

EXCHANGE INSIGHTS:

Dr Ibrahim Turhan
Chairman & CEO
Borsa Istanbul

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Federation of Euro-Asian Stock Exchanges (FEAS); Board Member

Member of the World Economic Forum's Global Agenda Council on the International Monetary System

Member of the "Advisory Council of the University of California Berkeley's Program Entrepreneurship and Development in the Middle East"

İbrahim M. Turhan, born in İzmir-Turkey in 1968, graduated from Lycée de Galatasaray İstanbul (Galatasaray High School). In 1987, he entered Boğaziçi University, Faculty of Economics and Administrative Sciences, Department of Management. After successfully achieving his undergraduate degree, he joined the Institute for Banking and Insurance Studies at the Marmara University in Istanbul, as research and teaching assistant, where he pursued his graduate studies in financial economics. He received his MA degree in International Banking in 1995, and his Ph.D. degree from the same university in 2001. Mr. Turhan was awarded a scholarship from the Marmara University Research Fund, and conducted a research on 'the saving and investment behaviours of Turkish households' at the European Institute in the University of Geneva (L'Institut Européen de l'Université de Genève IEUG). He also worked as a visiting research fellow at the Banking Centre in Loughborough University. Mr. Turhan lectured at various universities in Istanbul. He joined the Yeditepe University as an assistant professor, where he worked as the head of the International Business and Trade Department and the Banking and Insurance Management Department. Mr. Turhan also held the positions of Director of School of Vocational Studies and Director of the School of Foreign Languages in the same university.

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Mr. Turhan has many articles on financial economics, macroeconomics, and political economy published in periodicals in Turkish and English. He served as Managing Editor and Editor in Chief in sectoral journals published on banking, finance and finance technologies. On April 1st 2004, while he was working as a part-time assistant professor at the Faculty of Economics and Administrative Sciences in Beykent University, Istanbul, Mr. Turhan was elected as Board Member by the General Assembly of the Central Bank of Turkey. Mr. Turhan was elected as member of the Monetary Policy Committee by the Board on June 7th, 2006. He was appointed as Deputy Governor on May 8th 2008. He also served as a member of the Advisory Board of the Contemporary Turkish Studies Chair at the London School of Economics and Political Science (LSE) European Institute until the end of 2011. Mr. Turhan is a member of the Leaders' Circle as well as the Advisory Board of the Global Economic Symposium organized by the Kiel Institute for the World Economy. Mr. Turhan was appointed as the Chairman & CEO of İstanbul Menkul Kıymetler Borsası on January 1, 2012.

İbrahim M. Turhan, Ph. D., was awarded the title “associate professor” by the Inter University Council on January 28, 2014.

About Borsa Istanbul

Borsa İstanbul is the fully integrated operator of capital markets in Turkey and provides a fair, transparent and efficient environment for the trading of a wide variety of securities including equities, ETFs, warrants, government and corporate bonds, repo and reverse-repo agreements, derivatives, selected commodities and Sukuk. We are also the only provider of post-trade services, namely, central clearing, settlement, custody, and registration in Turkey. With the enactment of new Capital Market Law (CML) in December 2012, Borsa İstanbul became a joint stock company and separate exchanges of Turkey at which trading of various asset classes take place merged under the umbrella of Borsa İstanbul. New markets were established and investments in technological infrastructure of Borsa Istanbul have also been on the top of our agenda.

Shares of 423 companies are quoted on our equity platform, for a market capitalization of USD 271 billion as of February 2, 2015. At the end of 2014, the daily average traded values for equity and fixed income markets reached USD 1.6 bn and USD 15.1 bn respectively, that makes Borsa İstanbul the 7th largest among emerging equity markets in terms of trading volume and the 6th largest bond market in the world based on electronic order book.

For more information please visit
<http://www.borsaistanbul.com/>

What are the main challenges and opportunities you are currently seeing in your market?

We think that the biggest challenge today in our market, as it is the case for most of emerging markets around the globe, is to increase the level of participation by investors and issuers in capital markets. As of end of 2013, the ratio of market capitalization to GDP is a mere 32% in Turkey. Considering the size of Turkish economy and its potential, Turkish capital markets can show a much better performance. Borsa İstanbul ranks 3rd among WFE members in terms of turnover velocity and this on its own demonstrates that our market has vast liquidity to support higher levels of market capitalization on our trading platforms. Actually, we believe that market capitalization to GDP ratio of 70% is easily achievable in Turkey.

Secondly, enlarging whole investor base and increasing the share of domestic institutional investors is important not just for deepening of our markets but also for financial stability. Today, the number of equity investors is around 1.1 million and domestic investor base holds 36% of the free float. However, while foreign institutions have a share of 63.8% in free float, domestic institutions hold only 18.5% of the total. Recent private pension fund reform is a critical step to channelize the savings into financial system. Thanks to state contributions and other regulations put into effect, net asset value of pension funds grew to USD 16.2 billion in 2014 from USD 4.2 billion in 2008. Increasing size of funds and number of investors suggests that demand for public offerings will be strong and the depth of the market will enhance in coming years.

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The enactment of new Capital Markets Law in December 2012 has been a game-changer for financial markets in Turkey and it put into place a legal infrastructure of highest standards. Without question, it creates a supportive environment for the development of Turkish markets. With the new law, Istanbul Stock Exchange merged with Istanbul Gold Exchange and Turkish Derivatives Exchange (TurkDex) to form Borsa İstanbul as a joint stock company. However, the transformation from a non-profit structure into a for-profit organization means more than just a legal act. The move is a growth factor on its own and will lead to improved operational efficiency.

With merger of separate exchanges, Borsa İstanbul is now a one-stop shop for all kinds of financial instruments and investors have the opportunity to trade in a wide range of products which include equities, fixed income instruments, derivatives and commodities. Such horizontal consolidation will add to Borsa İstanbul's competitive power at a time when alternative trading platforms, with their flexible structures and high-technology, have started to gain significant market share.

Last but not least, Turkey's sustainable economic growth will continue to support its financial markets as well. Turkish economy recorded an average growth rate of 5% between 2003 and 2013. Inflation and interest rates have been down to single-digit levels as unprecedented developments in Turkey's economic history.

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As of end of 2013, Turkey's EU defined government debt stock to GDP ratio fell to 36% and the budget deficit to GDP ratio is 1,2% which is below the Maastricht criteria 3%. Those figures demonstrate that Turkey can sustain its economic performance to support financial development in the future and Istanbul has much more to offer compared to peer group.

Istanbul's position as a bridge between Europe and Asia and its connection to over 60 countries in the 4 hour flight time makes the city not just an attractive business center but a potential global financial hub. Istanbul is a perfect gateway for potential investors and issuers to reach out people and companies in different regions.

How do you see your market developing in the next years?

Borsa İstanbul is one of the most well-established and liquid exchanges in emerging economies. However, we are aware that we should work harder to remain competitive and reach our goals. That is why we initiated a transformation in Turkish capital markets. Consolidation of local exchanges, demutualization process, upgrade of technological infrastructure, and establishment of connections with international exchanges are all initiatives by Borsa İstanbul to make the most from the opportunities lying ahead in front of Turkey.

Furthermore, İstanbul by itself is a natural candidate to become the financial hub of the region. İstanbul International Financial Center Project (IFC) aims to make İstanbul a financial hub where local and international market participants are located, adequate financial, legal and technical infrastructure are available for the development of new markets and products and financial activity may be performed in a more efficient manner compared to other financial centers. Borsa İstanbul, as the main actor of this Project, formulates its strategies in accordance with the goal of making İstanbul a regional financial hub.

There are 423 companies currently listed and 110 IPOs were realized between 2008 and 2014 yet Market Capitalization to GDP ratio reached only 32% at the end of 2013. Considering the fact that only 127 out of 1000 largest industrial companies in Turkey are listed currently, Borsa İstanbul's focus is more on blue chip firms which will not just boost the market capitalization of Turkish stock market. With vast liquidity available in its markets, Turkey has the potential to support a higher market capitalization. Actually, we believe that efforts will pay off and market capitalization to GDP ratio to will rise to around 60-70% by 2023.

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Upgrade of technology on our platforms and our strong linkages with international partners will also be important growth factors for Turkish market. It will enable us to attract a more diverse group of foreign institutional investors including HFTs and various funds as our platforms become more accessible.

Moreover, we undertake various strategic partnerships with international exchanges around the world. For example, we recently signed an agreement with LSE Group, which will enable the trading of Turkish derivatives products in London. Those efforts will not just enhance liquidity but will make Borsa İstanbul a more visible platform.

Borsa İstanbul has also increased its efforts to broaden its product mix as well. The new corporate debt issues jumped to USD 30.3 billion in 2014 from almost nothing in 2010. We launched trading in index, currency and single stock options and single stock futures to meet the needs of investors with different risk/return preferences. Sukuk trading commenced in 2013 as well and we expect Islamic Finance to flourish in near future in Turkey. With the new Electricity Market Law, Borsa İstanbul will also be the shareholder of spot energy exchange and platform operator of energy derivatives trading in Turkey. As a result, Borsa İstanbul thus Turkish capital market will be one-stop shop not just for Turkish investors but also for international investors in the region.

With Borsa Istanbul being positioned in the ideal location connecting Europe and Asia where do you see the future world financial centres? How do you believe connecting with Asia can help?

IMF predicts that the share of emerging markets in global output to increase to 60% by 2019 from only 40% in 1990. Accordingly, an increased capital flow to developing markets is expected to materialize as new economic powerhouses rise globally. This shows that we will witness the emergence of new financial centres in developing world since different hubs will compete to receive those inflows. In this regard, Euroasia and its close periphery will be attractive destinations as this region is an important centre in new economic architecture. The fact that İstanbul, Dubai or Moscow are considered important candidates to be financial hubs and they make significant investments to transform their capital markets also shows the ongoing trend and fierce competition among them.

In line with these developments, being better connected with Asia is also crucial. While the region becomes more capital-rich thanks to higher economic activity and foreign investors access to those markets to benefit from potential opportunities, financial institutions better positioned in the region will make the most of it. This is why Borsa İstanbul as the founder of Federation of Euroasian Exchanges is highly active in the Euroasia region.

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In this context, we became strategic partners with several exchanges. With the acquisition of 24,4% stake in Montenegro Stock Exchange in 2013, number of stock exchanges in which Borsa İstanbul holds a share rose to 4 (Kyrgyz Stock Exchange, Baku Stock Exchange, Sarajevo Stock Exchange and Montenegro Stock Exchange).

Moreover, Borsa İstanbul signed MoUs with a number of exchanges in Balkans, Central Asia and MENA region. Joint product and technology development schemes, connectivity projects, exchange of personnel and education are major areas of cooperation where Borsa İstanbul would like to keep working on and to show significant progress in this respect.

Can you give us a preview of what we can expect in your session at the World Exchange Congress?

Last two years have been a period of historical change and transformation for both Turkish capital markets and Borsa İstanbul. While a new Capital Market Law (CML) was enacted in December 2012, Borsa İstanbul became a joint stock company and separate exchanges of Turkey at which trading of various asset classes take place merged under the umbrella of Borsa İstanbul. Moreover, we signed a strategic partnership agreement with Nasdaq OMX for technology transfer and continue talks with global financial institutions of the industry for a potential partnership.

Furthermore, significant changes have been made in organizational structure and new products have been added to our offerings in this process as well.

We believe that the session will be a good opportunity to share this invaluable experience with investors, exchanges and other participants.

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*To hear in more detail about the
future world financial centres
join the discussion on this topic
at the World Exchange Congress
2015.*

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more information.

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