

Capital Markets Review 2019 Turkey



Your Law Firm in Turkey

Balcioğlu Selçuk Ardiyok Keki Attorney Partnership ("BASEAK") is an Istanbul-based full service law firm. BASEAK has been providing legal solutions since 2007. We understand the complexities you face around expansion and doing business domestically, and we can be depended on for providing solid, cost-effective solutions.

BASEAK has gained an outstanding reputation and valued clientele by responding to the needs of a broad spectrum of clients of all sizes – individuals; entrepreneurs; small businesses and start-ups;

government agencies; and mid-sized and larger private and public corporations, including international and global businesses.

Now clients benefit from a team of 85-plus lawyers and economists who are committed to offering creative business and legal solutions. With exceptional practices in capital markets, M&A, banking and finance, real estate, energy, competition and litigation, BASEAK provides access to top tier legal talent with experience in 17 sectors and 20 practices.



Your Capital Markets Team in Turkey

Unprecedented challenges persist in today's capital markets. As a result of market volatility and economical uncertainties, there are fewer deals. Underwriters, issuers and investors alike require a trusted advisor with a forward-thinking vision—one who sees the value of investing today to maintain capabilities and market share.

From helping to develop new best practices to sharing the risk of a deal that doesn't close, BASEAK

leverages an agile approach to adapt in a changing landscape. Your Capital Markets Team at BASEAK works with you to navigate requirements. We advise global and domestic banks, shareholders, issuers, underwriters and private equity firms. We have experience in capital markets regulatory compliance, equity capital markets, debt capital markets, structured products, distressed assets, Islamic finance, public finance, securitizations and sovereign debt.



Müfit Arapoğlu

Partner

Head of Capital Markets

D +90 212 329 30 80

marapoglu@baseak.com



Cenk Yılgör

Associate

D +90 212 708 93 62

cylgor@baseak.com



Sena Mutlu

Associate

D +90 212 708 93 59

smutlu@baseak.com



Ramiz Arslan

Associate

D +90 212 708 93 37

arslan@baseak.com



Erkin Tuzcular

Associate

D +90 212 329 30 68

etuzcular@baseak.com



Welcome

As the Capital Markets Team of BASEAK, we continue to share our remarks on the Equity Markets, the Debt Markets, and updates on Regulatory Changes in Turkish capital markets legislation that took place in 2019.

Global uncertainties, not least the US-China trade war, Brexit and other geopolitical tensions, marked 2019 and continued to impact emerging markets, amongst them Turkey.

The Turkish economy emerged from three quarters of negative growth—its first recession in a decade after a painful currency crisis in the summer of 2018—and continued its gradual recovery to post positive year-on-year growth in the second half of 2019. The annual inflation rate, which hovered around 20% in the first quarter of 2019, also gradually declined and Turkey ended the year on a positive note with an annual inflation rate of 11.8%. While the downturn in the first half of 2019 weighed on investors' sentiment, Turkey's equity and debt markets showed good performance.

The total bond issuance volume in Turkey grew by over 22%, while the number of issuances stayed flat in comparison to 2018. Turkish issuers showed a strong preference for Eurobond issuance, which recorded 50% annual volume growth in 2019. Meanwhile, Turkish corporate Eurobond issuances amounted to USD 2.7 billion, showing an increase compared to 2018.

Albeit 2019 saw the largest public offering in history (Saudi Aramco's IPO in December 2019), the global equity market was rather slow with a significant decrease in the number of IPOs. In line with a slowing global IPO market in terms of number of deals, there was no major IPO, with total value of IPOs amounting to TRY 263.8 million (approx. USD 43.5 million) on the Turkish market. Turkey's equity market (BIST 100) on the other hand, picked up steam in terms of returns compared with 2018. The changes in securitization regulation introduced in 2018 paid off, and we saw the largest-ever ABS issuances in the Turkish market with mortgage covered bonds as underlying assets.

Following the material changes that were introduced in 2018, the past year also welcomed various additional changes in Turkish capital markets legislation. The most significant changes include the amendment to the Capital Markets Law which allows the creditors to expedite debt collection from non-performing bonds; and amendments to the equity market structure, listing requirements and trading principles. We offer a brief summary of these and various other changes that made their mark in the market in 2019.

As always, we are delighted to share this report featuring our annual overview of Turkey's capital markets in 2019 and we look forward to discussing new opportunities.

Index

05... Overview of Equity Markets

- Initial Public Offerings
- Capital Increases

09 ... Overview of Debt Markets

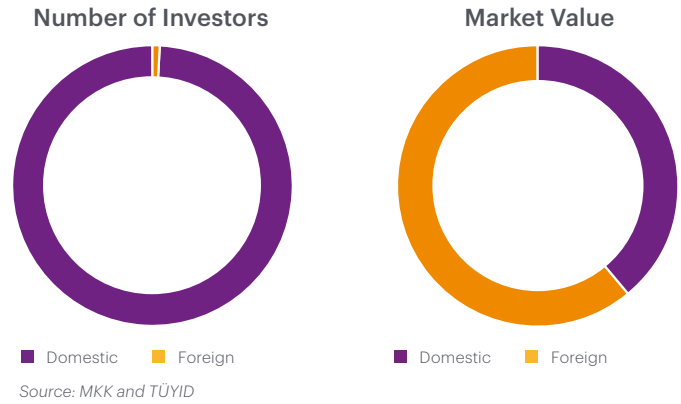
- Overview of Debt Markets and Structured Products

11 ... Regulatory Changes

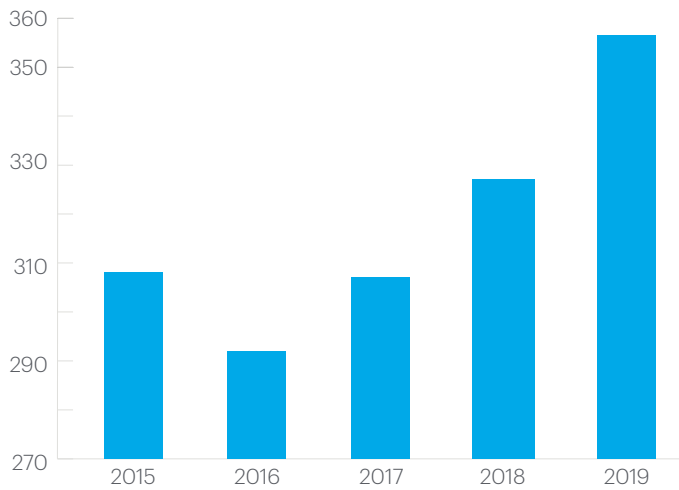
Overview of Equity Markets

In 2019 market capitalization hit TRY 1,108 billion, while trading volume increased by 6% and reached TRY 2,130 billion. Despite the general increase, foreign investors' share in the equity market fell to 60% in 2019, from its previous 64% level in 2018. Total equity held by foreign and domestic investors increased by 50% in 2019, reaching TRY 476 billion.

The number of investors stayed relatively the same with 2018. The number of domestic investors increased by 2% and the number of foreign investors decreased less than 1%.



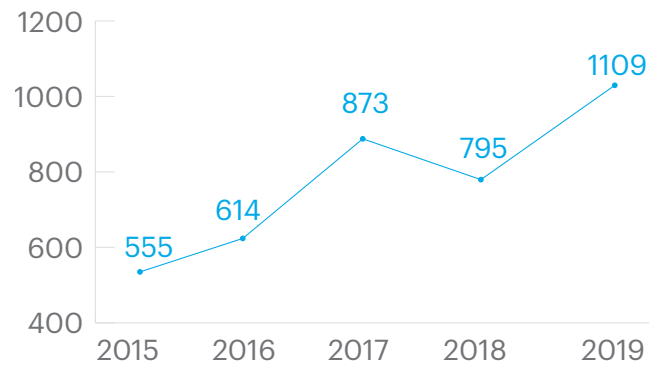
Number of Listed Companies in Borsa Istanbul (BIST TUM)



Source: TÜYİD

The number of companies listed on Borsa Istanbul (Istanbul Stock Exchange) increased remarkably. The hike is boosted by the amendment of the A-B-C-D grouping system of Borsa Istanbul. With the addition of the companies in C and D groups to listed companies list, and six IPOs taking place in 2019, number of listed companies (BIST TUM) increased to 357 from 327.

Market Capitalization

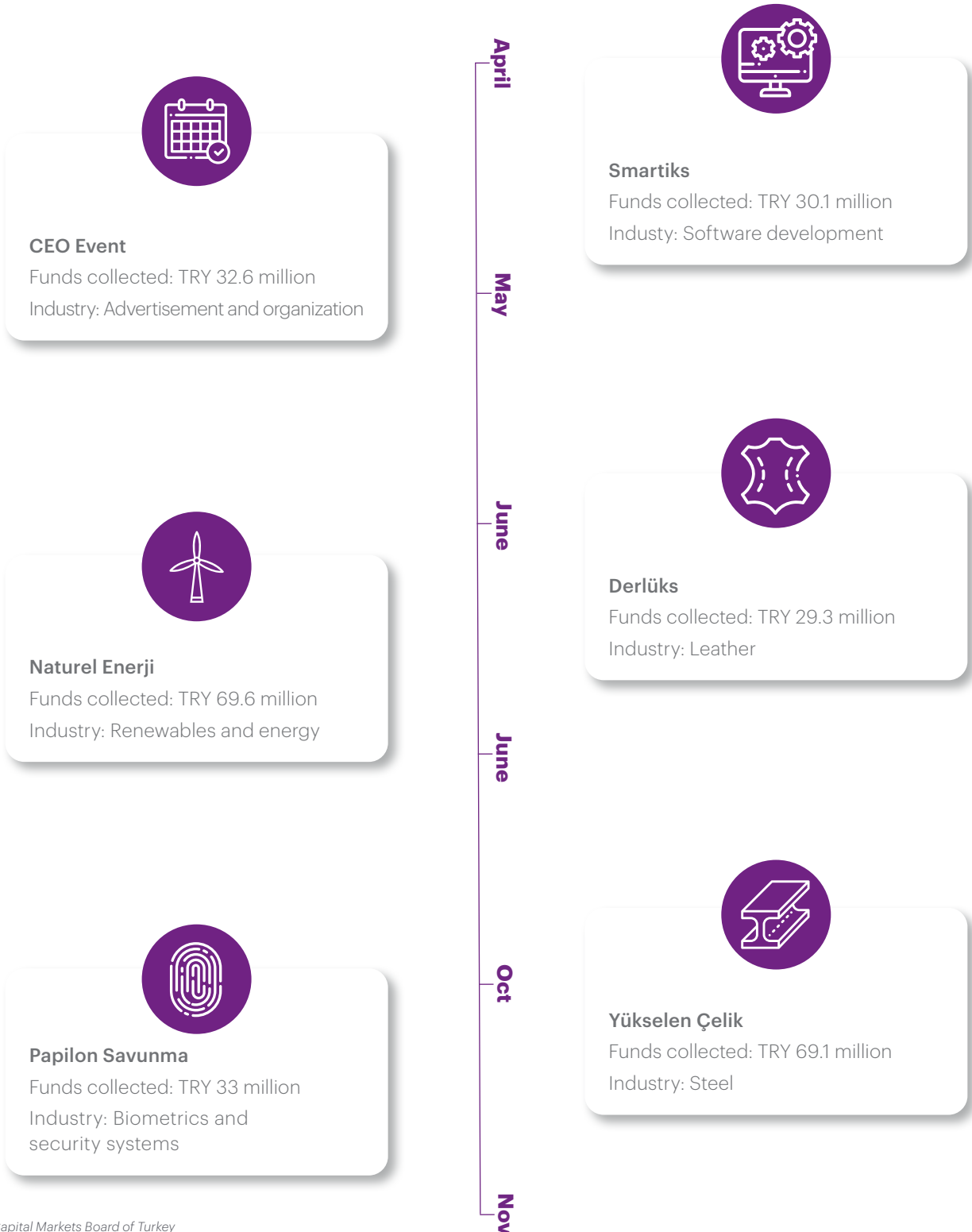


Market capitalization hit record high TRY 1,108 billion with a 40% increase compared to 2018. The BIST 100 Index (Istanbul Stock Exchange Index of Top 100 Stocks) performed well and reached 114,425 in December 2019, which is a 23% increase compared to last year.

Source: TSPB, the Capital Markets Board of Turkey

Initial Public Offerings

Showing a trend similar to global equity markets, Turkish IPO market was slow in 2019. There were six IPOs in total with total funds collected amounting to TRY 263.7 million. Compared to 2018, volume of IPOs shrank by 95% in 2019. The six IPOs that took place in 2019 are:



Source: Capital Markets Board of Turkey

Capital Increases

In 2019, companies preferred capital increases as a way to finance their operations and manage their debts. High interest rates and the recession were effective on the companies' preferences for equity increases. In 2019, public companies were able to raise a total of TRY 4.8 billion through capital increases.



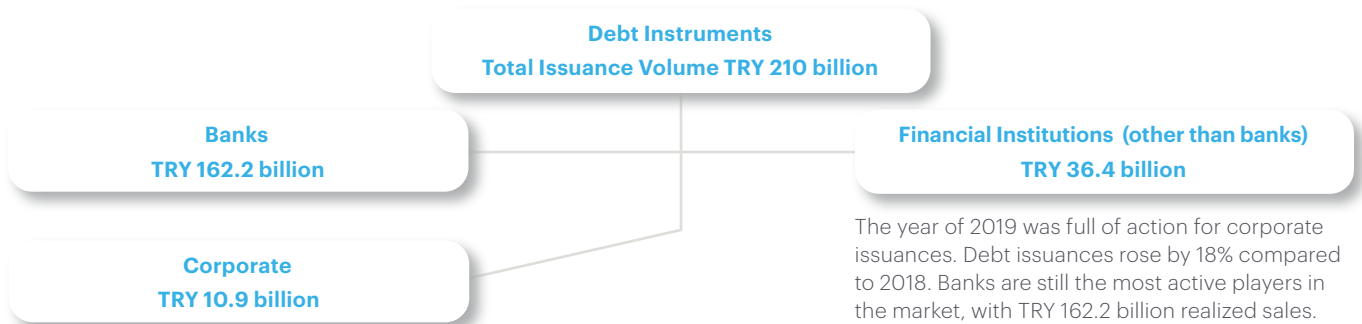
Source: Capital Markets Board of Turkey

Overview of Debt Markets

Overview of Debt Markets and Structured Products

Bonds

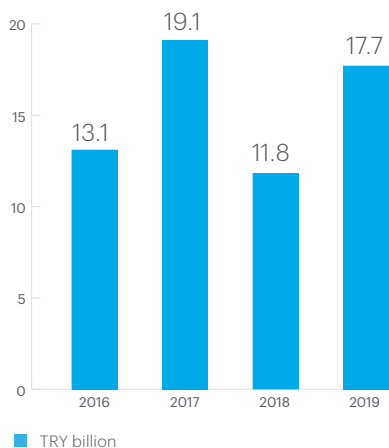
In 2019, the CMB approved a total amount of TRY 650.6 billion issuance ceiling. Realized sales within this approved ceiling stood at around TRY 210 billion, corresponding to 24% of the approved ceiling.



The year of 2019 was full of action for corporate issuances. Debt issuances rose by 18% compared to 2018. Banks are still the most active players in the market, with TRY 162.2 billion realized sales.

Source: TSPB, the Capital Markets Board of Turkey

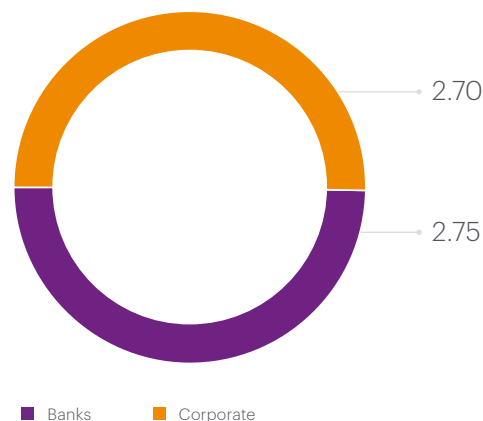
Eurobond Issuances



These figures include the sovereign instrument issuances.

Source: Bloomberg

Private Sector Eurobond Issuances



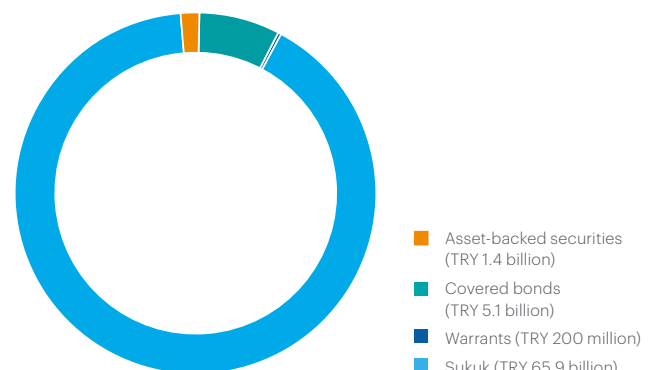
The transaction analyses on this graph do not include sovereign issuances.

Source: Bloomberg

Structured Products

Structured Product Issuance Ceiling

As with the last year, sukuk is the most issued instrument in the structured products market. Sukuk issuance rose by 45% in 2019 to TRY 65.9 billion. Although the ABS issuances were lower compared to 2018, the effects of regulatory change on ABS and reduction in the issuance fees kept ABS as a noteworthy instrument.



Source: Capital Markets Board of Turkey

Regulatory Changes

January

New exemption to the obligation of mandatory tender offers

A new exemption was introduced to the mandatory tender offer regime following an amendment to the Communiqué on Mandatory Tender Offers. If a change of control occurs as a result of share acquisitions by the existing shareholders of a public company upon a capital increase where pre-emptive rights were not restricted, the Capital Markets Board (the "CMB") may exempt the new controlling shareholder from carrying out a mandatory tender offer if requested to do so by that shareholder.

Revised form of the Corporate Governance Compliance Report

The new format of the Corporate Governance Compliance Report was introduced. Listed companies are required to follow the newly introduced template for their compliance reporting.

The CMB decided that corporate governance compliance reporting can be submitted by using the Corporate Governance Compliance Report Form (CRF) and Corporate Governance Information Form

(CGIF) via the Public Disclosure Platform. The CRF template may be used to report compliance with voluntary corporate governance principles while the CGIF template may be used to provide information on current corporate governance practices.

Omnibus bill No.7161

Law numbered 7161 introduced a number of amendments to the capital markets legislation:

- Activities of portfolio management companies in relation to pension funds are now subject to the oversight of the CMB.
- Amendments were made to the provision regulating lease certificates in Article 7/A of Law numbered 4749 Regulating Public Financing and Debt Management. As a result of the new amendments, lease certificates may be issued for commodities traded on national and international markets and securities issued by non-public institutions within the scope of the Law numbered 4749.

March

Amendments to the provisions relating to export proceeds under the Decree No.32

Following an amendment to the Communiqué on Decree No. 32 on the Protection of the Value of the Turkish Currency, the application of the Communiqué Regarding Procedures and Principles Governing Export Proceeds was prolonged until September 4, 2019.

Pursuant to the Communiqué on Decree No. 32 on the Protection of the Value of the Turkish Currency, Turkish resident exporters are required to deposit the export proceeds from export transactions in an intermediary bank once the importer makes the payment. These export proceeds must be deposited or transferred back to Turkey not more than 180 days from the actual date of export. In addition, it is mandatory to convert at least 80 per cent of these proceeds into TRY via a bank. The original deadline for compliance was March 2019. However, with the amendment, the deadline was extended to September 4, 2019.



Presidential Decree No.842

The application of certain taxes were updated via Presidential Decree No. 842 as follows:

Tax	Rate
Withholding tax applied on interest derived by Turkish resident companies from notes issued abroad with maturity dates of up to one year	7%
Withholding tax applied on interest derived by Turkish resident companies from notes issued abroad with maturity dates of between one year to three years	3%
Withholding tax applied on interest derived by Turkish resident companies from notes issued abroad with maturity dates of three years or longer	0%
Withholding tax applied on income derived by Turkish resident asset lease companies from lease certificates issued abroad with maturity dates of up to one year	7%
Withholding tax applied on income derived by Turkish resident asset lease companies from lease certificates issued abroad with maturity dates of between one year up to three years	3%
Withholding tax applied on income derived by Turkish resident asset lease companies from lease certificates issued abroad with maturity dates of three years or longer	0%
Withholding tax applied on foreign exchange deposit accounts and to dividends paid by participation banks to foreign exchange participation accounts for checking accounts and call accounts and for deposit accounts with a maturity date of up to – and including - one year	20%
Withholding tax applied on foreign exchange deposit accounts and to dividends paid by participation banks to foreign exchange participation accounts for deposit accounts with a maturity date of longer than one year	18%



April

Suspension of trading of investment instruments

The Regulation on Principles of Trading Activities on Borsa İstanbul A.Ş. (“Borsa İstanbul”) was amended and the length of the term during which Borsa İstanbul can suspend trading transactions of an investment instrument was extended up to one month. Before the amendment, the suspension period was limited to five trading days.

Articles of Association of Borsa İstanbul

The Articles of Association of Borsa İstanbul were amended and share groups and their privileges were revoked, and instead a single share group was created.

The amendments include a new restriction which provides that the percentage of shares held by the Turkish Sovereignty Fund (Türkiye Varlık Fonu) may not fall below 51%. The article on the authorities of the board of directors of Borsa İstanbul was also amended to include “authority to issue capital markets instruments”, paving the way for Borsa İstanbul to issue its own capital markets instruments.

Valuation of assets other than real estate

Principles on the Valuation of Assets Other Than Real Estate within the scope of capital markets legislation were consolidated under one decision. The qualifications required to be met by organizations

authorized to carry out a valuation of non-real estate assets were specified and an obligation to have a valuation service agreement between the customer and the organization was introduced. Independent audit companies providing valuation services within the scope of the capital markets legislation were restricted from providing valuation services to their customers for whom they provide independent audit services during the same period.

May

Temporary restriction to the FX transactions by the BRSA

Banking Regulation and Supervision Agency (“BRSA”) published an announcement in May which imposed a requirement that all foreign currency transactions of natural persons with a value of US\$ 100,000 or more must be processed with a delay of one business day. The announcement stated that the reason for introducing the delay was to reduce volatility in the market.

Amendments to the retirement investment funds’ legislation

Investment guidelines for Retirement Investment Funds were amended by the CMB. Pursuant to the amendment, a minimum of 10% of the portfolio of standard funds must be invested in shares in the BIST 100, BIST Sustainability Index, BIST Corporate Governance Index and participation indexes calculated by Borsa İstanbul, and a minimum of 25% of the portfolio of money market funds must be invested in domestic government debt securities. Existing funds were granted a transition period ending on July 31, 2019, to comply with these thresholds

and the Regulation on Government Contribution to Personal Retirement System was amended in line with the aforementioned amendments.

June

Foreign central securities depository accounts

The Communiqué on the Procedures and Principals for the Book-Keeping of Dematerialized Capital Market Instruments was amended. The amendment enables foreign central securities depository (FCSD) accounts to be opened with the Central Securities Depository, in which capital market instruments of non-resident clients can be held collectively. The same rights have been granted to Turkish investment institutions holding general custody licenses in Turkey for them to provide custody services to non-resident clients, provided that such local investment institutions comply with the rules which apply to “FCSD” accounts.

New eligible collateral types in terms of clearing and central counterparty transactions

The Istanbul Settlement and Custody Bank Central Counterparty Regulation was amended. According to this amendment, electronic product certificates and domestic debt securities and eurobonds issued by G7 countries (*i.e.* USA, UK, Canada, Japan, France, Italy and Germany) qualify as eligible collateral which may be submitted to İstanbul Takas ve Saklama Bankası A.Ş. (Settlement and Custody Bank, “Takasbank”) with respect to central counterparty transactions. In addition, domestic debt securities and eurobonds issued by G7 countries also qualify as eligible collateral for clearing transactions.



July

Communiqué on Principles of Real Estate Investment Funds

Amendments were made in the Communiqué on Principles of Real Estate Investment Funds on provisions related to the issuance, sale and return of fund participation shares and the transfer of fund participation shares between investors. The amendments introduced a requirement to describe different groups of participation shares in the fund documentation and also enabled the sale of participation shares at prices different than their unit price.



Amendment to the Capital Markets Law

Article 31 of the Capital Markets Law was amended to expedite debt collection from non-performing bond issuers. Following this amendment, investors are now able to request the Central Securities Depository to provide a document which states that an issuer did not fulfil its payment obligation. This document will qualify as an official document under Article 68/1 of the Turkish Execution and Bankruptcy Code. This will allow creditors to bypass the ability of an issuer to object against a claim of non-payment.

Provisional article under the Income Tax Law

A new provisional article was added to the Income Tax Law, which enables funds, gold, foreign currencies, securities and other capital market instruments kept abroad to be declared to a Turkish bank or an intermediary institution until December 31, 2019, without any exposure to the risk of tax inspection. Natural or legal persons declaring such funds will be able to freely dispose of such funds by making a payment of the fixed 1% tax.

Amendments to provisions of Communiqué on Financial Reporting Standards of Investment Funds

With the amendments to the Communiqué on Financial Reporting Standards of Investment Funds, calculation principles for the value of shares in real estate funds and venture capital funds were amended. Amendments made to the Communiqué on Financial Reporting Standards of Investment Funds removed the requirement to set out that “the transaction value forming the basis of the trade of real estate investment fund shares and venture capital investment fund shares is the value determined in the valuation report”. As a result, the determination of transaction value is less onerous.

August

New Local Reference Interest Rate

On August 29, 2019, BIST General Manager Murat Çetinkaya announced that a new reference interest rate denominated in Turkish lira named “TLREF” had been established.

Further amendments to the provisions relating to export proceeds under the Decree No.32

The obligation imposed on Turkish resident exporters to deposit their export proceeds with a Turkish bank and convert 80% of these proceeds into TRY within

certain timeframes was extended by a further six months to March 4, 2020.

New Communiqué on Real Estate Valuation Institutions

On August 31, 2019, the CMB announced that the Communiqué on Real Estate Valuation Institutions and the previous communiqué regulating the same (VIII.35) were abolished. Prerequisites for accredited real estate valuation institutions were re-determined and transition provisions were introduced for the current real estate valuation firms.

September

New Communiqué on Compliance with Principles and Standards of Interest-Free Banking

On September 14, 2019, the Communiqué on Compliance with Principles and Standards of Interest-Free Banking was enacted. The communiqué introduced structures and procedures for compliance with interest-free banking principles and standards of interest-free funding methods to be followed by development and investment banks.

Reference Rules for the TLREF

BIST announced new overnight reference rules for the TLREF reference interest rate, and the new rules came into force on September 16, 2019. TLREF rules were updated by the TLREF Committee to introduce the following amendments:



- Calculation of TLREF, with the available data, at 15:30 (GMT+3) and its announcement via BISTECH Data Dissemination System at 15:50 (GMT+3) and via Borsa İstanbul's website after 16:00 (GMT+3), on trading days;
- Defining the rules to calculate TLREF in case of insufficiency of input data; and
- Inclusion of Takasbank among the institutions represented in the TLREF Committee.

October

The Communiqué on Equity Based Crowdfunding

Following the draft which was published on January 3, 2019, the CMB enacted the Communiqué on Equity Based Crowdfunding on October 3, 2019. With the communiqué, regulations were enacted regarding the procedure to be followed for equity-based crowd funding.

The communiqué only regulates equity-based crowdfunding. Donations and rewards-based and loan-based crowdfunding activities are not within its scope.

The communiqué provides an alternative financing model for venture companies and an investment opportunity for individual and institutional investors to invest in potential targets. The establishment of crowdfunding platforms of participation banks and broadly authorized intermediary institutions are subject to a simplified procedure.

We have set out below certain key points:

- Crowdfunding may only be carried out through crowdfunding platforms.
- The venture companies that are included in the platform are to be determined by the investment committee within the organization of the crowdfunding platform.
- The communiqué envisages a share transfer restriction of three years for pre-funding shareholders of funded venture companies.

Announcement for the amendments to the market structure of the equity market, listing requirements and trading principles.

- On October 2, 2019, Borsa İstanbul announced that the market structure of the equity market, listing requirements and trading principles would undergo changes.

- In late October, BIST Stock Indices Ground Rules were updated to reflect the new market structure changes announced earlier in October with the announcement numbered 2019/65 (as mentioned above) and the calculation of three new indices, namely BIST Liquid Banks, BIST Liquid 10 Ex Banks and BIST ECM.

Updated Communiqué on the Principles of Rating Activity and Rating Agencies

Articles setting out the independence criteria aiming to prevent conflicts of interest under the Communiqué on the Principles of Rating Activity and Rating Agencies were amended. The amended criteria will not be applied to Turkey Wealth Fund Management Company (Türkiye Varlık Fonu Yönetimi Anonim Şirketi), Turkey Wealth Fund and businesses under its portfolio and sub-funds and businesses under the Turkey Wealth Fund.

November

Amendments to the market structure of the equity market, listing requirements and trading principles

- The Equity Market Directive, Listing Directive and Equity Market Procedure were updated in November in accordance with the BIST announcement of October. Changes were made in the market structure of the equity market, listing requirements and trading principles.
- New groups were established under BIST Star and BIST main markets and shares of companies traded in these markets were re-classified as per their size, depth and liquidity. The current ABCD grouping structure will be abolished.
- The name of the current Collective Investment Products and Structured Products Market was amended to be the “Structured Products and Funds Market”. Shares of Real Estate Investment Partnerships, Venture Capital Investment Partnerships and Securities Investment Partnerships were removed from this market and instead will be placed in other markets to the extent they fulfill the relevant listing criteria.
- The listing requirements were amended (e.g. the minimum market value requirement for listed shares will be increased from TRY 100 million to TRY 150 million for BIST Star and from TRY 25 million to TRY 30 million for BIST Main).

- You may find further details regarding these changes under our client alert at the following address: <https://www.baseak.com/en/insights/alerts/2019/november/6/new-market-structure-in-borsa-istanbul-equity-market-update>.
- In mid-November, the Regulation on the Principles of Stock Exchange Activities of Borsa İstanbul was amended. With the amendment, BIST is required to disclose (i) the list of indices that are compliant with the principles of the International Securities Commission (Uluslararası Menkul Kıymetler Örgütü), and (ii) information regarding compliance with these principles to the public.
- The Regulation on the Principles of Establishment, Activity, Operation and Auditing of Stock Exchanges and Market Operators was amended and stock exchanges were required to disclose (i) the list of indices that are compliant with the international principles and regulations accepted by the CMB, and (ii) information regarding compliance with these principles to the public.



December

Regulation on the Principles of Incorporation and Operation of Central Clearing and Settlement Institutions

In early December, the Regulation on the Principles of Incorporation and Operation of Central Clearing and Settlement Institutions was amended to set out rules and principles in connection with the legal infrastructure enabling foreign central clearing and settlement institutions to operate in Turkey and enabling multiple central clearing and settlement institutions to carry out central clearing and settlement services. The regulation includes provisions as to recognition and operating conditions of foreign central clearing and settlement institutions, expanding operating licenses, publicity requirements, risk management and corporate governance.

Administrative Fines

The level of administrative fines in capital markets legislation was adjusted for inflation for the year 2020 with the last market bulletin of the year 2019.

Prolonging the term of the provisional article under the Income Tax Law

In late December, the exception that was added to the Income Tax Law in July 2019, which enables funds, gold, foreign currencies, securities and other capital market instruments kept abroad to be declared to a Turkish bank or an intermediary institution was prolonged for another six months. Natural or legal persons declaring such funds will be able to freely dispose of such funds by paying a fixed 1% tax until June 30, 2020.

Amendments to the provisions relating to export proceeds under the Decree No.32

With the amendment made to the Communiqué on the Decree No. 32 on the Protection of the Value of the Turkish Currency, the requirement to convert at least 80 per cent of export proceeds into TRY via a bank was removed. Exporters are still required to bring the export proceeds into Turkey within certain timeframes; however, exporters are permitted to keep the export proceeds in foreign currencies.



ABOUT BALCIOĞLU SELÇUK ARDIYOK KEKI

Balciođlu Selçuk Ardiyok Keki Attorney Partnership is an Istanbul-based full service law firm with a team of 85-plus lawyers and economists. Our practice focuses on a wide range of areas including real estate, corporate, mergers and acquisitions, banking, project finance, capital markets, competition and anti-trust, employment, litigation and arbitration, telecommunication, regulatory and public law and intellectual property. We represent and advise Turkish and multinational clients, including Fortune 500 companies, in the banking and finance, private equity, real estate, manufacturing, hospitality and leisure, retail, automotive, energy, information technology, life sciences, luxury fashion and beauty, and media sectors.

© 2020 This note has been prepared based on publicly available information. It does not aim to provide legal or other advice. If you require legal advice or further details, please contact us. Balciođlu Selçuk Ardiyok Keki Avukatlık Ortaklıđı is an attorney partnership registered with the Istanbul Bar with registration No:53.