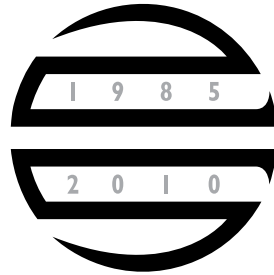


# Exchange Traded Funds

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## Definition

“Exchange Traded Funds” (ETF) are index-based open-ended funds that provide exposure to the performance of the underlying index, and whose participation certificates can be traded as quickly and easily as ordinary shares on a stock exchange<sup>1</sup>.

ETFs are created by replicating the stocks or other instruments (gold, bond, foreign currency, etc.) included in the composition of the underlying index. Exchange traded funds combine the high liquidity and tradability features inherent in stocks with the investment funds’ features of risk diversification and exposure to the performance of the market. The participation certificates of Exchange Traded Funds can be traded on the Istanbul Stock Exchange (ISE) through an ISE member intermediary institution, like stocks.

ETFs are regulated by the Capital Markets Board (CMB) Exchange Traded Funds Communiqué Series VII, No. 23 (Communiqué) and the ISE’s Circular no. 224 dated December 20, 2004.

Exchange Traded Funds are described as follows in the above mentioned Communiqué:

“An Exchange Traded Fund is an asset created in order to manage portfolios in accordance with the principles of risk diversification and fiduciary ownership. The participation certificates of exchange traded funds are traded on a stock exchange, and the authorized participants that directly took part in the creation process of the fund can issue (or redeem) creation units in exchange of the corresponding deposit (or delivery) of basket assets.

### ETF Providers

Banks, brokerage houses, insurance companies, pension and benevolent funds (provided that

their organic law does not include any contrary rules), and funds founded in accordance with the temporary article 20 of the Social Insurance Law dated July 17, 1964, no. 506 may provide ETFs.

### Authorized Participant

Refers to the brokerage houses and banks that play an active role in the creation and redemption process of an ETF, who are in a contractual relation with the provider of the fund and that have been approved by the Capital Markets Board of Turkey.

### Minimum Trading Unit

Refers to the minimum quantity of ETF participation certificates required for the creation and redemption of ETF participation certificates.

### Custodian

The ISE Settlement and Custody Bank (Takasbank) and/or other institutions authorized by the Capital Markets Board of Turkey.

### Manager

Institutions that hold a portfolio management certificate by the Capital Markets Board of Turkey are authorized to manage ETF portfolios.

#### Provider

Banks  
Brokerage Houses  
Insurance Companies  
Other

#### Authorized Participant

Banks  
Brokerage Houses

#### Custodian

Takasbank  
Other

(1) Mutual Fund is an asset created in accordance with the principles of risk diversification and fiduciary property, with the money collected from investors against participation certificates in order to manage the portfolio consisting of stocks, private and public sector borrowing instruments, precious metals, other capital markets instruments, repo, reverse repo, futures, options, and forward contracts, to the benefit and account of certificate holders.



## Advantages-Risks

Just like all other investment instruments, ETFs have certain advantages and risks.

### Advantages of ETFs

- High degree of tradability
- Risk diversification
- Low cost (portfolio management fee)
- Transparency
- Custody of the stocks with Takasbank against participation certificates

### Risks of ETFs

ETFs are intended to reflect the returns of the index they track. Therefore, if the underlying index decreases, the price of the fund may also decrease. Like other investment funds, ETFs keep all their assets with Takasbank.

## Features

- ETFs carry the features of an investment fund in general.
- ETFs' participation certificates are traded on the ISE like stocks.
- ETFs track a specific index.
- It is possible to redeem the corresponding assets (stocks, bonds, precious metals, cash, etc.) by delivering a minimum unit of ETF participation certificates to the custodian.
- Participation certificates of an ETF may be purchased in exchange of the securities and cash included in the portfolio.
- ETFs are managed by portfolio managers.
- ETFs are traded through brokerage houses.
- ETFs are settled in the same way as stocks are settled.
- Investors may take a long position or through short selling, a short position in an ETF.
- ETFs are subject to margin trading.



## ETF Providers

Potential providers are regulated by the Communiqué. Accordingly:

- Banks
- Brokerage houses
- Insurance companies
- Pension and benevolent funds (provided that their organic law does not include any contrary rules),
- Funds founded in accordance with temporary article 20 of the Social Security Law

may provide ETFs.

## Who May Trade ETFs?

All brokerage houses authorized to trade in the ISE Stock Market and all investors may trade ETFs.



## Creation and Redemption of Participation Certificates

### Creation of New Participation Certificates

Authorized participants may create new participation certificates corresponding to the minimum trading unit or multiples thereof, by delivering the securities and cash in the same composition as that of the ETF, to the custodian.

If the quantity of the free-floating participation certificates is to be increased, an authorized participant may create new participation certificates corresponding to the amount of the minimum trading unit or multiples thereof, by delivering to the custodian, the securities and cash in the same composition as that of the ETF, notwithstanding the pre-determined maximum fund amount. Upon settlement, the custodian receives the securities and cash, in exchange of which, it delivers the new participation certificates to the authorized participant.

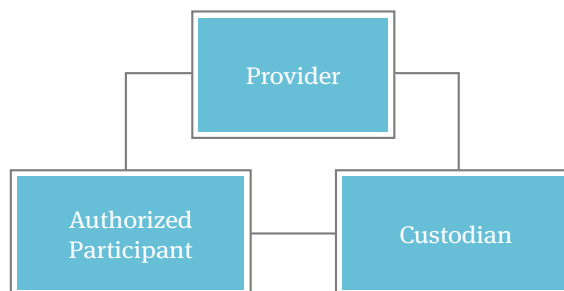
Detailed requirements about the creation of new participation certificates are stipulated in the contracts between the authorized participant and the ETF provider.

### Redemption of Participation Certificates

Redemption of participation certificates refers to the creation and delivery to the custodian of at least one trading unit by the authorized participant, against which, the authorized participant receives the corresponding securities and cash.

Authorized participants who intend to sell the participation certificates in part or in full, shall create at least one trading unit and deliver the relevant participation certificates to the custodian. Upon settlement, the authorized participant receives the corresponding amount of securities and cash against the participation certificates he previously delivered.

A contract between the authorized participant(s) and the ETF provider must be signed for the redemption or the creation of new participation certificates and such authorized participant(s) must be stated in the prospectus.







## ETFs in a Global Perspective

The size of the ETF market in the world is estimated as approximately US\$ 1,4 trillion as of end-September 2011. A total of 2,913 ETFs (6,471, if cross-listed ETFs are taken into account) created by 152 providers are traded on 49 different exchanges as of this date. The daily average trading volume of such ETFs is estimated to be approximately US\$ 86 billion.

A breakdown of ETFs on the basis of their underlying assets shows that the major part of ETFs (in terms of number and size) are based on stocks.

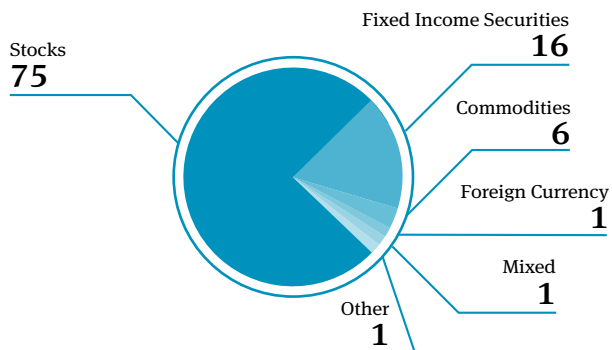
Data related to ETFs are available in the below Table 1 and Graph 1. 75 percent of the total ETF assets are stocks, while 16 percent thereof are fixed income securities.

**Table 1:**  
**Underlying Assets of ETFs (June 2011)**

Underlying Asset	Number of ETFs	Size (US\$ million)
Stocks	2,212	955
Fixed Income	452	242
Commodities	166	201
Foreign Currency	23	9
Mixed	43	2
Other	17	4

Source: BlackRock ETF Report

**Graph 1:**  
**Breakdown of ETFs in terms of Underlying Assets (%)**



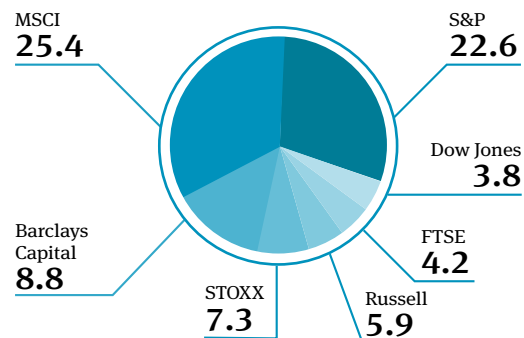
Source: BlackRock ETF Report



A list of the exchanges where ETFs are predominantly traded is available in Table 2. The Table depicts the number of ETFs traded on the relevant markets as well as the total annual trading volumes of ETFs and the average trading amount per ETF. The Table shows that the highest number of ETFs are traded on London and New York Stock Exchanges.

While numerous institutions calculate the underlying indices of ETFs, information pertaining to the index providers with a larger share in the sector is available in Table 3, Graph 2.

**Graph 2:**  
**Index Providers and Their Market Share (%)**



Source: BlackRock ETF Report

**Table 2:**  
**Number of ETFs Traded on Selected Exchanges (October 2011)**

Exchange	Number of ETFs	Total (10 Month) Trading Volume (US\$ million)	Average (10 Month) Trading Volume per ETF (US\$ million)
NASDAQ OMX	83	3,665,804	44,166
NYSE Euronext (US)	1,347	3,848,251	2,857
Shenzhen SE	12	18,706	1,559
Shanghai SE	22	33,895	1,541
Osaka SE	15	21,978	1,465
Oslo Børs	15	13,994	933
Hong Kong Exchanges	76	61,651	811
Korea Exchange	107	81,566	762
BM&FBOVESPA	8	5,725	716
Taiwan SE Corp.	18	10,396	578
<b>Istanbul SE</b>	<b>12</b>	<b>4,675</b>	<b>390</b>
NASDAQ OMX Nordic	63	23,669	376
TMX Group	306	100,278	328
Deutsche Börse	878	263,684	300
Tokyo SE Group	113	29,553	262
NYSE Euronext (Europe)	691	176,199	255
Mexican Exchange	431	77,816	181
London SE Group	1,525	269,779	177

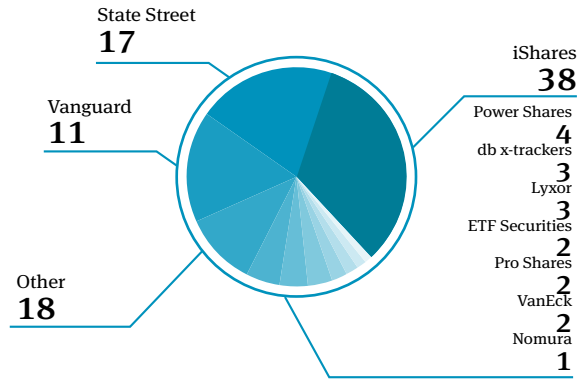
Source: World Federation of Exchanges



Table 3 and Graph 2 depict that two institutions, namely, MSCI and Standard & Poor’s dominate the index providing sector.

With regard to the issuers in a global perspective, two institutions, namely, iShares and State Street are the largest in terms of the portfolio size of the ETFs provided.

**Graph 3:**  
**Issuers and Their Market Share (%)**



Source: BlackRock ETF Report

**Table 3:**  
**Index Providers (June 2011)**

Index Provider	No. of ETFs	Size (US\$ billion)
MSCI	453	367
S&P	355	326
Barclays Capital	100	126
STOXX	290	105
Russell	91	85
FTSE	175	61
Dow Jones	159	55
Markit	125	48
NASDAQ OMX	62	34

Source: BlackRock ETF Report

**Table 4:**  
**ETF Issuers (September 2011)**

Issuer	Size (US\$ billion)
iShares	548
State Street	244
Vanguard	152
Power Shares	54
db x-trackers	45
Lyxor	38
ETF Securities	27
Pro Shares	26
Van Eck	21
Nomura	18
Other	254

Source: BlackRock ETF Report



## ETFs in the ISE

**Table 5:**  
**Annual ETF Trading Volumes and Share in Total Trading**

	<b>Total Trading Volume (ETF)</b>		<b>Total Trading Volume (ALL)</b>		<b>Ratio</b> (%)
	(TL million)	(US\$ million)	(TL million)	(US\$ million)	
2005	2,245	1,675	269,931	201,763	0.83
2006	4,631	3,246	325,131	229,642	1.42
2007	7,010	5,453	387,777	300,842	1.81
2008	9,097	7,144	332,605	261,274	2.74
2009	13,769	8,976	482,534	316,326	2.85
2010	14,110	9,445	635,664	425,747	2.88

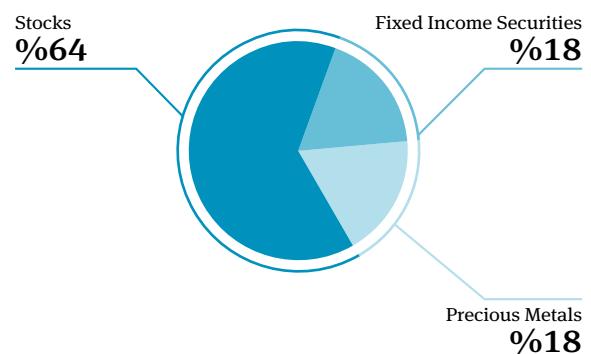
Source: ISE

ETF participation certificates registered with the CMB have been traded on the ISE Fund Market (a sub-market of the ISE Collective Products Market) since January 14, 2005. Thanks to ETFs, the ISE offers the opportunity to invest in instruments such as government bonds and gold, in addition to stocks. As of November 15, 2011, 12 ETFs are traded on the ISE; 7 of which are based on stocks, 2 on government bonds and treasury bills, and 2 on gold.

Table 5, depicting the trading volumes of ETFs reveals the following:

- In spite of the fact that the share of ETFs in the total trading volume of the ISE is insignificant, the ETF trading volume follows an upward trend year by year.
- The share of ETF trading volume in the total trading volume stood at 0.83 percent in 2005 when ETFs first started to trade, whereas it increased to 2.88 per cent in 2010.

**Graph 4:**  
**Breakdown of ETFs in terms of underlying assets (ISE) (%)**



Source: BlackRock ETF Report



### **Acceptance of ETFs for Trading on the Fund Market (a sub-market of the ISE Collective Products Market)**

ETF participation certificates are created by the ETF provider and registered with the CMB. Next, an application is filed with the ISE for the trading of such certificates on the ISE Fund Market in accordance with article 7 of the ISE Listing Regulation. Subsequently, ETF participation certificates are listed on the ISE upon the written request of the CMB and the approval of the ISE Executive Council.

The ISE Executive Council lists all of the participation certificates representing/that will represent the maximum fund amount specified in the Fund's charter and the participation certificates issued begin trading on the ISE Fund Market. In accordance with the CMB's relevant Communiqué, additional participation certificates may be created and traded on the ISE, provided that the maximum fund amount is not exceeded.

In the event that the fund amount is increased, the participation certificates to be issued and offered to the public, representing the increased amount, shall be listed in accordance with article 11 of the ISE Listing Regulation.

### **Listing Fees and Exchange Commission**

In accordance with the ISE Listing Regulation, a listing fee and an annual listing fee shall be charged over the fund amount specified in the charter of the listed ETF.

In the event that the fund amount specified in the ETF's charter is increased, an additional listing fee calculated over the additional fund amount shall be charged.

The listing fee is equal to 0.01 percent (one ten thousandth) of the listed fund amount. The annual listing fee is equal to 1/5 of the listing fee. The provisions of the ISE Listing Regulation prevail in the accrual and collection of listing fee and annual listing fee.

In the event of the re-listing of an ETF that has been temporarily delisted by the ISE Executive Council, a re-listing fee shall be accrued in line with the relevant rules of the ISE Listing Regulation, in the same way as with stocks. The ISE Listing Regulation stipulations concerning the accrual, notification and collection of the re-listing fees for stocks prevail for ETF participation certificates.

The ISE commission charged for the National Market transactions are valid for ETF transactions.

### **Custody of ETF Participation Certificates**

All of the securities constituting the fund portfolio are kept in custody in an account with the ISE Settlement and Custody Bank (Takasbank).

Settlement of ETF trades is realized on the second banking day following the day the trade takes place (T+2). Creation and redemption of participation certificates are realized via Takasbank.



### ETF Trading Rules

- Participation certificates of ETFs are traded on the ISE Stock Market Fund Market (under the Collective Products Market) with the feature code of (F).
- ETFs are traded by “Market Making in Multiple Price-Continuous Auction” system
- The base price is calculated in the same way as with stocks; by rounding the weighted average price to the nearest price tick. In the first session or a session that follows a session where no price was formed, the basis price is calculated over the fund unit share price announced by the provider and/or authorized participant prior to the relevant trading session.
- The fund unit share price of an ETF to be traded on the ISE shall not be less than 1 TL.
- Lot size is 1 participation certificate.
- The price margin of the National Market prevails for the Fund Market as well.
- Odd-lot orders are not allowed for ETFs.
- The ISE Stock Market rules concerning special orders are valid for ETFs.
- All other rules concerning trading and defaults are the same as those of the ISE Stock Market.

### The Price and Value of Participation Certificates

Each participation certificate of an ETF has two different values, namely, net asset value, and market price.

Net asset value is the value of the securities portfolio and/or the total value of the assets the fund invests in, in the account of the participation certificate holders, plus the receivables, and less the liabilities. The net asset value per share is calculated by dividing the total net asset value of the fund by the number of shares outstanding.

Market price is the price at which the last trade has been executed.

Calculation of the net asset value is under the responsibility of the provider and is announced by the method approved by the ISE and stated in the Fund charter.

### Announcement of the Net Asset Value

The provider shall calculate the total value of the assets included in the fund share, during the trading hours of the ISE Stock Market and update and announce the indicator net asset value (NAV) on the screens of at least two data vendors during the session.

In the event of any problems in the announcement of NAV, the provider shall immediately disclose such problem through the relevant data vendors and its own web site.





**Table 6:**  
**List of ETFs traded on the ISE as of November 18, 2011**

ETF	PROVIDER	UNDERLYING INDEX	CONTENT	ISE TRADING CODE / WEB SITE
Turkey Large Cap Banks A Type Exchange Traded Fund	Finansbank A.Ş.	Dow Jones Turkey Large-Cap Banks	Consists of the shares of the ISE-traded banks with the highest market capitalization.	<b>(BNKTR.F)</b> <a href="http://www.tr-banka.com">www.tr-banka.com</a>
Bizim Securities Co. Dow Jones Djim Turkey A Type Exchange Traded Fund	Bizim Menkul Değerler A.Ş.	Dow Jones Islamic Market Turkey	The first Islamic ETF of Turkey and the world	<b>(DJIMT.F)</b> <a href="http://www.djimtr.com">www.djimtr.com</a>
Dow Jones Istanbul 20 A Type Exchange Traded Fund	Finansbank A.Ş.	Dow Jones Turkey Titans 20	ETF based on the stocks of 20 companies included in the ISE-30 Index	<b>(DJIST.F)</b> <a href="http://www.djist.com">www.djist.com</a>
Istanbul Bond B Type Exchange Traded Fund	Finansbank A.Ş.	FTSE Turkey TL Government Bond Index	ETF based on government bonds and Treasury bills	<b>(FBIST.F)</b> <a href="http://www.fbist.com.tr">www.fbist.com.tr</a>
Istanbul B Type Gold Exchange Traded Fund	Finansbank A.Ş.	International Price of Gold (1 ounce)	ETF based on gold	<b>(GLDTR.F)</b> <a href="http://www.gldtr.com">www.gldtr.com</a>
Is Investment - Dow Jones Turkey Equal Weighted 15 A Type Exchange Traded Fund	İş Yatırım Menkul Değerler A.Ş.	Dow Jones Turkey	ETF based on 15 stocks traded on the ISE	<b>(ISDJE.F)</b> <a href="http://www.isbyf.com.tr">www.isbyf.com.tr</a>
Is Investment - iBoxx Turkey Indicator Bond B Type Exchange Traded Fund	İş Yatırım Menkul Değerler A.Ş.	iBoxx Turkey Indicator Bond Index	ETF based on government bonds and Treasury bills	<b>(ISIGT.F)</b> <a href="http://www.isbyf.com.tr">www.isbyf.com.tr</a>
Finansbank Co. ISE-30 A Type Exchange Traded Fund	Finansbank A.Ş.	ISE-30 Index	ETF based on the stocks included in the ISE-30 Index	<b>(IST30.F)</b> <a href="http://www.ist30.com">www.ist30.com</a>
Non-Financial Sector Nfist Istanbul 20 A Type Exchange Traded Fund	Finansbank A.Ş.	DJ Non-Financial İstanbul 20	ETF based on 20 companies active in the industry and services sectors	<b>(NFIST.F)</b> <a href="http://www.nfist.com">www.nfist.com</a>
Garanti A Type MSCI Turkey Index Exchange Traded Fund	Garanti Bankası A.Ş.	MSCI Turkey Index	ETF based on 20 stocks traded on the ISE	<b>(GAREN.F)</b> <a href="http://www.garen.garanti.com.tr">www.garen.garanti.com.tr</a>
Kuveyt Turk Gold Exchange Traded Fund	Kuveyt Türk Katılım Bankası A.Ş.	International Price of Gold (1 ounce)	ETF based on gold	<b>(GOLDP.F)</b> <a href="http://www.goldplus.com.tr">www.goldplus.com.tr</a>
Finansbank Co. Gt-30 A Type Exchange Traded Fund	Finansbank A.Ş.	GT-30 Index	Consists of companies that are active in Greece and Turkey.	<b>(GT-30.F)</b> <a href="http://www.gt-30.com">www.gt-30.com</a>

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