

ISE AUTOMATIC CIRCUIT BREAKER SYSTEM



Istanbul, January 7, 2011

Well aware of the importance of surveillance in assuring the transparent, orderly and fair functioning of the markets, and in consideration of the recent developments and technological innovations in the national and international markets, Istanbul Stock Exchange (ISE) regularly reviews its surveillance strategy in close cooperation and coordination with the Capital Markets Board (CMB) of Turkey, the regulatory authority of the Turkish capital markets. Within this framework, ISE Inspection and Surveillance Board prepared an Action Plan for Efficient Surveillance in the beginning of 2010, and “**ISE Automatic Circuit Breaker System**” has been introduced as an integral part of the said Action Plan.

I. BASIS AND PURPOSE OF THE SYSTEM

ISE Regulation Article 25 paragraph (b) envisages that *trading of a stock may be suspended in the event that orders of an abnormal price or quantity are sent to the ISE Stock Market trading system, or that the occurrence of some other elements inhibit the formation of a healthy market.* By the same token, according to the provisions of the ISE Settlement and Custody Centers Regulation, Istanbul Stock Exchange *is authorized to change the settlement method of securities.*

The said regulations are basically aimed at **drawing investors’ attention to the possible abnormal price and quantity movements in the ISE Stock Market, ensuring that they apply the necessary prudence with such movements, and ensuring correct price formation in the market.** Consequently, Istanbul Stock Exchange and Capital Markets Board of Turkey have introduced practices including the suspension of trading of some stocks and removing netting off facility (requiring gross settlement). Such practices have in fact been applied manually so far in accordance with the pre-determined principles of the ISE surveillance system, while today’s technology allows the application of such principles automatically.

Following the introduction of the CMB-ISE Common Surveillance System, automatic suspension has become possible while **circuit breakers, enabling fully automated**

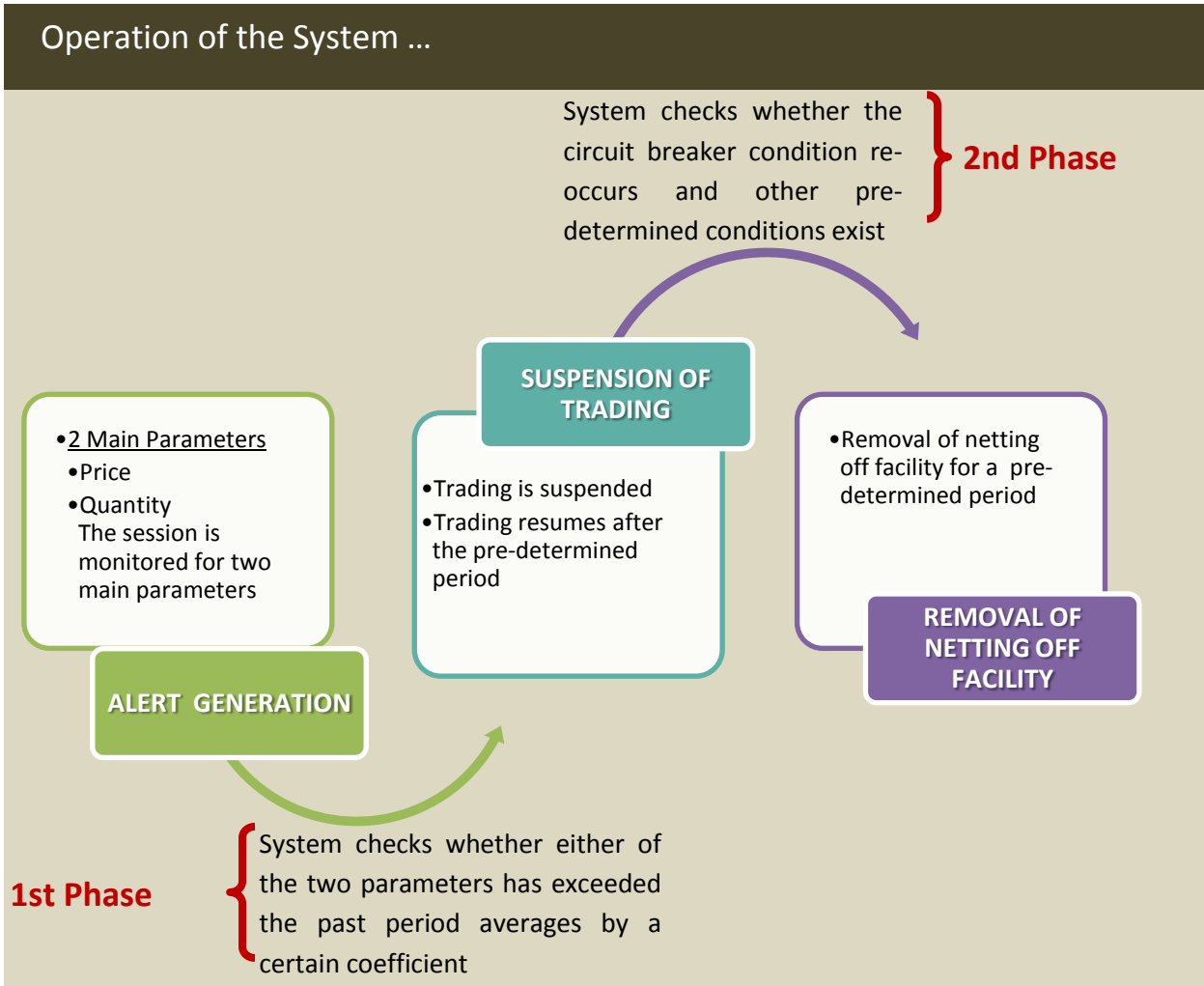
suspension on a stock basis, have been developed thanks to the efforts of the Istanbul Stock Exchange. The mechanism is called ISE Automated Circuit Breaker System, and adopted by the CMB, it is an integral part of the new trading measures introduced for the ISE Stock Market dated July 23, 2010.

II. OPERATION OF THE SYSTEM

ISE Automatic Circuit Breaker System is designed as a two-tier system. In the event of an abnormal price or quantity movement on a stock, the system automatically:

- Initially suspends the trading of such stock, and if to no avail, removes netting off facility (requires gross settlement) for that stock for a while,
- Announces the suspension of trading and gross settlement requirement via the Public Disclosure Platform.

ISE Automatic Circuit Breaker System operates as follows:



Preliminary Stage: First Circuit Breaker

ISE Stock Market will be monitored on a real-time basis by the system and in the event of an **abnormal price or quantity movement** on a certain stock; the system will **automatically suspend** the trading of that specific stock for a pre-defined period of time.

The abnormal price or quantity movements that lead to the suspension of trading of a stock are defined on stock basis, as the exceeding of the average data pertaining to that stock in a specific period of time, by a pre-determined coefficient. Such calculation will be made automatically during the trading session upon the execution of each trade. Historical average prices will be calculated on the basis of the changes that occur in eight different time intervals rather than on a session basis. In other words, suspension will be applied only in the case that an abnormal price or quantity movement occurs in **all of the eight time intervals simultaneously**. The historical data set used in the abnormality calculation will move forward by one with each session, thereby allowing the system to operate on the basis of the most update data.

The suspension period is parametrical, and is initially defined as **15 minutes** for the stocks traded with continuous auction trading method, or for the rest of the session, if there is less than fifteen minutes to the end of the session. In the case of stocks traded with single price method, suspension will be applied for the whole session.

In the event that a circuit breaker is applied, such information, including the time the stock will resume trading, will be **announced automatically and simultaneously via the Public Disclosure Platform**.

When the circuit breaker is off, the relevant stock will automatically re-start trading.

Second Stage: Second Circuit Breaker and Gross Settlement

The relevant stock will be monitored for a while in order to check the abnormality after resuming trading following the first circuit breaker. In the event that the first circuit breaker remains ineffective, that is, the **abnormal price or quantity movement persists and provided that other pre-determined conditions exist** after the circuit breaker is off, the system will automatically apply a second circuit breaker, effective until the end of the day. Furthermore, as a new precaution, the relevant stock will be subject to **gross settlement** on the following trading day. Gross settlement period is also parametrical, and is initially **15 days** for all stocks.

Information regarding the gross settlement and the validity period of such practice will be automatically announced via the ISE Public Disclosure Platform simultaneously with the second circuit breaker.

III. MAIN FEATURES OF THE SYSTEM

The main features of the ISE Automatic Circuit Breaker System are as follows:

The system is fully **automated**. ISE Surveillance System, Trading System and Public Disclosure Platform are electronically connected. The systems realize the following activities automatically and in a few seconds: calculate abnormal price and quantity movements for each stock; suspend trading; announce circuit breakers and gross settlement.

The system is **objective** and **fair**. A common system and a common set of principles will apply for all the stocks traded on the ISE.

The system takes into consideration the **historical data** that are continually updated for each stock. Therefore, while a common set of rules apply for all stocks, each stock is evaluated on the basis of its own model of movement.

The system requires an **efficient** and **proactive** approach. Consequently, it allows instantaneous intervention on abnormal actions that damage the market, and warning of investors instantaneously against such actions. As disclosure is simultaneous with suspension of trading, any problems that may occur as a result of delayed announcement are eliminated.

The system is **flexible**. It may easily be adapted to the current market conditions and its parameters may be revised easily if deemed necessary.

IV. ENFORCEMENT OF THE SYSTEM

ISE Automatic Circuit Breaker System will come into force on **January 10, 2011**. Istanbul Stock Exchange is authorized to make any changes in the system and the parameters according to the market conditions, as it may deem necessary.

To summarize,

In addition to measures including the introduction of different trading rules for the stocks listed in A, B, and C groups, permitting of order cancellation for all stocks, concealing of the trading parties, and decreasing the price ticks that have been introduced as a result of the joint efforts of the ISE and the CMB during 2010, the ISE Automatic Circuit Breaker System **constitutes a milestone in efficient market surveillance**.