinforced; maintaining the parallelism with the works of the Basle Committee and the developments in

Open and Secure Retail Markets			
Action	Objective	Target Time	Turkey
			the EU should be closely monitored and the monitoring of the capital adequacy and risk management mechanism in the Turkish financial system should be well established
Amend the solvency margin requirements in the insurance Directives	Protection of clients in the single market by ensuring that insurance undertakings have adequate capital requirements in relation to the nature of their risks.	2003	Making the system existing in Turkey regarding the solvency of the insurance companies to comply with the EU.
Proposal to amend the insurance Directives and the Investment Services Directive to permit information exchange with third countries	Basis for international exchange of information to underpin financial stability.	2001	Review of the existing regulations to allow the institutions in Turkey to establish alliances, enter into data sharing agreements and establish cooperation with the institutions in abroad involved in the same business in order to enable and encourage data communications
Development of prudential rules for financial conglomerates following the recommendations of the 'Joint Forum'	Addressing loopholes in the present sectoral legislation and additional prudential risks to ensure sound supervisory arrangements.	2002	Making the regulations regarding the group companies more effective, correcting the deficiencies in the sectoral regulations and improving the efficient audit mechanisms
Creation of a Securities Committee	A formal regulatory committee in this field will contribute to the elaboration of EU regulation in the securities area. Requires willingness on part of EU institutions to agree an appropriate comitology procedure.	2002	Establishing and ensuring efficient working of a "sub-committee for securities" for the purpose of correction of differences with the general regulations of the EU as well as the structural and legal differences in the member countries
General Objectives			
Adopt a Directive on Savings Tax	The objective of the proposal is to remove disparities in tax treatment of private savings to complement the removal of obstacles to the free movement of capital and financial services will benefit the financial sector.	2000	Works on ensuring harmonization with the minimum standards of the EU regarding the tax regulations and practices should be continued and inequalities in the taxation practices which may be an obstacle on route to full membership should be determined and eliminated

General Objectives			
Action	Objective	Target Time	Turkey
Implementation of the December 1997 Code of Conduct on business taxation	Counter harmful tax competition which may significantly affect the location of business activity in the Union	-	A study should be carried out regarding the policy to be adopted by Turkey with respect to regional tax practices in her negotiations with the EU for harmonization
Review of taxation of financial service products	Lower costs and remove disincentives for cross-border business.	-	Actions to be taken to ensure harmonization regarding the taxation should be determined by taking into account the transaction and operational costs in order to draw the cross-border portfolio investments to Turkey
Commission proposals for coordination of the tax arrangements governing supplementary pensions	Building on discussions in Tax Policy Group, proposal for legislative action will be prepared to address tax treatment of cross-border contributions of migrant workers to supplementary pension funds. Will serve as a contribution to labor mobility.	2002	Adequate tax incentives should be granted to enable the pension funds sector in Turkey to grow
Review of EU corporate governance practices	Identification of legal or administrative barriers and resulting differences in corporate governance regimes.	-	Ensuring harmonization with the EU in this area by taking into consideration the appropriateness of the structure in Turkey regarding the regulations and implementations

III. The Legal Harmonization of the Turkish Capital Market and the ISE's Regulations with the EU

The legal basis of the relationship with the EU and Turkey is the Ankara Treaty. Turkey and the EU are obliged to fulfil the requirements set forth to ensure the proximity in terms of competition, taxation etc., including the various sectoral developments. To this end, the Custom Union Agreement was signed in January 1996.

With the deregulation of the capital movements, the harmonization in the financial system will have been completed. The target of free movement of the labor and full membership will be attained after a negotiation process depending on the steady development of the relationship and fulfilling of the obligations agreed by both parties.

Turkey has liberated the capital movements, to a great extent, with the Government Decree No. 32 on the Protection of Turkish Currency and the Law on the Encouragement of Foreign Capital in 1989. Regulatory and restrictive rules applicable to the transactions on the securities and other capital market instruments, including the foreign currency and instruments denominated in foreign currency, are set forth based on the aforesaid Government Decree.

Also the international portfolio investments have been liberated in accordance with the Directives of the EU regarding the capital movements. Financial institutions and banks which purchase and sell securities on behalf of persons at home and abroad have to submit quarterly reports to the Central Banks on such transactions for the purpose of monitoring of the capital movements and accumulation of the statistical data. The capital market agencies report the securities transactions they made on behalf of foreign investors to the ISE and the Capital Markets Board on a monthly basis.

The Law on the Encouragement of Foreign Investment allows the foreign investors to transfer the profit they earned from their direct investments, the principal amount and the shares they hold in abroad. With the Framework Decree on the Foreign Investment which came into effect in 1986, foreign investors have contributed to the economic development of the country.

Turkish securities and other capital market instruments are freely bought and sold and the profits and sales proceeds of such securities and instruments are freely transferred to abroad by foreign investors. Foreign investors are also allowed to issue and sell to the public securities and other capital market instruments in Turkey in accordance with the Capital

Markets Law.

The European Union countries have adopted full liberation in capital movements as of December 31, 1995. However, there are some exclusions which allow the member states to impose restrictions on the capital movements in case of a material risk on transition to the economic and monetary unity. Pursuing deregulation policies in the regulation and implementation of the capital movements since 1980, Turkey will not encounter difficulty regarding the harmonization on route to full membership.

The issues related to the legal regulations regarding the capital markets have been determined as

1. freedom for investment services
2. capital adequacy
3. listing requirements on the exchanges
4. insider trading
5. transactions in substantial amounts
6. mergers and takeovers
7. investment funds
8. pension funds
9. remote marketing of financial services
10. electronic signature
11. settlement and custody
12. investor compensation fund
13. corporate law and taxation

beyond the deregulation of the capital movements, and these issues are dealt with under sub-headings below, with a comparison regarding harmonization of Turkey in such issue.

3.1. Deregulation of the Securities Investment Services

Table 3: Deregulation of the Securities Investment Services

Subject	EU	Turkey
Those regarded as an investment firm	<p>The criteria are valid for all investment companies and also apply to the credit institutions in accordance with the criteria set forth in the Directive.</p> <ul style="list-style-type: none"> • Lending institutions licensed in accordance with the Directives 77/780/EEC and 89/646/EEC, • Investment Services Directives, 89/646/EEC and 93/6/EEC. Branches of the investment companies or lending institutions licensed by a third country and in compliance with the rules set forth in the Directives. • Investment trust companies which have been granted license for marketing the participation certificates of mutual funds to the public in accordance with the legislation of a member country and the investment companies whose securities have been listed on an Exchange or traded in the regular Exchange of a third country, which are defined in the Directive 77/91/EEC. 	<p>Capital Market Institutions:</p> <ol style="list-style-type: none"> 1. Brokerage Houses 2. Investment Trust Companies 3. Mutual Funds 4. Other Institutions <p>The Capital Markets Law amended by Laws No. 4487 and 3794 allows the intermediators licensed to involve with all intermediary activities related to the capital markets which cover a very broad span of activities to act as intermediary in purchase and sale transactions both on the name and behalf of themselves and third persons. In order to involve with these activities, a license has to be obtained from the Capital Markets Board.</p>
Investment Services	<p>Basic Services:</p> <ol style="list-style-type: none"> 1. Sending of orders for financial instruments to the investors 2. Execution of orders outside the personal accounts 3. Trading of financial instruments for personal accounts 4. Investors who manage the portfolios consisting of financial instruments by making a separation on the basis of clients 5. Undertaking and completion of financial instrument issues <p>Non-basic Services:</p> <ol style="list-style-type: none"> 1. Services related to management and custody of the financial instruments 2. Custody services 3. Lending services provided for trading and/or involving the lending company 4. Consultancy services on capital structure, industrial strategy, company mergers and acquisitions 5. Underwriting services 	<p>The Capital Market Activities involve</p> <ol style="list-style-type: none"> 1. acting as an intermediary in the issue and public sale of capital market instruments registered by the Board 2. purchase and sale of previously issued capital market instruments 3. acting as an intermediary in future contracts based on the financial indicators, capital market instruments and goods and assets 4. purchase and sale of securities under re-purchase and re-sale agreements 5. investment consultancy 6. portfolio management <ul style="list-style-type: none"> • Pursuant to the Article 34 of the Capital Markets Law, rules applicable to foreign institutions in relation with capital market activities are

	<p>6. Investment consultancy services on the financial instruments</p> <p>7. Foreign exchange purchase and sale services as investment services</p>	<p>established by the Capital Markets Board.</p>
Transferable Securities	<p>1. Transferable stocks</p> <p>2. Mutual funds or investment funds</p> <p>3. Money market instruments</p> <p>4. Future contracts consisting of financial instruments qualified as cash money</p> <p>5. Forward rate agreements (FRAs)</p> <p>6. Interest, foreign exchange and stock swaps</p> <p>7. Option contracts, including the agreements considered as cash money, made for ownership or possession of financial instruments especially such as exchange rate and interest rate, which are included in this category.</p>	<p>1. Stocks and derivatives</p> <p>2. Bonds and derivatives</p> <p>3. Revenue sharing certificates</p> <p>4. Bank bills</p> <p>5. Bonds guaranteed by banks</p> <p>6. Financing notes</p> <p>7. Asset-backed securities</p>
Country of Origin	<p>1. If the investment firm is a real person, the country where the head office of the firm is located.</p> <p>2. If the investment firm is a legal entity, the country where the firm is registered or where the head office of the firm is located if the firm is not registered in the country where the firm is located.</p> <p>3. If a market is provided, the country where the firm which provided the commercial opportunities is registered or where the firm is located if the firm is not registered in the country where it is located.</p>	<p>For harmonization with the EU, the rule of the country of origin should be applied.</p>
Exemptions	<p>There are differences among the member countries regarding the "exemptions" set forth in the Investment Services Directive. For example, in Austria exemptions have been granted to insurance companies, central banks and mutual funds. Since the distinction between the sophisticated (professional) investor and individual investor in Article 11 of the Directive is not clear, applications in the member countries are different. Also, due to the fact that conditions in the definition of "regular market" are not sufficient, differences occur (Directive, Article 1.13).</p>	<p>Similar exemptions may be in effect when Turkey becomes the full member of the EU. It is obvious that Turkey will not encounter any difficulty in meeting the minimum conditions thanks to the obscure provisions in the Investment Services Directive. However, the existing intermediary institutions have to be restructured to be able to compete with the institutions in the EU.</p>
Harmonization as to Entrance into the Market	<p>Although it is deemed not necessary to allow an additional period of time for membership and entrance into the regular markets following the completion of the transition period allowed to Spain, Greece and Portugal in 1999, there are disputes over the matter.</p>	<p>In case of full membership, it is possible to provide exceptions in the rules applicable to entrance into the markets of the ISE. Especially it will be necessary to determine the minimum</p>

		conditions of licensing the brokerage houses licensed to operate in the EU member countries to operate in the Turkish capital markets. In addition, methods regarding the remote membership conditions must be determined.
Standards and Responsibilities of the Investment Firms	<p>Pursuant to the criteria applicable to licensing and re-voking the license of the investment firms in the member countries,</p> <ul style="list-style-type: none"> - Each investment firm must have financial resources sufficient for the proposed activities - Managers must have sufficient experience - Compliance of the investors must be ensured in all respects - Application for the license must be made in accompaniment of a series of formalities. <ul style="list-style-type: none"> • The member countries are obliged to give notice to the Commission about the companies to be established in a third country by one or more companies in the member country through direct or indirect investments. • The authorized bodies of the country of origin are responsible for the audit of the investment firms. • The authorized bodies will pursue the public benefit during investigating the implementation of the administrative rules and the compliance with these rules. • Changes in the investment firms must be notified to the auditing authorities and appropriateness of the subscription of the new shareholders must be assured. • Investment firms must inform the investor of the compensation system in use. • Investment firm licensed in another member country can advertise by using the communications means in the country of origin. • Member states should permit investment firms licensed in other member countries to open branches or provide services by other means in their own countries. • A member state may require that transactions related to investment services be done in an organized 	<ul style="list-style-type: none"> • Mutual recognition of the intermediary agents and their branches and the implementation of the rules of the country of origin will be required. • In this case, licenses to the investment companies operating in the capital markets in the EU member countries for their operations in Turkey will be issued in accordance with the rules and conditions applicable in the country of origin. • On the other hand, the authorized bodies in Turkey will retain their power and authority in auditing the investment companies in Turkey and an investment company operating in Turkey will be bound by the audit procedures applicable in Turkey pursuant to the principle of reciprocity. • Turkish brokerage houses will obtain the right to perform transactions in the EU capital markets under the same conditions. • Investors have to be informed of the compensation system in use at the time of opening the accounts for compensation of the investors.

	<p>market under certain circumstances. Investment firms may register in the organized markets.</p> <ul style="list-style-type: none"> • When branches are opened or services are rendered by investment firms of other countries in the country of origin, rules and formalities regarding the notices shall still apply. • Authorities in the country of origin or in the other country will implement the procedures required to be applied in case of violation of legal requirements in the country of origin. 	
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3.2. Capital Adequacy

Table 4: Capital Adequacy

Subject	EU	Turkey
Definitions	<ul style="list-style-type: none"> • Trading Book (Order Book) • Own funds • Shareholders' equity • Minimum limit of capital adequacy • Risk provisions • Position risk • Net position • Counterparty risk 	<ul style="list-style-type: none"> • Shareholders' equity • Minimum limit of capital adequacy • Risk provisions • Position risk • Net position • Counterparty risk
Minimum Shareholder' Equity	<ul style="list-style-type: none"> • 125,000 Euro • Activities Limitation-All activities between 50,000 to 730,000 Euro 	<ul style="list-style-type: none"> • TL 500 billion (equivalent of Euro 900,000) • TL 90 billion for intermediation in buy-sell activities <ol style="list-style-type: none"> 1. intermediation for buy-sell transactions in public sales, 50% 2. for equity shares buy and sell activities, 50% 3. portfolio management, 40% 4. investment consultancy, 10% 5. intermediation in futures and options contracts, 100%
Minimum Limit of Capital Adequacy	<ul style="list-style-type: none"> • Own funds are re-calculated once every six months based on the previous term 	<ul style="list-style-type: none"> • up to 80 % of minimum revaluation rate and • to be provided by 6th month of the underlying year • of which 25% will be paid-up or issued capital

Subject	EU	Turkey
		<ul style="list-style-type: none"> • minimum shareholders' equity risk provision cannot be less than the operational expenses during the last three months
Limit of Overall Borrowing	<ul style="list-style-type: none"> • In mergers: up to total own funds amount of the merging companies 	<ul style="list-style-type: none"> • debts and guarantees arising from underwriting intermediation • including debt obligations to settlement institutions and clients • current values of all short and long term liabilities on the balance sheet cannot exceed by more than 15 times of the base level of capital adequacy
Liquidity Liability		<ul style="list-style-type: none"> • at least up to the amount of the short term liabilities
Capital Strengthening		<ul style="list-style-type: none"> • allocation of 0.05% provision for position risk in underwriting intermediation • overall borrowing limit: 30 times of the base level of capital adequacy • total amount of margin trading, short selling and securities lending : 4 times the amount of shareholders' equity • amount of loan that can be extended to a client is up to 30% of equities • In mergers and takeovers of brokerage houses; • 5 times of minimum amount of shareholders' equity as of the end of 1st year • 10 times of minimum amount of shareholders' equity as of the end of 2nd year and other special provisions; position risk 1%, overall borrowing limit 20 times; total amount of margin trading , short sale and securities lending transactions: 3 times of the amount of shareholders' equity

Subject	EU	Turkey
		<ul style="list-style-type: none"> amount of loan that can be extended to a client is up to 20% of the shareholders' equity
<p>Guarantee: Risk Provision</p>	<p>I. Position Risk</p> <ul style="list-style-type: none"> Netting and net position, except for convertible securities Calculating by delta values of futures transactions Special risk: public issues= 0%; 6 months-24 months-0.25%-1%-1.60%; other-58 General risk-based on due date and term: 3% and more and less than 3%; weighting on the basis of maturity and return Total Capital Requirement: <ol style="list-style-type: none"> 10% of the matched weighted positions in maturity bands: <ul style="list-style-type: none"> Zone 1-0-12 months: 40% Zone 2-1-4 years: 30% Zone 3-4-20 years: 30% Between Zone 1-2 and between Zone 3-4: 40% Duration Based: <ul style="list-style-type: none"> 25% of positions weighed by comparison to term of each zone Between Zone 1-2 and between Zone 2-3: 40% Between Zone 1-3: 150% the rest 100% <p>Instruments Representing Partnership Rights:</p> <ul style="list-style-type: none"> Difference between net long and net short position: net position Special risk: gross position multiplied by 4% Individual position will not exceed 5% of the total value of the portfolio (permitted up to 10% provided that total of such positions does not exceed 50% of the portfolio) General risk: net position multiplied by 8% <p>Underwriting:</p> <ul style="list-style-type: none"> Calculation of net position as per the underwriting Reducing the net position by reducing factors: day 0-100%; day 1-90%; day 2 and 3-75%; day 4-50%; day 5-25%; after day 5-0% 	<p>I. Position Risk</p> <ul style="list-style-type: none"> For capital market instruments, except for reverse repo instruments Netting and determination of net position the position risk in underwriting intermediation: 2% varies between 10% and 100% according to day 1 and day 6 after the closure of sale delta values are taken into account in futures transactions <p>II. Counterparty risk: calculated by taking into account short position in collateral</p> <ul style="list-style-type: none"> 5% of the collateral short position in receivable from the institutional investors in abroad which are rated at home 100% with respect to other persons and entities in securities lending and borrowing transactions: a provision of 5% to 100% is set aside for repo and reverse repo transactions (except for when the instrument sold is left at the custody of the brokerage house). <p>When a counterparty risk is involved,</p> <ul style="list-style-type: none"> the brokerage house must receive adequate collateral in return of the loan it extends and the lent securities.

Subject	EU	Turkey
	<p>II. Clearing and counterparty risk:</p> <ul style="list-style-type: none"> • Settlement/delivery risk; when 5-45 days elapsed since the date of settlement, for the duration between 5-15 days: 8% multiplied by 0.5%; 16-30 days: 50% multiplied by 4; 31-45 days: 75% multiplied by 9; and other days: 100% • Counterparty risk: value of the cash money or securities multiplied by 8% • Other risks <p>III. Exchange rate risk: When the net position in foreign currency exceed 2% of the equities, amount of the fund is multiplied with 8%</p> <p>IV. Other risks: The investment company has to maintain own funds up to 1/4 of fixed overheads of the previous year.</p> <p>V. Large exposures: Institutions specified in Article 5(2) are obliged to monitor and control their risks associated with the groups in relation with the individual clients and the clients specified in the Directive 92/121/EEC.</p> <p>VI. Commodity risks: The capital required to be held by an investment company for each commodity is the total of the following:</p> <ul style="list-style-type: none"> • 15% of the long or short net position multiplied with spot market price of the commodity • 3% of the long and short gross position multiplied with spot market price of the commodity 	<ul style="list-style-type: none"> • transactions are conducted with the public institutions in order to avoid risk • Provision for counterparty risk: each client is considered a counterparty. The counterparty risk is calculated based on the current value of the receivable by determining the kind of collateral assets, setting aside the determined collateral assets by kind, calculating the current value of the collateral and setting aside the collateral in an amount equal to the current value of the risk. <p>III. Concentration risk: It is a risk occurring when the assets or liabilities of the brokerage house forming the significant part of the base level of the capital adequacy of the brokerage house.</p> <ul style="list-style-type: none"> • When the total amount of receivable from the instruments or the position risk items of an issuer exceed the capital adequacy <ul style="list-style-type: none"> a) 40% to 60%, 3 times of the rate of position risk; b) 60% to 80%, 4 times of the rate of position risk; c) 80% to 100%, 5 times of the rate of position risk; d) 100% to 250%, 6 times of the rate of position risk; e) more than 250%, 9 times of the rate of position risk. <p>The maximum amount of risk provision cannot exceed the current value of the relevant item.</p>

Subject	EU	Turkey
		<p>IV. Exchange rate risk: total of net open positions</p> <p>a) each asset/liability in foreign currency</p> <p>b) netting of long and short positions with respect to futures contracts and similar contracts in foreign currency</p> <p>c) current value of option contracts for foreign exchange multiplied with their delta</p> <ul style="list-style-type: none"> • when the greater of the total of the net open long position and net open short position exceeds the 2% of the base of the capital adequacy, 8% of the amount in excess is the exchange rate risk. • The commodity risks included in accordance with the amendments made within the framework of EU Directive can be indicated under the 'other' item of the monthly report to the CMB pursuant to the Communiqué of the CMB, series V. No. 34.
Risk Monitoring	<p>Internal patterns:</p> <ul style="list-style-type: none"> • The authorized bodies may allow the investment companies which meet the requisites specified in this annex to use the methods specified in annexes I, III and VII for position risk, exchange rate risk and/or commodity risk or their own risk management patterns in place of the aforesaid methods. • The internal risk management pattern is integrated with the daily risk management process of the investment company, and a report is submitted to the executives of the company on the encountered risks. • The investor will have a risk control unit which will submit report to the top management independent of the transaction unit. This unit must be responsible for designing and implementing the risk management system of the company. Employees of the risk 	<ul style="list-style-type: none"> • Although models related to the risk management are not dealt with in detail in the Communiqué on Capital Adequacy of the CMB, regulations dealing with the models to be used in risk management can be issued in line with the growth of the capital markets. • It is subject to the audit of the CMB. In case of violation of the obligations, the provisions of the Communiqué on Capital Adequacy the Article 57 of the Communiqué on the Intermediary Activities and Brokerage Houses are applied. • In case of any violation, a certain

Subject	EU	Turkey
	control unit must be able to work with advanced complex models.	period of time is allowed for correction of the violation. In case of failure to correct the violation, the activities of the brokerage houses are suspended temporarily or some or all of the licenses of the brokerage houses are revoked.
Evaluation of Position	<ul style="list-style-type: none"> • Except for those which are involved with small size order book, those which are involved with substantial order book transactions will calculate their positions on daily basis. • In case of lack of market value, alternative evaluation methods are used within the knowledge of the relevant authority. 	<ul style="list-style-type: none"> • Risk monitoring methods in compliance with the tables drawn in accordance with the provisions of the Communiqué of the CMB. • Current prices are taken into account. In case of lack of current prices, the provisions of the Communiqué on Accounting have to be applied with respect to the evaluation as specified in the relevant Communiqué.
Consolidated Audit	<ul style="list-style-type: none"> • those which do not have a parent company or a subsidiary are audited individually; • the parent companies which have subsidiaries and affiliates are audited on a consolidated basis 	Items of uncollateralized receivables from persons and entities who and which are directly or indirectly related with the management and the auditing and the capital market instruments which are not traded in the markets where such instruments have been issued by such persons and entities are deducted from the shareholders' equity.
Reporting Obligations	<ul style="list-style-type: none"> • Member countries will require the investment companies and the lending institutions to submit the certificates specified in the Directive to the countries of origin. • Investment companies with a capital of Euro 730,000 will submit the report once a month, with a capital of Euro 125,000 quarterly, with a capital of Euro 50,000 semi-annually. • In case of failure to meet the counterparty obligations with respect to repo and reverse repo contracts or securities lending and borrowing transactions, the relevant authority will be notified immediately. • In case of failure to comply with the provisions of 	<ul style="list-style-type: none"> • Calculation date; monthly reporting to the CMB; obtaining the opinion of the independent auditing firms in accordance with the Communiqué Series X, No. 16 and the provisions to be applied in case of violation of the obligations. Submission of the Monthly Declaration Statement of Capital Market Activities to the CMB on a monthly basis. • Intermediation of purchase and sale activities

Subject	EU	Turkey
	<p>the Directive by the member countries, the Commission will notify this to the Council.</p>	<ul style="list-style-type: none"> • Shareholders' equity • Margin Trading, short selling and securities lending activities • Securities given as collateral for bank loans • total underwriting in public offerings • repo-reverse repo • portfolio management • unguaranteed client debts • events of default • investment consultancy • the brokerage houses have to obtain opinion of an independent audit firm regarding the statement of calculation of risk provisions, statement on calculation of the minimum level of capital adequacy and other related statements.
Competent Authorities	<ul style="list-style-type: none"> • Authorities of the member countries (institution in the auditing system) and the public authorities • Notification to the European Commission for its Directive 	<ul style="list-style-type: none"> • The CMB for the activities of the brokerage houses and the Supreme Board of Banking for the lending institutions.

3.3. Listing on the Exchanges and Disclosure Requirements

Table 5: Listing on the Exchanges and Disclosure Requirements

Subject	EU	Turkey
Legal Status of the Company	The legal status of the company must comply with the provisions of the law and regulations which govern the establishment and activities of the company.	The legal status used in the Listing Regulation of the ISE refers to the joint-stock companies.
Listing-Trading	Shares of the companies listed on the exchanges are traded.	There is no direct relationship between listing and trading.
Minimum Size of the Company	If calculable, the market value of the company at the time of sale to the public, if not, a capital of minimum Euro 1 million, including the reserves and the profit (loss) of the fiscal year. However, the authorities may permit the listing of the company even if such conditions are not met when they decide that the demand for the shares of the company in the market is sufficient. If there is another market open to public in a member country which is regulated, well organized and recognized by public authorities and if the conditions for listing on this market are equal to or lesser than the aforesaid conditions, the member countries may require higher market capitalization or more capital, reserve etc. for listing. In addition, for listing of the subsequent issues of a stock listed on the Exchange previously, the aforesaid condition shall not apply.	The minimum paid-in-capital requirement for the National Market is TL 750 billion. There is no capital requirement for the Second National Market or the New Economies Market.
Duration of the Company's Operations	Annual accounts of the company for the last three years before the application for listing must have been prepared and published. However, the relevant authorities may lift this prerequisite if it is on favor of the investors or the company and if the investors have information sufficient to enable them to make correct decisions regarding the company and the shares to be listed.	<ul style="list-style-type: none"> • For a company to be listed on the Exchange for the National Market, three calendar years (or two years if the free float rate is 25% of the share capital) must have elapsed since the incorporation of the company. For a company to be listed on the Exchange for the Second National Market and the New Economies Market, there is no minimum requirement in the operational period. • In order to be listed on the Exchange for the National Market, the company must have its financial statements of the last year, including the interim financial statements, audited by an independent audit firm.

Subject	EU	Turkey
		<p>With respect to group companies, their consolidated financial statements must have been issued. If the independent audit reports consist of conditions, the effects of the causes of such conditions must have been reflected on the financial statements and explained on the footnotes.</p>
<p>Legal Status and Circulation of the Shares to be Listed on the Exchange</p>	<p>The legal status of the shares must comply with the law and regulations to which the shares are subject, and the shares must be exchanged freely. Provided that the transfer of the shares are not restricted and necessary measures have been taken for disclosure to the public, the relevant authorities may also allow the transfer of the unpaid shares.</p>	<ul style="list-style-type: none"> • Pursuant to the Article 5 of the Communiqué Series I, No. 26 of the CMB, in the event that the shares are within a particular series and class, all shares within that series and class must have been paid, otherwise whole capital of the company must have been paid in full, and the shares must be free of any lien or other encumbrance which restricts the transfer of the shares or hinders the use of rights attached to the shares by the shareholder. Pursuant to the Listing Regulations of the ISE, the initial application for listing must cover the whole of the securities of this type issued until the date of application and the articles of association must not contain any condition which restricts the transfer and circulation of the securities and hinders the use of rights attached to securities by the owner.
<p>Distribution of the Shares and the Rate of Publicly Traded Shares</p>	<ul style="list-style-type: none"> • Before the acceptance of the listing on the Exchange, the sufficient number of shares of the company must be held by the public in one or more of the member countries. This condition is not applicable to the public sale of the shares through the Exchange. In this case, the company is listed on the Exchange if the relevant authorities believe that the shares of the company will be sold to public through the Exchange in sufficient amount. 	<ul style="list-style-type: none"> • Pursuant to the Article 9 of the Listing Regulations of the ISE, the existing and potential circulation volume of the securities in the market must be in compliance with the criteria pre-determined by the Management of the Exchange. • The free-float rate of publicly traded shares for a company with a capital

Subject	EU	Turkey
	<ul style="list-style-type: none"> • If the listing is made for subsequent issue of the same series of a share, the authorities may decide on the listing of the company by considering not only the last block sale of the shares, but the distribution of the shares to the market in sufficient number. • If the shares are listed on the official Exchanges of one or more non-member countries and the shares are distributed to the market in sufficient number, the authorities may not implement the aforesaid conditions for the listing. • If the shares to be listed represent at least 25% of the registered capital represented by the same series of shares and held by the public or if they are held by the public in lesser quantity, however, not marring the regular operation of the market, it is deemed that the shares have been sufficiently distributed to the market. 	<p>up to TL 750 billions must be 15%, for a company with a capital between TL 750 billions and TL 1,5 trillion must be 10%, for a company with a capital over TL 1,5 trillion must be 5%, but the shares of the company corresponding to 15% of the nominal capital of the company must be registered by the Capital Markets Board by the end of the 3rd year following the sale to public.</p>
Listing of the Same Series of Shares	<ul style="list-style-type: none"> • Application for listing must be made for the whole of the same series of shares. However, the aforesaid rule is not applied by the relevant authorities, provided that the concerned series of the shares are not traded for a certain period under special contracts, that the shares are not within the class of shares which control the company or that the holders of the shares to be listed are not exposed to any loss and that the public is informed about the situation. 	<ul style="list-style-type: none"> • Pursuant to the Listing Regulation of the ISE, the initial application for listing must have been made for the whole of this type of securities issued until the date of application.
Form of Shares	<ul style="list-style-type: none"> • For listing of the shares of a company registered in another member country on the Exchange of a member country, the shares to be listed must conform to the conditions of that member country regarding the form of the shares. If the shares are not in comply with the conditions of the member country to which the application is made for listing of the shares regarding the form of the shares, this non-compliance must be disclosed to the public by the authorized bodies of that member country. The shares issued by the companies registered in a non-member country must provide the necessary security to the investors as to the form of the shares. 	<ul style="list-style-type: none"> • Pursuant to the Article 5 of the Communiqué Series I, No. 26 of the CMB, the shares must be in compliance with the regulations of the Board. The Communiqué Series I, No. 5 of the CMB deals with the rules regarding the form of the shares. Pursuant to the Article 12 of the Communiqué Series III, No. 20 of the CMB on the Rules Applicable to the Registration by the Board and Sale of the Instruments of a Foreign Capital Market, the text on the instruments of the foreign capital market and its annexes must contain at

Subject	EU	Turkey
		<p>least the information which must be provided in the texts of the equivalent instruments traded in the Turkish market. In addition, notarized Turkish translation of the information given on such instruments must be provided to the investors at the time of sale of the instruments.</p>
<p>Listing of Instruments Representing Debt</p>	<ul style="list-style-type: none"> • Provisions governing the listing of the debt instruments are the same with those governing the shares as specified above regarding the status of the issuing company and the debt instrument, the circulation of the debt instruments, the requirement that the listing must be made for the whole series of the debt instruments and the form of the debt instruments. 	<ul style="list-style-type: none"> • They are subject to the same provisions with the ones applicable to the listing of shares regarding the said matters.
<p>Minimum Amount of Issue of Debt Instruments</p>	<ul style="list-style-type: none"> • Amount of issue of the debt instruments cannot be less than Euro 200,000. This pre-condition is not applied regarding the continuous issues where the amount of issue is not fixed. • In the event that the relevant authorities have the opinion that there is a sufficient market for the issue, the aforesaid condition may not be applied. 	<ul style="list-style-type: none"> • Pursuant to the Article 9B/2 of the Listing Regulation of the ISE, the nominal amount of the issue must not be less than the amount determined by the Executive Council. The Executive Council, however, has not yet determined an amount.
<p>Sale of the Instruments Representing Debt to the Public Prior to the Application for Listing</p>	<ul style="list-style-type: none"> • In the event that sale to the public is made before an application for listing, the initial listing can be made after the expiration of the time specified for delivery of subscriptions. As to the issue of debt instruments without a fixed deadline for subscriptions, this rule is not applied. 	<ul style="list-style-type: none"> • For listing of borrowing instruments on the Exchange, the whole issue must have been offered to the public.
<p>Listing of Bonds Exchangeable with or Convertible into Shares or Warrant Bonds</p>	<ul style="list-style-type: none"> • Bonds exchangeable with shares or warrant bonds are listed on the Exchange on condition that the underlying shares are listed on the same Exchange and/or on another regulated, well organized and generally accepted Exchange. • The aforesaid condition may not be applied if the relevant authorities have the opinion that they have been provided with every kind of information which suffice to determine the value of such securities. 	<ul style="list-style-type: none"> • For listing of bonds exchangeable with shares, the condition that the underlying shares must have been listed on the same Exchange does not apply.

Subject	EU	Turkey
Term for Conclusion of the Listing Application	Six months (except for omissions)	60 days (except for omissions)
Listing of New Issue of the Same Series of Shares	In case that the companies make a new issue of the same series of shares which have been previously listed on the Exchange and that the new issue of shares are not automatically listed on the Exchange, the companies must apply to the exchange for listing of the same series of the shares on the Exchange within 1 year following the issue or trading of the shares freely.	Pursuant to the Article 8 of the Listing Regulation of the ISE, when the companies whose shares are traded on the Exchange increase their capital by issuing payable and/or gratis shares, they must apply to the Exchange for additional listing within 15 days following the completion of formalities for the capital increase.
Rights of the Shareholder	<ul style="list-style-type: none"> • Companies are obliged to ensure that the holders of shares having the same status enjoy the rights attached to such shares equally. • Companies are obliged to provide all opportunities and information in order to ensure that the holders of shares in the member countries where such shares are listed on the Exchanges enjoy the right attached to such shares. Among these are, informing the shareholders of the general meetings of shareholders, ensuring that the shareholders use their voting rights, issuing circulars and notices about the dividend payments, the capital increase, the waiver agreements, the capital increase by allocation, the conversion agreements etc. Non-financial service companies will appoint a financial service company as an agent which will provide services to the shareholders to enable them to use their rights (payment of share prices, transfer of shares etc.) 	Pursuant to the Article 12 of the Capital Markets Law, the authority to restrict the right of purchasing new shares cannot be used in a way to cause inequality among the existing shareholders. Pursuant to the Article 18/A of the Listing Regulation of the ISE, the place, date and time, the agenda of the annual and extraordinary general meeting of shareholders have to be notified to the shareholders 15 days before the meeting. Minutes of and resolutions taken in the general meetings of shareholders have to be submitted to the ISE within 1 week following the date of the meeting. The Settlement and Custody Bank of Turkey provides similar services to the shareholders with respect to the shares in its custody.
Amendment to the Articles of Association	• The companies proposing to amend their articles of association will submit the draft amendment to the opinion of the relevant authorities in the member countries where the shares of the companies are listed on the Exchange. Opinion of the relevant authorities will be obtained before the general meeting of shareholders.	Pursuant to the Article 11 of the Capital Markets Law, the approval of the CMB has to be obtained before submitting the amendment to the articles of association of publicly sold joint-stock companies to the approval of the Ministry of Industry and Commerce.

Subject	EU	Turkey
Annual Accounts and Annual Report	<ul style="list-style-type: none"> • The companies are obliged to disclose their financial statements and the annual report of the last year to the public as soon as possible. If they have consolidated financial statements, they will be disclosed to the public too. If the companies have undisclosed financial statements apart from the disclosed ones, the relevant authorities may require the companies to disclose also the undisclosed statements if they contain materially more information than the ones contained in the disclosed statements. 	<p>Apart from the year-end financial statements, the companies listed on the Exchange are obliged to submit 3, 6 and 9-month interim financial statements to the Exchange. If the initial listing involves a group of companies, also the consolidated financial statements, if any, are required to be submitted to the Exchange. However, at the time of trading, only the banks are obliged to submit their consolidated financial statements which are required to be prepared pursuant to the Article 13 of the Banking Law. On the other hand, pursuant to the Article 4 of the Communiqué Series XI, No. 10 of the CMB on the Principles and Rules Applicable to the Consolidated Financial Statements in the Capital Market, the publicly traded companies outside the banks are free to prepare consolidated financial statements. If a company chooses to prepare consolidated financial statements, it has to be in compliance with the requirements of the aforesaid Communiqué.</p>
Additional Information	<ul style="list-style-type: none"> • Companies are obliged to disclose any changes which may affect their asset and liability structures, financial positions, business volumes or order and consequently lead to significant fluctuation in the prices of their shares to the public as soon as possible. • The relevant authorities may exempt a company from the aforesaid obligation if they decide that disclosure of such information may harm the interest of that company. • The companies are obliged to disclose any change in the rights attached to each series of shares to the public. In addition, the companies are obliged to disclose to the public of any change in the capital structure in comparison with the previous capital structure. 	<p>The Communiqué Series VII, No. 20 of the CMB specifies in detail the information which the companies are obliged to disclose to the public. A similar regulation is provided in the Article 18/A of the Listing Regulation which governs the disclosure obligation of the listed companies. However, there is no a clear provision which exempts a company from the disclosure obligation if such disclosure may harm the interest of that company.</p>

Subject	EU	Turkey
Competent Authorities	The member states will appoint the bodies which will be authorized regarding the listing of the securities on the Exchange(s) operating in their own countries and be responsible for the implementation of the Directive.	The authority to list on the Exchange has been granted to the Executive Council of the Exchange.
Rejection of an Application for Listing	The authorized bodies may reject an application made by a company for listing of its securities on the Exchange if such securities are hindering the rights of the investors.	Pursuant to the Listing Regulation of the ISE, the Executive Council may reject an application for listing if the required information and documents are not submitted on a timely manner and if the securities for which the application is made do not comply with the listing criteria.
Contest to the Decision about the Listing	In case that the authorized bodies decide to reject an application for listing of a security on the Exchange or delist a security from the Exchange, this decision can be contested through a competent court.	The decision of the Executive Council of the Exchange to reject an application for listing or delist a security from the Exchange can be contested through the Courts of Administration at any time.
Public Disclosure	Companies are obliged to issue a report about the activities of the company at least once a fiscal year.	Companies are obliged to publish financial statements with footnotes four times a year quarterly.
Form of Listing	<ul style="list-style-type: none"> • Member states will ensure that securities to be listed on the Exchanges operating in their own countries contain information specified on the listing form. A listing form must contain such information which will enable the investors and their investment consultants to be informed about assets, financial position, operational results and future prospects of the company which issued the security and rights attached to that security, according to the nature of the security and the issuing company. • The published listing forms must contain the financial statements as of the last fiscal year. 	<ul style="list-style-type: none"> • Pursuant to the Article 6B of the Listing Regulation of the ISE, companies which apply to the Exchange for listing of their securities on the Exchange will complete a "Listing Information Form" the content, type and form of which are determined by the Exchange. This form will contain information about the security and the issuing company. • The application for listing must contain detailed finalized financial statements of the last three years. • A group of companies must submit its consolidated financial statements for listing of its securities.
Approval of the Listing Form	<ul style="list-style-type: none"> • Listing forms cannot be published before they are approved by the authorized bodies. The member states may not permit the publication of a listing form before they are convinced that the requirements of 	<ul style="list-style-type: none"> • Pursuant to the Article 6B of the Listing Regulation of the ISE, the information contained in a listing information form must be supported

Subject	EU	Turkey
	<p>the Directive have been duly fulfilled.</p>	<p>by documents, and the form must be signed by the authorized persons of the company. If the information is not supported by documents or the documents are not satisfactory as to the accuracy of such information, the Exchange may require the company to submit an explanatory letter verifying the information. The Exchange may also require the authorized persons to certify the accuracy of the information given about the financial position of the company; the specifications of the securities, the particulars of the shareholders of the company etc. There is no clear provision in the Listing Regulation about the process of approval of the listing information form.</p>
<p>Publication of the Listing Forms</p>	<ul style="list-style-type: none"> • The listing forms must be published through one of the following ways. • The listing form can be published on one or more daily newspapers circulating across the country where the listing of the securities is sought. • Brochures containing the listing information are made available to the public free of charge in the head office of the Exchange(s) where the securities are listed, in the head office of the issuing company and financial institutions which are involved with the issuing of such securities in the country where the securities are listed. • The place of publication and supply of listing information must be announced in a publication determined by the member state where the securities are sought to be listed on the Exchange. • The listing form must be advertised within a reasonable time before the official listing of the securities, which is specified by the local legislation or the authorized bodies. The authorized bodies may postpone the advertisement of the listing form under the following conditions: 	<p>Pursuant to the Article 40 of the Regulation for the Establishment and Functions of Securities Exchanges, the Management of the Exchange may require the companies whose securities are listed on the Exchange that of the information contained in the memorandum, such information as it may deem necessary be advertised, or such information are advertised by the Exchange in such place, date and manner as it may deem fit by the Exchange at the cost of issuing company.</p>

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	<ul style="list-style-type: none"> • If the listing is sought for securities issued in consideration of a value outside the cash money and are the series of a previously listed securities, the advertisement of the listing form may be postponed to after the listing. • The advertisement of the listing form may be postponed after the inception date of using the rights attached to the securities. • Any change occurred from the date when the listing form is finalized until the effective date of the listing which may affect the valuation of the securities must be inspected by the authorized bodies and indicated on a supplementary listing form to be advertised as directed by the authorized bodies. 	
Listing in More than One Country	<ul style="list-style-type: none"> • If a security listed in a member country is approved to be listed in another member country within at latest 6 months following the previous listing, the authorized bodies of the latter country may contact the authorized bodies of the former country and may exempt the issuing company from advertising a new listing form, provided that the right to request updating, translation and additional information is reserved. 	Listing of securities of foreign companies existing and operating in abroad in the Exchange is subject to the permission of the Ministry to which the Under-secretariat of Treasury is related. Foreign companies apply and submit the information and documents specified in the Regulation to the Exchange and the Ministry for listing of their securities on the Exchange.
Public Disclosure about Listing of a Company Newly Established after Merger, Acquisition, Takeover etc.	<ul style="list-style-type: none"> • If the request of listing of securities is made for securities issued for the establishment of a new company after a merger or dissolution of a company or takeover of partial or whole of the assets of another company or acquisition of another company or contribution of capital in kind, documents indicating the terms and conditions of such transaction, the initial balance sheet when appropriate, proforma annual financial statements, if the actual financial statement have not yet been issued, must be made available to the public, in addition to the requirement to advertise the listing form, in the head office of the issuing company or of the financial services company appointed by the issuing company. • If any of the aforesaid transactions exceed the previous two years, the authorized bodies may bring exceptions to the aforesaid obligations. 	<ul style="list-style-type: none"> • Pursuant to the Article 12 of the Communiqué Series I, No. 26 of the Capital Markets Board, in a takeover or merger to be made in accordance with the Turkish Commercial Code and the Corporations Tax Law where one of the parties of the takeover or merger is a listed company, the shares to be issued for merger have to be registered by the Board. The listed company which is one of the parties of the merger has to apply to and obtain the approval of the Board for merger before the General Assembly Meeting of Shareholders where the agreement for merger will be approved. An application will be

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		<p>made to the Board with the required documents for registration of the shares to be issued after the formalities are completed in accordance with the terms of merger or takeover. The required documents include one copy of the balance sheet and income statement prepared after the merger or takeover, but there is no reference to proforma financial statements.</p>
<p>Information to be Contained in the Listing Form</p>	<ul style="list-style-type: none"> • Information about the persons responsible for the listing form and the auditing of the financial statements • Information about the listing and the listed shares • Information about the issuing company and its equities • Information about the business of the issuing company • Information about the assets and liabilities, financial position and profit-loss account (with a comparison of the last three years) of the issuing company • Information about the executive, decision-making and auditing bodies • Information about the new developments and predictions relevant to the position of the issuing company • In addition, the following issues are considered significant: <ul style="list-style-type: none"> • At the time when the draft listing form is submitted to the authorized bodies, the time elapsed since the end of the fiscal term for which the last annual financial statements were issued must not be more than 18 months. Under exceptional circumstances, the authorized bodies may extend this interval. • In the event that the number of shares of the issuing company was changed due to capital increase or decrease or unification or division of the share classes during the last three years, the declared profit must be corrected in order to ensure its comparability. Also the formula for corrections must be indicated. • If more than nine months have elapsed since the closure of the fiscal term for which the last consolidated and/or non-consolidated financial statements have been issued, an interim financial statements must 	<ul style="list-style-type: none"> • The listing form contains such information determined by the Executive Council of the Exchange. It must be revised in comparison with the listing forms used in the EU.

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	<p>be issued for the first six months at least and attached to the listing form. If the interim financial statements have not been audited, the same must be indicated on the listing form.</p> <ul style="list-style-type: none"> • Uses and sources of fund statements for the last three fiscal terms. • Explanations about the transactions the members of the executive management, decision-making and auditing bodies of the company made with the company, which transactions are considered non-customary in terms of their nature or conditions, such as purchase, acquisition or transfer of fixed assets which are irrelevant to the business of the company, during the last and the current fiscal terms. Any such non-customary transactions which have been made during the previous terms but not yet finalized must be also explained. • Forecast of the issuing company for the current fiscal term, except for exceptions granted by the authorized bodies. 	
Information to be Contained in the Prospectus	<p>Member states will ensure that a company offering securities to the public publishes a prospectus about the offering at the time of public sale. Member states may bring partial or complete exception to the obligation of publishing a prospectus under certain circumstances with respect to</p> <ul style="list-style-type: none"> • debentures or equivalent borrowing instruments issued continuously or recurrently by the lending institutions which have been established and managed in accordance with a special legislation within the EU for the purpose of protection of the savings of the public, subject to the auditing of the governmental agencies and publish the annual financial statements on a regular basis, • securities offered by national institutions which have been established and are managed under a special law, benefit from the productions of the state monopolies of a member state for its operations and of which debts are permanently and irrevocably guaranteed by the member states, • borrowing instruments issued by legal entities which 	<p>Information contained in a prospectus are gathered mainly under the following headings:</p> <ul style="list-style-type: none"> • Information about the issuing company and its business activities • Information about the public offering and sale • Information about the financial standing and the financial analysis • Information about the taxation • Information about the persons responsible for the prospectus <p>Pursuant to the Article 33 of the Communiqué Series I, No. 26 of the CMB, in public offerings of shares of companies to be privatized, rules applicable to the matters such as times for sale and announcement and payment of the share prices can be different from the rules set forth in the</p>

Subject	EU	Turkey
	<p>have been established under a special law in a member country for the purpose of creating funds through offering such instruments to the public under the control of the state and using such funds for financing a production and/or purchasing a production and listed on the exchange by and under the guarantee of the state.</p> <p>If more than 12 months have not yet elapsed since the publication of a prospectus in a member country, the prospectus published by the issuing company for another security in the same member country will contain only the changes that occurred since the publication of the complete prospectus, which may affect the price of the security. However, this prospectus will be published in addition to the complete prospectus to which it is related.</p> <p>In the event that public offering is made in a member country other than the member country where the listing on the Exchange is made, the company making the public offering will fulfil the prospectus issuing, approval and distribution procedures in the country where the public offering is made in accordance with the conditions of public offering specified in the Directive.</p> <p>The prospectus for the public offering will be published and made available to the public before the date of the sale to public.</p> <p>The prospectus will contain the following:</p> <ol style="list-style-type: none"> 1. Persons responsible for the preparation of the prospectus and certification by the responsible persons of the accuracy of information contained in the prospectus, 2. Information about the securities offered to the public, 3. Information about the capital and business of the issuing company, 	<p>Communiqué, if such rules are approved by the Board.</p> <p>Preliminary prospectus, prospectus and preliminary fixed price offer announcements and circulars</p> <ol style="list-style-type: none"> a) must comply with the standards established by the Board, b) signed by the issuing company, and the intermediary agents and members of the intermediary consortium, if any, c) the financial statements contained in the said documents must have been audited by independent public accountants. <p>The issuing company is responsible for the accuracy of the information contained in the said documents. Also the intermediary agents are responsible for the accuracy of the information contained in the said documents, except for the information which are at the responsibility of the independent public accountants.</p> <p>In the event that the total nominal value of the shares remaining after the subscription of rights issues in an increase of the capital is below TL 1,5 billion or below 1% of the nominal value of the shares offered to the public, the issuing company may not publish a circular for the investor by obtaining the approval of the Board. In this case, the issuing companies listed on the Exchange can complete the sale of shares by announcing the conditions of the public offering on the bulletin of the Exchange and the other</p>

Subject	EU	Turkey
	<p>4. Information about the assets and liabilities, financial position and profitability of the issuing company,</p> <p>5. Information about the persons responsible for the management and the auditing of the issuing company,</p> <p>6. Recent news, developments and events concerning the issuing company and the sector and the potential consequences of such developments and events which may affect the evaluation of the issuing company, trends and expectations regarding the business of the issuing company as of the end of the following fiscal term, forecast of the issuing company regarding the current term,</p> <p>7. Guarantor, if any, of the debt instruments and information about the guarantor.</p> <p>8. In case that the borrowing instrument is a convertible bond, information about the conversion,</p> <p>9. Developments and expectations about the position of the issuing company.</p> <p>In case of public sale of shares based on rights of listed companies, the companies may be exempt from giving information to the public about the operations, assets and liabilities, financial position and profitability, members of the executive and audit boards of the issuing company since such information were already disclosed to the public pursuant to the disclosure requirements during the initial listing.</p> <p>In the event that a portion of shares of an issuing company is already traded on the Exchange, the issuing company may be exempt in part or whole from publishing a prospectus as it already published a prospectus during the initial listing of the shares, provided that the number, at par value or market value of the newly issued shares are less than 10% of the previously listed shares.</p> <p>The member states may decide that some of the information be not provided in the prospectus under certain circumstances as follows:</p>	<p>issuing companies by allocating the remaining shares by the resolution of the Board of Directors.</p> <p>The prospectus approved by the CMB after the registration of the shares by the CMB is registered by the Trade Registration Office where the issuing company is registered or by the Trade Registration Office in the place where the head office of the issuing company is situated within 15 days following the date of the registration certificate.</p> <p>Advertisements and announcements of the public offering will be submitted to the CMB for approval at latest two days prior to the date of publication of them. The CMB may require that the text of the advertisements and announcements be revised. Without the revisions required by the CMB are made, the advertisements and announcements cannot be published.</p>

Subject	EU	Turkey
	<ul style="list-style-type: none"> • Information considered insignificant to give an idea about the financial position of the issuing company, • In the event that some of the information to be disclosed are considered to be against the public benefit or expected to cause a serious damage to the issuing company, such information may not be disclosed, provided that undisclosed information would not affect the valuation of the securities or lead to misunderstanding or misleading interpretation on the part of the investors about the issuing company or the securities, • The member states may lift in part or whole the obligations of the security issuers of the companies which disclosed its information to the public in accordance with the legislation to issue prospectus. However, information disclosed to the public must be equivalent of the information contained in the prospectus. • The prospectus prepared for the initial public offering of transferable securities must be submitted to the authorized bodies of each concerned member state before its publication. The prospectus must be issued and made available to the public in the country where the public offering is made in accordance with the legislation of that country. • Notices, advertisements, announcements and similar documents related to the public offering will be examined by the authorized body or bodies which approved the prospectus issued for the public offering. The existence of a prospectus for this public offering and the country where the prospectus is made available to the public will be indicated on such documents. • In case of any change, a supplement of the prospectus containing such change will be issued and made available to the public in accordance with the procedures applicable to the prospectus. • A prospectus approved by an authorized body in a member state where the issuing company is registered will be binding on the other member states where the same securities are offered to public 	

Subject	EU	Turkey
	<p>concurrently or soon after without the approval of the authorized bodies of these member states, provided that the prospectus is translated into the languages of these member states. The authorized bodies of the other member states cannot require the issuing company to provide any additional information or delete such information from the prospectus, except for information about the practices specific to a member state such as income tax procedures applicable to the purchasers of such securities or method of giving notices by the issuing company to the financial services firm acting as cashier and investors in that country. The member states may limit the implementation of this provision with the transferable securities offered to the public by issuing companies whose head office is situated in one of the member countries.</p> <ul style="list-style-type: none"> • In the event that transferable securities which give to the investor the right to be a shareholder in the capital of the issuing company immediately or at the maturity date are offered to the public in one or more member countries other than the member country where the head office of the issuing company is situated, the authorized bodies of the member state or states where the public offering is made can approve the prospectus of this public offering only after consulting with the authorized bodies of the member state where the head office of the issuing company is situated. • The Union may approve the public offering prospectus issued in accordance with the legislation of a non-member state with which the Union made a treaty, which meet the conditions set forth in the Directive. A prospectus which does not meet the conditions set forth in the Directive but provides a protection for the investors which is equivalent of the protection provided in the Directive can also be approved. 	

Subject	EU	Turkey
Duration for Publication of Interim Financial Statements	6-month financial statements have to be published within 4 months following the end of the underlying term.	Pursuant to the Article 10 of the Communiqué Series 11, No. 3 of the CMB, the interim financial statements must be published within 4 weeks following the end of the interim term if they are not audited or within 6 weeks if they are audited by an independent public accountant. The term for publication of the interim financial statements of the banks is 6 weeks for the unaudited statements and 8 weeks for the audited statements.
Permission to Disclose the Forecast Profit/Loss Accounts	Subject to exceptions, companies are permitted to disclose their forecast profit/loss accounts to the public on condition that they are not misleading. Also, the forecast of the issuing company for the current term, together with the fund source/utilization tables for the last 3 fiscal terms, are permitted to be published during the application for listing.	Disclosure of forecast profit/loss accounts to the public has not been regulated by the Turkish legislation. Information contained in the information form specified in the Article 6 of the Listing Regulation are disclosed to the public.
Disclosure of the Information by the Authorized Bodies	For protection of the investors and smooth operation of the markets, the authorized bodies may require the issuing companies to publish such information in such a manner and time they deem fit. In case of failure of the issuing company to publish such information, the authorized bodies may disclose such information to the public themselves.	Pursuant to the Article 40 of the Regulations for the Establishment and Functions of the Securities Exchanges, the Management of the Exchange may require the listed companies to publish such information contained in the information form or prospectus as it may deem fit or publish such information itself in such place, manner and time as it may deem fit at the cost of the listed companies.
Information Not Contained in the Listing Form	Under certain circumstances, the authorized bodies may permit that some of the information specified in the Directive be not contained in the listing form. One of such circumstances is that the omitted information are not significant and do not affect the evaluation of the assets, the financial standing, the results of business activities and the future prospects of the listed company. Another circumstance is that such information, if disclosed, may harm the public benefit seriously. In this case, non-disclosure of such information must not mislead the public about the events and	<ul style="list-style-type: none"> • The Article 41 of the Regulation for the Establishment and Functions of Securities Exchanges sets forth the exclusions of the Information Form. The said article provides that the Executive Council of the Exchange may decide that the published memorandum is sufficient and that there is no need for issuing an information form if not more than 6 months have elapsed since the publication

Subject	EU	Turkey
	<p>developments which are necessarily taken into consideration for the evaluation of the securities.</p>	<p>of the public offering prospectus.</p> <ul style="list-style-type: none"> • The Executive Council of the Exchange may permit that such information which may cause harm to the issuing company are not disclosed to the public. However, the method of furnishing such information to the Exchange is determined by the Executive Council of the Exchange. The Executive Council is obliged to deliver such information to the CMB.
<p>Appointment of the Authorized Body and Mutual Recognition</p>	<ul style="list-style-type: none"> • In the event that applications made to an Exchange existing or operating in two or more member countries, including the member country where the head office of the issuing company is situated, are made concurrently or soon after for listing of the same security on the Exchanges, the listing form will be issued in accordance with the legislation at force in the member country where the head office of the issuing company is situated, in accordance with the requirements of the Directive. If the head office of the issuing company is not situated in any of the member countries, the state where the listing form will be issued in accordance with the legislation of that state and which will approve the listing form must be selected by the issuing company. • After the listing form is duly approved as specified in the foregoing paragraph, it will be recognized by the other member states without the need for approval of the listing form by the authorized bodies of those states and for providing additional information regarding the listing form, provided that it was translated into the official languages of those states. The authorized bodies of the other member states may require that more specific information about, say, income tax practices and procedure for giving notices by the issuing company and the agents acting as cashier of the issuing company in those member countries to the investors are given on the listing form. • In the event that securities for which an application 	<ul style="list-style-type: none"> • If the Management of the Exchange is satisfied with the information given by a listed company for listing of its securities on the Exchange, it may only request the additional information it deems necessary. • The Istanbul Stock Exchange (ISE) may be required to conform to the said rules following the full membership to the EU.

Subject	EU	Turkey
	<p>was made for their listing in one or more member states are the subject of a prospectus approved by any member state during the last 3 months, the prospectus will be recognized as a listing form by the member states to which the application was made for listing of the securities without the need for approval of the prospectus by the member states and for providing additional information, provided that the prospectus is translated into the official languages of those member states. However, the authorized bodies of those member states may require that information about the income tax practices and the agents of the issuing company acting as cashier in those member states are given in the prospectus.</p> <ul style="list-style-type: none"> • If an application is made for listing of securities which have been already listed in another member state for less than 6 months, the authorized bodies of the member state to which the application is made will contact the authorized bodies of the member state where the securities have been listed and exempt the applicant from issuing a new listing form, provided that the right of the authorized bodies to request the translation of the existing listing form or to require the issuing company to furnish additional or updated information. 	

3.4. Insider Trading and Market Manipulation

Table 6: Insider Trading and Market Manipulation

Subject	EU	Turkey
Definitions	<p>Insider information is an information about the issuing company or the issued securities which have not been disclosed to the public.</p> <p>The information must have been produced as a result of "status responsibility" and acquired by any of the insiders. Any kind of undisclosed information which may affect the trading of the securities or change the prices of the securities is an advantageous insider information.</p>	<p>To make profit or cover a loss by using undisclosed information which may affect the value of the capital market instruments by violating the equality of opportunity among the persons trading in the capital markets for the purpose of profiting for oneself or for third persons is insider trading.</p>
Securities Subject of Insider Trading	<ul style="list-style-type: none"> • Shares, bonds and other sharing and borrowing instruments • Acquisition of securities, takeover contracts and use of pre-emptive rights • Futures and options • Index contracts 	<ul style="list-style-type: none"> • Shares and bonds and other sharing and borrowing instruments • Acquisition of securities, takeover contracts and use of pre-emptive rights • Futures and options • Index contracts <p>It has been regulated in a similar manner with the EU</p>
"Insider"	<ul style="list-style-type: none"> • First degree insiders: Persons who have access to the insider information during the course of their occupation, profession or task • Second degree insiders: Persons who acquired the insider information from the first degree insiders. 	<ul style="list-style-type: none"> • Issuing companies involved with the insider trading • Chairman and directors, managers and other employees of organizations, institutions and establishments involved with the trading of capital market instruments • Persons who are in a position to acquire the insider information during the course of their occupation, profession or task and persons who acquired the insider information from the former directly or indirectly.
Restrictions on the Insiders	<ul style="list-style-type: none"> • They are forbidden to disclose any information they acquired during the course of their profession to any third person before disclosing such information to the public. • They are forbidden to give advice or recommendation to third persons about the purchase or sale of any security. The member states have the authority 	<ul style="list-style-type: none"> • It is forbidden to use any information not disclosed to the public to make profit for oneself or third persons. • To give, distribute and spread wrong, untrue, misleading, unsupported information, news and

Subject	EU	Turkey
Definitions	to implement the aforesaid restriction to the second degree insiders.	comments or fail to disclose an information which is required to be disclosed to the public is a penal crime.
Exclusions Regarding the Cooperation Between the Member States	A member state may decide to cooperate with another member state if such cooperation <ul style="list-style-type: none"> • threatens the sovereignty of the member state • threatens the security of the country • leads to restrictions on the public policies of the member state. 	The same exclusions will apply to Turkey regarding the cooperation with the other member states.
Penal Sanctions	They are left to the internal legislation of the member states. However, the member states will comply with the requirements of the Directive regarding the minimum sanctions and may bring heavier sanctions.	Insider trading is punishable by heavy imprisonment from 2 to 5 years and heavy fine from TL 10 billions to 25 billions. In case of committing of two offences concurrently, the offender is punished by heavy imprisonment from minimum 3 years to maximum 6 years.

3.5. Substantial Purchase and Sale of Common Stock Certificates of a Listed Holding Company

Table 7: Substantial Purchase and Sale of Common Stock Certificates of a Listed Holding Company

Subject	EU	Turkey
Definitions	Any change to the structure of the majority shares in the capital of a company of which shares are listed in the Exchanges in one and more member countries has to be disclosed to the public as soon as having the knowledge of such change.	Change of the management of a company through a change to the voting rights of shares or through collection of proxies in accordance with the CML or under a contract or by other ways is an information which has to be disclosed to the public.
Minimum Rates Being Subject to Disclosure	<ul style="list-style-type: none"> • In case that a company acquires or sells its shares, if the rate of voting rights possessed by that company reaches, exceeds or decreases below 10%, 20%, 1/3, 50% and 2/3. • If only the limit of 25% is used, the limit of 20% and 1/3 is irrelevant. • If the limit of 75% is used, the limit of 2/3 is irrelevant 	<ul style="list-style-type: none"> • Acquiring or selling by a real person or a legal entity of 10% or more of the voting rights or the shares in the capital of a company. • When the amount of shares of a company purchased or sold by the Chairman or Directors or General Manager or Assistant General Manager of that company or a shareholder holding more than 10% of the shares in the capital of that company reaches 1% of the capital of that company.
Maximum Period of Disclosure	7 calendar days for the concerned person and as soon as possible and in any case 9 calendar days for the concerned company.	By 09:00 am on the business day following the day when the transaction is completed or came to the knowledge of the concerned persons via the fastest means of communications in accordance with the predetermined form of notice.
Exemption from Giving a Notice	<ul style="list-style-type: none"> • As an exception, the authorized bodies may exempt the companies from disclosing such information which, if disclosed, may harm the interest of the public or the companies, provided that undisclosed of the information would not mislead the investors. • If the purpose of an acquisition or a sale transaction which is performed by a professional agent is only to make a professional investment, the concerned company may be exempt from disclosing such information to the public, provided that the acquired shares are not used by the agent to intervene the management of the company. 	Companies who sold to the public only securities, not their stock certificates, may not disclose to the public of a change to the capital structure or the management of the company or a change related to the administrative matters. There is no any other exemption from the obligation of disclosure. The Exchange will announce the company news sent by the company to the public during the session and in the next Exchange Bulletin.

3.6. Mergers and Takeovers

Table 8: Mergers and Takeovers

Subject	EU	Turkey
Regulations	<ul style="list-style-type: none"> • Council Regulation (EEC) No. 4064/89 • Commission Regulation (EEC) No. 2367/90 • Commission Regulation (EEC) (Regulation on implementation): (EC) No. 3384/94 • Amendment: Council Regulation No. 1310/97 • Decree of Council and Commission: 95/145/EC 	<ul style="list-style-type: none"> • Turkish Commercial Code: General Provisions; Article 146-151, Special Provisions; Article 451-454 • Income Tax Law: Article 81/2, 81/3 • Corporation Tax Law: Article 36-39 • Value Added Tax Law: Part 6, Article 17 • Capital Markets Law: Series 1, No. 26, Article 2/f, Article 12; Series X, No. 16; Series IV, No. 8, Article 14-17; Series IV, No. 9, Article 3/a; Series V, No. 19, Article 51-53; Series V, No. 34, Article 11, 15/a.
Merger (consolidation)	<ul style="list-style-type: none"> • Merger between two or more independent enterprises, • Acquisition by one or more persons or one or more enterprises, who or which already possess the control of an enterprise, of the control of another enterprise or enterprises or some part of an enterprise directly or indirectly by purchasing in whole or part the shares in the capital or the assets of or signing a contract with that enterprise or enterprises or by other ways is "consolidation". 	<ul style="list-style-type: none"> • Merger between two or more independent enterprises, • Takeover or taking the control by an enterprise or person of the whole or part of the shares or assets or any other instruments which give the right to control the management of another enterprise, • Joint ventures established as an independent economic enterprise to provide manpower and assets for realization of a specific project in a way not to restrict or affect the competition between the parties of the joint venture or between the parties and the joint venture
Protection of Competition	<p>A consolidation within the EU which affects the competition in the market significantly or negatively is contrary to the interest of the single market.</p>	<p>Merger between two or more enterprises to dominate the market or reinforce their dominant positions in the market or minimize the competition in a commodity or services market across or any part of the country, or shares or other instruments which give the right to control the management of another enterprise, except for acquisition by inheritance, is contrary</p>

Subject	EU	Turkey
		to the principle of protection of competition.
Condition of Legal Validity	Subject to the permission of the Commission	Subject to the permission of the Board of Competition
Permission	Permission is given to a merger, acquisition or takeover which does not lead to or reinforce a dominant position and prevent competition significantly within or some part of the EU.	Permission is given to a merger, acquisition or takeover which does not lead to or reinforce a dominant position in the market and prevent competition significantly across or some part of the country.
Size of Merger and Takeover	With the last amendment, the total turnover has been reduced to ECU 2,000 millions from ECU 5,000 millions.	In the event that the share of enterprises which seek to takeover or merge with another enterprise in the market of a product across or some part of the country exceeds 25% of the total market or that total turnover of these enterprises exceeds TL 10 trillions, these enterprises have to obtain the permission of the Board of Competition in order to takeover or merge.
Term of Permission	The Commission must investigate a notice of "consolidation" in a shortest time possible. The Commission may initiate the formalities of the consolidation if in the opinion of the Commission the consolidation will not prevent the competition within or some part of the EU.	The Board of Competition should give permission to a merger or takeover as a result of investigation it will make within 15 days of receiving the contract for the merger or takeover or notify to the concerned persons that the merger or the takeover is suspended until a final decision is made, together with the reason thereof and other measures taken to this effect, if it deems that the transaction needs further investigation. In the event that the Board of Competition does not give a reply to the application made for the merger or the takeover within the specified time or does not initiate any investigation, the merger or the takeover contract becomes legally valid 30 days after the date of notice sent to the Board of Competition.

Subject	EU	Turkey
		<ul style="list-style-type: none"> • In the event that a merger or takeover which must be notified to the Board of Competition has not been notified to the Board of Competition, the Board of Competition initiates an investigation by its own initiative for the merger or the takeover.
Fine	<p>The Commission may impose fine as punishment for a merger or takeover not notified to it or notified by giving false statements.</p>	<p>If the Board of Competition decides that a merger or takeover is not within the scope of the paragraph 1 of the article 7 referred above, it permits that merger or takeover.</p> <p>However, it imposes fine to the persons responsible for the merger or the takeover for their failure to notify the merger or the takeover to it.</p>
Sanctions	<p>In the event that a merger or takeover has been realized without notifying to the Commission and that the consolidation resulting from that merger or takeover may affect the competition significantly within or some part of the EU, the Commission may decide to dissolve the merger or the takeover, to separate the consolidated assets, management and control, to reinstate the consolidated enterprises to their position before the merger or the takeover in order to ensure that the fair competition is not violated.</p> <p>In the event that a merger or takeover had been permitted by relying on the false statements given by the concerned parties, the Commission may revoke the permission.</p>	<p>In the event that a merger or takeover permitted by the Board of Competition is controversial pursuant to the paragraph 1 of the Article 7 referred above, the Board of Competition may impose fine, dissolve the merger or takeover, require that any and all transactions contrary to the legislation be cancelled, require that all shares or assets acquired through merger or takeover be returned to the former owners or, if it is not possible, be transferred to third parties in accordance with such conditions and within such time to be determined by the Board of Competition, forbid the persons who took over the shares or assets of the enterprise in a takeover to control or intervene the management of the enterprise until the assets or the shares of the enterprise are returned to the former owners or transferred to third parties, and take other measures it may deem fit (Article 11).</p>

Subject	EU	Turkey
Exceptions	<ul style="list-style-type: none"> • financial institutions acting as agents in purchase and sale of securities during the normal course of business • lending institutions • insurance companies • other financial institutions which purchase the securities of companies temporarily to act as agent on the name and behalf of themselves or third parties or to sell such securities 	<ul style="list-style-type: none"> • securities purchased for resale by enterprises whose main business is to buy and sell securities on the name and behalf of themselves and third parties, • possession of shares of an enterprise temporarily on condition that voting rights of such shares are not used to influence the competition policies of that enterprise, • dissolution, liquidation, insolvency and moratorium, • agreement with creditors or takeover of the shares of a public enterprise by a public organization, enterprise or institution by the resolution of the Board of Competition for privatization purposes.

3.7. UCITs

Table 9: Regulations Related to UCITs

Subject	EU	Turkey
Definitions	The UK and Sweden do not require a new definition, but Germany requires a more detailed definition. On the other hand, regulations as to what extent a UCIT can make an investment on the other UCITs and what can be the extent of investment a UCIT can make on the derivative products have not yet been clarified.	<p>In Turkey, the financial products with similar characteristics are the 'investment funds'. The types of investment funds are</p> <ul style="list-style-type: none"> • Bonds and Bills Fund • Equity Fund • Sectoral Fund • Participation (or investment) Fund • Group Fund • Foreign Securities Fund • Gold and Precious Metals Fund • Diversified Fund • Liquid Fund • Floating Fund • Index Fund • Special Fund. <p>The funds are also sub-grouped as type A and others.</p>

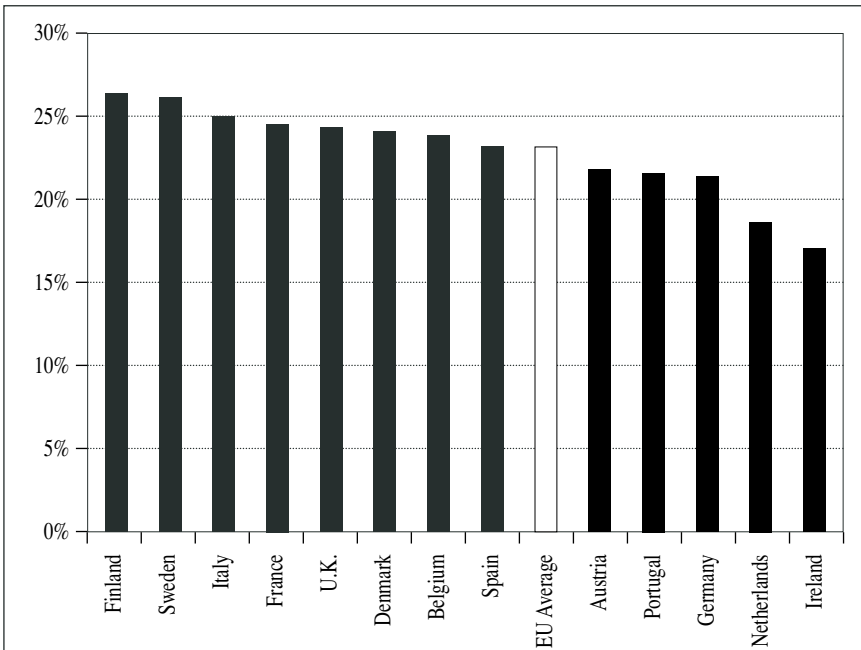
Subject	EU	Turkey
		<p>The funds which invested minimum 25% of their monthly weighed average of their portfolio assets on the shares of companies, including the state-owned economic enterprises which are included in the privatization program, on a permanent basis are type A funds. The rest are designated as the other types of funds.</p>
<p>Those Authorized to Establish Funds</p>	<ul style="list-style-type: none"> • The authorized body of a member state is authorized to grant license for the establishment of a fund. • The manager of the fund must have adequate financial resources. • An investment company or mutual fund will not own the voting rights or majority of shares of a company to influence the management of that company. • The investment companies or mutual funds may invest on the fixed income securities up to 10% of their assets. • A mutual fund may purchase the partnership certificates of another mutual fund. • A mutual fund can invest only on securities. • Independent management company and trustee institutions are operating. • Settlement and custody services for the securities in the portfolio of a fund will be provided by a bank independent of the mutual fund or the founder of the fund. • Mutual funds can borrow money only up to 10% of their total assets to meet their temporary fund requirements. • Amount of investment a UCIT can make on the securities of a company is limited with 5% of its total assets. 	<p>The organizations, institutions and enterprises allowed to establish investment funds in Turkey are banks, brokerage firms, insurance companies, pension and social aid funds of which statutes allow them to create funds, and funds which have been established in accordance with the temporary Article 20 of the Capital Markets Law No. 2499 amended by the Law No. 3794. It is compulsory to sell the participation certificates of the fund to the public or to allot them to certain persons or enterprises.</p> <p>The limit of the fund varies according to the founder. The investment funds to be created by banks, brokerage firms and insurance companies cannot exceed 10 times of the issued/paid-in-capital on the last audited balance sheet, plus the reserves and the value increase fund resulting from the revaluation on the last balance sheet approved by the general assembly meeting of shareholders, minus the losses, if any. The amount of the investment fund to be created by other organizations and enterprises is limited with the total equities on the last balance sheet approved by the general assembly or the general meeting of shareholders.</p>

3.8. Pension Funds

3.8.1. Developments in EU Regarding Pension Funds

Ensuring a harmony regarding the pension funds within the EU is of an emphasized importance in term of maintaining the wealth of the member countries. Particularly considering the fact that the European population is getting older and that the member states cut the budget set aside for financing the compulsory pension schemes, increase in the public spending for pension schemes pose a risk. High employment and productivity concerns accelerate this increase. The pattern of the demographic change and its financial impact on the pension system vary among the member countries. While 4 employees finance the pension of one retired at present, 2 employees will finance the pension of one retired in 2040. Spending for the pension schemes based on the 1997 statistics exhibits a distribution between 9 and 15%. It is estimated that this rate will be 15 to 20% in 2040.

Figure 1: Ratio of Dependency in the EU Countries

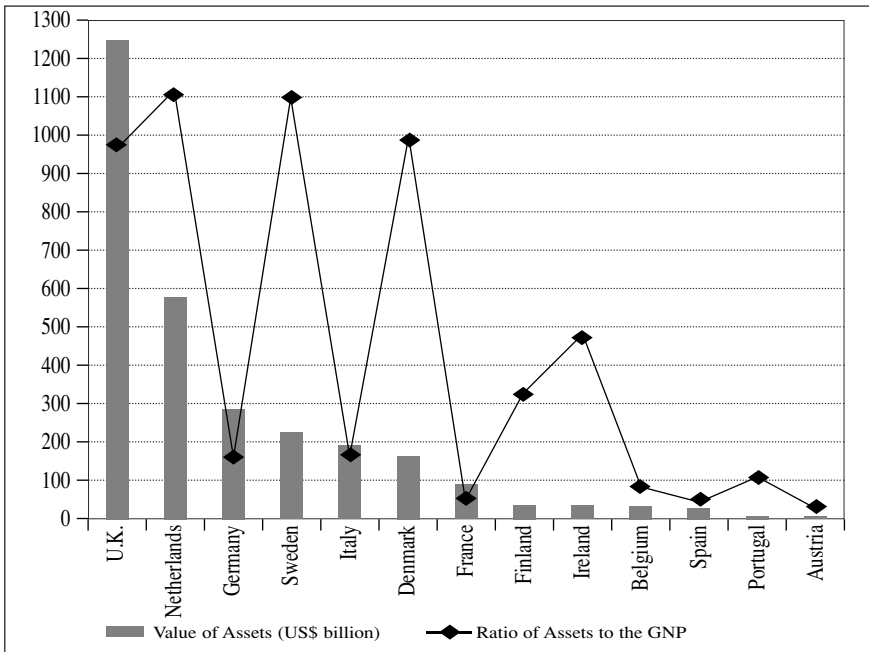


Source: International Portfolio, 1999

Note: The figure shows the ratio of people over 65 years old to the people between 15 and 65 years old.

88% of the pensions in the European Union is paid through the primary system where the pension premiums collected from the working class are used in the financing of the pensions of the retired. Managed by the governmental agencies and being the most common practice in the social security area, the primary pension system is still dominant, but the growth of the private pension schemes has accelerated in the developed countries due to the financial pressure imposed by the change in the demographic structure on the state-run pension schemes. One of the regions where the pension funds developed at most is Europe. As of 1998, total assets of pension funds in 13 EU member states (except for Greece and Luxembourg) is US\$ 2,9 trillion¹.

Figure 2: Assets of Pension Funds in the European Union (US\$ billion) and their Ratio to the GNP



The countries where the ratio of the assets of the pension funds to the GNP is higher are the Netherlands, Sweden, Denmark and the UK. This ratio is over 100% in the Netherlands.

¹ National Association of Pension Funds, 1999.

There are three important factors which determine the future and the growth of the financial markets in the European Union. One of these factors is the acceleration of the process of creating a single financial market across the EU with transition of 11 EU member countries to Euro as the currency unit. With the introduction of Euro from the beginning of 2000, a common money and bond market has been created, and the integration in the stock markets has increased. Elimination of the risk posed by exchange rate difference by fixing the currencies against each other has urged the fund managers to re-design their portfolio structures and investment strategies.

The second factor is the reduction in the brokerage activity. Since the traditional trust in the primary pension system and the bank-based financial management in the EU is decreasing gradually, the insurance companies, the pension funds and the "investment funds" are becoming more important day by day. We see this trend more clearly when we look at the gradual growth the financial assets owned by the pension funds.

The third factor is the technological advancement. With the advance of technology, the competition among the financial institutions in terms of market share and developing new products aimed at protecting the consumer is increasing intensively day by day. In front of these developments, the private pension funds have the priority in the financial "Action Plan" designed by the EU Commission for the purpose of making projections on the future of the financial markets in the EU and accelerating the creation of a common financial market within the EU. While the matter of auditing the private pension funds has the first priority in the financial Action Plan, the matter of developing a common practice regarding the taxation of the cross-border premium payments has the second priority.

That the private pension funds is the first item of the financial services agenda of the EU is because of the fact that it is one of the largest obstacles on the road to the common financial market. Although the Commission have issued many regulations regarding the banks, insurance companies, investment companies and funds, the private pension funds is the only financial institution regulated on the national level within the EU. There are great differences among the member countries regarding the regulation of the pension funds. Some countries have imposed strict restrictions on the portfolio structure of the pension funds, the others have adopted the principle of prudential management, instead of stating the areas of investment. The principle of "Prudential Man" provides a general guideline for the responsibilities of the pension funds for their invest-

ment activities. The objective of the principle is to ensure that the responsible professionals take heed when giving their investment decisions on the one hand and exert the necessary effort to achieve optimum income from such investments on the other. Accordingly, a fund manager acting with prudence will not undertake unnecessary risk. A portfolio management strategy seeking to reduce the risk by diversification of the investment will be adopted. Intervention to the investment areas of the pension funds prevents the determination of the most efficient investment policy and thus operates against the participants. While increase of contributions to the fund increases the cost of fund to the participants on the one hand, restrictions on the investment diversification urge the professional to undertake unnecessary risks. The fact that the member states have different regulations regarding the pension funds results in a prevents the usage of benefits such as growth, new jobs and competition expected from a single capital market within the EU. Besides, that different regulations are in effect in the member states regarding the pension funds prevents shifting between the pension funds and thus restricts the movement of manpower. So, a pension fund operating in several member countries has to establish a different fund in each of these countries. This ultimately prevents the pension funds taking benefit from the economies of scale. For the reasons given above, the trend in the EU is toward the adoption of the principle of "prudential management". The principle of prudential management does not mean lack of rules, instead it refers to a global understanding that an investment portfolio must always be reliable, profitable, diversified and liquid. This principle enables the funds to use the portfolio management techniques in a more flexible manner.

3.8.2. Effects of the Code of Prudence on the Euro Zone

- With the protection of the investors, increase of trust in the investment portfolio. (Elimination of exchange rate difference risk in the Euro Zone increases this trust).
- Costs of term and obligation must be estimated correctly when diversifying the assets.
- Authorized bodies of the member states must audit the activities of the licensed pension funds effectively and ensure that necessary information about the fund management are disclosed.
- If the member states allow the institutionalization of the private voluntary pension systems beside the compulsory social security systems, the yields of the fund assets will increase substantially with efficient accumu-

lation of the pension funds in the EU capital markets and the Euro zone. Furthermore, continuity of the compulsory pension schemes with more powerful pension structures in the member countries will have a positive effect on the efforts to reduce the social spending for the pensions and increase the employment, in general. However, implementation of different pension systems has been left to the disposition of the member states.

- With the elimination of exchange rate difference risk of the Euro, transaction costs and competition among the market participants will become more efficient, and this will enable the investors to make investment in more deep and more liquid capital markets. The potential contribution of the institutional investors is very important for the European stock markets, which have not yet reached a perfect structure, and for the growth of the companies. This will accelerate the growth of the private sector bonds and bills market, rather than the government securities, and represent a significant portion of the investments of the pension funds.

- It is also expected that the pension funds will play a significant role, though with a relatively small share of some 2%, in the development of venture capital markets such as telecommunications, biotechnology, healthcare and financial services and energy across Europe. With the expansion of the investment areas of the pension funds, they will contribute to the financing of the "Trans European Network" project.

- The market scale and the liquidity of the European companies which increase with the creation of a vast European capital pool by the Euro will enable them to decrease their capital costs or to borrow with more favorable conditions. Along with the economic policies pursued by the member states towards a stable growth, the budget deficits and the level of public borrowing requirement decline, which in turn, strengthen the capital structure of the private sector. The pension funds require that their asset diversification are made correctly and that the liberation as to the investment areas is expanded in accordance with the rules of global prudential management for growth of the European capital markets. To this end, increasing the investment shares of the pension funds in the capital of small and medium size companies considered as venture capital companies with high growth potential will contribute to the growth of economy and employment.

Within the scope of the program regarding the liberalization of the domestic market:

- Liberalization of the services must be enhanced,
- Barriers before the free movement of the labor between the countries must be lifted,
 - Area of the cross-border investments must be expanded with the adoption of the principle of prudential management in all EU member states,
 - Contributions to the growth of the Single European Capital Market must be increased.

Within the scope of the program regarding the lifting of barriers before the free movement of workers across the EU:

- Harmonization of the conditions regarding the achievement of the complementary (voluntary) pension rights must be ensured,
 - Although the Union applies efficient coordination rules regarding the expatriate workers registered in compulsory pension systems, different practices and barriers regarding the individual retirement and the occupational retirement must be abolished,
 - Methods for transfer of rights must be developed,
 - A regulation for establishment of common actuarial standards needs to be recommended by the Commission,
 - Cross-border registration conditions for the pension funds must be established,
 - Principle of reciprocity must be adopted for the auditing,
 - Coordination in the tax systems must be ensured (complex and varying taxation practices and omissions regarding the life insurance and pension service products must be eliminated),
 - A technical study for the occupation retirement must be made,
 - A Pension Forum must be created.

3.8.3. Directive Proposal of the EU Commission Regarding the Pension Funds

Table 10: Directive Proposal of the EU Commission Regarding the Pension Funds

Objectives of the Directive	<ul style="list-style-type: none"> • Providing the best protection for the participants • Ensuring that the pension funds take full benefit from the single market and the Euro • Guaranteeing the use of occupational retirement benefits on an equal basis • Adoption of the principle of prudential management in all member states in accordance with the principle of reciprocity • With the admission of cross-border memberships, ensuring the administrative and financial management with the Union and reducing the operational costs
Issues Covered by the Directive	<ul style="list-style-type: none"> • The basic rules of the principle of prudence: • Approval of the concerned pension fund by the authorized body • Uniformity of the rules of responsibility and competition • Establishment of the investment rules regarding the contributions • Obligations of the pension funds and the rules applicable to the relationship between the assets and the obligations of the pension funds • Reporting of the financial and statistical data and tables of the fund on a regular basis to the Supreme Board in charge of auditing.
Rules of Prudential Management in Pension Funds	<ul style="list-style-type: none"> • Adoption of the rules of prudential management and auditing by all member states in accordance with the principle of reciprocity is a requirement for operation of the cross-border pension system • Manager of the pension fund assets and the founder of the fund must be different • An authorized body which is responsible for approval and audit of the pension funds must be established • Establishment of the responsibility and competition rules and attributes of the managers of the pension funds and compliance approvals • Establishment of the powers and responsibilities of the Supreme Board of Audit • Establishment of a mechanism for periodic announcements to the memberships. • Ensuring the transparency and facilitating the access to information about the financial standing of the fund for protection of the contributions of the participants. Especially transparency regarding the investment risk assumed in the contributed schemes must be ensured.

3.8.4. Restrictions on the Investments of the Pension Funds in the EU and Turkey

Table 11: Restrictions on the Investments of the Pension Funds in the EU and Turkey

Country	Investment Limits
Germany	Maximum 30% on the EU stocks Maximum 25% on the EU real estates 6% on the non-EU bonds 20% on the foreign securities 10% on the own investments
Belgium	Maximum 15% on the sponsor Maximum 40% on the real estates Maximum 10% on the deposits
Denmark	Maximum 40% on the instruments such as stock, forbidden to invest on the own investments
France	Minimum 50% on the EU bonds Maximum loan to founders 33% Minimum 34% on the domestic bonds for insured funds Maximum 40% on the real estates Maximum 15% on the treasury bonds No investment on the foreign securities
The Netherlands The UK	"Principle of Prudential Management". Maximum investment on its own is 5%.
Ireland	"Principle of Prudential Management". Investment on its own has to be reported.
Spain	10% of the financial assets of the fund cannot exceed 5% of the assets of the issuer. 90% on the listed stocks, deposits, real estates and loan guaranteed by mortgage, 1% on the money markets or shareholders' accounts.
Sweden	Most of the investment must be made on bonds and as loan.
Italy	Schemes managed by the company itself are not regulated, the decision is given by the Board of Directors. Maximum limit for the government bonds is 90%. Most of the funds are insured.
Portugal	Minimum 30% on the government bonds, maximum 50% on the real estates, 15% on its own investment, maximum 40% on the stocks and bonds not listed in Portugal.
Turkey	Pension Fund (Emekli Sandığı): 1) Maximum 40% of the floating income securities can be invested on the real estates. Investment on the real estates has to be made on such real estates having the highest potential of development with a maximum yield. 2) Maximum 40% of the assets can be invested on the enterprises of which whole or more than half of the capital is owned by the State or on the investments made by such enterprises.

Country	Investment Limits
	<p>3) Stocks of the private companies can be purchased only by the Decree of the Council of Ministers. These companies must be reliable and contributing to the growth of the economy of the country.</p> <p>4) Fixed income securities can be invested on treasury bonds, government bonds, income sharing certificates, bonds and debentures of the public or private companies or national banks and as time and demand deposits with the national banks.</p>

3.9. Remote Marketing of Financial Services

Table 12: Remote Marketing of Financial Services

Issue	EU	Turkey
Purpose and Scope	<p>Contracts for remote financial services contain the parties, the means, the rights and the obligations in order for ensuring maximum protection for the investors regarding the marketing of retail financial services via communications means such as mail, telephone, fax and the Internet.</p>	<ul style="list-style-type: none"> • Pursuant to the Article 22/u of the Capital Markets Law, the CMB has the power and duty to regulate and control the security issues and public offerings and other capital market activities and transactions carried out via every kind of electronic data communications means. The regulations regarding the capital markets deal with the transactions performed via telephone, rather than electronic transactions. • As to the remote membership, the definition of the financial institutions in the draft Communiqué of the CMB includes the institutions which transmit the orders and/or execute the orders by matching them in the national and international markets. • In the draft Communiqué on Brokerage Activities and Brokerage Firms, brokerage firms which have registered abroad and obtained license from the authorized body of the concerned state may trade in the markets approved by the concerned

Issue	EU	Turkey
		<p>local Exchanges and undertake to act as agency in public offerings in Turkey without making sales to public at home for the purpose of providing financial services to the clients in abroad. An application made by a brokerage firm to trade in the Turkish capital markets is evaluated in accordance with the cooperation and information exchange agreements executed between the CMB and the authorized body of the state where the brokerage firm is registered. If the brokerage firm is found to be qualified for the activities specified in the application form, the brokerage firm is granted a license by the CMB.</p>
<p>Information to be Disclosed</p>	<p>Service providers are obliged to inform their clients of the duration and the terms and conditions of the contract before executing the contract. They cannot make any alteration to the contract within 14 days following sending the contract to their clients.</p>	<p>Pursuant to the Article 4 of the Communiqué Series V, No. 6 of the CMB on the System of Documentation and Registration in the Intermediary Activities, intermediary institutions are obliged to send the account statements, breakdown of client securities movements within 7 days following the end of each monthly period.</p>
<p>Right to Cancel</p>	<p>The client has the right to cancel the contract without penalty within 14 days. The term of cancellation cannot exceed 30 days in contracts for pledge, life insurance and personal pension funds. The term of cancellation begins when the client had the knowledge about the term and the conditions of the contract. The client can use his/her right to terminate by sending a notice to the service provider.</p>	<p>Pursuant to the Article 9 of the Communiqué Series V, No. 6 of the CMB on the System of Documentation and Registration in the Intermediary Activities, the clients can give orders via phone and similar communications means or orally before or during the session. Responsibility to provide the proof of the orders is on the intermediary institutions. Records of the agents which lack of confirmation of the client are not sufficient evidence of a transaction. Before recording the client orders into the session follow-up form, the intermediary institutions</p>

Issue	EU	Turkey
		prepare the written form of the client orders. All client orders are given a unique number by numbering machine or computer.
Compensation Claim	In case that the service provider fails to provide the required information to the client beforehand, the client have the right to claim compensation for the loss he/she incurred due to default of the service provider.	<p>Members of the Exchange are obliged to deposit a guarantee in the form of cash money or government or treasury bonds or an unlimited and unconditional bank letter of guarantee that can be encashed immediately to the Central Bank of Turkey or a public bank being the correspondent of the Central Bank as the collateral of the losses caused by the intermediary institutions (members) to their clients. In case that the members fail to reimburse the losses of their clients, the losses are reimbursed from the guarantees. If the guarantee of a member does not cover the loss of a client, the general provisions are applied.</p> <p>In the event that a member admitted that it caused a loss to its client or that the Executive Council decided that a member caused a loss to its client and that the CMB decided that the member had to pay a compensation to the client for the loss it caused, the amount of the compensation is collected from the member or from the guarantee deposited by the member and paid to the client.</p>
Failure to Implement the contract in whole or in part	In the event that the service provider cannot provide the service to its client in whole or in part after the execution of the contract, the same must be promptly notified to the client. In case of failure to provide the service in whole, the fees paid by the client are refunded to the client. In case of partial provision of the service, continuity of the contract depends on the will of the parties. If the parties cannot agree, the fees paid by the client are refunded to the client.	Members of the Exchange may not accept the orders in whole or in part. Although they are not obliged to disclose the reason of not accepting the order, they have to notify the non-acceptance of the order to the client promptly. A client may change or cancel his/her order before it was sent to the Exchange. In the event that an

Issue	EU	Turkey
	If the parties agree to continue the contract, only the fees for the unprovided services are refunded to the client.	order is not executed within the specified time, it becomes invalid. Members who failed to perform their obligations have to pay an interest at the rate specified in the regulations. The transacted securities are purchased or sold by the own motion of the concerned specialist. If the transaction has not been executed, the securities or the received deposit money is returned immediately.
Penalties	Member states will determine the penalties to be charged to the service providers in case of failure of the service provider to inform the client, failure to provide the service in whole or in part or providing unwanted services or disclosure.	Members of the Exchange are subject to penalties such as warning, condemnation, fine, temporary or permanent expelling from membership as well as temporary or permanent revoke of the license according to the act of the member.
Protection of Investors	Investors cannot waive the rights granted to them by the Directive. In case that the client resides in a member country and that the contract has close connections in the member countries, though the contract has been executed in a third country, the client cannot be deprived of the rights granted by the Directive.	The responsibility to prove regarding the orders given by telephone or verbally is on the intermediary institutions. However, records of the intermediary institutions which lack the confirmation of the client are not sufficient proof of the transaction.
Settlement of Disputes	Member states will establish complaint and settlement procedures. Institutions licensed under national regulations will take steps for settlement of a dispute before applying to the judicial and administrative bodies. Among the organizations to which initial application will be made for settlement of a dispute are consumer protection organizations, public organizations and professional organizations.	A dispute between a member and a client arising out from the Exchange transactions is settled in accordance with the procedures given in the relevant regulation. In addition, the parties may apply to a competent court for settlement of the dispute. If the parties have applied to a court, the file is suspended in the Exchange until the final judgement of the court.
Duration for Harmonization with the Directive	On June 30, 2000 at the latest	Regulations in parallel with the Directive must be expanded to cover the cross-border transactions.

3.10. Electronic Signature

Table 13: Electronic Signature

Subject	EU	Turkey
Purpose and Scope	To establish the legal framework and the minimum requirements regarding the electronic signature in electronic transactions. The objective is to spread the electronic commerce across the Union in accordance with the principle of free movement of products and services and to establish the legal framework of the on-line transactions.	Pursuant to the recent amendment to the Capital Markets Law, the CMB is authorized and have the duty to establish the rules of using electronic signature in securities issues and public offerings and other capital market activities which are governed by the Capital Markets Law in any electronic data communications media, including the Internet and to audit such transactions.
Reliability of the Transactions	At present, it is possible to verify the accuracy of the source of the information received from an electronic medium by electronic signature and to check whether such information were manipulated or not. Service providers have established a certification mechanism to check the source of the information. A receiver of an electronic message will be able to verify the identity of the sender.	There is no any special regulation.
Certification Services	Certification institutions to be authorized to issue electronic signature certificates will be determined. Among the conditions to which the certification institution will be subject to are reliability, security of the system and conformance to confidentiality of information. Imposition of excessive restrictions on the responsibility of the service providers is avoided.	There is no any special regulation.
Legal Recognition	Electronic signature will be legally recognized as a handwriting as evidence of a transaction.	The CMB is authorized and have the duty to regulate and control the use of electronic signature in transactions regulated by the Capital Markets Law.
Authorization	Prior authorization and obtaining permission for certification services is not required as a rule. However, member states are allowed to establish certain validation mechanisms as a security measure.	There is no any special regulation.
International Cooperation	Due to international character of the electronic transactions, a mechanism for reciprocal recognition of the electronic signature certificates with the third countries is to be established.	There is no any special regulation.

3.11. Settlement and Custody

Table 14: Settlement and Custody

Subject	EU	Turkey
Purpose and Scope	The objective is to ensure the continuity of the system in case of bankruptcy of one of the participants. The Directive covers the domestic as well as the cross-border money and securities settlement. Settlement and custody services can be provided by the same institution.	Settlement and custody services are provided by Takasbank. Takasbank is responsible for the settlement of the Exchange transactions.
Transfer Orders and Netting	Netting and transfer orders are legally mandatory. In the event that one of the parties is not in a position to fulfil its obligation due to, for example, bankruptcy, the transfer and netting transactions must have been completed before the commencement of the bankruptcy procedures. The rule that the transfer orders cannot be cancelled by the participant or a third person after the elapse of a specified time has been brought.	The amendment to the Capital Markets Law dated 15.12.1999 allows the CMB to take various measures against the risk that the agents cannot fulfil their obligations. One of such measures is gradual liquidation.
Bankruptcy Proceedings and Settlement / Custody Transactions	<ul style="list-style-type: none"> • No transfer and netting transaction can be made after the initiation of bankruptcy proceedings. This rule, however, is subject to certain exclusions. If the settlement and custody institution proves that it was not in a position to know the initiation of the bankruptcy proceedings, transfer and netting transactions can be done after the initiation of the bankruptcy proceedings. • Contracts and transactions completed before the initiation of the bankruptcy proceedings cannot be cancelled. Member states will ensure that the party that goes bankruptcy will not prevent the meeting of its obligations by using of the securities and funds in its custodian accounts. • A member state which initiated bankruptcy proceedings will notify the same to the other member states. Initiation of bankruptcy proceedings will not forfeit the rights and obligations arising out from the settlement transactions that commenced prior the initiation of the bankruptcy proceedings. 	After the decision of the CMB to liquidate the intermediary institution gradually, the objective is to perform the cash payment and settlement obligations of the intermediary institution against its clients by using the proceeds of sale of the assets of the intermediary institution. All payments to be made by an intermediary institution which is to be liquidated gradually are ceased, and all assets of that intermediary institution are given to the disposition of the Fund as of the date of the gradual liquidation decision.

Subject	EU	Turkey
Protection of the Rights	The parties of transactions guaranteed reciprocally by the clearing system will not lose any of their rights due to bankruptcy of one of the parties. The rights of the parties will be protected by the concerned member state and the rights such as first refusal attached to a share will be maintained by the authorized bodies of the concerned member state.	Cash liabilities of the intermediary institution to be liquidated gradually are calculated as the sum of the principal amount and the accrued interest as of the date of the liquidation decision and the obligation to deliver securities is calculated as the cash value of such securities based on their market values as of the date of default or of the liquidation decision. Firstly, capital market instruments in the clients' custodian accounts are distributed to the clients.

3.12. Investor Compensation Fund

Table 15: Investor Compensation Fund

Subject	EU	Turkey
Definitions	The objective of the Fund is to return the securities and refund the money to the investors who are included in the compensation program upon the decision of the authorized bodies and the courts in each member state that the investment companies are not in a position to meet their requirements.	The objective of the fund is to meet the cash payment and stock certificate delivery obligations of the intermediary institutions and the banks which were decided to be liquidated and bankrupted against their clients arising out from the capital market transactions of such intermediary institutions and banks.
Contribution to the Fund	Compulsory	Compulsory
Minimum Amount of Protection	20,000 Euro per person	Before the amendment to the CML, the ceiling of compensation for receivable from the intermediary institutions of which the licenses were revoked and against which bankruptcy proceedings were initiated was TL 2 billion, and this ceiling would be increased by the rate of revaluation each year. After the amendment, there is no ceiling for this compensation.

Subject	EU	Turkey
Notification Period of the Losses	Minimum 5 months following the decision to include into the compensation coverage.	There is no time limitation.
Duration for Compensation of Losses	Maximum 3 months following the meeting of all conditions.	No maximum duration has been specified. However, an advance of TL 7,5 billion is paid before the completion of liquidation proceedings.

3.13. Law of Corporations

Table 16: Law of Corporations

Subject	EU	Turkey
Purpose and Scope	The objective is to simplify the legislation to facilitate the integration of the internal legislation of each member state toward the establishment of the single market. To this end, the team for SLIM (Simpler Legislation for the Internal Market) has made various recommendations in the field of law of corporations.	Pursuant to the Communiqué Series I, No. 26 of the CMB on the Gradual Registration of Companies, the articles of association of a company must be submitted to the approval of the Capital Markets Board, a permission for registration must be obtained from the Ministry of Industry and Commerce and the stocks to be sold to the public must be registered by the CMB.
Registration	It is recommended that the companies within the EU are registered electronically. The time required for transition to the electronic system is estimated to be 5 years.	<ul style="list-style-type: none"> Regarding the electronic registration of the stocks with an amendment made to the Capital Markets Law, pursuant to the Article 10/A of the Capital Markets Law, the instruments of the capital markets and the rights attached to these instruments are monitored by a Central Registration Organization which has the status of legal entity under the private law. Records are kept by the Registration Organization in a computer environment in terms of issuers, intermediary institutions and holders. Registered rights are not certified. This regulation will come into effect on the date of establishment of the Central Registration Organization.

Subject	EU	Turkey
Public Disclosure	It is recommended that the rules applicable to the public disclosure in the legislation regarding the companies are reviewed. It is also recommended that companies having branches and liaison offices in more than one country be subject to the rules of public disclosure.	Article 3C (g) of the Communiqué Series VIII, No. 20 of the CMB on "Disclosure of Special Situations to the Public" requires that establishment of new branches, representations and liaison offices at home and abroad, reconstruction of the organization significantly, removal of the head office or the other primary facilities by the public companies be notified to the Board and the concerned Exchange immediately after such change occurred or be known by the fastest means of communications.
Decrease of Costs	It is proposed that costs be decreased and procedures be simplified by reviewing the procedure for increasing the capital without prejudicing the rights of the shareholders and the creditors.	The Communiqué Series I, No. 26 of the CMB on the Registration by the Board and the Sale of Stocks governs the gradual registration of a company and the share issues of the public or the non-public companies from the existing capital or through the capital increase. Pursuant to the said Communiqué, the fee charged for registration of the shares to be sold to public is 2% of the issue value of such shares.
Developing uniform standards applicable to all companies (European Company Statute)	It is proposed that the European Company Statute, of which shares can be held by all EU citizens, be established and made effective by expanding the scope of the 4th Company Law, which was adopted to ensure harmony regarding the contents and the presentation of the annual accounts and reports of companies and to make the evaluation methods identical, which exhibit variations on the national level.	The provisions of the Turkish Commercial Code and the Capital Markets Law may be required to be made identical with the provisions regarding the registration, reporting, auditing, shareholding etc. in the Status of European Company.
The structure, of the public companies, and the power and responsibilities of their associate bodies	5 th Directive Proposal for the Corporations	Parallelism with the Directives of the EU can be ensured during the process of full membership.

Subject	EU	Turkey
Cross-border merger of public companies	10 th Company Law Directive Proposal	Parallelism with the Directives of the EU can be ensured during the process of full membership.
Company Law regarding the takeovers	13 th Company Law Directive Proposal	Parallelism with the Directives of the EU can be ensured during the process of full membership.
	<ul style="list-style-type: none"> • Protection of minority rights: In case of acquisition by a person or a legal entity of the voting rights of another company above a certain level or of the control of that company after a takeover, the minority shareholders must be offered or at least provided with equivalent instruments for the protection of the minority rights. • Auditing authority: The member states have the duty to examine the offer in all respects, appoint the authorized body and notify to the Commission. • General principles: a) All shareholders of the company to which the offer has been made must be treated equally, b) the shareholders must be informed in full about the offer and allowed sufficient time for consideration of the offer, c) the board of directors of the company to which the offer has been made must pursue the interests of the company as a whole. • Disclosure: Before disclosure of the offer to the public, the auditing body and the board of directors of the company to which the offer has been made must be duly informed. The member states are obliged to take the necessary measures. • Public Disclosure: The member states are obliged to ensure that the offer is disclosed to the public in full and accurately and to take the necessary measures to prevent misleading regarding the market potential of the securities. • Obligations of the board of directors of the company which made the offer: The board must prepare a document containing its opinions about the offer, together with the reasons thereof and made available to the public. 	<ul style="list-style-type: none"> • Protection of the minority rights: The minority shareholders holding 5% of the shares in the capital of the company have the right to file action against the board of directors and the auditors, to request the adjournment of the general meeting of shareholders, the appointment of an independent auditor, the convening of the general meeting of shareholders and the addition of an item of discussion to the agenda of the general meeting of shareholders. In parallel with the Directive Proposal of the EU, in case of change in the control of the management of a company, it is mandatory to make an offer to the minority shareholders to purchase their shares. Also the minority shareholders have the right to request the controlling group to purchase the minority shares. • Auditing authority: The authorized bodies for auditing of the public companies will be the CMB and the Board of Competition. • General principles and disclosure: There are similar regulations in the companies and the competition legislation regarding the public disclosure.

3.14. Accounting Standards

Table 17: Accounting Standards

Subject	EU	Turkey
Objective	The objective is to ensure that financial assets be valued based on their fair values in accordance with the international accounting standards and to eliminate the variations in practices on the national level through application of the international accounting standards. Other objectives are to minimize the differences among the member states, to eliminate the problems posed by different accounting practices resulting from the judicial systems and to prevent double-taxation.	The Communiqué Series XI, No. 1 of the CMB on the Financial Statements and Reporting in the Capital Markets sets forth in detail the rules and regulations regarding the financial statements and reports to be issued and submitted to the concerned by the companies and the intermediary institutions being subject to the Capital Markets Law.
Scope	The accounting standards in the EU have been established under the Directives No. 3-8. The Action Plan aims at revision of the accounting statements, including the consolidated financial statements, in accordance with the international accounting standards. The Directives also deal with the mergers, the issuing of uniform balance sheet and income table, the division of companies, the consolidated financial statements and the standards of independent auditing. The 4th and the 7th Directives are especially important. The 4th Directive governs the issuance and the disclosure of the balance sheet and the income table. The 7th Directive sets forth the rules applicable to the issuance and the publication of the consolidated financial statements.	The scope of the regulations include the annual reports, the auditor reports, the balance sheet and the income table, together with the footnotes, the fund flow, the cash flow, the cost of sales and the profit distribution tables as the attachments of the balance sheet and the income statements which must be issued by the companies and the intermediary institutions being subject to the Capital Markets Law.
Basic accounting principles	The harmonization aimed at the accounting rules of the EU will be attained in accordance with the principles of the continuation of the company, the materialism, the periodicity, the conservatism and the uniform valuation. The financial statements must reflect the assets, the liabilities, the profit and loss account of the company accurately and truly. The order of the financial statement accounts must comply with the format given in the Directive.	In the Article 3 of the Communiqué Series XI, No. 1 of the CMB, the basic principles of accounting are given as continuation of the company, periodicity, consistency, precaution, full disclosure, importance, social responsibility, impartiality and priority of the factuality. The selected accounting policies and practices must be based on these basic principles.
Method for the valuation of the assets	The 4th Directive governs the methods for valuation of the assets in the balance sheet. Companies may value their balance sheet assets based on their purchase price or the cost of production.	In the valuation of the assets, each asset is valued separately in terms of liability and equity items. However, similar items constituting a wholeness

Subject	EU	Turkey
	<p>The method mostly used by the companies is the valuation according to the historical costs. The member states may allow the revaluation of certain assets precautionary or compulsorily.</p> <p>They may also allow the use of such methods which eliminate the effect of inflation on the annual and consolidated financial statements. However, the new Directive Proposal proposes transition from the determination of costs based on the historical costs to the determination of costs based on their fair values in the valuation of the assets.</p>	<p>in itself by their nature can be valued collectively. For determination of the cost for the valuation of the assets, the historical cost, the acquisition cost, the purchase price, the cost of production, the cost of construction, the net fair value, the expected sales price, the cost of completion, the current market price, the first in first out, the last in first out, the weighted average cost, the moving weighted average cost, the cost of special order methods have been identified and defined. In this context, the securities acquired for temporary purposes are entered into the accounts with their acquisition costs. The companies may enter the expenditures into the accounts as expenditures and loss resulting from other operations based on the purchase price. For calculation of the acquisition cost, it is mandatory to use either of the moving or the weighted average cost methods.</p> <p>The stocks traded in the Exchanges and the other organized markets are valued based on the average of the daily weighted average prices occurred during the 5 business days before the date of balance sheet. The investment fund participation certificates are valued based on their purchase prices announced by the investment fund on the date of balance sheet. Other securities traded in the exchanges and the other organized markets are valued based on their weighed average prices prevailing on the date of balance sheet.</p> <p>Securities not traded in the Exchanges or the other organized markets are valued based on their current market</p>

Subject	EU	Turkey
		prices if their acquisition prices have decreased 10% or more in the absence of a reasonable and objective anticipation that this devaluation will be recovered in a near future.
Harmonization with the International Accounting Standards	<p>Since the Directives regarding the accounting standards became insufficient because of the futures, options, forward and swap transactions which gained importance during 1990s, their revision in compliance with the international accounting standards is in the agenda. The requirement on the part of the European companies to use the same accounting standards with the companies outside Europe in order to take benefit from the international capital markets has emerged. The proposed amendment is especially concerned with the 39th International Accounting Standard. This standard is related with the determination of the costs based on their fair values. Accordingly, the assets are required to be valued based on their current market values, not the original purchase or the repurchase price. Eight member states have incorporated this standard into their internal legislation since 1998.</p>	<p>Although there are substantial differences in our capital markets in general from the International Accounting Standards, some practices are required to be revised in compliance with the International Accounting Standards. Among them are inflationary accounting, accounting of leases and accounting of construction contracts. It seems that there is no any problem regarding the provision for the severance payment obligations as the companies calculate the severance payment obligations and set aside a provision for the increases in the obligations during the current term as of the end of the current fiscal term.</p>
Earnings and distribution of income	<p>In accordance with the International Accounting Standards, the time the income is realized and the accounting of the realized income are important for valuation of the assets based on their fair values in order to prevent the unrealized income to affect unrealized incomes to affect the profit and loss account. The proposed Directive provides that the fair value be used, be used for the assets owned for commercial purposes and not be used for long term assets possessed for non-commercial purposes, for elimination of the aforesaid inconvenience.</p>	<p>In accordance with the concept of caution in the accounting procedures, a conservatory approach which prevents the companies to show themselves in a position better than they are actually in and to assume unnecessary risks has been adopted. As a result of this concept, the companies set aside provisions for their potential expenditures, losses and liabilities and do not make any accounting entry for their potential incomes and profits. However, this concept cannot be abused for setting aside covert provisions or provisions more than the required level.</p>
Public disclosure	<p>Since the expansion of the existing rules regarding the public disclosure is preferred over the adoption of new rules by the member states, the proposal has enlarged the framework of rules regarding the public</p>	<p>In accordance with the principle of full disclosure, the companies are obliged to ensure that their financial statements are clear and comprehensible</p>

Subject	EU	Turkey
	disclosure. The member states may make the public disclosure rules more strict. Pursuant to the proposal, the companies are obliged to disclose their targets and strategies of risk management related with the use of financial assets which are valued based on their fair values in the annual financial statements.	so as to help the persons and the entities using such statements give correct decisions. Beside giving the financial information in full, the financial statements must provide information about the potential future events.

3.15. Taxation

3.15.1. Taxation of Securities in the EU and Turkey

Table 18: Taxation of Securities in the EU and Turkey

Subject	EU	Turkey
Withholding tax and stamp duty levied in the capital markets	It is admitted that interest and dividend income earned by residents from financial investments be subject to withholding tax at a minimum rate of 15% would be convenient. On the other hand, it is proposed that the stamp duty levied for the registered capital or the capital raises of the capital companies be not more than 2% and less than 1%.	As of 6.7.1994, the Council of Ministers is authorized to reduce the rate of the stamp duty levied on the instruments required to be regulated by the CMB pursuant to the Capital Markets Law down to "0" percent, increase the reduced rate up to the rate specified in the law and apply various rates between the lowest and the highest rates by the types of the instruments.
Revenues from securities and capital gains	Taxation of securities comprise the taxation of security purchase and sale transactions, dividends, interest and capital gains.	In Turkey, revenues from the securities are grouped under the headings of dividend, interest, repurchase agreement and other. Capital gains means the surplus value obtained from the sale of the securities and the rights. As different from the EU, taxable net earning is adjusted by using the rate of revaluation and/or the compound average interest of the government/treasury bonds and bills tenders.
Taxation of dividend and interest	<ul style="list-style-type: none"> • Dividend of shares • It is admitted that interest and dividend earned by the residents within the EU from the financial investments be subject to a withholding tax at the rate of minimum 15% would be convenient. In the EU-member countries, the rate of tax is 25%, in general, and between 10% and 30% in particular. In some 	<ul style="list-style-type: none"> • There are no substantial differences from the EU in terms of taxation in the capital markets. There is no uniform procedure among the member states. Concentration of the taxation on the capital earnings and minimization of the taxation on the

Subject	EU	Turkey
	<p>countries (such as Luxembourg and Sweden) earnings from the financial investments are exempt from tax.</p>	<p>dividend earnings would contribute to the long-term structure of the market.</p> <ul style="list-style-type: none"> • Pursuant to Article 94/6b(1) of the Income Tax Code, the rate of withholding tax levied for dividend earnings is 5% in case of public companies and 15% in case of non-public companies. • If the amount of dividend, including the tax return, is above TL 3,5 billions, it must be declared. The rate of tax for incomes subject to the income tax varies between 15% and 40%. The rates in the EU-member countries vary between 10% and 30%. If the income of limited tax payers (real person) consist only of dividends taxed due to stoppage tax, they are not obliged to submit annual tax declaration. In addition, pursuant to the Article 8/1 of the Corporation Tax Code, such dividends are exempt from the corporation tax, except for dividends earned from investment in the capital of an unlimited tax payer corporation and income from mutual funds. • In case that the amount of interest income from the government and treasury bills and bonds remaining after the application of the discount rate (45.9%) is above TL 3,5 billions, it is declared. The rates of tax are applied in increments as in the case of taxation of dividends. The rate of withholding tax levied on the government and treasury bills and bonds is 0% pursuant to the Article 94/7 of the Income Tax Code.

Subject	EU	Turkey
Prevention of tax evasion	<p>For prevention of tax evasion, the tax must be levied at the source for all resident persons and legal entities. With this system, which will also facilitate the administrative control, the rates of the withholding tax can be reduced and the taxes will go to the country of origin where the income is earned.</p> <p>Banks will declare the interest income of their resident clients to the tax authorities. In this way, it will be ensured that all tax payers pay their taxes. However, since this system will force the banks to give up their confidentiality policies, it causes a reaction from many member countries.</p>	<p>It will be necessary to adopt common standards beyond signing treaties with the EU member states for prevention of double-taxation and tax evasion.</p>
Problems	<p>The fundamental problem is the emergence of double-taxation burden. Especially the use of different taxation practices by the member states regarding the capital markets gives a competitive advantage to the states which apply lower tax rate for the cross-border portfolio investments. With the prevention of tax losses caused by cross-border controls and restrictions on the factorial movements, the harmony in taxation practices is emphasized.</p>	<p>Although treaties are signed with the EU-member states for prevention of double-taxation and tax evasion, harmony with the taxation procedures in the EU is out of concern due to the prevailing tax rates.</p>

3.15.2. Taxation of Capital Market Transactions and Earnings in the EU and Turkey

Table 19: Taxation of Capital Market Transactions and Earnings in the EU and Turkey

Country	Security Purchase and Sale Transactions	Withholding Tax Levied on Dividend and Interest Income	Income Tax
Germany	Tax-exempt	Interest payments to resident persons and entities are subject to withholding tax at the rate of 30% as of January 1st, 1993. Non-residents are not subject to the withholding tax, except for investments in the German-origin financial instruments. The rate of withholding tax levied on the dividends is 26,375% since January 1995.	In essence, investment earnings are taxed as of the current year. Capital income earned by residents from securities held more than 6 months is exempt from income tax. Losses from securities in the same category are deducted from the capital earnings. If total net earning is below DM 1,000, it is exempt from tax. No tax is levied for capital income earned by foreign investors.
Austria	Primary market is exempt from tax. In the secondary market, all purchase and sale transactions in the Exchange are subject to transaction tax. If the transaction is made outside Austria, it is subject to tax if one of the parties is a resident in Austria. Bonds are subject to tax at the rate of 0.04% and shares at the rate of 0.15%. Transactions between the dealers are exempt from tax. Treasury bonds are exempt from tax.	25% for the residents.	Real persons are subject to income tax at the rate of between 10% and 50%.
Belgium	The rate of tax for the public borrowing instruments, the listed bonds and the depository certificates in the primary market is zero. All other bonds and depository	Capital earnings from financial assets used for professional activity are subject to tax at the rate of income tax applicable to real persons and legal entities.	Real persons are subject to income tax at the rate of 10% to 50%.

Country	Security Purchase and Sale Transactions	Withholding Tax Levied on Dividend and Interest Income	Income Tax
	<p>certificates are subject to transaction tax at the rate of 0.14%. The rate of tax is 0.35% for the rest of shares and 1% for the mutual fund certificates. The rate of tax for the foreign bonds and depositary certificates and mutual funds in the secondary market is 0.07%. Transactions of mutual fund certificates are taxed at the rate of 0.5% and all other transactions at the rate of 0.17%.</p>		
Denmark	<p>Bond issues are exempt from stamp tax. Other borrowing instruments are subject to stamp tax at the rate of 1%. Foreign investors in the secondary market are exempt from tax. Local investors pay transaction tax at the rate of 0.5% for share purchase and sale transactions.</p>	<p>Interest payments are not subject to withholding tax. Resident persons and entities are subject to 25% coupon tax for dividend payments of Danish companies.</p>	<p>Rate of income tax paid by companies is 34%. Real persons are subject to income tax as high as 62%. Non-residents are exempt from tax, in general, for share and bond sales in Denmark. Unlimited tax payer companies are exempt from tax for shares they held more than three years. Income earned by real persons from shares above DKK 113,300 (in 1999) is subject to income tax. If the shares are held longer than three years, the income earned from such shares is exempt from tax.</p>
France	<p>No tax is levied for the transactions in the primary market. Each transaction in an amount less than FRF 1 million in the secondary market is subject to tax at the rate of 0.3%. Transactions in an amount up to FRF 500,000 are exempt from tax. If the amount of</p>	<p>Resident persons and entities are not subject to withholding tax for income they earned from the shares. However, the dividend they earned from such shares is subject to income tax. Except for certain companies, the tax is credited for up to 50% of the real</p>	<p>Residents are subject to income tax for dividend earnings. Except for certain companies, the tax is credited for up to 50% of the real dividend payment. In this way, the amount of income tax can be reduced slightly. In case that the capital earning</p>

Country	Security Purchase and Sale Transactions	Withholding Tax Levied on Dividend and Interest Income	Income Tax
	transaction exceeds FRF 1 million, the sum in excess up to FRF 4,000 is subject to tax at the rate of 0.15%. Purchase and sale of bonds listed on the Paris Stock Exchange and of stocks listed in an official Exchange are exempt from tax.	dividend payment. In this way, the amount of the income tax can be reduced slightly. The rate of withholding tax levied for interest earned from bonds and money market instruments is 0% for government bonds issued after January 1987, 12% for government bonds issued before December 31st 1964 and 10% for government bonds issued between January 12th, 1965 and December 31st, 1986.	from the sale of securities exceeds FRF 50,000 per annum (in 1998), it is subject to tax at the rate of 26%.
The Netherlands	No stamp tax is levied in the primary and the secondary markets. Capital raises are subject to capital tax at the rate of 1%. Although purchase and sale transactions are exempt from tax, custody services are subject to value-added tax at the rate of 17.5%.	25% for dividend payments.	For income earned from every kind of stocks and bonds, real persons are subject to tax at the rate of 13% to 60% and legal entities at the rate of 35% to 40%.
United Kingdom	No tax in the primary market. There are two kinds of stamp tax in the secondary market. One type of the stamp taxes is levied on the documents and instruments, rather than the transactions, and the other on the shares. The rate of stamp tax levied on the shares is 0.5%. The other stamp tax (SDRT) is levied for security transfers in cash or cash equivalent at the rate of 0.5% since July 1st, 1996. Depository certificates on shares are subject to SDRT at the rate of 1.5%.	The rate of corporation tax levied on the dividend earnings corresponds to 20%, but the tax-payer is taxed at the rate of 23% under normal taxation. Interest earnings from time deposits and capital market instruments due more than five years are subject to withholding tax at the rate of 23% for individuals and 0% for companies. The rate of withholding tax is 23% for investment up to GBP 50,000 in the capital market instruments due less than five years and 0% for	Unlimited tax payers were subject to income tax at the rate of 20% for their income up to GBP 4,300, 23% up to GBP 22,800 and 40% for more in 1996/1997. The joint-stock (limited in UK) companies were subject to tax at the rate of 31% as of April 1st, 1998 and 30% as of April 1st, 1999. Dividend earnings are subject to the Advanced Corporations Tax (ACT) at the rate of 10% as of April 6th, 1999. Capital income earned through the sale of stocks and private sector

Country	Security Purchase and Sale Transactions	Withholding Tax Levied on Dividend and Interest Income	Income Tax
		others. The rate of withholding tax for bond interest and British Government stocks is 20%.	bonds is subject to 20%, 23% or 40% for individuals, 34% for mutual funds and 31% for joint-stock companies. Income corrected by retail price index during 1998/2000 is exempt from tax up to GBP 6,800 for real persons and GBP 3,400 for funds.
Spain	Public sale in the primary market is subject to stamp tax at the rate of 1% based on the par value of the stocks. No tax is levied for the secondary market transactions.	Dividend and interest earnings by resident persons and entities from securities other than treasury bonds are subject to withholding tax at the rate of 25%.	Real persons are subject to tax based on the total income they earned in Spain. Capital earnings are added to the income tax base. Earnings from securities held for a certain time are exempt from tax.
Sweden	No stamp tax is levied in the primary market. No tax and stamp tax is levied in the secondary market.	In the absence of a treaty, non-residents are subject to withholding tax at the rate of 30% for dividend earnings and 0% for interest earnings.	Resident persons and entities are subject to income tax at the rate of 30% for interest, dividend and capital earnings. The tax for the foreign securities concerns the country of origin of such securities. The maximum rate of income tax for real persons is 56% of the income. Losses arising from purchase and sale of listed securities and 70 % of other capital losses are deducted from the capital earning tax base.
Italy	Primary market is tax-exempt. In the secondary market, every kind of purchase and sale transaction made by authorized agents is exempt from tax.	Capital earnings are subject to tax through A) custodian institution, B) fund management and C) tax office according to investor's choice. Shareholders owning less than 2% of shares of a company are subject to capital earning tax at the rate of 12.5% and	Earnings from securities are subject to income tax.

Country	Security Purchase and Sale Transactions	Withholding Tax Levied on Dividend and Interest Income	Income Tax
		those owning more than 2% of shares at the rate of 27%.	
Luxembourg	No tax is levied for the primary and the secondary market transactions.	Resident and some of EU-member country resident persons and entities are subject to withholding tax at the rate of 25% for dividend earnings.	Earnings from securities sold within 6 months are subject to tax. Earnings below LUF 60,000 by a person and LUF 120,000 by married couples are exempted from tax. A shareholder owning more than 25% of shares in the capital of a company is subject to tax at a rate which is half of the normal tax rate.
Greece	Total amount of capital raised by companies listed in the Athens Stock Exchange in the primary market is subject to tax at the rate of 1%. Also stamp duty at the rate of 2.4% is levied. Although no tax is levied in the secondary market, security transfers are subject to transfer tax at the rate of 0.3% based on the market value of the securities.	Dividend earnings are subject to withholding tax at the rate of 35%. Apart from the withholding tax, shareholders and companies are not subject to any tax for dividend earnings.	The rate of income tax for real persons varies between 5% and 45%. Companies issuing bearer shares and not listed in the Athens Stock Exchange are subject to income tax at the rate of 40%. All other joint stock companies are subject to tax at the rate of 35%. In general, capital earnings are not subject to tax. Earnings from mutual funds and portfolio management companies are subject to tax at the rate of 15%.
Turkey	No tax is levied in the primary market and for the public sector bonds. Company bonds are subject to stamp tax at the rate of 0.48%. No stamp tax is levied in the secondary market.	The rate of tax is 5% for dividends paid by listed companies and 15% for dividends paid by other companies as of 2000. The rate of tax is 10% for private sector bonds and 0% for public sector bonds.	Real persons are subject to income tax at the rate of 15% to 40% as of January 1st, 1999. The rate of corporation tax is 30%.

3.15.3. Taxation of Pension Funds in the EU

Tablo 20: Taxation of Pension Funds in the EU

Country	Employee's Contribution	Employer's Contribution	Interest and Capital Earnings	Taxation of Total or Annual Salary
Germany	Deductible from tax base up to a specified limit.	Payments of the employer that remain in the company can be deducted from the tax base, but the insurance premiums are subject to income tax for the employees as they are considered as indirect salary.	Not subject to tax.	Retiree's salaries (benefits) can be subject to tax at a low rate according to the funding methods.
Austria	Deductible from tax base up to a specified limit.	--	Subject to tax at the rate of 15%.	--
Belgium	Deductible from tax base.	Deductible from tax base.	Assets of the fund management firms are subject to an annual tax at the rate of 0.17%. A stamp tax is levied on the tax base at the rate of 15% or 25%. Profits of the insured funds which cannot be deductible from tax base by insurers and are distributed are subject to a tax at the rate of 9.25%.	Flat taxation of capital; margin rate of annuities is subject to tax.
Denmark	Deductible from tax base.	Deductible from tax base.	While interest and capital earnings from bonds are subject to tax, dividend and capital earnings from stocks are exempt from tax.	Lump sum payments 40%; annuities are subject to tax at the same rate of individual income.

Country	Employee's Contribution	Employer's Contribution	Interest and Capital Earnings	Taxation of Total or Annual Salary
Finland	Contributions of employees and employers to pension schemes can be deducted from tax base up to a specified ceiling.	--	Annuities are subject to income tax.	--
France	Deductible from tax base.	--	Deductible from tax base.	Annuities are subject to income tax.
The Netherlands	Deductible from tax base.	Deductible from tax base.	Not subject to tax.	Annuities have been taxed already.
UK	Deductible from tax base.	Deductible from tax base.	Not subject to tax.	
Ireland	Deductible from tax base.	Deductible from tax base.	--	Lump sum payments are not subject to tax. Annuities are subject to income tax.
Spain	Deductible from tax base up to a specified limit.	Deductible from tax base.	Assets of the Pension Fund are not subject to tax.	Annuities are subject to income tax.
Sweden	Deductible from tax base.	Deductible from tax base.	Subject to tax.	Subject to tax at a low rate.
Italy	Deductible from tax base.	Deductible from tax base.	--	Annuities are subject to income tax.
Luxembourg	Deductible from tax base up to a specified limit.	Comparable to Communiqués in effect in Germany.	--	Annuities are subject to income tax.
Portugal	Taxed.	Employees are subject to tax. However, if they have no earned right due to early termination of employment contract, it is exempt from tax.	-- --	Deductible from tax base partly or wholly up to a specified ceiling.
Greece	Deductible from tax base.	Deductible from tax base.		Annuities are subject to income tax.

3.16. Principles of Corporate Governance in the EU

There is no uniform model which is valid and correct for all countries regarding the principles of corporate governance. Different principles can be adopted according to the socio-economic structure in each country. Although there is no absolute model valid under all circumstances, attempts for adoption of a set of principles common for all countries are rising day by day. The UK experiment within the EU reflects the Anglo-Saxon experiment, in general. Especially after the fall of some companies whose financial statements failed to reflect the actual financial standing, the London Stock Exchange and the Financial Reporting Council, which is responsible for the accounting standards, requested from the Committee to take measures in this regard and to adopt the "Code of Best Practice" which would provide a guideline for the executives. The principles in the adopted Code have been taken as examples by the other countries. These principles are gathered under 3 headings:

After the emergence of Cadbury Group in the UK in the early 1990s, debates in the European Union on the principles of corporate management intensified. The corporate governance principles to be implemented across the EU are aimed to make the EU companies more competitive in the global capital markets. As a result of works of the semi-official committees, some reforms have been realized.

However, despite similarities in the principles adopted during the negotiations at the national level, no agreement has been reached at the EU level. Such differences limit the integration between the borders and the emergence of the EU-beyond companies.

The Competition Advisory Group, which was founded in 1995, advised that the similar approach developed regarding the corporate governance principles and the EU policy should be particularly built on three important areas:

1. Adoption of the Code of Best Practice in corporate governance across Europe.
2. Publication of a guideline describing the overall structure of the public enterprises in the member countries.
3. Reduction of protective restrictions imposed by the national governments on the ownership of foreigners especially regarding the privatizations.

Another point concerning the corporate governance is the recognition of the European Company Status which will make a significant contribu-

tion to the establishment of the single market. The policy in this area is important in terms of creating new opportunities. Many large size companies which seek to take benefit from the advantages of the single market by expanding within the EU have to incur additional costs as they have to comply with different legislation in effect in each country regarding the national companies. The European business organizations declared to the Commission that they wished that the European Company Status be adopted for prevention of this handicap. The European Company Status is one of the priority-given topics of the Action Plan for the Single Market.

The Competition Advisory Group emphasized that mechanisms such as golden shares and the like which led to discrimination among the investors regarding the public companies should not be encouraged. The matters of in which cases and to what extent the minority shareholders should have vote in the management of the private companies need to be clarified. The said discriminatory mechanisms are huge barriers on the direction to emergence of modern international integrated capital markets.

3.16.1. Developments in the EU Countries

Austria: The enterprise support institutes of the Austrian Chamber of Commerce are dealt with questions and problems of the small and medium size companies regarding the corporate governance. They also provide support for business and finance plans of the enterprises.

Denmark: The government of Denmark has embarked on a study regarding the corporate governance. This study handles the legislation abolished and at force regarding the ownership structure in the Denmark industry. Also the advantages and disadvantages of pays depending on performance, including the implications of the tax legislation, are examined. In addition, the limitations of the amendments to the articles of association which would improve corporate governance are dealt with.

Finland: The Helsinki Stock Exchange issued a recommendation which also covered the best practices regarding the corporate governance, in conjunction with 3 public organizations.

France: The French jurisdiction has enacted certain acts which govern the balance of power in any company. For example, one of the acts maintains the independence of the board of directors by ensuring that at least two thirds of the directors shall not be the employers of a public company. In addition, a corporate law reform bill contains a section regarding the corporate governance.

Germany: The act regarding the control and transparency of a com-

pany sets forth the basic standards for the corporate governance. As a result of the negotiations regarding the implementation of the act, an improvement has been achieved regarding the reconstruction of the thoughts and opinions of the German executives.

Italy: After the decision to consolidate the legal issues regarding the financial markets, the management principles in the listed companies have begun to emphasize the protection of the minority rights. Small size companies which will newly emerge and the pan-European EURO NM network will ensure the development of mechanisms which will improve the communications between the company and the investors. A committee formed within the body of the Ministry of Justice examines the corporate governance covered by the reform act regarding the non-listed companies.

The Netherlands: The matter of "Corporate Governance" is currently discussed between the representatives of the private sector, the government and OECD.

Portugal: Training and enlightenment programs for the businesses cover the best practices regarding the corporate governance.

Sweden: The best practices regarding the corporate governance in the venture capital sector are not among the responsibilities of the member states.

One of the studies regarding the corporate governance in the European Union has been made by CEPS (Center for European Policy Studies). This study contained significant conclusions and suggestions regarding the corporate governance.

1. It is recommended that a guideline be issued regarding the corporate governance as an initial step because of differences in the principles of corporate governance at national level. The purpose of this guideline is to ensure the establishment of the minimum standards and the framework for the corporate governance within the EU. It is recommended that all companies listed in the exchanges be obligated to comply with these minimum rules. It is suggested that monitoring of compliance with these rules by independent organizations (such as exchanges, auditors etc.) would be beneficial. It is assumed that encouraging the important companies in the real sector to be bound by such rules would accelerate the process of directing the other companies to follow.
2. It is suggested that the accounting standards must be harmonized at the EU level, that a standard similar to the International Accounting Standards must be established and that the European Accounting

Standards must be set up.

3. It is recommended that company acquisition procedures and rules be harmonized to ensure transparency and public disclosure regarding acquisition and takeover operations and that rules to attain this end be incorporated into the Corporate Law Directives.
4. The fact that the European Company Status could not have been established yet is another factor which impedes putting into practice the corporate governance principles. The fact that various legal requirements applicable to the company registration and operations vary from country to country causes the companies to make substantial additional expenditure.

Major suggestions regarding the corporate governance are as follows:

- a) The objective of the corporate governance rules is to ensure a consensus among all concerned parties of the company.

Rights and Obligations of Shareholders

- a) Shareholders must be given the opportunity to use their votes independently after being adequately informed. This is necessary since the shareholding becomes increasingly international. This rule is very important, in particular, in the case of use of votes in proxy by banks and similar institutions which provide custody services to the investors.
- b) Shareholders must be allowed to decide on which rights will be attached to the shares. That each share has one vote must be the principle rule. All exceptions to this rule must be subject to the approval of the general meeting of shareholders. Use of rights and powers delegated by the shareholders to the executives of the company must be audited under special procedures at regular intervals.
- c) Fundamental rights of shareholders must include appointment and removal of directors and auditors, approval of distributable profit, approval of proposed amendments to the articles of association and of issuance of new shares.
- d) Shareholders must consider the growth and the stability of the company in the long run. Responsibility of the majority shareholders in this matter is of prime importance.
- e) Minority shareholders must be treated in accordance with the principles of equality and integrity. This rule is of prime importance particularly in the case of takeover.

Structure of and Procedures Applicable to Governance

The governance can be structured by one or two boards.

One-Board Governance Structure

- a) The board of directors is responsible for the success of the company management. For that reason, the performance of the management must be monitored effectively, closely and constantly.
- b) The board of directors should include outside directors who are professionally experienced and highly qualified and independent of the management. The outside directors should have adequate seat in the board and be independent so as to make effective surveillance on the management.
- c) The directors must be responsible and liable against the general meeting of shareholders. Their office term and re-election must be subject to the approval of the general meeting of shareholders. The office term of the directors should be limited by a specified time.

Two-Board Governance Structure

The aforesaid principles of governance structure are equally applicable to the board of directors and the board of auditors. Powers and duties of these two bodies and representation of the employees in the board of auditors are specified in the articles of association.

Reporting and Control

- a) The board of directors has the duty to keep the company accounts well balanced and submit them to the approval of the shareholders appropriately.
- b) Company information must be made available to all shareholders.
- c) The annual reports must include the strategies and the investment decisions of the company.
- d) The board of directors must establish an objective and open communication with the auditors. The responsibilities of the outside directors in the board for the audit of the company are of great importance.

Different countries within the EU have different perspectives regarding the rules of corporate governance.

The Cadbury Committee was established in the UK in 1991 for the purpose of establishing the standards and the reliability of financial reporting in companies and determining the roles of the managing and non-managing directors in such matters. The Committee published the Code of Best Practice on the Financial Aspects of Corporate Governance in 1992.

Although the London Stock Exchange leaves it to the companies to be bound with the Code, but requires them to disclose in the annual reports whether or not they are bound with the Code and explain the reason why they are not bound with it.

Primary recommendations in the report of the Cadbury Committee are as follows:

- 1) Importance should be given to the distinction between the chairman and the chief executive.
- 2) Independence of the board of directors should be ensured. To this end, the directors who are not in executive positions should be really independent and have adequate professional knowledge. These directors should be in a position to give recommendations independently and spare adequate time for the operations of the board of directors. They should be appointed in accordance with a specified process.
- 3) Remuneration paid to the managing directors should be fixed by a remuneration committee and disclosed to the public.
- 4) Shareholders should be informed about the appointments made to the board of auditors and the appointment procedures.
- 5) Executives should inform the shareholders about the operation of the internal control mechanisms and the progress of the activities.

The corporate governance principles have different priorities in different European countries. With the adoption of the report of the Cadbury Committee in the UK in 1992, adequacy of the financial control and reliability and remuneration to the executives have gained importance over the other matters.

Priority is given to the efficiency of the management's control in Germany. Particularly the international banks' use of votes by proxy and their influence and control over the management of the companies through the memberships they have in the boards of auditors of the companies are of prime concern.

In France, the impact of the structure of hierarchy among the top executives in large size companies over the independence and the reliability of the board of directors with a view to the corporate governance principles is of prime importance.

Shareholding Structures

Differences in the shareholding structures in the European countries play a determining role in the level of development of the capital markets in these countries.

Some 59 percent of the shareholders of the listed companies in the UK are institutional investors. These institutional investors include pension funds, insurance companies, banks, investment companies. The second largest shareholder group representing in the UK is the individual investors with a share of 19%. The share of the industry is 4%.

In Germany, the industry constitutes the largest shareholding group in the listed companies with a share of 42%. The institutional investors have a share of 15%, of which 10% is represented by banks. The public has a share of 17%. In France and Italy, individual investors rank second among the shareholder groups. In Italy, the public sector represents the second largest shareholder group in the listed companies with a share of 27%.

Structure of Companies and Board of Directors in the European Countries

The number of limited liability companies (joint-stock companies) in the European Union is comparable. A limited liability company has a special legal identity distinct from those of its shareholders and liable for its debts to the extent of the shares in the capital of the company. A limited liability company can be open or closed to the public. The corporate governance principles become more important in the case of limited liability companies open to the public, as the shares in the capital of these companies are transferable without the consent of the management and without being subject to any restriction. In addition, the executive bodies of these companies are subject to certain liabilities.

Limited liability companies open to the public are subject to various registration requirements in the EU-member countries. The amount of minimum capital required to be owned by these companies, structure of the board of directors and election of the directors, responsibilities of the general meeting of shareholders vary from country to country. Majority of the EU-member countries has one-board governance structure. The board of directors gathers the executive directors who represent the management on the one hand and the non-executive/outside directors who represent the shareholders on the other, and the responsibilities are shared among these representatives.

In the two-board governance structure, the board of directors is subject to the audit of a board of auditors formed by members appointed from external sources independent of the executive body. Denmark, Germany and the Netherlands use this system, while in France, Portugal and Spain one of two systems can be selected. In Denmark, Germany and the Netherlands, representatives of the employees have seats in the board of auditors. Especially, Germany is striking in this respect. In Germany,

more than half of the members of the board of auditors are the representatives of the employees in companies employing over 2000 employees. That the representatives of the employees have seats in the board of auditors is compulsory in Sweden, but optional in France.

In the one-board and two-board corporate governance systems, the members of the board of auditors is appointed or approved by the general meeting of shareholders in many countries. The Netherlands, is exceptional. In this country, the board of auditors elects the members itself.

When the structure of the boards of auditors in Germany is examined, it is seen that the representatives of the unions and the employees make up half of the total number of the board members. The representatives of the industrialists are the second largest group with a share of 25%. The representatives of the banks and the financial institutions have a seat in the board at the rate of 10%.

Impact of Accounting Regulations on the Corporate Governance Principles in the EU

Accounting regulations aim to ensure that financial standing of the companies be reflected accurately and truthfully by means of a set of rules. Results of the operations are reflected in the annual balance sheet and income tables which are submitted to the approval of the general meeting of shareholders. Since the business results are also important for the employees, the lenders, the clients and the tax authorities beside the shareholders, the financial statements are required to be audited by the auditors of the company.

In the accounting practices, two approaches have been adopted in general. One approach, which has been adopted particularly in the Anglo-Saxon countries, is to organize the accounting system in accordance with the requirements of the financial markets. The same approach has been adopted in the Netherlands. The other approach has been adopted in the continental Europe, where the accounting system is organized in accordance with the requirements of the legislation, rather than the requirements of the financial markets. Due to the difference in the concept of accounting system, it is not possible to evaluate the year-end results of the companies in different countries in the same manner.

The progress toward the unity and harmony regarding the corporate governance rules in the European Union has been quite limited, as the corporate governance principles vary from country to country depending on the national, economic and social conditions of the individual countries. Since the proposed changes regarding the registration procedures of the

companies and the representation of the employees in the board of auditors have significant implications on the national systems of the member countries, they cause difficulties in the settlement of regulations aimed at harmonization. For this reason, the pace of harmonization in the corporate governance principles such as limited liability companies open to the public, the acquisition and takeover procedures, the rights of the employees on the company is slow compared to other regulations. For example, the fact that the participation of the employees in the management of the company varies significantly from country to country makes it difficult to develop a common regulation toward the establishment of the European Company Status. Since the degree of representation of the employees in the management and the auditing boards of the companies in Germany, the adoption of less flexible rules by Germany seems difficult.

Another regulation which has significant implications on the corporate governance principles in the EU is the Directive of the European Business Councils which was adopted in 1994. The Business Councils are related with multinational companies and formed by 30 persons being the representatives of the management and the employees. When demanded by the employees, this Council has to be formed. Effective from 1997, companies without a business council have to negotiate with the representatives of the employees for the establishment of the business council. The owners of the company have to inform to and discuss with the representatives of the employees of the proposed actions of the company such as restructuring which have significant implications on the activities of the company. The Directive is applicable to companies employing minimum 1000 employees of whom minimum 150 are employed in another member country. The system in Germany seems more advanced compared to the regulation in the Directive, as the directive aims at informing to and consulting with the employees only, while the system in Germany requires that more than half of the seats in the board of auditors of the large size companies is held by the representatives of the employees.

Regulations aiming at creation of a single financial market are very important in terms of compliance with the corporate governance principles. Deregulation of capital circulation among the member countries, rendering of financial services in every member country freely and universal banking regulations affect indirectly the corporate governance rules. The Second Banking Directive has adopted the universal banking model in the EU. Accordingly, the EU banks will be able to involve with commercial banking and investment banking concurrently on a broader

spectrum. The banks have been allowed to have a high shareholding in the industry. The banks can invest in and purchase shares of non-financial companies up to 15% of their assets. Another rule is that the share of banks in the industrial companies cannot exceed 60%. Another limit is that the banks can lend maximum 25% of their resources to a single client. These percentages are very high for many EU-member countries.

Five developments in the EU facilitate the diminishing of differences among the national systems and the opening of the EU markets to the international competition:

- 1) Increasing role of the institutional investors,
- 2) Integration of financial markets,
- 3) Harmonization of accounting standards,
- 4) Increasing shareholder activism,
- 5) Acceleration of privatization.

The increasing importance of the institutional investors in the European capital markets forces the adoption of the Anglo-Saxon model as the corporate governance system. The importance of keeping the shareholders informed, one share one vote rule, dividend policy, financial benefits to the executives and statutes governing the general meeting of shareholders has increased gradually. The institutional investors have gained the status of pressure group over the management of the companies in various subjects, because of the fact that the institutional investors are more active shareholders compared to the individual investors and can initiate efficient actions against the defects or insufficiency of the management. Significant developments have occurred toward the deregulation of the institutional investors in the EU. With the life and non-life insurance Directives of 1994, investment limitations on the insurance companies have been diminished and the regional obligations on the investments of the insurance companies have been lifted across the EU. More than 80% of the assets of the pension funds within the EU belongs to the funds in Ireland, the Netherlands and the UK. In the UK and Ireland, there is no restriction on the distribution of the portfolio investment of the pension funds. In Germany, Belgium and Denmark, investments on foreign securities are subject to restrictions. In Germany, the insurance companies and the pension funds can invest maximum 30% of their portfolios in stocks. In practice, this rate is around 18% as the fund managers avoid to take risks.

As a result of integration of the international capital markets, the level of harmony in the portfolio distributions of the institutional investors will rise. The portfolio of the institutional investors in the continental Europe

has been concentrated mainly on the borrowing instruments like bonds and debentures.

Another factor which encourages the development of the corporate governance principles is the wide-spreading tendency of using the shareholder rights. This tendency is quite obvious particularly in the USA and the UK. The shareholders are acting actively and efficiently against the corporate management. Voting services are constantly keeping the shareholders informed about their rights and encourage them to use their votes. The shareholders are informed in detail about the issues in the agenda of the general meetings of shareholders and as well as about the conditions that occur in different voting results.

The Cadbury Report in the UK said that the institutional investors should disclose their policies regarding the use of votes to the public.

In the EU, various difficulties are encountered regarding the development of the corporate governance principles. One of the difficulties is that the shareholders in general prefer to be passive and do not use their votes in person or by proxy in the general meeting of shareholders. The level of attendance of the shareholders in the general meetings of shareholders is low. Among the reasons of this shareholder disinterestedness are that the shareholders think that they are powerless and lack of influence against the corporate management, that the shareholders try to conceal their ownership of shares as much as possible due to the tax obligations and that the shareholders do not intend to be shareholders for a prolonged time. However, the development of the shareholder-based rules is in progress in the EU-member countries. In Germany, the banks are obliged to give information to their clients who are shareholders to whom they provide custody services about how they should cast their votes and to obtain the opinion and instruction of the client regarding the use of votes. If the clients do not give instruction about the use of their votes, the banks can use the votes as specified. In the UK, the listed companies have to indicate in their financial statements whether they follow the corporate governance principles set forth in the Cadbury Report or not.

IV. Technical Harmonization with the European Capital Markets

The technical harmonization of the Turkish capital markets and the Istanbul Stock Exchange (ISE) with the EU capital markets is related with the depth and the liquidity of the market, the standards regarding the contribution of the market to the macro economy and the technological progress. The methods developed for perfect operation of the global mar-

kets for all participants during the recent years are particularly related with the roles of the brokerage firms in the market on the one hand and the modernization of the means of data processing and transmission mechanism on the other.

The reforms in the market structures can be gathered in three groups: The first is the technological modernization and the establishment of the new exchanges and the alternative market trading. The second is the ability of the institutional investors to access to and invest in different markets with different trading systems more easily. The third is the deregulation of the markets and the trading systems or liberalization of legislation on the deregulation of the markets.

Even the New York Stock Exchange, which is assumed to have the most advanced market system in terms of technology, completed the last stage of the modernization of the computerized trading system which was in use since 200 years just in 1995 by spending US 125 US dollars.

The Istanbul Stock Exchange constantly improves its electronic trading system for the purpose of settlement of prices and efficient data transmission as well as integration with the global markets in parallel with the world exchanges where the new technologies are adopted rapidly.

Issue and implementation of regulations especially in the securities markets play an active role in the market development. In the 21st century, market mechanisms with one-screen, remote access and common settlement system will be used. With the issuance of regulations in parallel with the developments, cross-border transactions and membership will be realized.

Incorporation of the new trading systems into the USA National Market listing is necessary for fair pricing, but it is claimed that quotations given by systems such as Instinet and Optimark would cause difficulties for the brokerage firms and the market makers. Thanks to the technical advancements in the New York Stock Exchange much more transactions are carried out by wireless means of communications and thus instant access to the transaction and the financial information can be assured.

As the Internet system becomes more efficient, a liquid market will occur also at night for not only the US Exchanges, but also for all Exchanges in the world. The plans for extending the trading day cause a stirring among the money market managers. On the other hand, benefits expected from the use of advanced computer technology are considered for digital information and data recording and data transmission. With the use of artificial intelligence, decision making of the traders on different

markets in a shorter time will be facilitated.

Especially the increasing competition among the exchanges forces them toward alliance and cooperation agreements and even mergers.

One of the still contemporary and mostly debated topics is the implementation of the market making system. Beside the UK and the USA examples, where the system is in use, the possibilities of using the system in many European Exchanges where the system is not used, are considered. Since the market transactions in the UK and the USA are based on the market making system, the establishment of common trading systems will be necessary for global integration of the markets.

Within the context of these critical developments, the progress toward the integration of the EU capital markets has gained a new dimension:

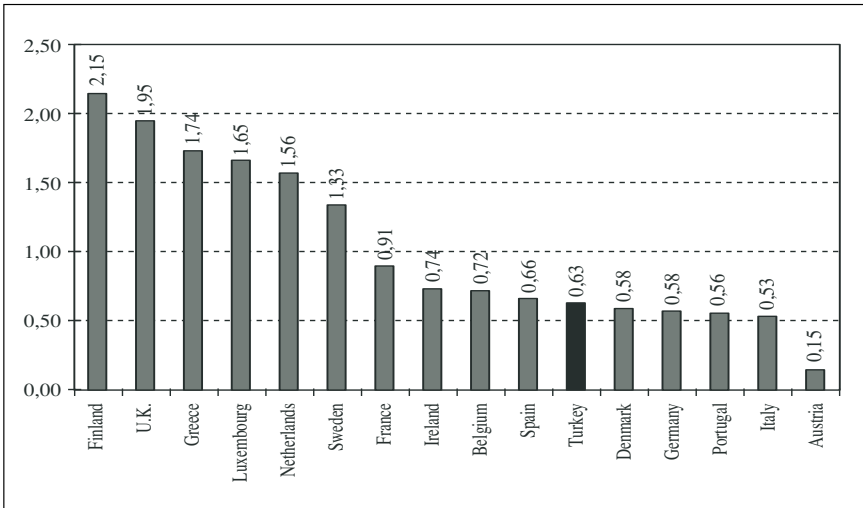
- The share of the foreign investment in the portfolios of the EU investors is quite low.
- Since the integration of the capital markets has not been completed in full, it does not have the ability to soften the consumption in a way to absorb the potential shocks in the market fluctuations.
- However, with the success to lift the restrictions on the purchase and sale of fixed yield instruments and stocks of the member countries and the introduction of the single currency, the institutional investors within the Union are able to expand their portfolio compositions on an international scale.
- Security issuers are also able to take benefit from this new development trend.
- The volume of international bond issues in Euro rose to a level equal to the volume of bond issues in the US dollar.
- The Monetary Union of Europe has a positive effect on the deregulation of various regulations, the creation of a single market especially in the field of financial services, the improvement of the clearing mechanism and finally the structural changes toward the realization of the Action Plan on the Financial Services.
- The investor behavior exhibits a change in parallel with these trends. The inclination of the European investors to take more risk is increasing thanks to the lower interest rates and the feeling of security due to a more stable economic environment brought by the single currency. The average credit rating of the European corporate bond market has entered into a down trend with the entrance of the "AAA" rated issuers into the market. This indicates that the opportunity of the companies for acquiring finance have increased.

- Despite the aforesaid changes, increasing the transparency in the financial markets within the EU and making the auditing rules and practices more efficient by reviewing them are very important for the success of the Action Plan.

4.1. Member States' Economies and Stock Exchanges

When the market characteristics are examined as the indicator of the technical advancement of the markets, it is seen that the countries where the ratio of the market capitalization to the GNP is high are also developed in economic terms. In the UK, which has the most advanced Exchange within the EU, this ratio is around 195%. Other Exchanges which have a market value above the GNP are in Finland, Greece, Luxembourg, the Netherlands and Sweden. Turkey is in the mid ranks when compared according to this criteria.

Figure 3: The Share of EU Exchanges in the General Economy (1999)



Source: FIBV 2000. OECD

Note: The GNP figures have been obtained from the OECD as of 1999. The market capitalizations of the Exchanges as of 1999 have been proportioned to the GNPs to see the size of the Exchange in the general economy.

When the size of fund transferred from the market to the business sector through initial and subsequent public sales is taken into account to see the economic function of the capital market in terms of funding, it is seen that the Turkish capital markets must rise to more advanced levels.

Table 21: Initial and Subsequent Public Offerings (Total Issues, million Euro)

Country	1998	1999	% Change
Austria	3195.1	644.6	-79.8
Germany	7843.8	20816.4	165.4
Belgium	1484.7	2462.6	65.9
Denmark	830.7	2468.6	197.2
Finland	877.7	3017.5	243.8
France	17829.0	26610.1	49.3
The Netherlands	16688.7	35361.1	111.9
UK	19688.4	15548.6	-21.0
Ireland	2269.5	1194.3	-47.4
Spain	na	10095.8	na
Sweden	1832.5	798.1	-56.4
Italy	5142.8	10218.1	98.7
Luxembourg	538.2	3332.7	519.2
Portugal	609.5	3109.0	410.1
EU Average*	80494.3	127784.6	58.7
EU Average	-	137880.4	-

Source: International Federation of European Stock Exchanges, 2000.

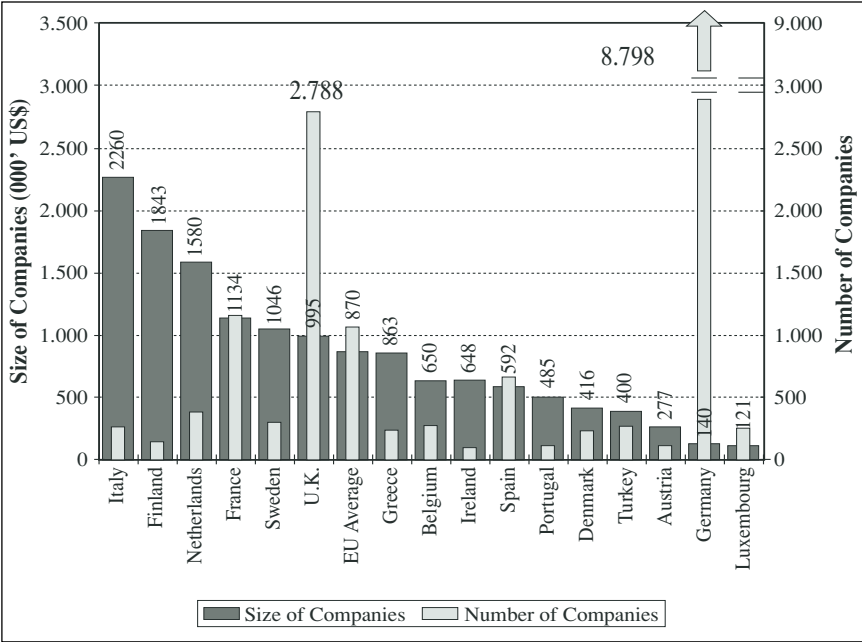
*: Excluding Spain.

4.2. Number and Size of the Listed Companies

When the capital markets are examined in terms of public offerings, it is seen that the stocks of average 1058 companies are traded in the EU Exchanges, while the stocks of average 298 companies are traded in the Istanbul Stock Exchange.

However, the high rate of EU average is due to high number of companies traded in Germany and the UK Exchanges, to a great extent. Particularly in Germany the number of listed companies rose by 150% to 8798 in 1999 compared to the previous year. The number of companies listed in the ISE is higher than those listed in the Exchanges in nine out of fifteen EU-member countries. In six EU-member countries, the number of listed companies has decreased. When the change in the number of listed companies is examined, it is seen that the highest increase after Germany has occurred in the ISE during 1990 and 1999. Beside the number of companies, it is useful to compare the average company sizes. In Germany, where the number of listed companies increased rapidly, the average company size has decreased by 75%. It is seen that the companies listed in Germany after 1999 are rather small size companies.

Figure 4: Number and Average Size of Listed Companies



Although the ISE is not very much different from the EU countries in terms of the number of listed companies, it is only larger than Germany and Luxembourg in terms of average company size. Germany which is in the first rank in terms of the number of listed companies is in the last rank in terms of the average size of companies.

When an evaluation is made according to the size of companies, it is noticed that Germany encouraged the small size companies especially in 1999, that large size public enterprises in Italy were privatized through public sales and that the size of companies in the UK and the Netherlands grew steadily. In the rapidly growing Turkish, Greek and Finnish Exchanges, the market volume has increased due to increase of stock prices following the global crisis.

Table 22: Average Size of Companies (000' US\$)

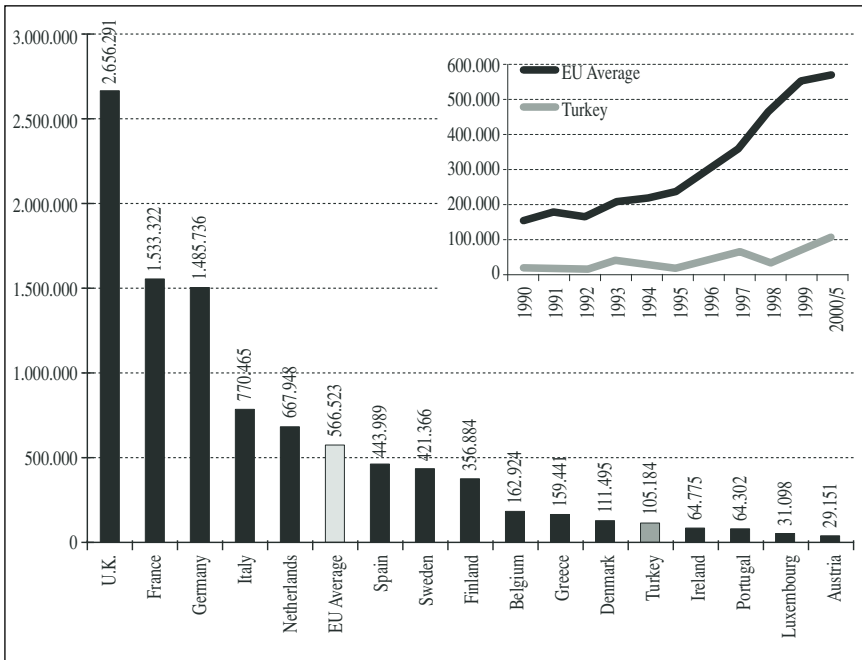
Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	99-90 % Change
Germany	549,2	315,7	275,5	355,2	340,3	356,0	337,3	306,1	310,3	139,7	-75
Austria	174,3	172,4	135,5	182,7	201,3	219,7	236,8	270,1	279,5	277,3	59
Belgium	191,9	206,1	191,9	257,3	286,2	364,7	442,8	524,3	916,6	649,5	238
Denmark	137,5	165,3	137,6	162,1	194,4	228,9	285,4	376,6	389,3	415,9	202
Finland	295,1	219,0	196,9	406,8	589,3	604,6	881,4	581,9	1181,9	1842,7	524
France	387,7	347,6	346,8	487,7	490,3	553,1	658,8	731,9	903,8	1134,0	193
The Netherlands	240,6	330,1	270,9	378,9	481,8	663,5	1054,4	1358,3	1694,3	1579,6	556
UK	332,2	383,4	380,5	477,0	474,0	538,2	626,2	794,4	979,3	995,2	200
Ireland						290,3	403,9	484,0	665,9	648,1	123
Spain	259,8	292,0	244,7	313,6	327,0	412,3	667,7	748,3	830,9	591,8	128
Sweden	697,1	764,2	380,9	521,8	572,8	773,8	1049,7	1014,2	1009,8	1046,3	50
Italy	676,2	594,8	479,3	561,0	715,3	824,9	1034,7	1442,1	2344,6	2259,7	234
Luxembourg	14,3	51,7	53,9	89,0	104,8	107,6	116,6	119,3	138,3	121,0	747
Portugal					83,3	108,6	154,8	263,2	466,3	484,6	482
Greece	109,3	85,6	68,7	93,8	74,1	88,9	117,8	160,9	349,9	863,2	689
Turkey	173,3	115,7	67,3	228,8	122,8	101,3	132,9	235,9	121,0	399,6	131
EU Average	312,7	302,2	243,3	329,8	352,5	409,0	537,9	611,7	830,7	869,9	178

Source: FIBV 2000.

4.3. Total Market Value of the Listed Companies

In terms of total market value of the listed companies, the stock market in the UK is the largest one. The smallest Exchanges are Luxembourg and Austria Exchanges. The highest increase in the market value was achieved in the Finnish and the Greek Exchanges between 1990 through 1999. By taking into account that the number of listed companies has not increased in these Exchanges during the same period, the increase in the market value is the result of the substantial increase in the prices of the stocks.

Figure 5: Comparison of Market Values (million US\$, 2000/5)



Source: FIBV, 2000/5.

The market value of the ISE as of the end of 1999 is 12% of the EU average. The low market value of the ISE indicates that the depth of the Exchange is low compared to the EU Exchanges. Of the industrial companies in the ISO (The Istanbul Chamber of Industry) 500, only 126 companies are listed in the ISE. As other enterprises open to the public and begin trading on the ISE, the depth of the market will increase. Besides, it is expected that as more small and medium size enterprises use the capital markets, the market value of the ISE will increase.

Table 23: Market Value (million US\$)

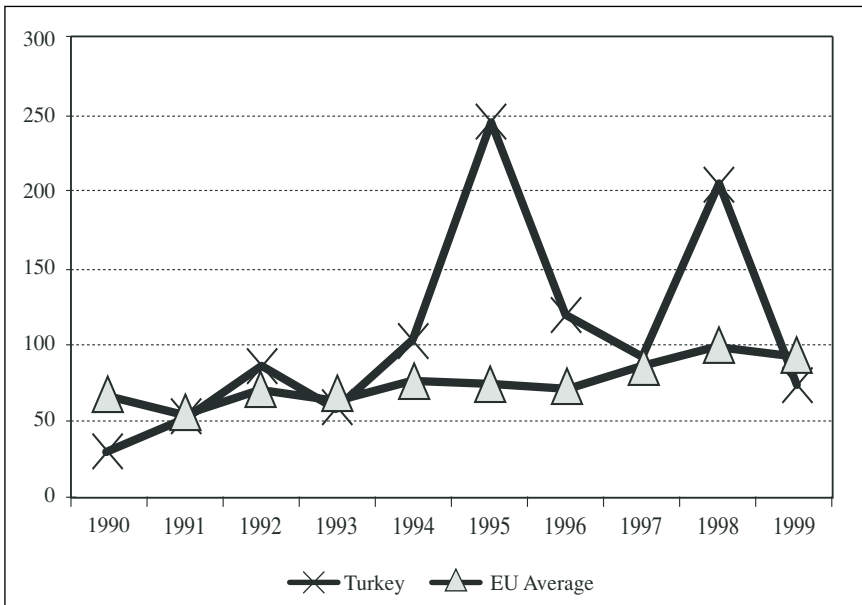
Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000/5
EU Average	175.791	158.599	202.690	215.800	238.060	293.959	357.696	472.998	547.136	566.523
Germany	392.470	346.891	460.754	499.278	577.365	664.913	825.233	1.093.962	1.229.512	1.485.736
Austria	26.040	21.680	28.322	30.792	32.513	33.629	37.280	35.779	31.336	29.151
Belgium	71.114	64.089	78.207	84.422	101.752	119.124	138.938	245.657	178.613	162.924
Denmark	44.793	30.140	41.651	48.784	57.692	71.074	93.766	98.881	101.488	111.495
Finland	14.237	12.205	23.595	38.308	44.137	62.579	73.322	154.833	276.408	356.884
France	373.357	349.608	455.485	452.050	499.990	586.963	676.311	991.484	1.304.093	1.533.322
The Netherlands	135.983	134.931	182.629	224.501	286.651	375.357	468.631	603.182	617.620	667.948
UK	986.107	928.393	1.150.557	1.145.290	1.346.641	1.642.582	1.996.225	2.372.738	2.774.531	2.656.291
Ireland	-	-	-	-	25.836	34.738	49.371	66.593	66.753	64.775
Spain	127.297	98.847	118.869	123.616	150.914	241.028	290.355	402.163	389.433	443.989
Sweden	97.055	78.079	106.968	130.603	172.550	240.382	264.711	278.708	318.086	421.366
Italy	158.811	123.659	145.300	185.971	209.522	256.595	344.665	569.732	610.106	770.465
Luxembourg	11.276	11.921	19.314	28.518	30.443	32.411	33.892	38.182	30.852	31.098
Portugal	9.613	9.213	12.417	16.249	18.362	24.452	38.954	62.954	61.540	64.302
Turkey	15.508	9.756	36.613	21.605	20.772	30.312	61.095	33.646	112.276	105.184
Greece	12.921	10.724	13.597	12.819	16.527	23.558	33.784	80.126	216.675	159.441

Source: FIBV, 2000.

4.4. Trading Volume and Transaction Rates

The London Stock Exchange is the most developed of all Exchange in the EU in terms of market value and trading volume. In the ISE, of which trading volume increased 9 times between 1990 and 1999, the trading volume was higher than those of the Exchanges in the 6 EU-member countries in 1999. However, its trading volume is low compared to the developed Exchanges in the EU. The highest increase in the trading volume in 1999 was achieved in Greece (4357%).

Figure 6: EU Average and Trading Rates of the ISE



Source: FIBV, 2000.

As a better indicator of the market liquidity, the trading rates have been determined. The trading rate of the ISE is higher than the EU average and those of many Exchanges within the EU. Although the ISE has not been sufficiently developed in terms of the market depth, it is a liquid market.

When evaluated in terms of index changes, the Exchange showing the best performance within the EU in terms of yield is the Helsinki Stock Exchange. Between 1990 and 1999, it showed the highest performance among all EU Exchanges with a yield of 25.9%. The lowest performance is exhibited by Vienna Stock Exchange. The highest index value of the Vienna Stock Exchange during the same period is 502 in 1990.

Table 24: Trading Volume (million US\$)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	99-90 % Change
Germany	508.707	404.649	454.206	563.962	592.104	593.936	811.626	1.067.688	1.491.796	1.376.087	171
Austria	11.223	7.233	5.155	7.297	8.742	13.357	10.692	12.724	18.677	11.838	5
Belgium	9.110	8.226	9.754	13.961	16.113	18.343	25.415	33.867	60.928	53.696	489
Denmark	11.349	10.499	22.435	23.675	27.405	28.336	36.440	46.732	64.954	57.460	406
Finland	3.975	1.553	2.182	7.859	13.298	19.207	21.961	36.252	61.117	92.168	2.219
France	121.064	116.649	124.879	170.362	202.070	213.161	282.014	414.321	587.854	692.043	472
The Netherlands	40.823	38.916	45.728	66.368	85.263	124.324	191.102	279.688	409.520	425.966	943
UK	543.393	553.922	662.991	865.907	1.029.278	1.153.221	1.413.236	1.989.489	2.887.990	3.122.027	475
Ireland	-	-	-	-	-	-	11.794	17.301	39.865	44.646	279
Spain	35.953	35.338	34.564	42.468	54.860	54.029	79.913	138.737	-	667.702	1.757
Sweden	15.738	20.568	28.650	42.746	86.087	94.210	136.741	175.822	229.961	277.917	1.666
Italy	42.172	23.448	27.660	66.040	119.389	87.118	102.568	203.280	486.507	475.073	1.027
Luxembourg	108	236	292	1.101	1.031	487	786	1.048	1.673	1.266	1.072
Portugal	-	-	-	2.439	5.177	4.241	7.245	20.808	47.713	35.684	1.363
Greece	3.840	2.401	1.612	2.779	5.187	6.077	8.234	21.137	50.020	171.167	4.357
Turkey	5.870	8.277	8.346	21.126	21.667	50.889	36.233	56.088	68.485	62.575	966
EU Average	103.650	94.126	109.239	134.069	160.429	172.146	209.318	297.260	459.898	500.316	383

Source: FIBV, 2000.

Table 25: Indices

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000/5	99-90 % Change
Germany	1.398	1.578	1.545	2.267	2.107	2.254	2.889	4.250	5.002	4.299	5.468	207
Austria	502	419	348	270	430	387	429	487	464	472	475	-6
Belgium	4.964	5.481	5.568	7.543	7.249	8.402	10.521	14.329	20.556	8.449	7.839	70
Denmark	315	353	262	367	349	366	472	676	638	745	883	137
Finland	1.000	782	829	1.582	1.847	1.704	2.496	3.302	5.565	11.269	15.833	1.027
France	1.000	1.126	1.140	1.512	1.251	1.233	1.562	1.945	2.500	3.396	4.047	240
The Netherlands	168	191	198	281	278	322	437	619	735	1.155	1.271	586
UK	2.144	2.493	2.847	3.418	3.066	3.689	4.119	5.136	5.883	6.597	6.359	208
Ireland	1.202	1.380	1.227	1.889	1.851	2.232	2.726	4.054	4.996	4.871	4.916	305
Spain	223	246	214	323	285	320	445	633	868	958	984	329
Sweden	865	912	912	1.388	1.451	1.716	2.371	2.936	3.235	4.627	5.998	435
Italy	8.007	7.830	6.916	9.500	9.813	9.138	10.332	16.341	23.035	24.194	30.535	202
Luxembourg	2.566	2.713	2.551	5.208	4.301	4.325	5.623	7.009	7.593	8.867	--	246
Portugal	638	624	554	849	920	878	1.164	1.923	2.427	2.460	2.809	285
Greece	932	810	672	877	869	914	934	1.480	2.738	5.712	4.608	513
Turkey	33	44	40	207	273	400	976	3.451	2.598	8.459	16.206	25.883

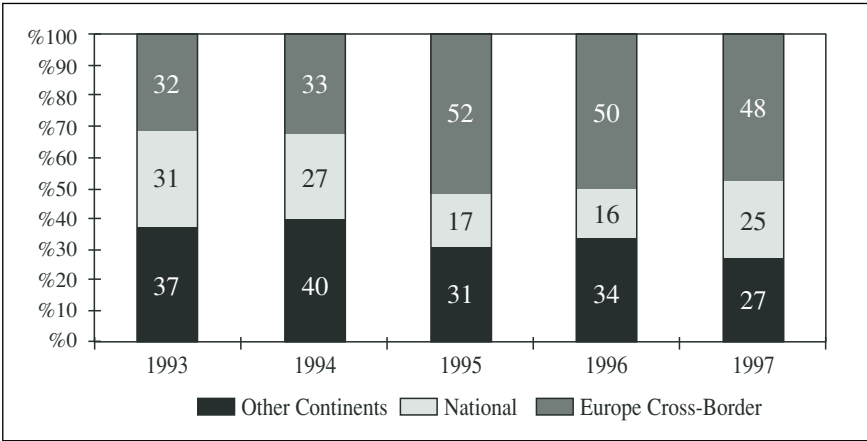
Source: FIBV, 2000. Monthly Statistics, June.

Note: Indices are based on local currencies.

4.5. Mergers and Takeover Activities

Mainly direct foreign investments and then mergers and takeovers in the form of cross-border investments increased markedly in the Internal Market within the EU between 1997 and 1998. These activities as well as parallel developments in the other services sectors affect the integration of the Internal Market positively.

Figure 7: Mergers and Takeovers in the EU



Source: European Commission.

Merger and takeover activities of the foreign investors particularly within the EU increased two folds between 1997 and 1998. This increase is the result of the policies of the companies seeking to compete by pursuing growing strategies and to catch new potential investment opportunities in the EU market which is being reshaped with the accelerating impetus of the European Monetary System on the EU integration. The rising trend of the trade volume within and outside the Union since 1993 accelerates the process of EU integration more. The level of deficit in the trade and the investments is equal to or lower than those of the USA and Japan (OECD, 1999).

Table 26: Distribution of Mergers and Takeovers within EU

	Regional Distribution						
	Number	% Change	National	Within EU	International EU-target	International EU-buyer	Total
1987	2.775		71,6	9,6	4,4	14,5	100
1988	4.242	52,9	65,9	13,5	4,3	16,2	100
1989	6.945	63,7	63,2	19,1	7,6	10,1	100
1990	7.003	0,8	60,7	21,5	7,9	9,9	100
1991	6.607	-5,7	66,4	17,9	7,8	7,9	100
1992	6.005	-9,1	65,0	16,6	10,0	8,4	100
1993	5.740	-4,4	63,4	15,9	10,8	9,8	100
1994	6.334	10,3	62,9	15,1	12,2	9,8	100
1995	6.810	7,5	59,5	16,5	11,5	12,5	100
1996	6.327	-7,1	55,7	17,4	13,0	13,9	100
1997	7.097	12,2	52,3	17,4	16,0	14,2	100
1998	7.600	7,1	50,1	16,5	17,1	16,3	100

Source: European Economy, February 1999.

Table 27: Comparison of Market Characteristics of the EU Exchanges and the ISE

Subject	EU			Turkey	
Stock Market Trading Volume (1999)	Highest: UK: US\$ 3,12 trillion Lowest: Luxembourg: US\$ 1,2 billion EU Average: US\$ 500 billion Highest Increase: Greece: 4357% Lowest Increase: Austria: 5% EU Average % Increase (1990/99): 383%			US\$ 62,6 billion Increase between 1990 and 1999: 966%	
Capitalization of Stock Market (end of 1999)	Highest: UK: US\$ 2,77 trillion Lowest: Luxembourg: US\$ 30,8 billion EU Average: US\$ 547 billion Highest Increase: Greece: 1315% Lowest Increase: Austria: 19% EU Average % Increase (1990-99): 252%			US\$ 64,6 billion Increase between 1990-99: 239%	
Stock Market Trading Rate	Highest: Spain: 171,5% Lowest: Luxembourg: 4,1% Average: 91,4%			1998: 203% 1999: 96,8%	
Index Yields Based on Local Currencies (1991-1999)		<u>Average (%)</u>	<u>Standard Deviation</u>	<u>Average (%)</u>	<u>Standard Deviation</u>
	The Netherlands	25,2	19,7	124,4	148
	UK	13,7	10,0		
	Ireland	18,6	22,2		
	Spain	19,7	23,5		
	Sweden	21,7	18,8		
	Italy	15,2	24,4		
	Luxembourg	18,5	35,3		
	Portugal	18,8	27,1		
	Greece	28,8	45,3		
Number of Companies	Increase between 1990-1999 EU Average: 1.058 96% Germany: 8.798 1250% UK: 2.788 9% France: 1.150 43%			Number of Companies: 281 Increase between 1990-1999: 155%	
Average Size of Companies	EU Average: US\$ 869,9 thousand Increase between 1990-1999: 178%			US\$ 230 thousand Increase: 33%	
Market Diversification	There are markets for stocks, public and private borrowing instruments, stocks of technological companies as well as futures.			Lack of certain markets in Turkey weakens the competitive power. There is no futures and options market, warrants market, and the market for private sector bills and bonds is almost nil.	

Subject	EU	Turkey
Cost of Transaction (Commission Rates)	<p>There is no standard minimum rate in effect in the member countries. The rates are fixed freely.</p> <p>Austria: There is no legal limitation. It varies between 0.75 and 1.25%.</p> <p>Belgium: It varies between 0.07 and 0.17%.</p> <p>Denmark: It is fixed freely. It varies between 0.025 and 0.15%.</p> <p>Finland: It is fixed freely.</p> <p>France: It is fixed freely.</p> <p>Greece: It is fixed freely.</p> <p>Ireland: It is fixed freely.</p> <p>Italy: It is fixed freely.</p> <p>Luxembourg: It is fixed freely.</p> <p>The Netherlands: It is fixed freely.</p> <p>Portugal: A fixed rate is applied: it varies between 0.03 and 0.2%</p> <p>Sweden: It is fixed freely. It varies between 0.30 and 0.40%.</p> <p>UK: It is fixed freely.</p>	<p>It varies between 0.2 and 1%. It was announced by the CMB that the rate of commission would be fixed freely from 2000 onward.</p>
Corporate Finance Resources	<p>Of the companies in the continental Europe, 75% secure financing from the banking system and 25% from the capital markets. The percentage of companies in the Netherlands securing financing from the banking system is 50%, in France, Italy and Germany 70% and in Spain 80%.</p>	<p>The number of companies using the resources provided by the capital markets is quite low. Especially financing by means of long term capital market borrowing instruments is almost nil.</p>
Impact of Euro on the Capital Market	<ul style="list-style-type: none"> • Since January 1999, the stocks issued are listed in Euro. • Since the requirement to take measures against the cross exchange rate risk and the need for instruments for protection against this risk were eliminated in the countries shifted to Euro, spreading of new financial instruments is possible. • The requirement of the European investors to distribute their investments among the sectors and countries in a better way is growing. • It accelerates the reconstruction in the European financial services sector. It eliminates the exchange rate differences and the resulting risks, which were one of the barriers before the cross-border competition. The stock yield of the banking sector in the continental Europe is still quite lower than that of 	<ul style="list-style-type: none"> • From the beginning of January 1999, the ISE-100 Index began to be calculated in Euro and to be announced to the public. • Having the markets where the securities are purchased and sold in electronic media completely, the ISE is gaining more the status of an international stock market day by day. • Companies and banks doing business with Europe make their financial plans in Euro and thus Euro becomes prominent in the accounting systems.

Subject	EU	Turkey																								
	<p>the USA. With the increase of cross-border competition, consolidation and reconstruction process has accelerated.</p> <ul style="list-style-type: none"> • It ensures price transparency and spurs merger and takeover activity. With the product consolidation across Europe, an environment convenient for pension reform emerges. • Harmonization with the Euro criteria within the European Union resulted in a decrease in the yield of fixed yield instruments. The yield in Germany decreased from 7.7% down to 4.9%, in Italy from 10.9% down to 5.3% during the last 4 years. • That the yields will go down further with transition to Euro may result in flow of funds to the capital markets. • It increases the income versus risk prospects of stocks. • It increases the liquidity in the stock markets. • It accelerates the reconstruction, rationalization and consolidation process of the European industries. • It increases the consistency in the valuation of the prices of the assets. 																									
Price Margin in the Stock Market	There is no limit in Germany, Denmark, The Netherlands, UK, France and Greece, but the authorized bodies may impose a provisional margin when necessary. The limit is 15% in Vienna Stock Exchange, 5% in Brussels and Luxembourg Stock Exchanges, 15% in Helsinki Stock Exchange and 10% in Madrid Stock Exchange.	10%																								
Session Time and Duration	<table border="0"> <tr><td>Frankfurt</td><td>08:30 - 17:00</td></tr> <tr><td>Vienna</td><td>08:00 - 15:00</td></tr> <tr><td>Brussels</td><td>10:00 - 16:30</td></tr> <tr><td>Copenhagen</td><td>09:00 - 17:00</td></tr> <tr><td>Paris</td><td>10:00 - 17:00</td></tr> <tr><td>London</td><td>09:00 - 16:30</td></tr> <tr><td>Milan</td><td>10:00 - 17:00</td></tr> <tr><td>Luxembourg</td><td>10:00 - 13:00/14:00 - 15:15</td></tr> <tr><td>Madrid</td><td>10:00 - 17:00</td></tr> <tr><td>Amsterdam</td><td>09:30 - 16:30</td></tr> <tr><td>Helsinki</td><td>10:30 - 17:30</td></tr> <tr><td>Greece</td><td>10:45 - 13:30</td></tr> </table>	Frankfurt	08:30 - 17:00	Vienna	08:00 - 15:00	Brussels	10:00 - 16:30	Copenhagen	09:00 - 17:00	Paris	10:00 - 17:00	London	09:00 - 16:30	Milan	10:00 - 17:00	Luxembourg	10:00 - 13:00/14:00 - 15:15	Madrid	10:00 - 17:00	Amsterdam	09:30 - 16:30	Helsinki	10:30 - 17:30	Greece	10:45 - 13:30	10:00 - 12:00 and 14:00 - 16:00
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Subject	EU	Turkey
Exchange Mergers in the EU	<ul style="list-style-type: none"> • Amsterdam, Brussels and Paris Stock Exchanges will merge under the name of Euronext by September 2000. Blue chip companies will be traded in Paris, futures in Amsterdam and stocks of small and medium size companies in Brussels. • The system where the stocks will be traded is the NSC trading system of the Paris Stock Exchange. • Clearing and custody transactions will be carried out via Clearnet. • Participation of Luxembourg, Milan, Madrid and Zurich Stock Exchanges is in the agenda. 	<ul style="list-style-type: none"> • The ISE is the founder member and president of FEAS. • The ISE has signed a "Memorandum of Cooperation" with the London Stock Exchange for the exchange of information.
Merger of Settlement Institutions in the EU	<ul style="list-style-type: none"> • Euroclear and Sicovam will merge completely by the early days of 2001. • Final agreement will be signed in June 2000. • Euroclear will purchase 20% of the shares in the capital of Clearnet, the affiliate of the Paris Stock Exchange, and will be represented in the Board of Directors of Clearnet. • Sicovam will be the subsidiary of Euroclear. 	<ul style="list-style-type: none"> • Settlement and custody services are provided by Takasbank (the Settlement and Custody Bank in Istanbul). Also, other clearing institutions are used.

V. Evaluation and Conclusions

General evaluation, problems and exceptions regarding the integration of Turkey with the financial markets in the EU are given below. Under the second heading, the present condition and requirements of the Turkish capital markets are evaluated with a view to the financial developments and expectations in the EU.

5.1. Harmony in the EU Financial Markets

As of the end of 1999, the European Union entered into a new phase of expansion. The Union seeks to attain an economic, monetary and even political integration, together with the new members, in 2000s. Having surpassed a long way particularly in economic and monetary union, the Union has in its agenda the issues of amendment proposals to the existing regulations and completion of the regulatory harmonization of the candidates to the EU.

5.1.1. Financial Action Plan

- The European Union has prepared a five-year action plan in 1999 for creation of a single market in the finance sector. The plan gathered the finance sector under three strategic categories as wholesale trading market, retail trading market and auditing. A date has been set for each category, and a schedule was established for each one. The Action Plan for Financial Services contains various measures against changes resulting from growth of the use of Euro, globalization and technological advances.
- The Action Plan for Financial Services sets forth three priority areas for the measures to be taken:
- First Priority Actions: These actions are related with full realization of the benefits of Euro and making the financial services sector of the Union more competitive, while the interests of the consumers are protected.
- Second Priority Actions: These actions are especially aimed at rectification of the existing regulations or ensuring the compliance of the existing structure with the new developments and thus the smooth operation of the Single Financial Services Market.
- Third Priority Actions: These actions are aimed at achieving a clear and general recognition in determination of the actions to be taken for establishment of a harmonized policy toward the end of transition to Euro.

5.1.2. Investment Services

- One of the actions in the Action Plan is the creation of a single European Wholesale Market by revising the Investment Services Directive which was adopted in 1993. The purpose is to accelerate the integration of the European capital markets in the field of securities. Non-banking financial institutions will be allowed to involve with order collection and execution, dealing transactions, portfolio management etc. on the basis of agencies across Europe. In fact, this permission was given to the banks, to a great extent, by the Second Banking Directive adopted in 1989. With this amendment, activities such as investment consultancy, consultancy regarding mergers and takeovers, custodian services, security management and exchange transactions, which are not included in the basic activities of banks, will be carried out by other licensed financial institutions.

- One of the most current practical results of the Investment Services Directive is the regulation of the electronic transactions. Intensive work and regulations regarding the electronic based transactions are observed. However, according to paragraph 4 of Article 15 of the Directive, the remote membership is left to the authority of the host country, to a great extent. This can be seen as a restriction in one sense. For this reason, the minimum requirements of the remote membership are sought to be established.
- Exemptions within the scope of the Investment Services Directive exhibit differences among the member countries. For example, in Austria insurance companies, central banks and mutual funds have been granted exemptions within the scope of the Directive. No extension was given to Spain, Greece and Portugal after the expiry of the transition period given to these countries for membership in and entrance to the organized markets in 1999. Within the framework of authority definitions which are quite flexible from one country to other, the definition of the "organized market" needs to be clarified with a view to exemption conditions.
- Negotiations for correction of the Investment Services Directive with respect to the transparency regime are in progress.

5.1.3. Capital Adequacy

- Ensuring uniformity in the criteria and standards of capital adequacy in the capital markets of Europe is aimed at ensuring competition especially among the brokerage firms regarding the provision of financial services in the member countries.
- Production of real goods and services as well as the quality of the financial products and the financial management and planning play an active role in the continuity and stable growth of the companies. So, transactions regarding the financial products are carried out freely on the one hand and security issuers are obligated to be in compliance with the regulations for protection of the consumers sufficiently on the other.
- The fundamental disputes among the EU-member countries occur between Germany and the UK, in general. The dispute in this matter occurs due to the fact that regulations in Germany regarding the capital adequacy of the banks have been established more conservatively. For example, in Germany secondary liabilities are not included in the definition of the minimum capital requirement. On

the other hand, in the UK regulators seek (a) the recognition of the advanced risk management techniques which would minimize the capital requirement of the investment companies and (b) the active use of the short term secondary debts as the compulsory capital.

- Germany is anxious that the competitive power of the universal German banks which involve with security trading would be negatively affected if the detailed capital adequacy rules applicable to the investment companies are introduced to the Directive. In the same way, the UK is concerned that the investment companies in the UK would be disadvantageous against the non-European competitors and thus the foreign investment companies would flee from London if the conservative banking regulations preferred by Germany are adopted. However, such concerns have been eliminated by enlarging the objective of the Directive.
- It was adopted that both the banks and the investment companies would keep the "securities transaction books" separate from the other books and bound with the capital adequacy rules at an accepted level appropriate to the securities transactions in accordance with the transaction books. In this way, a common area has been created between the universal banks and the non-banking investment companies.
- The rules of the Directive regarding the market risks need to be improved. In this way, the "risk weights" are planned to be regulated again under the light of the experience gained over time.
- The short term proposals for elimination of the omissions in the Capital Adequacy Directive include the following:
 - i) Banking and capital markets should be made more transparent through consolidated surveillance. To this end, how the banks will be consolidated with the brokerage firms should be specified clearly.
 - ii) Different national policies regarding the stocks with high or low liquidity negatively affect the cross-border investment decisions and/or the position of the financial centers within the EU against the other centers. Even if the national practices are expected to come closer to each other over time, it is considered useful to establish criteria regarding the liquidity of the stocks which will be applicable across the EU for ensuring equality in competition.

5.1.4. UCITs

- The most important one of the issues included to the agenda with the Directive proposal (European Report No. 2373) regarding the UCITs is the "definition and scope of the liquid assets and money market instruments". The UK and Sweden require a new definition, while Germany requires a more detailed definition. On the other hand, complete uniformity regarding the rate of investment of a UCIT in the other UCITs and derivative products within the framework of portfolio restrictions has not yet been achieved.

5.1.5. Monetary Union

- Observing the criteria regarding transition to the Monetary Union brings certain risks for the member countries. The most obvious risk is that the governments will no longer be able to use the national financial instruments when an economic crisis occurs. Loss of flexibility in adjustment of the exchange rates and loss of power to use fiscal means such as tax for control of the budget will lead to fiscal loss for the governments and restrict the power and authority of the governments to take measures against the economic problems. For this reason, the governments have to ensure the continuity of the established criteria in order to prevent a crisis.
- Although the framework of rights and obligations of the member states regarding the Monetary Union has been drawn in the Maastricht Treaty, concrete foresights determining the special characteristics of the exchange relationships between the member states have been neglected. Ensuring a harmony and uniformity among the member states regarding the exchange rate practices is important for the future and stability of the markets. It is desired that the countries which will not participate in the Monetary Union be encouraged to enter the process of proximity with the other countries and that the smooth operation of the Single Market be guaranteed through stability in the exchange rates.
- With the introduction of Euro, the progress toward the Single European Capital Market has been accelerated significantly. Creating of the single currency union within the Euro zone and implementation of a common monetary policy by the European Central Bank accelerate the creation of a single market in the money markets across Europe and consequently influence the reshaping of the European Money Market.

5.1.6. Tax Procedures

- The fundamental problem experienced in the tax practices in the member states is the emergence of double-taxation burden. Especially the different taxation practices of the member states regarding the security transactions in the capital markets give competitive advantage to the states which impose lower tax rate for the cross-border portfolio investments. For this reason, the governments are reluctant to give up their power of taxation, which is the main income item of them. Avoiding from high tax rates and use of minimum tax rates for creation of fair competition conditions are important for the future of the economic and monetary union.
- Re-taxation of foreign incomes such as dividend and interest earnings which are taxed by withholding tax is tried to be prevented through the setoff system implemented within the country. However, the fact that interest earnings of limited tax payers are not subject to withholding tax and that the limited tax payers are not obliged to submit tax returns to the foreign tax authorities increases the tax evasion.
- France, Greece, Ireland, Italy, Portugal and Spain imposed restrictions on the capital transfers in order to prevent tax evasion before 1990. With deregulation of the capital movements for the financial integration of the EU, the requirement of determining the tax payers in the EU and declaration of all financial transactions to the tax authorities has been recognized by all member states.
- Differentiation of the withholding tax imposed on the financial investment earnings among the member states affects the capital distribution, interest rates, portfolio composition and tax incomes in the case where the domicile basis is not applied within the EU. On the other hand, imposition of withholding tax on the interest earnings with a lower rate compared to the rate of withholding tax imposed on the dividend earnings causes tax evasion through capital issue and unbalanced distribution of the economic risk within the EU. Despite the attempts to ensure a harmony in the imposition of a minimum withholding tax at the rate of 15% on the interest and dividend incomes earned by the persons domiciled in the EU from the financial investments, the fact that the rates of withholding tax imposed by the member states vary between 10% and 60% and that some member states such as Luxembourg and Sweden do not impose withholding tax on such incomes causes a difficulty in achievement of the said harmony.

5.2. Harmonization Process of Turkey

The process of full membership of Turkey to the EU which was accelerated with the confirmation of Turkey's candidate status covers, the harmonization of the Turkish capital markets with the financial markets of the EU. Especially the competition environment brought by transition to the single currency system in the EU affects the activities of all financial institutions and requires the concerned parties to be ready for the new formations. Within this context, the following issues have significant implications:

- In the new EU capital markets which were re-shaped, Exchange mergers have begun to be realized in accordance with concrete schedules. Decision of the Exchanges in different countries to merger first time ever as in the case of Euronext is the first example of the merging process. Another reflection of the fact that national identities become less important with the effect of being a member of a Union is seen in the capital markets. The Exchanges make efforts to continue their growth by becoming the member of a union. Active participation of the Istanbul Stock Exchange among the Exchanges in the capital markets of the EU in accordance with its strategies will both accelerate the integration between the markets and influence the preparations for the full membership to the EU.
- Increasing competition pressures hinders the efficiency of the activities of the small and medium size Exchanges due to free movement of the services and the capital. For example, it was observed before the establishment of Euronext that the Brussels Stock Exchange that had lost its large companies through merges and takeovers. For this reason, it is important for the Istanbul Stock Exchange to maintain its competitive power by accelerating its efforts to promote its comparative strengths. With the establishment of FEAS (Federation of Euro-Asian Stock Exchanges), bilateral relationships with the relatively homogenous Exchanges should be furthered within the organization of FEAS.
- The level of cooperation with the Exchanges where the securities of the Turkish companies are traded should be raised in various fields such as cross-border membership, settlement, securities issuance, co-listing etc. More Exchanges are being reconstructed and transformed into profit-making enterprises relatively. At last, but not the least, the London, Oslo and Australia Stock Exchanges are in the

process of transforming into profit-oriented commercial enterprises. Among the reasons of this transformation is the fact that competitive power of profit-oriented Exchanges increases and that they respond more rapidly to the international developments.

- It is observed for the past several years that there is an intensive demand for TMT (technology, media, telecommunications) stocks in the European capital markets in parallel with the recent global developments. Due to increase in demand, Exchanges are continuing to establish new markets for the technology companies. Finally, the Madrid Stock Exchange has announced the establishment of a special market named "Neavo Mercado", to this end. The Istanbul Stock Exchange can establish a separate market for the trading of TMT stocks.
- It is proposed in the EU that the Investment Services Directive be updated and that the barriers before the brokerage firms for their entrance to the market and the remote membership be lifted. To this end, the capital market of the country needs regulations regarding the security of payments, the use of guarantees, the protection of investors, the assurance of information flow for remote membership and cross-border securities transactions. However, due to the fact that the relevant regulation in the EU is flexible sufficiently, a serious problem in the harmonization regarding the remote membership will not be encountered at the initial stage.
- In order for widening the number of institutional investors, active participation of the private pension funds in the market will be allowed in the near future. The private pension funds in the EU supply significant amount of funds to the capital markets as institutional investors.
- Since the investment of the social security institutions on the stocks is subject to restrictions in Turkey, their influence on the market is very limited. However, when the private pension funds will be established, their investment in the stocks as part of their portfolio investments will accelerate the institutionalization of the capital markets.
- Financing through mid and long term borrowing instrument issue of the private sector in the Bills and Bonds Market must be allowed. The share of the securities of the private sector in the total security stock in the capital market is 14% as of December 1999 and the share of the private sector bonds in this share is 0.0001%. One of

the important reasons of private sector's inability to issue debentures is the overwhelming domain of the public borrowing instruments in a chronic inflation environment. However, a 3-year program for fight with inflation to be effective from 2000 has been announced. The program may create an environment favourable for the growth of the private sector bills and bonds market. As a contribution to the growth of the private sector bills and bonds market, the Istanbul Stock Exchange can lay the ground for issue of low cost bonds, including the less strict listing conditions.

- While the rate of publicly traded stocks in the paid-up capital of the companies listed on the ISE is 5% to 15% according to the amount of the paid-up capital, this rate is 25% in the EU. For this reason, regulations supporting the increase of the rate of the publicly traded stocks for the purpose of both giving a depth to the Exchange and ensuring harmony with the EU need to be issued. In addition, the definition of "open to public" should be revised and the principle of all companies being open to public be listed on the Exchange should be adopted.
- Since the preparation of the financial statements in accordance with the international accounting principles is important for comparison of the companies of different countries with each other, the EU has given the priority to the elimination of differences between the accounting standards in the member countries. In Turkey, it is seen that certain accounting rules are different from the international accounting standards. Inflationary accounting, accounting of leases and building contracts are some of such differences. The Capital Markets Board must make amendments to the regulations to ensure the harmonization of all accounting standards and methods used in Turkey, some of which are given above, with the international accounting standards for the purpose of companies in the capital markets.
- Settlement rules are regulated once again in line with the EU's objective to minimize the settlement risk posed by the opponent party in the cross-border transactions, which is one of the strategic objectives of the EU. To this end, the Settlement and Custody Bank (Takasbank) of the Istanbul Stock Exchange must issue the regulations which will guarantee the settlement of purchase and sale transactions in the case of insolvency or bankruptcy of the brokerage firms which are the opponent party of a cross-border transac-

tion. In the EU, in case of dissolution of a party of a cross-border settlement transaction, the completion of the settlement transaction and the security of the transaction must be assured before the dissolution.

- In Turkey, there is no a clear definition and distinction between the sophisticated and the individual investor in the legislation. The EU gives the first priority to the clarification of the distinction between these two types of investors for protection of the investors. For this reason, the Capital Markets Board must define and make a distinction between the sophisticated and the individual investor and set forth the provisions applicable to them in the regulations.
- As anticipated from the developments in the capital markets in the European Union, the reconstruction and the integration of the Exchanges will be "electronic" and the "physical spaces" will no longer be important in the very near future. Alternative electronic operating systems are rapidly becoming the competitors of the Exchanges. For this reason, a system which will enable trading in the Exchange around-the-clock outside the session hours must be established.
- Mergers and takeovers both in the real and the finance sectors will increase. Financial institutions lacking the competitive power and poor in technical and financial aspects will go outside the system. Due consideration will be given to partnerships with the foreign financial institutions. In addition, in accordance with the principle of single license in the EU, the competitive power of the brokerage firms must be increased and the rule of remote provision of services freely must be adopted within a certain period of time. The capital adequacy which is important for the investment companies for keeping their financial structures ready for the competition in the market through efficient risk management must be determined high.
- The maximum amount of compensation payable from the Investor Protection Fund is very low compared to the EU. While the amount of compensation payable is minimum ECU 20,000 per person in the EU, it is maximum TL 2 billion for 2000 for the receivable from the brokerage firms whose license was revoked and against which bankruptcy proceedings were initiated before the effective date of the amendments to the Capital Markets Law. This amount will be increased each year by the rate of revaluation. However, there is no

ceiling for the compensation payable for losses incurred after the effective date of the amendments to the Capital Markets Law. The amendment provides that TL 7,5 billions of the total cash and stock receivable of the custody account holders who do not have stocks in the account sufficient to cover the receivable or no stock be paid before the completion of the liquidation proceedings.

- The importance of electronic trade is increasing gradually. Another important matter is to ensure the security of the electronic transactions. The EU-member states have begun to issue the national regulations regarding the electronic signature to this end. In Turkey, the matter of electronic signature is cited among the powers and duties of the Capital Markets Board in accordance with the amendment made to the Capital Markets Law by the law no. 4487 which was published on the Official Gazette of 18.12.1999. This matter need to be handled and regulated by the Capital Markets Board based on the power given to the Board.
- Although the companies in the EU are allowed to disclose their estimated profit-loss accounts to the public on condition that the public is not misled, the companies in Turkey are not allowed to do this. In the EU, if the authorized bodies decide that disclosure of certain information to the public is contrary to the public benefit or may cause harm to the company seriously, such information may not be disclosed to the public on condition that the public is not misled due to non-disclosure. In Turkey, there is no clear provision on the matter on the Communiqué Series VIII, No. 20 of the Capital Markets Board regarding the disclosure of special situations to the public. Obligating the companies to disclose their estimated profit and loss accounts, together with the reasons thereof, for the next year in accompanying the financial statements of the current year will prevent the false news until the disclosure of the financial statements of the next year.
- By making an amendment to the Directive regarding the remote provision of financial services in the late 1999, the European Commission has targeted to ensure high protection to the investors with respect to the marketing of the retail financial services through electronic means such as telephone, facsimile or the Internet. With the Article 22/u of the new Capital Markets Law regarding the remote provision of financial services, of which content has not yet been filled entirely, the Capital Markets Board has been given the

power and authority to issue regulations and carry out controls on this matter. The Board should regulate the remote provision of financial services by a communiqué based on this authority.

- Since the intensive demand for the TMT stocks, mainly those of Internet companies has substantially increased the trading on credit, it is observed that the works of the regulatory and controlling bodies have been focused on this matter across Europe. Cooperating with these bodies is considered to be useful for the purpose of preparing the TMT companies, which are within the body of a holding in general, to be traded on the Exchange.
- Adoption of common principles regarding the corporate governance is one of the issues handled seriously by the EU during the recent years. There is no special regulation on this matter in Turkey. The Capital Markets Board and the Istanbul Stock Exchange should determine the framework of the corporate governance principles for the companies being subject to the capital market legislation by obtaining the opinions of the listed companies.
- Application of the principle of "prudential management" to the relationships between the group companies in the capital market and making the auditing of the group companies more efficient is one of the priorities of the EU. In Turkey, there is no special regulation regarding the group companies, except for consolidated financial statements. Considering the importance of the relationships between the group companies for the capital market, this matter should be regulated by the Capital Markets Board under a special Communiqué within the scope of principles of prudent management.
- Regulations aimed at building trust in the public are issued rapidly and diligent care is given to providing better information to the public in Turkey regarding the initial public offerings, changes in the issuing companies and prevention of insider trading in line with the standards and practices in the EU.
- Communiqué Series V, No. 34 of the Capital Markets Board sets forth the criteria regarding the minimum capital and activities of and especially the liabilities versus the positions assumed by the brokerage firms. The Communiqué regarding the capital requirements has been issued by taking into account the minimum standards established by the European Union for all lending institutions and investment companies operating in the member countries.

Determination of the initial capital in the Capital Adequacy Directive 93/6/EEC, which completes the framework of the Investment Services Directive 93/22/EEC is in parallel with the objective of ensuring trust and control against the potential risks.

- The criteria applicable to the capital adequacy of the brokerage firms are aimed at prevention of losses caused by the activities of the brokerage firms. Accordingly, the minimum capital requirement for the newly-established brokerage firms has been determined as TL 500 billions. The brokerage firms being member of the Istanbul Stock Exchange are subject to an upper limit in transactions in the stock market and restrictions on the amount of client's stocks in custody or positions assumed by them. The purpose is to prevent the brokerage firms from assuming risks unproportional to their capital. A definition of equity has been provided in parallel with the Investment Services Directive. Accordingly, the risks related to fulfillment of the liabilities of the brokerage firms are defined and subject to certain restrictions in accordance with various selected criteria. The requirement of capital adequacy at the rate of 4% against the special risk for the stock portfolios in the EU Directive is also applicable to the brokerage firms in Turkey. In the event that the amount of capital market instruments issued by a company exceeds 10% of the total market value of the portfolio, 70% of the total market value of the portion exceeding the 10% is taken into account (consolidation risk).
- As included in the Action Plan, the EU plans to establish a securities commission and ensure harmonization of the EU regulations in this area by 2002. Formation of a "sub-committee for securities" within the body of coordination between the EU and Turkey will help harmonization of the Turkish regulations regarding the capital markets with the EU.
- Surveillance and audit activities regarding the manipulations are carried out by the Istanbul Stock Exchange and the Capital Markets Board. A harmonization is needed in terms of the efficiency of the judicial functioning, rather than the legal regulation. Manipulative transactions will lessen as the markets operate more efficiently as well as efficient surveillance and audit activities.
- Works should be commenced for reciprocal recognition of the brokerage firms and their branches and for application of the rules of country of origin. In this way, investment companies operating in

the capital markets of the EU-member countries will be granted licenses to operate in Turkey in accordance with the said rules. In the same way, Turkish brokerage firms will obtain license to operate in the capital markets of the EU under the same conditions.

- Considering that total amount of the pension funds in 13 EU member countries (except for Greece and Luxembourg) is US\$ 2,9 trillions as of 1998, Turkey must reform its social security system in a very short time.

VI. Priorities and Requirements of the Capital Markets Board, the ISE and the Brokerage Firms Regarding Competition and Harmonization With the EU

Tablo 28: Priorities and Requirements of the Capital Markets Board, the ISE and the Brokerage Firms Regarding Competition and Harmonization With the EU

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
Public Offering	<p>Increasing the Rate of Publicly Traded Stocks The minimum rate of publicly traded stocks in the EU is 25%. The rate of publicly traded stocks, which has been determined as 15% for the National Market of the ISE, can be raised to 25% within the scope of harmonization with the EU.</p> <p>Tax Incentive for Opening to Public Initiations can be commenced with the Ministry of Finance to provide tax advantages to the publicly traded and the listed companies such as a reduction of 10% in the rate of withholding tax to encourage the publicly traded companies to be listed on the Exchange.</p>	Harmonization is required			<p>Strengthening of the Corporate Finance Structure Brokerage firms must strengthen their corporate finance structure during the process of opening of more companies to the public.</p>	For competition

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
Listing			<p>Duration for Concluding Listing Applications The maximum duration of concluding the listing applications is 6 months in the EU and 60 days in the ISE. Harmonization with the EU on this matter does not pose a difficulty.</p> <p>Free-Float Rate for Listing: The free-float rate of publicly traded stocks has been established as 15% for listing. This rate can be raised to 25% by 2004, which is the target date for membership in the EU.</p> <p>Minimum Market Value or Capital Criteria The minimum capital requirement in the EU can be calculated based on the market value or the sum of "capital + reserves + profit (loss)" in the last balance sheet. In the ISE, the paid-in capital requirement is essential. The market value criterion can be used as an option.</p> <p>Minimum Amount of Bond Issues The rule for listing of borrowing instruments in the EU is that the amount of issue cannot be less than 200,000 Euro. In the ISE, the nominal amount of issue cannot be less than the amount determined by the Executive Council. For harmonization with the EU, the minimum issue amount of borrowing instruments can be set as 200,000 Euro in the ISE.</p> <p>Listing of Convertible Bonds In the EU, bonds convertible to shares are listed on condition that the shares have been already listed on the same or another Exchange. The same rule can be brought for the Turkish</p>	Harmonized		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
			<p>companies listed on the ISE.</p> <p>Listing and Trading</p> <p>While the listing and the trading are realized concurrently in the EU, the listing and the trading are perceived as different from each other; therefore, this difference should be eliminated pursuant to the function of the Exchange to provide service to the listed companies.</p> <p>Duration for Listing of Additional Public Offerings</p> <p>In the EU, listing application for additional public offerings must be made at latest within 1 year following the date of issue or beginning of purchase and sale of shares freely.</p> <p>In the ISE, this duration is 15 days. Compared with the EU, it is seen that this period is short for cross-border trading.</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p>		
Public Disclosure	<p>Disclosure of Special Situations to Public</p> <p>Technical structure of disclosure of special situations concerning the listed companies to the public by a separate institution under the supervision of the CMB must be harmonized in accordance with the EU, considering that more than one exchange will be involved in future.</p>	<p>Harmonization is needed</p>	<p>Announcement of Regulations and Information to be Disclosed to the Public in English on the Internet</p> <p>Publication of relevant regulations of the Exchange and the information to be disclosed to the public as well as the listing forms (for initial public offerings) should be announced on the Web page of the ISE in English in addition to Turkish, for harmonization with the EU.</p> <p>Usage of Source of Funds Statements</p> <p>The listing forms should contain the usage of sources of funds statements pertaining to the last 3 fiscal period.</p> <p>Non-Customary Transactions</p> <p>The listing forms should contain detailed information about the</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p> <p>Harmonization is needed</p> <p>Harmonization is needed</p>	<p>Announcement of the Prospectus on the Internet</p> <p>Announcement of the prospectus and other notices related to the initial public offerings on the Web pages of the</p>	<p>For competition</p>

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>Definition of Trade Confidentiality Definition of trade confidentiality must be clarified</p> <p>Validity Term of the Prospectus In the EU, if no more than 12 months have elapsed since the publication of a prospectus in a member country, it is sufficient to publish only the changes and developments that have occurred from the date of publication of the prospectus, which may materially affect the price of the securities. The same rule can be applied in the Turkish capital markets.</p> <p>Publication of Interim Financial Statements Duration for publication of interim financial statements is 4 months after the interim period in the EU. Since the duration of publication of interim financial statements is 6 weeks as of the end of 6-month (interim) period there is no problem in</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p> <p>Harmonized</p>	<p>non-customary transactions, which the executives and the auditors of a company made with the company (such as purchase and sale of goods which are non-activities of the company, purchase of assets or shares of another company for a price above the market value etc.).</p> <p>The Last Annual Financial Statement Should Pertain to the Past 18 Months In the EU, the last annual financial statements to be published together with the listing form must not cover the period more than 18 months from the end of the relevant fiscal term. This period can be extended under exceptional cases. In the ISE, the listing criteria require that the last annual and the underlying interim period must have been audited by an independent auditor, this period can be extended for cross-border transactions.</p> <p>Disclosure of Listing Forms to the Public In the EU, it is mandatory to publish the listing form in the daily newspapers circulating across the country or made available to the public in the Exchange or the head office of the issuing company and the intermediary institution.</p> <p>In the ISE, the listing forms can be published in the same manner.</p> <p>Acceptance of the Prospectus Pertaining to the Last 3 Months as a Listing Form In the EU, a prospectus approved by a member state within three months prior to the application for listing is accepted as the listing form on condition that it is translated into the language of</p>	<p>needed</p> <p>Harmonized</p> <p>Harmonization is needed</p> <p>Harmonization is needed</p>		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>terms of compliance with the EU.</p> <p><u>Disclosure of Estimated Profit and Loss Statements by Companies</u></p> <p>Necessary amendments should be made to the relevant Communiqués to allow the companies to disclose their estimated profit and loss accounts to the public.</p> <p><u>Disclosure of the Prospectus on the Internet</u></p> <p>The prospectus should be announced to the public on the Internet in addition to the major newspapers.</p>	<p>Harmonization is needed</p> <p>For competition</p>	<p>the country where the application for listing is made.</p> <p>The Executive Council of the ISE may decide that a published prospectus is sufficient without the issuance of an information form if no more than 6 months have elapsed since the publication of the prospectus. The 6-month period can be reduced to 3 months in parallel with the EU.</p> <p><u>Issuance of Proforma Financial Statements</u></p> <p>In the EU, in case of a merger or takeover, the proforma financial statements in the absence of annual financial statements must be available to the public in the head office of the issuing company and the offices of the intermediary for listing on the Exchange. In Turkey, one copy of the balance sheet and the income statement is requested after a merger or takeover, but the proforma financial statements are not required.</p> <p><u>Publication of Real-Time Data</u></p> <p>As supply increases in the market, the number of investors, the amount of demand, the number and the amount of transactions will increase. In this case, both the trading system and the data must be published on a real-time basis on the Reuters screens.</p>	<p>Harmonization is needed</p> <p>For competition</p> <p>For competition</p>		
Group Companies	<p><u>Issuing of a Communiqué on the Group Companies</u></p> <p>In the EU, implementation of the principle of prudential management concerning the relationship between the group companies and audit</p>	<p>Harmonization is needed</p>				

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>of the group companies are the first priority matters. Since there is no regulation governing the relationship among the group companies except for the consolidated financial statements in Turkey, this matter should be clarified with the establishment of a Communiqué of the CMB.</p>					
<p>Market Structuring</p>			<p>STOCK MARKET National Market Determination of the Reasons of Why the Large Size Companies are not Opening to the Public National Market: Activities aimed at encouraging the non-public companies among the ISO 500 to open to the public and removal of the concerns of such companies regarding losing management control, intensive auditing and paperwork which make them hesitant to open to the public. Regional Markets (Second National Market) Follow-up and conclusion of the work carried out in conjunction with associations such as KOSGEB, TOSYOV to encourage the small and medium size companies to open their equity capital to the capital markets in the form of investment partnerships or similar arrangements.</p>	<p>For competition</p>	<p>Specialization in Brokerage Firms Establishment of specialized brokerage firms in specific to the small and medium size companies</p>	<p>For competition</p>

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
			<p><u>KOBI-Net</u> Expanding promotional activities carried out with 6000 companies within the scheme of KOBI-Net regarding the capital markets and the ISE.</p> <p><u>Watch List Companies Market</u> <u>Using a Different Mark</u> In order to prevent the permanent psychological effect of the Watch List Companies Market on the participants, a mark indicating the reason why the company is in the Watch List can be used.</p> <p><u>Removal from the Watch List</u> The conditions for removing of the companies from the Watch List Companies Market should be determined according to the rules for violating the public disclosure regulations and the deterioration of the financial structure of the company.</p> <p><u>International Market</u> Allowing the international intermediary firms to be remote members and to carry out remote trading.</p> <p><u>Listing of International Issuers in Parallel with the International Market</u> Listing of some part of the international issues on the International Market concurrently with the other foreign markets within the framework of privatizations.</p> <p><u>Common Trading Platform Similar to Euro NM</u> A common trading platform can be established among FEAS</p>	<p>For competition</p> <p>For competition</p> <p>For competition</p> <p>For competition</p> <p>For competition</p> <p>For competition</p>		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
			<p>members in a form similar to Euro NM with a remote access facility.</p> <p>Creation of the OTC in the Secondary Markets Establishment of the secondary markets in the form of OTC can be allowed, provided that the primary markets are carried out on the Exchange.</p> <p>Definition of the Qualified Institutional Investor A definition of the qualified institutional investor can be made for the primary market sales.</p> <p>Bonds and Bills Market Private Sector Bonds and Bills Making the fixed income securities market efficient in terms of product diversification; to this end, issue of private sector bills and bonds can be encouraged.</p> <p>Market Separation between the Public and the Private Sector Borrowing Instruments As the qualification and the guaranty conditions of the private sector bills are different from those of the public sector bills, the rules applicable to the establishment of a separate market should be set forth.</p>	<p>For competition</p> <p>For competition</p> <p>For competition</p> <p>For competition</p>		
Diversification of Financial Instruments	Potential Financial Instruments The following instruments may be made available in practice: Derivative instruments based on shares, derivative instruments based on	Harmonization is needed	Cooperation on the Financial Instruments Cooperating with the CMB regarding the establishment of the technical and legal structure of the financial markets.	For competition		

Subject	CMB	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>interest rates, futures and options based on the index, private sector bills and bonds.</p> <p>The Communiqués of the CMB need to be revised to encourage the issuance of these instruments.</p>				
<p>Remote Membership</p>	<p><u>Trade Reliability of Cross-Border Transactions</u></p> <p>In the EU, the Investment Services Directive is updated and the barriers hindering the entrance of the brokerage firms into the market and the remote membership are lifted. In the Turkish capital markets, new regulations regarding the remote membership and payment reliability in cross-border trading, the use of collateral, the protection of investors and the assurance of information flow must be issued.</p> <p><u>Draft Communiqué on the Brokerage Activities and the Rules Applicable to the Brokerage Firms</u></p> <p>Permission given by the draft</p>	<p><u>Allowing the Brokerage Firms in the EU to Trade on the ISE</u></p> <p>Allowing the brokerage firms in the EU-member countries to make remote trading on the ISE under the status of ISE member.</p> <p><u>Regulating the Settlement Obligations of the Remote Members in Cooperation with the Settlement and Custody Bank (Takasbank)</u></p> <p>Regulating the settlement obligations of the brokerage firms admitted to the remote membership.</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p>	<p><u>Increasing the Competitive Edge of the Brokerage Firms</u></p> <p>Raising the level of capital adequacy, technical quality, services quality, research activities, providing information to the investors of the brokerage firms in order to enable them to compete with foreign brokerage</p>	<p>For competition</p>

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>Communiqué to the brokerage firms residing in abroad to provide services only to the clients residing in abroad outside Turkey and to act only as an intermediary in underwriting activities with respect to the public offerings at home should be revised in accordance with the rules of "single license and mutual recognition" in the EU.</p>				<p>firms admitted to remote membership.</p>	
<p>Trading System with Remote Access</p>	<p>Electronic Signature and Electronic Control Besides the legal validity of the electronic signature in the remote trading system, the rules regarding the electronic security and control must be established on a legal and technical level.</p>	<p>Harmonization is needed</p>	<p>Design of the Trading System The trading system must be designed to allow the cross-border transactions and memberships to be carried out on a single screen.</p>	<p>Harmonization is needed</p>	<p>Specialized Staff in Electronic Transactions Training specialized staff for the electronic purchase and sale system.</p>	<p>For competition</p>
<p>Market Indices</p>			<p>New Products and Indices Increasing the number of indices based on Euro regarding the newly introduced instruments (such as derivative indices) Calculation of the Index In the EU, total market value of the companies included in the Index is considered as a base for calculation of the Index.</p>	<p>Harmonization is needed Harmonization is needed</p>		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
			<p>In the ISE, the Index is calculated on the basis of the value of the publicly traded shares of the companies.</p> <p>Period and Criteria of Reviewing the Index</p> <p>The indices should be revised immediately upon the occurrence of an event which affects the Indices (for example, a fire damage in Tüpraş Oil Refinery), instead of at each quarter and the criteria regarding the Index changes must be established.</p> <p>Establishment of a TMT Index</p> <p>A "TMT or Technology Index" should be published for the TMT (Telecommunications, Media, Technology) stocks</p>	<p>Harmonization is needed</p> <p>For competition</p>		
Trading Session Times of the Stock Market			<p>Extension of Session Hours</p> <p>As a result of restructuring and integration of the Exchanges, the physical space become less important for trading.</p> <p>Alternative electronic operating systems are becoming competitors of Exchanges rapidly. For this reason, a system which allows trading around-the-clock must be installed.</p>	<p>For competition</p>		
Influence of Institutional Investors	<p>Individual Pension Funds</p> <p>Since social security institutions in Turkey are restricted to trade on stocks, their influence on the market is low. However, with the establishment of the private pension funds, the private pension funds will invest a portion of their portfolio on the stocks and so the</p>	<p>For competition</p>	<p>Contribution of Individual Pension Funds to Supply and Demand</p> <p>With the introduction of individual pension funds, the demand for all instruments listed on the ISE will increase within the framework of the restrictions on the portfolios, their contribution to the supply and demand balance will increase in parallel with the increase in the liquidity and the depth of the market.</p> <p>Use of Severance Payment Provisions</p> <p>If a portion of the severance payment provisions are invested</p>	<p>For competition</p> <p>For competition</p>	<p>Pension Fund Management Firms</p> <p>Acceleration of the technical structure of the pension fund</p>	<p>Harmonization is needed</p>

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>institutionalization of the capital markets will be accelerated.</p> <p>The Principle of Prudential Management</p> <p>Adoption of the principle of prudential management and determination of the limitations on the portfolio.</p>	<p>Harmonization is needed</p>	<p>the capital markets, which must be set aside pursuant to the capital market law in the capital markets is permitted, a significant amount of funds will flow into the market.</p>		<p>management firms.</p>	
<p>Surveillance and Control</p>	<p>Issuing a Communiqué on Insider Trading</p> <p>A Communiqué on insider trading must be issued.</p> <p>Definition of the First and Second Degree Insider Trading</p> <p>The EU regulations have gathered the types of insider trading under two headings: first degree and second degree. With the adoption of the EU Directive after the full membership, the "insiders" can be grouped in the local regulations.</p> <p>Penal Sanctions</p> <p>Since the penal sanctions are left to the internal judicial system in the EU, the existing legislation in</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p>	<p>Cross Interrogation Models</p> <p>Efficiency of the surveillance and control of the listed companies and the brokerage firms by the ISE with respect to the insider trading and manipulative trading must be increased. To this end, with cross interrogation models used from the lists of register of potential insiders on the electronic and mathematical basis, efficiency of the surveillance system will be increased and systems will be used for halting and suspending trades and public disclosure.</p> <p>On-line Connection with Custodian Accounts</p> <p>Spot market and custodian accounts must be on-line and comparative.</p> <p>Surveillance of the Derivative Markets</p> <p>With the introduction of derivative markets, surveillance systems special to these markets must be improved.</p>	<p>For competition</p> <p>Harmonization is needed</p> <p>Harmonization is needed</p>		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>Turkey is in harmony with that of the EU, provided that the provisions of the legislation meet the minimum requirements of the EU Directive. However, difficulties are experienced in proving of the allegations in the judicial bodies. For elimination of such difficulties, training must be given to the academicians who are appointed as judicial experts and the judges on the subject matter.</p> <p><u>Notification Obligation</u> Obligations of the persons who are in the status of "insider" regarding the notification of the transactions they made must be regulated in detail.</p> <p><u>Expansion of Regulations on the Prohibition of Purchases in Initial Public Offerings</u> The prohibition on the purchases in initial public offerings, Communiqué Series VIII, No. 22 on the initial public offerings must be</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p>				

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>applicable to all employees of the brokerage firms which act as intermediaries during the public offering.</p> <p>Regulation of the Conditions on the Recall of Stocks</p> <p>Regulations must be amended in order to recognize the right of the issuing company to recall the stocks for the purpose of protecting the value of the stocks against manipulative trading.</p> <p>Short Selling and Securities Lending</p> <p>Short selling and securities lending transactions must be made efficient in practice. The securities subject to short sale is traded for a price which is higher than the last executed price of that security. Although this policy is aimed at prevention of the down trend of the price of the security, the last executed price of the security can be allowed to be the price of the security sold in short.</p>	<p>Harmonization is needed</p> <p>For competition</p>				

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>Although security lending and short selling transactions are not made officially in an organized market, brokerage firms can undertake securities lending activities by making transfers between accounts and short selling among themselves. For this reason, the CMB and the ISE should review the matters which prevent the brokerage firms to make the security lending and short selling transactions officially.</p>					
<p>Capital Adequacy</p>	<p><u>Making the Internal Risk Management and Risk Monitoring Units Efficient</u> The amount of initial capital of the brokerage firms compared to their activities is satisfactory in comparison to the capital adequacy requirements in the EU. The regulations of the EU and the Basel criteria regarding the internal risk management models and risk monitoring units of the brokerage firms can be adopted for harmonization in this matter.</p>	<p>For competition</p>	<p><u>Capital Adequacy Criteria for the Brokerage Firms in Default and Traders in the Derivative Markets</u> Minimum capital requirements of the Exchange members can be revised for the brokerage firm which have defaulted and for monitoring of the market risk in the operating system during the launching of the derivative markets.</p>	<p>Harmonization is needed</p>	<p><u>Establishment of an Internal Risk Management for the Brokerage Firms</u> The brokerage firms can be allowed to establish an internal risk management</p>	<p>Harmonization is needed</p>

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
<p>Rates of Commission Charged on the Purchase and Sale of securities Transactions</p>	<p>Minimum Rates of Commission Considering the different practices in the Exchanges of the EU-member countries, a policy for reduction of the transaction costs for the purpose of harmonization and competition with the EU Exchanges must be pursued. There is a base rate for the commissions payable by the brokerage firms (0.2-1%). Rates of commission charged for transactions, especially the on-line trading, can be reduced over a certain period of time.</p>	<p>For competition</p>			<p>management for monitoring of the capital adequacy on a continuous basis.</p>	
		<p>For competition</p>			<p>Brokerage Firms Directed to Individual Small Investors Regulations regarding the establishment of brokerage firms directed to individual small investors aimed at reducing the cost of transactions made by the small investors should be issued.</p>	<p>For competition</p>

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
Impact of Euro on the Capital Market	<p>Cooperation for Financial Instruments Denominated in Euro</p> <p>Carrying out studies in cooperation with the ISE for development of Euro based indices as well as the spot and derivative instruments.</p>	For competition				
Taxation of Securities	<p>Taxation of Capital and Dividend Earnings</p> <p>There are great differences regarding the taxation in the Turkish capital market compared to the practices in the EU-member countries. Also, there is no common practice among the EU-member countries yet. Taxation can be concentrated on the capital earnings and the rate of tax levied on the dividend earnings can be minimized.</p>	Harmonization is needed				
Investor Compensation Fund	<p>Minimum Amount of Compensation per Person</p> <p>The minimum amount of protection per person from the investor protection funds in the EU is 20,000 Euro. In Turkey, the ceiling for</p>	Harmonization is needed	<p>Making the Investors Well-Informed</p> <p>Providing training to the investors for making the investors well-informed about the capital markets on a continuous basis.</p>	For competition		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>compensation for losses with respect to bankruptcy of brokerage firms before 1999 is TL 2 billion for 2000. The amount of compensation per person should be 20,000. Euro.</p> <p>Application to the Fund and the Duration of Payment from the Fund</p> <p>Compensation payments from the fund is made within at latest 3 months from the fulfillment of all conditions in the EU. The duration for notifying the loss to the fund is minimum 5 months. No duration is specified in the Turkish regulations. Similar terms of notice can be adopted for harmonization with the EU.</p>	<p>Harmonization is needed</p>	<p>ISE</p>			
<p>Settlement and Custody</p>	<p>Transition to "Book-Entry" System</p> <p>Completion of the book-entry system for stocks.</p> <p>Registration Center</p> <p>Enhancing the functioning of the</p>	<p>Harmonized</p> <p>Harmonized</p>	<p>On-line Connection Between the Markets and the Settlement Accounts</p> <p>On-line connection between the settlement accounts of the members and the securities transactions must be established</p>	<p>Harmonization is needed</p>		

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
<p>Registration Center</p> <p><u>Procedures Concerning the Bankruptcy of the Foreign Brokerage Firms</u></p> <p>Establishment of the procedures concerning the bankruptcy of the foreign brokerage firms in conjunction with Takasbank (Settlement and Custody Bank).</p>	<p>Harmonization is needed</p>	<p><u>Connection with Clearstream and Clearnet</u></p> <p>Cooperation between Takasbank and the new international clearing institutions such as Clearstream and Clearnet</p> <p><u>Settlement Period</u></p> <p>Considering the time difference between the member countries, the settlement period is T+3 in the EU. Application of T+3 will not pose any difficulty for Takasbank after the full membership.</p>	<p>For competition</p> <p>Harmonized</p>			
<p><u>International Accounting Standards</u></p> <p><u>Valuation Based on the Fair Value</u></p> <p>With respect to the 39th International Accounting Standard in the EU, the principle of valuing the assets based on their current market value is adopted, instead of the purchasing cost or the repurchase cost. Valuation of the assets of the companies in the capital market will be based on the fair value of the assets.</p> <p><u>Accounting of the Transactions on the Derivative Products</u></p> <p>With the introduction of the derivatives markets, the accounting of the transactions such as futures, options</p>	<p>Harmonization is needed</p> <p>Harmonization is needed</p>					

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	and forward contracts will have to be regulated according to a uniform accounting standards.					
Reconstruction of Exchanges			Exchanges Transforming into Corporations and Opening to the Public The examples of more Exchanges becoming profit-oriented corporations and opening to the public in the EU are increasing. It is a matter of time and consideration for the ISE to become a profit-oriented company and open to the public.	For competition		
Distinction Between Sophisticated and Individual Investors	Definition of the Sophisticated Investor Clarification of the distinction between the sophisticated and the individual investors in the EU is important for the protection of the investors. The Turkish legislation should be revised to emphasize the differences between these two types of investors and to set forth the rules applicable to each type of the investor.	Harmonization may be needed				
Corporate Governance	Principles of Governance for the Publicly Traded Companies The EU is trying to establish common rules regarding the corporate	Harmonization may be needed				

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>governance principles. In Turkey, certain governance principles should be specified as an initial stage and these principles should be harmonized with those of the EU at a later stage</p>					
<p>Principle of Single License</p>	<p>Trading under a Single License Since the financial institutions of the EU-member countries are operating under a single license, foreign financial institutions are merging to rise their competitive edge on the one hand and trade in the financial markets of all member countries under a single license on the other.</p> <p>Authority of the Financial Institutions to Provide All Kinds of Financial Services In order to strengthen the competitive power of the local financial institutions, their capital adequacy must be maintained at higher levels, remote membership must be allowed and the brokerage firms must</p>	<p>Harmonization is needed</p>				

Subject	CMB	Degree of Harmony	ISE	Degree of Harmony	Brokerage Firms	Degree of Harmony
	<p>be authorized to provide all kinds of financial services.</p> <p>Principles on "Country of Origin" and "Reciprocity"</p> <p>The principles on "country of origin" and "reciprocity" regarding the memberships and capital market activities of the other brokerage firms of the EU-member countries must be adopted in the case of full membership.</p>	<p>Harmonization is needed</p>				
<p>Exchange Mergers</p>			<p>Strategy of the ISE Concerning Exchange Mergers</p> <p>In line with the strategy of the ISE, becoming corporates and establishing mergers among the EU Exchanges must be over-looked and the prospects for inter-exchange cooperations, partnerships or mergers must be determined.</p>	<p>For competition</p>		

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GLOBAL CAPITAL MARKETS

On global basis, the second quarter GDP growth continued to increase as the industrial production in the US has risen steadily owing to strong consumer demand, business capital formation as well as exports. The economic activity in the euro area rose by 6.5 % in the 12 months to April. The US first quarter real GDP showed real consumer spending rising higher by 5.9 % year-over-year. However, the recent strenght of domestic demand may not be sustainable as inflationary pressures are now becoming apparent, while the current account deficit has risen sharply, to above 4 % of GDP. The Federal Reserve has not changed its key federal funds rate of 6.5 % showing sign that the economy is now on course for a slowing down. The industrial output of the world's major developed countries—the euro area, US and Japan—increased by an estimated 5.8 % year-over-year for the quarter-ended May. In the OECD countries, the output growth for this year is projected at 4 %. In the euro area, growth and employment prospects look positive. However, the important issue is how the expansion can be sustained without running into inflationary bottlenecks. Although Japan's industrial output rose by only 0.2 % in May, the annual rate rose by 7.5 % and the recovery now appears to be in place in Japan, led by exports and business fixed investment, and deflationary risks are easing.

Due to the monetary policy action to supress inflationary pressures in the United States and Europe, a cooling of domestic demand seems to have raised market expectations of a "soft landing" for the economy. As a result, equity and asset prices has levelled out as broadly-based stock indices stood at almost the same level as the beginning of the year. Japan witnessed a large downward pressure as the main Topix index dropped by about 10 %, led by a downturn in technology-related stocks as well as disapointed earnings in financial earnings in financial year 1999-2000 and by political and macroeconomic uncertainties. Emerging equity markets significantly underperformed their counterparts in the mature markets in the second quarter. Emerging market equities moved closely correlated to the distinct phases seen in the US financial markets.

The performances of some developed stock markets with respect to indices indicated that DJI decreased by -4.79 %, FTSE-100 by -4.6 %, and Nikkei 225 by -4.6 %.

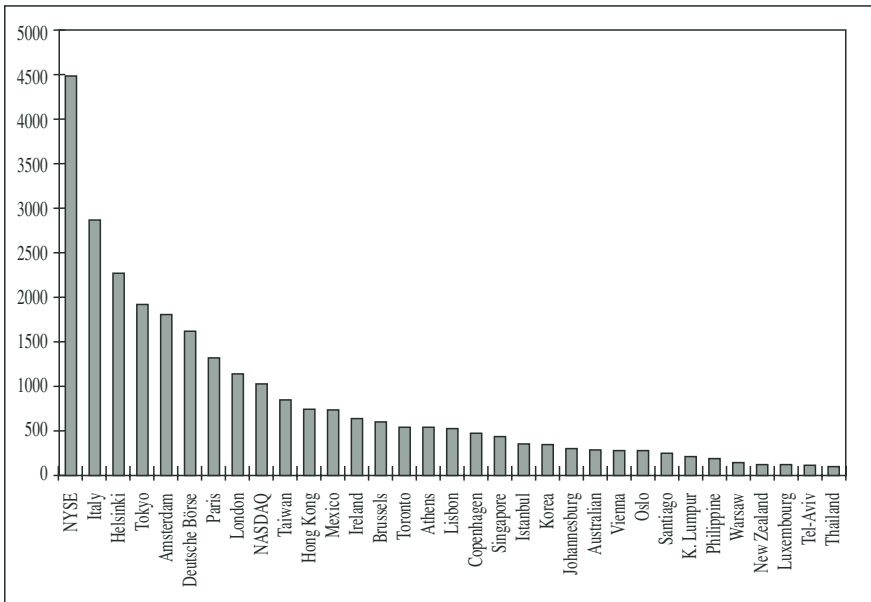
while Nikkei-225 increased by -14.07 % on June 30 as from March 31. When US\$ based returns of some emerging markets are compared in the second quarter of year 2000, China is the best performer with 39.7 %, Venezuela and Israel follow with 23 % and 17.9 %, respectively. In the same period Indonesia, Thailand and Colombia are the worst performers that caused their investors lose -43.1 %, -36.4 % and -34.6 % respectively. The two other low performing markets are Philippines and Egypt with -33.8 % and -32.3 % returns, respectively. In this period Istanbul Stock Exchange's performance is -15.8 % return. The performances of emerging markets with respect to P/E ratios as of end-June indicated that the highest rates were obtained in Malaysia (66.4), Argentina (35.8), Korea (34.3) and Chile (29.8) and the lowest rates in Czech Republic (-33.9), Indonesia (-7.3) and Thailand (-5.7).

Market Capitalization (USD Million, 1986-1999)

	Global	Developed Markets	Emerging Markets	ISE
1986	6,514,199	6,275,582	238,617	938
1987	7,830,778	7,511,072	319,706	3,125
1988	9,728,493	9,245,358	483,135	1,128
1989	11,712,673	10,967,395	745,278	6,756
1990	9,398,391	8,784,770	613,621	18,737
1991	11,342,089	10,434,218	907,871	15,564
1992	10,923,343	9,923,024	1,000,319	9,922
1993	14,016,023	12,327,242	1,688,781	37,824
1994	15,124,051	13,210,778	1,913,273	21,785
1995	17,788,071	15,859,021	1,929,050	20,782
1996	20,412,135	17,982,088	2,272,184	30,797
1997	23,087,006	20,923,911	2,163,095	61,348
1998	26,964,463	25,065,373	1,899,090	33,473
1999	36,030,810	32,956,939	3,073,871	112,276

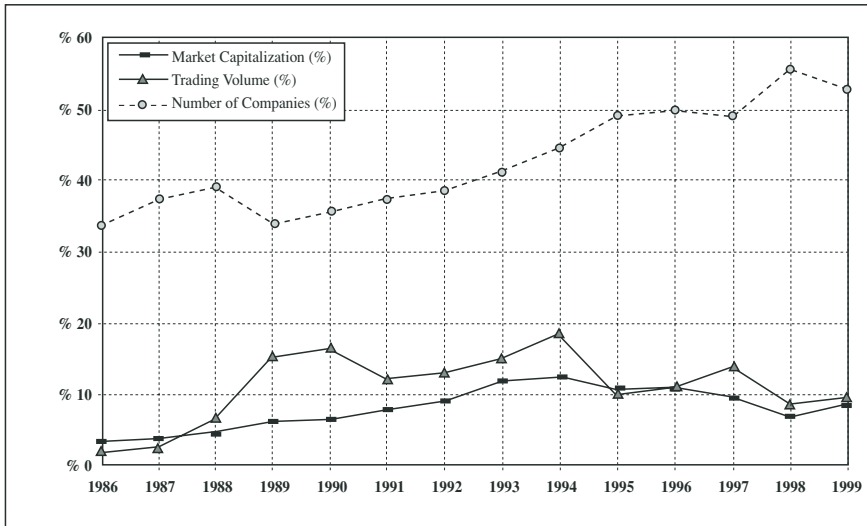
Source: IFC Factbook 2000.

Comparison of Average Market Capitalization (USD Million, May 2000)



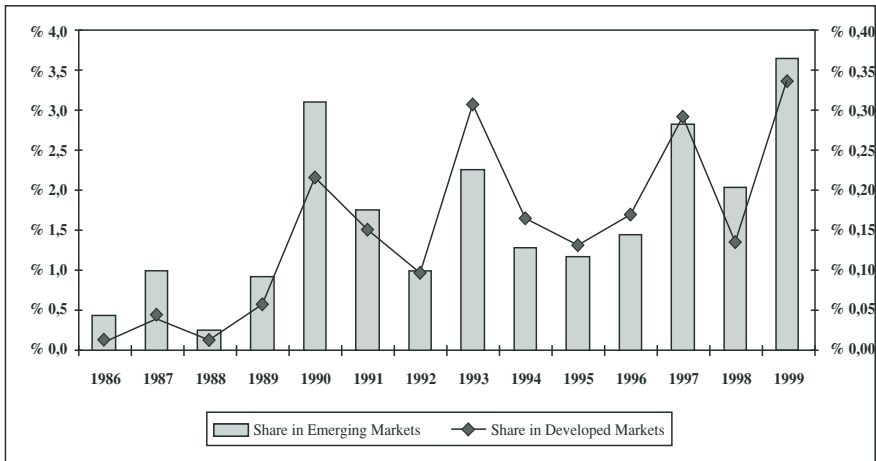
Source: FIBV, Monthly Statistics, June 2000.

Worldwide Share of Emerging Capital Markets (1986-1999)



Source : IFC Factbook 2000.

Share of ISE's Market Capitalization in World Markets (1986-1999)



Source: IFC Factbook 2000; ISE data.

Main Indicators of Capital Markets (May 2000)

	Market	Turnover Velocity	Market	Value of Share Trading (millions USD \$) Up to Year Total (2000/1 - 2000/5)	Market	Market Cap. of Share of Domestic Companies (millions USD \$)
1	NASDAQ	326.8%	NASDAQ	9,117,276.6	NYSE	11,366,582.2
2	Korea	320.1%	NYSE	4,804,743.2	NASDAQ	4,497,799.2
3	Taiwan	316.6%	London	2,067,587.2	Tokyo	3,857,847.8
4	Paris	264.7%	Paris	1,718,443.6	Osaka*	3,018,795.7
5	Madrid	214.6%	Tokyo	1,191,951.1	London	2,656,290.8
6	Istanbul	163.3%	Deutsche Börse	1,088,610.9	Paris	1,533,322.3
7	Deutsche Börse	131.1%	Taiwan	606,282.8	Deutsche Börse	1,485,736.4
8	Brussels	129.1%	Italy	532,035.3	Toronto	798,134.8
9	Italy	119.2%	Madrid	455,819.1	Italy	770,464.5
10	Oslo	108.5%	Toronto	296,805.7	Switzerland	697,357.8
11	Athens	108.0%	Amsterdam	291,700.9	Amsterdam	667,947.5
12	Stockholm	91.0%	Korea	281,267.1	Hong Kong	545,043.0
13	Amsterdam	86.2%	Switzerland	258,054.7	Madrid	443,988.9
14	NYSE	80.6%	Stockholm	225,038.9	Stockholm	421,365.8
15	Switzerland	80.5%	Hong Kong	198,534.9	Taiwan	397,978.0
16	Lisbon	77.4%	Osaka	194,274.3	Australian	370,920.5
17	Barcelona	72.0%	Barcelona	136,086.5	Helsinki	356,883.5
18	Irish	71.8%	Bilbao	125,209.1	Sao Paulo*	245,389.8
19	Bilbao	71.3%	Australian	102,086.6	Rio de Janeiro*	241,736.4
20	Thailand	70.6%	Istanbul	98,950.1	Korea	233,600.7
21	Singapore	69.5%	Helsinki	97,094.9	Brazil	205,123.6
22	Toronto	66.5%	Brussels	94,817.9	Johannesburg	200,134.1
23	Copenhagen	66.2%	Athens	59,076.0	Brussels	162,923.9
24	Hong Kong	64.4%	Sao Paulo	48,602.8	Kuala Lumpur	160,769.6
25	London	62.4%	Singapore	44,639.6	Athens	159,441.4
26	Tokyo	60.4%	Copenhagen	41,090.0	Singapore	145,870.8
27	Helsinki	56.2%	Kuala Lumpur	38,713.9	Mexico	131,263.0
28	Australian	55.6%	Johannesburg	34,721.5	Copenhagen	111,494.5
29	Sao Paulo	50.6%	Oslo	29,279.3	Istanbul	105,184.1
30	Warsaw	50.0%	Lisbon	28,488.6	Amex	91,420.7
31	Jakarta	47.2%	Mexico	20,679.9	Tel-Aviv	72,078.6
32	Kuala Lumpur	47.0%	Irish	18,601.1	Santiago	67,672.5
33	New Zealand	44.5%	Tel-Aviv	14,727.3	Irish	64,775.3
34	Tel-Aviv	44.2%	Thailand	12,212.2	Lisbon	64,302.3
35	Philippine	39.7%	Jakarta	9,500.7	Oslo	58,666.9
36	Johannesburg	36.0%	Warsaw	8,202.3	Buenos Aires	50,681.0
37	Vienna	33.8%	New Zealand	5,611.5	Philippine	44,114.3
38	Mexico	29.4%	Philippine	5,226.9	Thailand	37,455.6
39	Ljubljana	25.6%	Vienna	4,990.5	Warsaw	31,972.0
40	Lima	23.4%	Buenos Aires	4,516.0	Luxembourg	31,098.0
41	Buenos Aires	18.9%	Santiago	2,539.5	Vienna	29,151.2
42	Tehran	13.6%	Tehran	1,840.8	New Zealand	22,371.7
43	Osaka	11.6%	Lima	1,137.2	Tehran	22,282.5
44	Santiago	7.5%	Luxembourg	1,003.1	Lima	11,579.3

Source: FIBV, Monthly Statistics, June 2000.

Trading Volume (USD millions, 1986-1999)

	Global	Developed	Emerging	ISE	Emerging/ Global (%)	ISE/ Emerging (%)
1986	3,573,570	3,490,718	82,852	13	2.32	0.02
1987	5,846,864	5,682,143	164,721	118	2.82	0.07
1988	5,997,321	5,588,694	408,627	115	6.81	0.03
1989	7,467,997	6,298,778	1,169,219	773	15.66	0.07
1990	5,514,706	4,614,786	899,920	5,854	16.32	0.65
1991	5,019,596	4,403,631	615,965	8,502	12.27	1.38
1992	4,782,850	4,151,662	631,188	8,567	13.20	1.36
1993	7,194,675	6,090,929	1,103,746	21,770	15.34	1.97
1994	8,821,845	7,156,704	1,665,141	23,203	18.88	1.39
1995	10,218,748	9,176,451	1,042,297	52,357	10.20	5.02
1996	13,616,070	12,105,541	1,510,529	37,737	11.09	2.50
1997	19,484,814	16,818,167	2,666,647	59,105	13.69	2.18
1998	22,874,320	20,917,462	1,909,510	68,646	8.55	3.60
1999	31,021,065	28,154,198	2,866,867	81,277	9.24	2.86

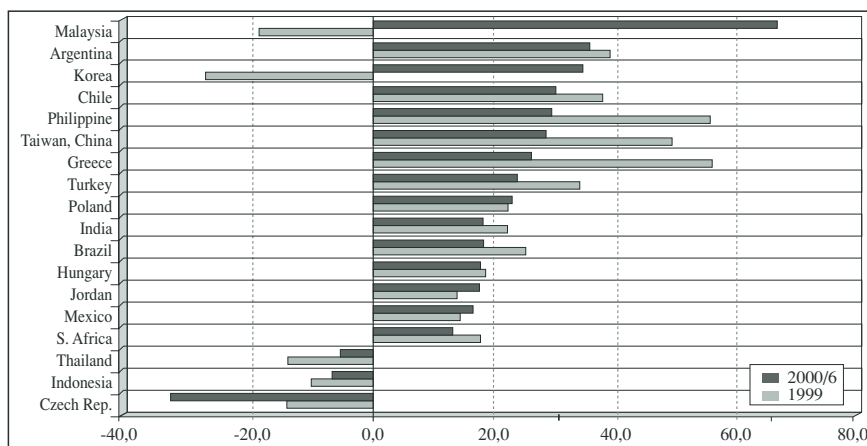
Source: IFC Factbook 2000.

Number of Trading Companies (1986-1999)

	Global	Developed	Emerging	ISE	Emerging/ Global (%)	ISE/ Emerging (%)
1986	28,173	18,555	9,618	80	34.14	0.83
1987	29,278	18,265	11,013	82	37.62	0.74
1988	29,270	17,805	11,465	79	39.17	0.69
1989	25,925	17,216	8,709	76	33.59	0.87
1990	25,424	16,323	9,101	110	35.80	1.21
1991	26,093	16,239	9,854	134	37.76	1.36
1992	27,706	16,976	10,730	145	38.73	1.35
1993	28,895	17,012	11,883	160	41.12	1.35
1994	33,473	18,505	14,968	176	44.72	1.18
1995	36,602	18,648	17,954	205	49.05	1.14
1996	40,191	20,242	19,949	228	49.64	1.14
1997	40,880	20,805	20,075	258	49.11	1.29
1998	47,465	21,111	26,354	277	55.52	1.05
1999	49,640	23,326	26,314	285	53.01	1.08

Source: IFC Factbook 2000.

Comparison of P/E Ratios Performances (1999/12-2000/6)



Source : IFC, Monthly Review, June 2000.

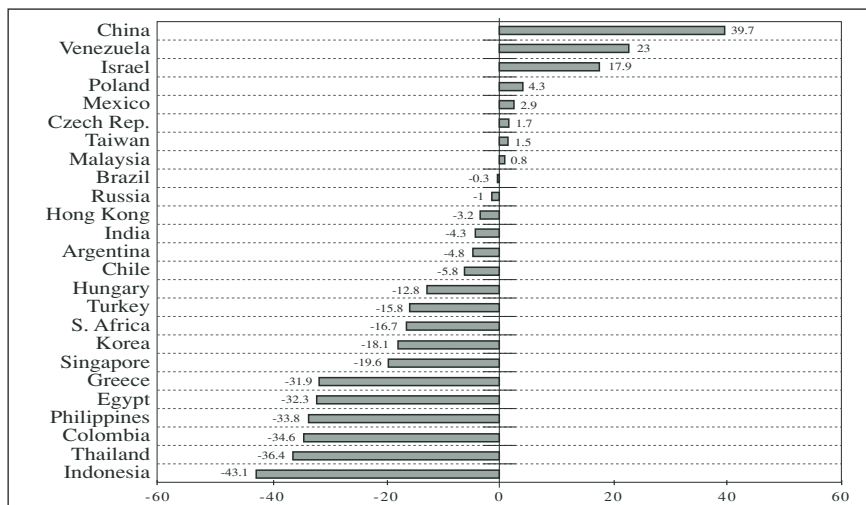
Price-Earnings Ratios in Emerging Markets (1993-2000/6)

	1993	1994	1995	1996	1997	1998	1999	2000/6
Malaysia	43.5	29.0	25.1	27.1	13.5	21.1	-19.1	-66.4
Argentina	41.9	17.7	15.0	38.2	17.1	13.4	39.0	35.8
Korea	25.1	34.5	19.8	11.7	11.6	-47.1	-27.7	34.3
Chile	20.0	21.4	17.1	27.8	15.9	15.1	37.7	29.8
Philippines	38.8	30.8	19.0	20.0	12.5	15.0	24.0	29.2
Taiwan, China	34.7	36.8	21.4	28.2	32.4	21.7	49.2	28.5
Greece	10.2	10.4	10.5	10.5	13.1	33.7	55.6	26.0
Turkey	36.3	31.0	8.4	10.7	18.9	7.8	33.8	23.7
Poland	31.5	12.9	7.0	14.3	10.3	10.7	22.0	22.7
India	39.7	26.7	14.2	12.3	16.8	13.5	22.0	18.1
Brazil	12.6	13.1	36.3	14.5	15.4	7.0	25.1	17.9
Hungary	52.4	-55.3	12.0	17.5	25.2	17.0	18.2	17.5
Jordan	17.9	20.8	18.2	16.9	12.8	15.9	13.6	17.3
Mexico	19.4	17.1	28.4	16.8	22.2	23.9	14.1	16.0
S. Africa	17.3	21.3	18.8	16.3	12.1	10.1	17.4	12.7
Thailand	27.5	21.2	21.7	13.1	4.8	-3.7	-14.5	-5.7
Indonesia	28.9	20.2	19.8	21.6	11.2	-106.2	-10.5	-7.3
Czech Rep.	18.8	16.3	11.2	17.6	8.8	-11.3	-14.8	-33.9

Source : IFC Factbook 1999; IFC, Monthly Review, June 2000.

Note : Figures are taken from IFC Global Index Profile.

Comparison of Market Returns in USD (31/12/1999 - 5/7/2000)



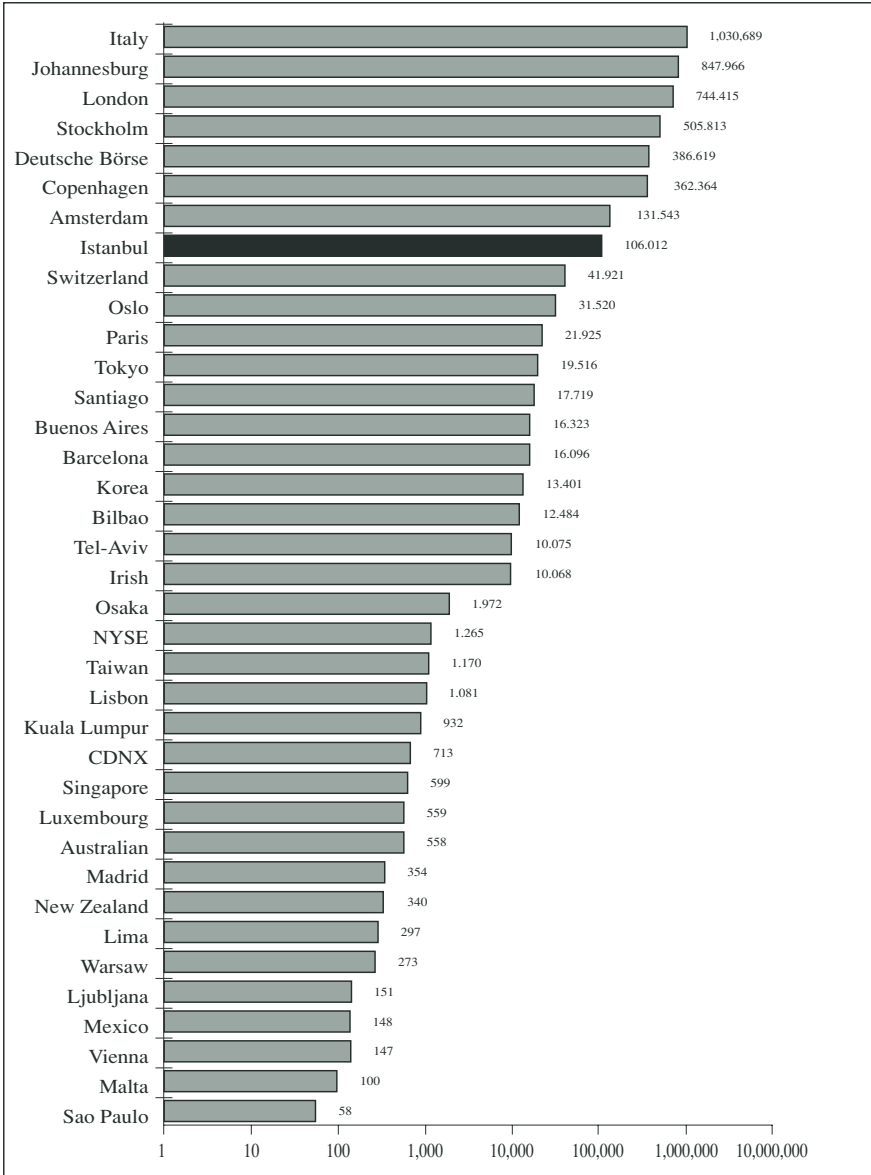
Source: The Economist, July 2000.

Market Vaule/Book Vaule Ratios (1993-2000/6)

	1993	1994	1995	1996	1997	1998	1999	2000/6
Turkey	7.2	6.3	2.7	4.0	9.2	2.7	8.8	5.6
Greece	1.9	1.9	1.8	2.0	2.9	4.9	9.4	5.1
Hungary	1.6	1.7	1.2	2.0	3.7	3.2	3.6	3.0
Taiwan, China	3.9	4.4	2.7	3.3	3.8	2.6	3.3	2.9
India	4.9	4.2	2.3	2.1	2.7	1.9	3.1	2.9
Mexico	2.6	2.2	1.7	1.7	2.5	1.4	2.2	2.2
S. Africa	1.8	2.6	2.5	2.3	1.9	1.5	2.7	2.1
Indonesia	3.1	2.4	2.3	2.7	1.5	1.6	2.9	2.0
Poland	5.7	2.3	1.3	2.6	1.6	1.5	2.0	2.0
Malaysia	5.4	3.8	3.3	3.8	1.8	1.3	1.9	1.9
Thailand	4.7	3.7	3.3	1.8	0.8	1.2	2.6	1.7
Chile	2.1	2.5	2.1	1.6	1.6	1.1	1.8	1.7
Argentina	1.9	1.4	1.3	1.6	1.8	1.3	1.5	1.4
Brazil	0.5	1.6	0.5	0.7	1.1	0.6	1.6	1.4
Korea	1.4	1.6	1.3	0.8	0.6	0.9	2.0	1.3
Czech Rep.	1.3	1.0	0.9	0.9	0.8	0.7	1.2	1.3
Jordan	2.0	1.7	1.9	1.7	1.6	1.8	1.5	1.2
Philippines	5.2	4.5	3.2	3.1	1.7	1.3	1.5	1.1

Source: IFC Factbook 1996-1999; IFC Monthly Review, June 2000.

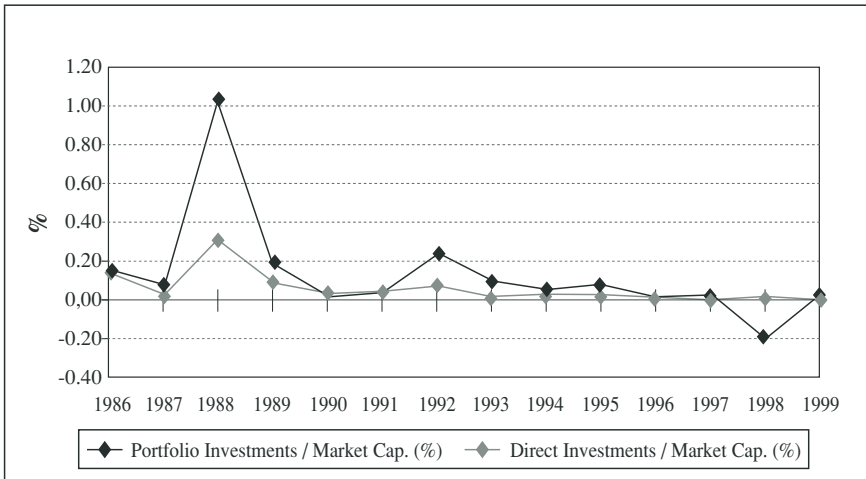
**Value of Bond Trading
(Million USD, January - June 2000)**



Source : FIBV, Monthly Statistics, June 2000.

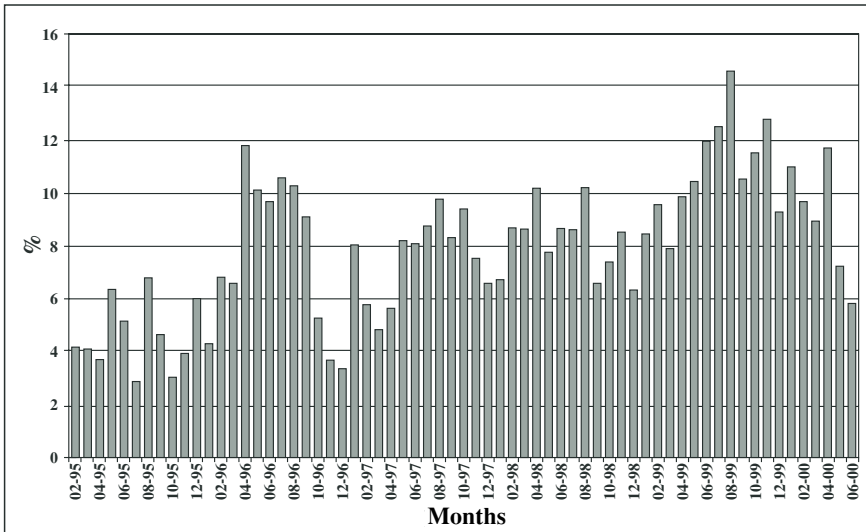
Note : The value of bonds trading pertain to Trading System View figures. For those countries which do not have Trading System View figures, the Regulated Environment View figures are used.

Foreign Investments as a Percentage of Market Capitalization in Turkey (1986-1999)



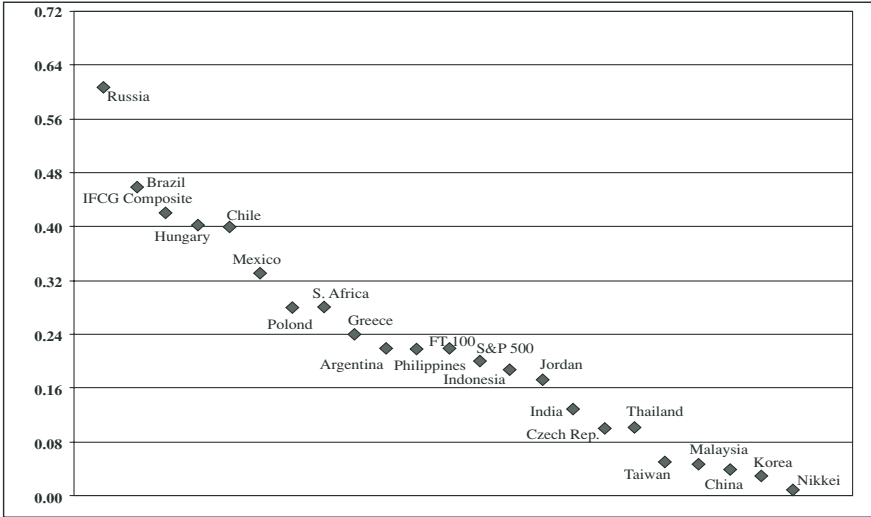
Source: ISE Data; CBTR Databank.

Foreigners' Share in the Trading Volume of the ISE (Jan. 95-June 2000)



Source: ISE Data

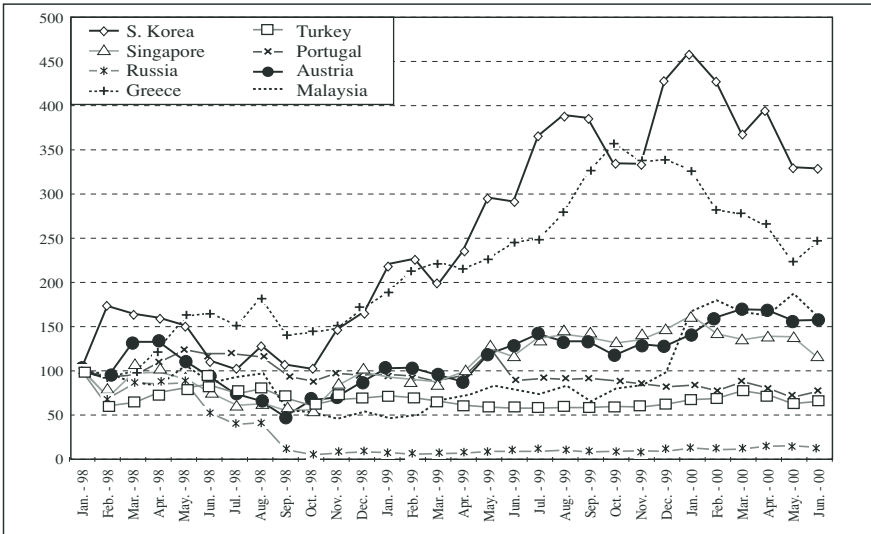
Price Correlations of the ISE (June 1995 - June 2000)



Source : IFC Monthly Review, June 2000.

Notes : The correlation coefficient is between -1 and +1. If it is zero, for the given period, it is implied that there is no relation between two series of returns. For monthly return index correlations (IFCI).

Comparison of Market Indices (Dec 1997=100)



Source : Reuters

Note : Comparisons are in US\$.

ISE Market Indicators

STOCK MARKET											
		Total Value				Market Value		Dividend Yield	P/E Ratios		
	Number of Companies	Total		Daily Average							
		(TL Billion)	(US\$ Million)	(TL Billion)	(US\$ Million)	(TL Billion)	(US\$ Million)	(%)	TL(1)	TL(2)	US \$
1988	79	149	115	1	---	2,048	1,128	10.48	4.97	---	---
1989	76	1,736	773	7	3	15,553	6,756	3.44	15.74	---	---
1990	110	15,313	5,854	62	24	55,238	18,737	2.62	23.97	---	---
1991	134	35,487	8,502	144	34	78,907	15,564	3.95	15.88	---	---
1992	145	56,339	8,567	224	34	84,809	9,922	6.43	11.39	---	---
1993	160	255,222	21,770	1,037	89	546,316	37,824	1.65	25.75	20.72	14.86
1994	176	650,864	23,203	2,573	92	836,118	21,785	2.78	24.83	16.70	10.97
1995	205	2,374,055	52,357	9,458	209	1,264,998	20,782	3.56	9.23	7.67	5.48
1996	228	3,031,185	37,737	12,272	153	3,275,038	30,797	2.87	12.15	10.86	7.72
1997	258	9,048,721	58,104	35,908	231	12,654,308	61,879	1.56	24.39	19.45	13.28
1998	277	18,029,967	70,396	72,701	284	10,611,820	33,975	3.37	8.84	8.11	6.36
1999	285	36,877,335	84,034	156,260	356	61,137,073	114,271	0.72	37.52	34.08	24.95
2000	308	65,811,058	113,528	539,435	931	58,216,149	94,117	1.01	26.92	23.54	18.89
2000/Q1	298	35,003,411	62,647	603,507	1,080	64,197,681	109,197	0.91	30.27	29.92	22.59
2000/Q2	308	30,807,647	50,881	481,369	795	58,216,149	94,117	1.01	26.92	23.54	18.89

Q: Quarter

Note:

- Between 1986-1992, the price earnings ratios were calculated on the basis of the companies' previous year-end net profits. As from 1993,

TL(1) = Total Market Capitalization / Sum of Last two six-month profits

TL(2) = Total Market Capitalization / Sum of Last four three-month profits.

US\$ = US\$ based Total Market Capitalization / Sum of Last four US\$ based three-month profits.

Closing Values of the ISE Price Indices					
TL Based					
	NATIONAL-100 (Jan. 1986=1)	NATIONAL-INDUSTRIALS (Dec. 31, 90=33)	NATIONAL-SERVICES (Dec. 27, 96=1046)	NATIONAL-FINANCIALS (Dec. 31, 90=33)	
1986	1.71	---	---	---	
1987	6.73	---	---	---	
1988	3.74	---	---	---	
1989	22.18	---	---	---	
1990	32.56	32.56	---	32.56	
1991	43.69	49.63	---	33.55	
1992	40.04	49.15	---	24.34	
1993	206.83	222.88	---	191.90	
1994	272.57	304.74	---	229.64	
1995	400.25	462.47	---	300.04	
1996	975.89	1,045.91	1,045.91	914.47	
1997	3,451.26	2,660.--	3,593.--	4,522.--	
1998	2,597.91	1,943.67	3,697.10	3,269.58	
1999	15,208.78	9,945.75	13,194.40	21,180.77	
2000	14,466.12	10,749.21	12,929.68	19,348.60	
2000/Q1	15,920.10	11,183.62	13,690.36	21,813.72	
2000/Q2	14,466.12	10,749.21	12,929.68	19,348.60	
US \$ Based					EURO Based
	NATIONAL-100 (Jan. 1986=100)	NATIONAL-INDUSTRIALS (Dec. 31, 90=643)	NATIONAL-SERVICES (Dec. 27, 96=572)	NATIONAL-FINANCIALS (Dec. 31, 90=643)	NATIONAL-100 (Dec. 31, 98=484)
1986	131.53	---	---	---	---
1987	384.57	---	---	---	---
1988	119.82	---	---	---	---
1989	560.57	---	---	---	---
1990	642.63	642.63	---	642.63	---
1991	501.50	569.63	---	385.14	---
1992	272.61	334.59	---	165.68	---
1993	833.28	897.96	---	773.13	---
1994	413.27	462.03	---	348.18	---
1995	382.62	442.11	---	286.83	---
1996	534.01	572.33	572.00	500.40	---
1997	982.--	757.--	1,022.--	1,287.--	---
1998	484.01	362.12	688.79	609.14	484.01
1999	1,654.17	1,081.74	1,435.08	2,303.71	1,912.46
2000	1,360.92	1,011.24	1,216.37	1,820.24	1,673.00
2000/Q1	1,575.77	1,106.96	1,355.07	2,159.12	1,936.52
2000/Q2	1,360.92	1,011.24	1,216.37	1,820.24	1,673.00

Q : Quarter

*The second quarter figures are as of June 30, 2000.

BONDS AND BILLS MARKET

Traded Value

Outright Purchases and Sales Market

	Total		Daily Average	
	(TL Billion)	(US\$ Million)	(TL Billion)	(US\$ Million)
1991	1,476	312	11	2
1992	17,977	2,406	72	10
1993	122,858	10,728	499	44
1994	269,992	8,832	1,067	35
1995	739,942	16,509	2,936	66
1996	2,710,973	32,737	10,758	130
1997	5,503,632	35,472	21,840	141
1998	17,995,993	68,399	71,984	274
1999	35,430,078	83,842	142,863	338
2000	64,313,406	107,539	514,507	860
2000/Q1	16,908,559	29,769	277,189	488
2000/Q2	47,404,847	77,770	740,701	1,215

Repo-Reverse Repo Market

	Total		Daily Average	
	(TL Billion)	(US\$ Million)	(TL Billion)	(US\$ Million)
1993	59,009	4,794	276	22
1994	756,683	23,704	2,991	94
1995	5,781,776	123,254	22,944	489
1996	18,340,459	221,405	72,780	879
1997	58,192,071	374,384	230,921	1,486
1998	97,278,476	372,201	389,114	1,489
1999	250,723,656	589,267	1,010,982	2,376
2000	254,638,934	434,632	2,037,111	3,477
2000/Q1	120,833,056	214,855	1,980,870	3,522
2000/Q2	133,805,878	219,777	2,090,717	3,434

Q : Quarter

ISE Price Indices (December 25-29, 1995=100)

	TL Based			
	30 Days	91 Days	182 Days	General
1996	103.41	110.73	121.71	110.52
1997	102.68	108.76	118.48	110.77
1998	103.57	110.54	119.64	110.26
1999	107.70	123.26	144.12	125.47
2000	107.70	125.29	155.16	107.70
2000/Q1	106.05	120.72	147.92	117.39
2000/Q2	107.70	125.29	155.16	107.70

ISE GDS Performance Indices (December 25-29, 1995=100)

	TL Based		
	30 Days	91 Days	182 Days
1996	222.52	240.92	262.20
1997	441.25	474.75	525.17
1998	812.81	897.19	983.16
1999	1,372.71	1,576.80	1,928.63
2000	1,577.08	1,817.72	2,295.52
2000/Q1	1,457.73	1,673.39	2,113.26
2000/Q2	1,577.08	1,817.72	2,295.52
	US \$ Based		
	30 Days	91 Days	182 Days
1996	122.84	132.99	144.74
1997	127.67	137.36	151.95
1998	153.97	169.96	186.24
1999	151.02	173.47	212.18
2000	150.86	173.87	219.58
2000/Q1	146.71	168.41	212.68
2000/Q2	150.86	173.87	219.58

Q: Quarter

(*) The second quarter figures are as of June 30, 2000.

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