

TUNCAY DINC

Q&A

*Borsa Istanbul's recent mergers with a series of other exchanges in Turkey have expanded its remit and influence significantly. Its CEO tells **Stefanie Linhardt** how he hopes the bourse will lead both Istanbul's ambitions to become a major financial centre and Turkey's efforts to become a top 10 global economy.*

Q The Istanbul Stock Exchange was founded in 1985 and together with the gold exchange and derivatives exchange, it was combined into Borsa Istanbul in April 2013. How has the exchange evolved?

A The past three years were a period of substantial change for both our capital markets and Borsa Istanbul. With the enactment of the new Capital Markets Law in December 2012, Borsa Istanbul became a joint stock company and separate exchanges of Turkey – offering a fair, transparent and efficient environment for the trading of wide variety of securities including equities, exchange-traded funds, warrants, government and corporate bonds, repo and reverse-repo agreements, derivatives, gold, selected commodities and sukuk – merged under the umbrella of Borsa Istanbul. We are also the only provider of post-trade services – namely, central clearing, settlement, custody, and registration – in Turkey through our affiliates Takasbank [a clearing and settlement bank] and MKK [the central securities depository of Turkey].

Shares of 421 companies are traded on our equity market, with a market capitalisation of \$234bn as of mid-July. At the end of 2014, the daily average traded values of the equity and fixed-income markets reached more than \$1.5bn and \$15bn, respectively, making Borsa Istanbul the seventh largest among emerging equity markets in terms of traded value.

Q What areas are the largest revenue generators for Borsa Istanbul and how do you expect this to develop in the future?

A Borsa Istanbul has one of the most well-established fixed income markets in the world and as of 2014 it ranked fifth among bond markets of the World Federation of Exchanges in terms of traded value. The total traded value in the fixed-income market amounted to \$350bn in 2014, which is equal to 85% of the total traded value on our platforms. Accordingly, this is reflected in our operating revenues as well.

We believe that our revenue-generating capacity of the fixed-income segment will remain solid in the future while other segments will increase their shares consistently, thanks to an enlarging prod-

uct mix and the initiation of new business lines.

In this respect, we expect the derivatives market to show the strongest growth momentum in the future. In 2014, the total traded value in the derivatives market stood at \$200bn compared with \$400bn in the equity market. Yet, as we see in other capital markets, the volume of the derivatives market is much higher compared to the volumes in the cash market and we expect to see a similar trend in Turkey in the near future.

Q Are you looking to expand the exchange's offerings in terms of products?

A Broadening the existing product range and initiating new business areas are important elements of Borsa Istanbul's strategic roadmap. In the past four years, new corporate debt issues have jumped to \$30.3bn from almost nothing. As Turkey gets used to the low-interest-rate environment and the private sector looks for alternative financing sources, the corporate debt securities segment will flourish.

Another line of business in which Borsa Istanbul aims to show progress is Islamic debt securities. Global sukuk issuance registers new highs year after year. Although it is not a mature business yet, funding needs and large infrastructure investments in Turkey will be the reasons behind the momentum in the Turkish sukuk market in the near future. Larger and more frequent issuances will also support the liquidity of such instruments.

The upcoming Turkey Energy Exchange is also a new business segment for Borsa Istanbul. We have become a shareholder and the platform operator of energy trading in Turkey. Energy derivatives including electricity and natural gas contracts will be traded on Borsa Istanbul's trading system and Borsa Istanbul is [further] establishing a metal derivatives market where base metals including steel will be traded.

Q There has been talk of an initial public offering [IPO] and of stake sales, including to the European Bank for Reconstruction and Development [EBRD]. What are your plans for the Borsa Istanbul's shareholder structure?

A Having stepped up our efforts in the past three years to become a financial hub in our region, Borsa Istanbul [has] signed a term sheet with the EBRD, paving the way for a [10%] pre-IPO investment by the EBRD in Borsa Istanbul, following the

approval of the Turkish treasury and the capital markets board.

We also attach great importance to Borsa Istanbul's IPO as it is a historical step for the Turkish capital markets. We want to be a good example for all other non-public companies in terms of offering size and free-float rate. We started the process and hope to go public in the first half of 2016.

We underwent significant changes in terms of our legal status, starting with demutualisation. We signed a strategic partnership agreement with Nasdaq OMX and it acquired 5% of Borsa Istanbul. All those steps are to make Borsa Istanbul a point of attraction, and a more efficient institution applying best corporate governance practices.

Q What impact will the EBRD's involvement have?

A Considering the fact that Borsa Istanbul aims to be a regional hub, strategic partnership will create new opportunities for both parties. Moreover, it will support Borsa Istanbul's strategy to extend its presence in the region. The memorandum of understanding [MoU] signed between EBRD and Borsa Istanbul in 2013 foresaw co-investments into other exchanges and capital markets, as well as technical cooperation.

The agreement is a direct message to foreign investors and will help Turkey deepen its capital markets. Both parties will work together to improve the efficiency and liquidity of Borsa Istanbul to make it more attractive to domestic companies and foreign investors. Furthermore, the deal will contribute significantly to the preparations for a successful public listing of Borsa Istanbul, which will take place in first half of 2016.

Q Is there room for further regional expansion or tie-ups?

A As an exchange that aims to be the technology and finance hub of the region, Borsa Istanbul is establishing new relationships with exchanges and financial institutions all around the world. For this purpose, we signed MoUs with various exchanges in the Balkans, central Asia and the Middle East and north Africa region. Joint product and technology development schemes, connectivity projects, exchanges of personnel, and education are major co-operation areas where Borsa Istanbul continues to work and we would like to show significant progress.

Borsa Istanbul is fully aware of the fact that becoming a financial hub is not possible without strengthening links with other

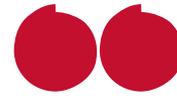
exchanges and extending our presence in other regions. In this context, we acquired a 24.4% stake in Montenegro Stock Exchange in 2013, [which saw] the number of stock exchanges in which Borsa Istanbul holds a share [rise] to four: Kyrgyz Stock Exchange, Baku Stock Exchange, Sarajevo Stock Exchange and Montenegro Stock Exchange.

We [also] believe that the recent co-operation with the London Stock Exchange [LSE] group is an important milestone in Istanbul's journey to become an international financial centre. According to the agreement, futures and options on BIST 30 Index and options on the leading stocks traded in the Turkish market will be offered by the LSE on its platforms. Moreover, LCH.Clearnet will undertake the post-trade process and will act as the central counterparty for the transactions.

Q What is your vision for Borsa Istanbul in 30 years' time?

A Today, a structural change is taking place in the world economy. Advanced economies continue to slow down and emerging economies increase their share in the world gross domestic product year by year. The International Monetary Fund foresees that the share of emerging markets in the global [economic] output will increase to 60% by 2019 from only 40% in 1990. This is resulting in a significant evolution in the geography of corporates and financial flows. In 2010, 73% of 8000 global companies with annual revenues of more than \$1bn were based in developed regions. In 2025, the headquarters of almost half of the 15,000 global companies with an annual turnover of more than \$1bn will be in emerging regions.

We believe that Turkey should and will be among those leading emerging markets. Turkey, in the context of its 2023 vision, also aims to be among the 10 biggest economies in the world, [is targeting] an export volume of \$500bn and [is seeking to position] Istanbul as an important financial centre. Such goals require the presence of strong capital markets and efficient exchanges. Borsa Istanbul is fully aware of its responsibilities in reaching these targets and is redesigning its legal, organisational and technological infrastructure accordingly. We believe that in order to compete in this new era, we need to have the most advanced technology, the widest range of products, human capital of highest quality and strongest links possible with global players. That is what I would like to achieve while leading the stock exchange of Turkey. **IB**



WE EXPECT THE DERIVATIVES MARKET TO SHOW THE STRONGEST GROWTH MOMENTUM IN THE FUTURE

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