

market structure

London, December, 2004



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CEO

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Part 1

About TürkDEX

First and Only Derivatives Exchange in Turkey



- ✓ TürkDEX Inc. is the only entity authorized by Capital Markets Board (regulatory agency in Turkey) to launch a derivatives exchange in Turkey.
- ✓ Currency futures are listed at the ISE and the gold futures are listed at the Istanbul Gold Exchange. No active derivatives trading at both exchanges.
- ✓ Contracts listed at ISE and Gold exchange will be transferred to TürkDEX as they are listed at TürkDEX.

- ✓ TurkDEX is a private corporation (members aren't necessarily owners)
- ✓ TurkDEX is a “partially” for profit entity. According to regulations of Turkish Capital Markets Board (CMB), TurkDEX isn't allowed to distribute any dividends during its first three years of operations, and after that it can only distribute 20% of its profits to its shareholders.

TurkDEX's Shareholders



Turkish Union of Chambers	%25
Istanbul Stock Exchange	%18
Izmir Mercantile Exchange	%17
Kocbank	%6
Akbank	%6
Vakif Securities Inc	%6
Garanti Bank	%6
Is Securities Inc	%6
Turkish Association of Securities Dealers	%6
Takasbank	%3
Sinai Kalkinma Bank	%1

Exchange Board Members



11 seats

2 members

Association of Securities Dealers
(ASD is also one of TurkDEX's shareholders)

1 member

Turkish Capital Markets Board

1 member

General Manager (CEO)

1 member

ISE

6 members

From other shareholders

Part 2

Regulatory Environment: Encouraging Legal Structure

Regulatory Bodies in Financial Markets

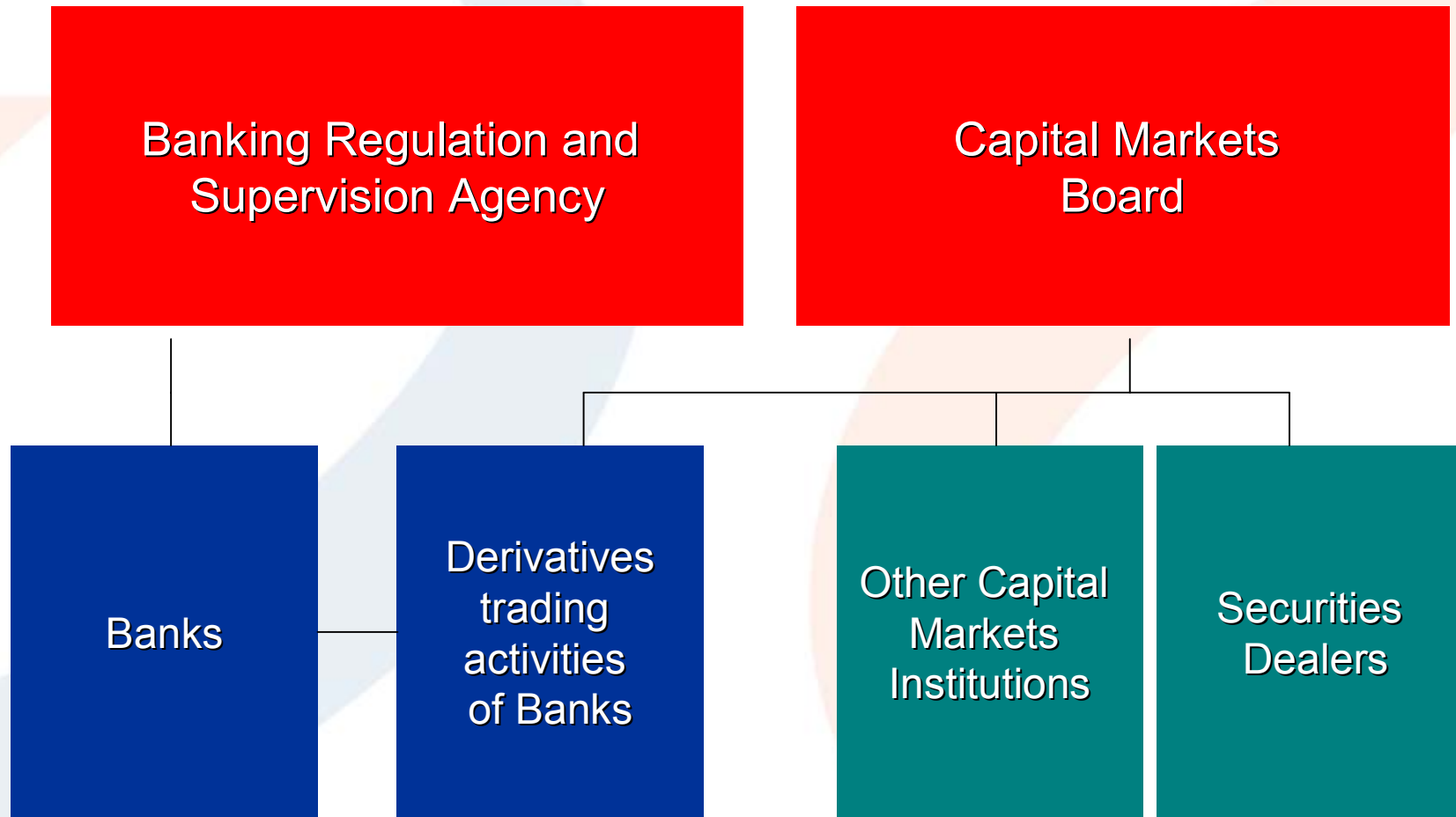


- ✓ Capital Markets Board: to regulate and supervise non bank financial institutions and financial markets, including futures and options markets,
- ✓ Banking Regulation and Supervision Agency: to regulate and supervise banks.
- ✓ Both agencies have experience in financial markets.

Membership Restricted to...

- ... Securities dealers,
- ... Banks,
- ... No other entities are allowed to act as intermediary in derivatives industry.

Regulatory Structure for Members

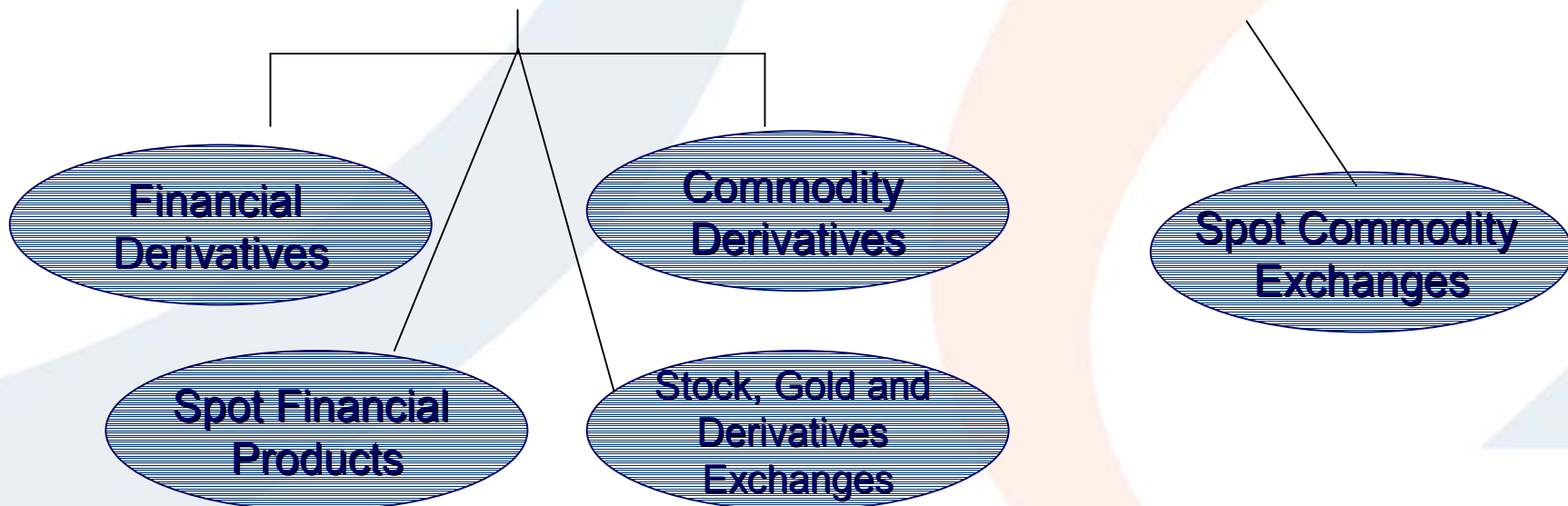


Regulatory Structure: *Instruments and Markets*

Single Approach to Different Instruments and Financial Markets

Capital Markets Board

Ministry of Industry
and Commerce



Favorable Regulatory Environment for Broad Participation



- No regulatory obstacle to trade derivatives for both individual and institutional investors.
- A single regulatory body for all kind of derivatives contracts, namely CMB. The existence of more than one regulatory organization in a country may delay the contract development process, and may increase cost of intermediation. It may also prevent establishment of convenient institutional structure for market liquidity.

Capital Markets Law and related regulations govern followings:

Establishment of derivatives exchanges,

Investment in derivatives markets,

Intermediation in derivatives markets.

Establishment of Derivatives Exchanges



- Capital Markets Law, (law number 2499), article 40 allows private, for profit legal entities to be organized as exchange,
- To operate as an exchange, permission of council of ministers is required,
- Only TurkDEX has acquired this permission. (No other permission will be granted according to current regulations).

Establishment and Operation of Derivatives Exchanges



Establishment



Proposal of Capital Markets Board (CMB) and approval of Council of Ministers.

License to operate



CMB



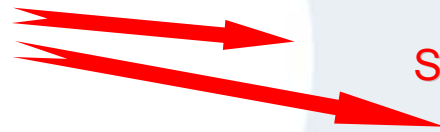
TurkDEX got this license

March 27, 2004

In terms of regulations,
derivatives are financial instruments,
like equities and bonds.

Intermediation in Derivatives Markets

✓ Only



Securities dealers,
Banks

are allowed to operate as
intermediary institutions in
derivatives markets.

- ✓ Persons employed at derivatives desks of intermediary institutions are required to have license from CMB and to some extent from TurkDEX.

Exchange Members

Clearing member

Non clearing member

All members are expected to be clearing members.

Members can trade both for

✓ their own account

and for

✓ their clients.

Contract Listing

Exchange

design

CMB

approval



Current Rules and Regulations Governing Derivatives



- ✓ Capital Market Law article 40,
- ✓ CMB Communiqué on establishment and operation of derivatives exchanges,
- ✓ TurkDEX general rule book,
- ✓ TurkDEX regulations.

Issuance of Rules and Regulations



REGULATIONS	ISSUED BY...
CMB Communiqué on establishment and operation of derivatives exchanges	proposal of CMB and approval of related minister.
TurkDEX general rule book	proposal of TurkDEX, approval of both CMB and related minister.
TurkDEX regulations	TurkDEX

General Aspects of CMB Communiqué



Necessary exchange structure:

Minimum capital,

Effective trading and surveillance system,

Financially sound members,

Well funded shareholders, and

Qualified employees.

Trading and clearing fees are determined by CMB.

Restriction on dividend distribution on derivatives exchanges.

General Aspects of TurkDEX General RuleBook



Rules covering these areas:

- Eligibility criteria for members and their responsibilities,
- Creating efficient, safe, fair and transparent marketplace,
- Contract listing,
- Trading rules,
- Clearing structure,
- Emergency situations,
- Arbitration,
- Sanctions in case of rule violation

Emergency Situation and Market Manipulation

In case of market manipulation and emergency situation, exchange can:

Impose higher margins, ✓

Lower position limits, ✓

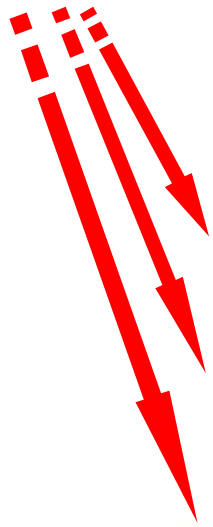
Change price limits, ✓

Transfer contracts to other members, ✓

Halt trading. ✓



In case of war, natural disaster, government intervention to the prices and similar cases, exchange may unilaterally close all or some part of open positions.



Arbitration committee,
Settlement price committee,
Disciplinary action committee.

Committee members are elected:

by exchange board,

among exchange employees and
representatives of members

A red curved arrow pointing downwards and to the right.

Conflicts arising from trading and related activities can be brought to exchange for resolution (not compulsory).

A red curved arrow pointing downwards and to the right.

Against decision of exchange, each party can appeal to CMB.

A red curved arrow pointing downwards and to the right.

In case of appeal, the decision of CMB is final.

- ✓ Exchange is responsible for creating its own rules & regulations but these regulations should comply with CMB's regulations.
- ✓ Exchange sets conduct of business rules for its members.
- ✓ Exchange has the authority and responsibility to audit its members.
- ✓ CMB has the authority to approve and amend all the exchange rules such as:



Exchange fees

Clearing fees

Requirements for membership

- ✓ Audits are conducted by qualified professionals,
- ✓ Auditors will conduct routine and surprise audits at the members' offices, review compliance with rules and check effectiveness of internal control,
- ✓ Auditors will also review the members' risk management policies and procedures.

To protect investors and achieve fair, transparent and efficient market, CMB:

- ✓ Reviews and accepts exchange rules,
- ✓ Conducts investigation for market manipulation,
- ✓ Regulates and audits exchange members,
- ✓ Regulates and audits exchange,
- ✓ Reviews contract listing proposal.

Part 3

Taxation of Income from Derivatives at TürkDEX and Accounting Standards

- Currently, there are no specific regulations for derivatives within Income & Corporate Tax Laws and Ministry of Finance has not issued any opinion yet.
- In 2003 we have commissioned PwC Turkey to prepare a report on the taxation of investors (incl. foreign investors) who intend to invest in TurkDEX under the current legislation.
- In February 2004 we have submitted the PwC report to the Ministry of Finance to obtain their comments. Since then we are in close contact with the Ministry.
- In September and October 2004 we have submitted draft legislative proposals to the Ministry which provides a more clear cut favorable tax treatment for income and transactional tax purposes.

- ✓ We have strong political support for tax incentives which we hope to achieve soon.
- ✓ We will publish the English version of PwC report in our website once as we clarify it with the Ministry.

Opportunities for Foreign Investors



- In last decade, non-resident investment fund (NRIF) status is the most popular method of investment for majority of the foreign portfolio investors in Turkey. The derivative investments carried out by NRIFs at TurkDEX might be a new tool for tax purposes.
- For other foreign institutional investors and individuals current Turkish tax regime may also be advantageous for tax purposes.

- ✓ CMB published standards on derivatives (will be effective at the beginning of 2005).
- ✓ These standards are compatible with the **IAS 32 and 39.**

Part 4

Market Microstructure

- ✓ **TürkDEX** will be a **fully electronic exchange** with **remote access**,
- ✓ **Commodity** and **financial** contracts will be traded,
- ✓ **Futures** contracts will be listed firstly, **Options** will be traded in near future,
- ✓ Clearing will be handled by  **TAKASBANK**, central clearing institution in Turkey.

- ✓ Exchange and clearing agency know end investors, except so called “global accounts”,
- ✓ Investors’ account should be opened at the Takasbank, prior to the starting of the trading engine,
- ✓ Global account: a pool of accounts for two or more small investors,
- ✓ Investors can open account at more than one member, but only one per member.

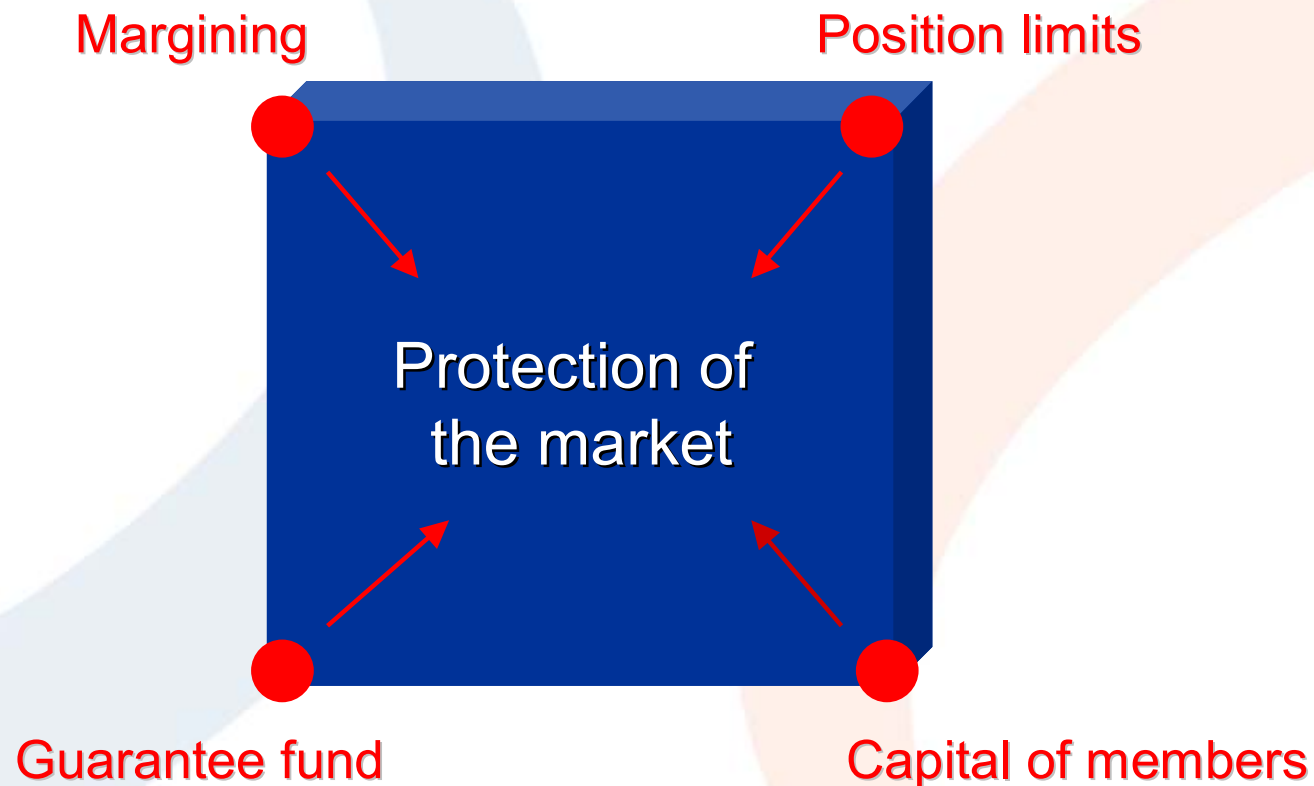
Market Operation Time



Session

Lunch Break

Every
business
day



Protection of the Market: Margining



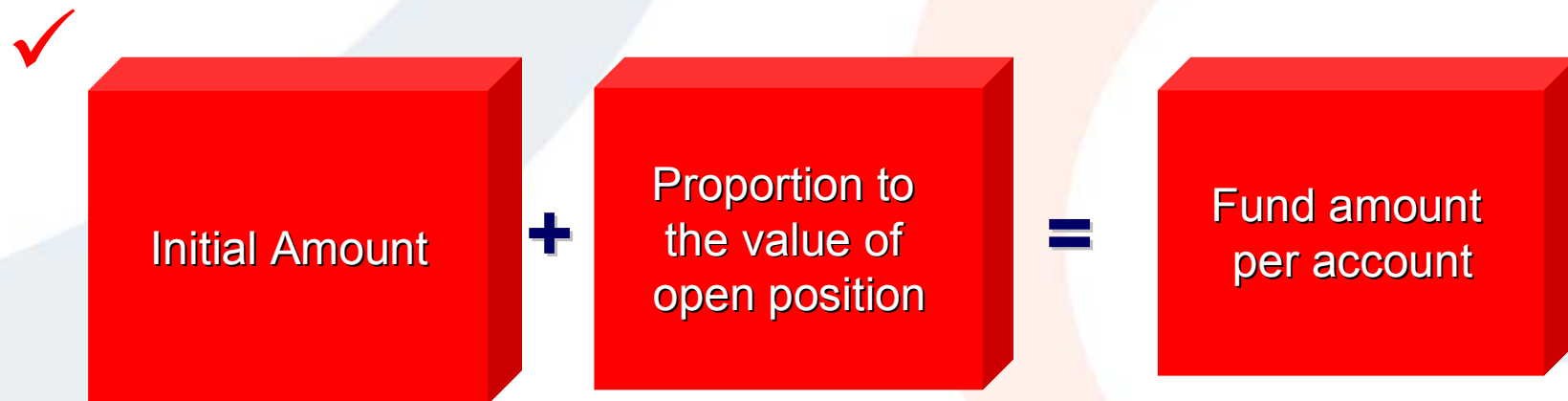
- ✓ **Margin** should be deposited before the trade,
- ✓ **Order entry is possible** without necessary margin,
- ✓ **Margin level** is determined by exchange and can be changed due to market conditions.

- ✓ **A flat sum per contract** -regardless of end client's identity,
- ✓ **Intra commodity spread: 50% off regular margin amount.**

- ✓ Margin calls should be deposited at the end of the trading day,
- ✓ Intra day margin call is also possible.

Protection of the Market: Guarantee Fund

- ✓ Guarantee fund is used in case member defaults,
- ✓ Clearing members deposit both for themselves and guaranteed members,



Protection of the Market: Capital of Members

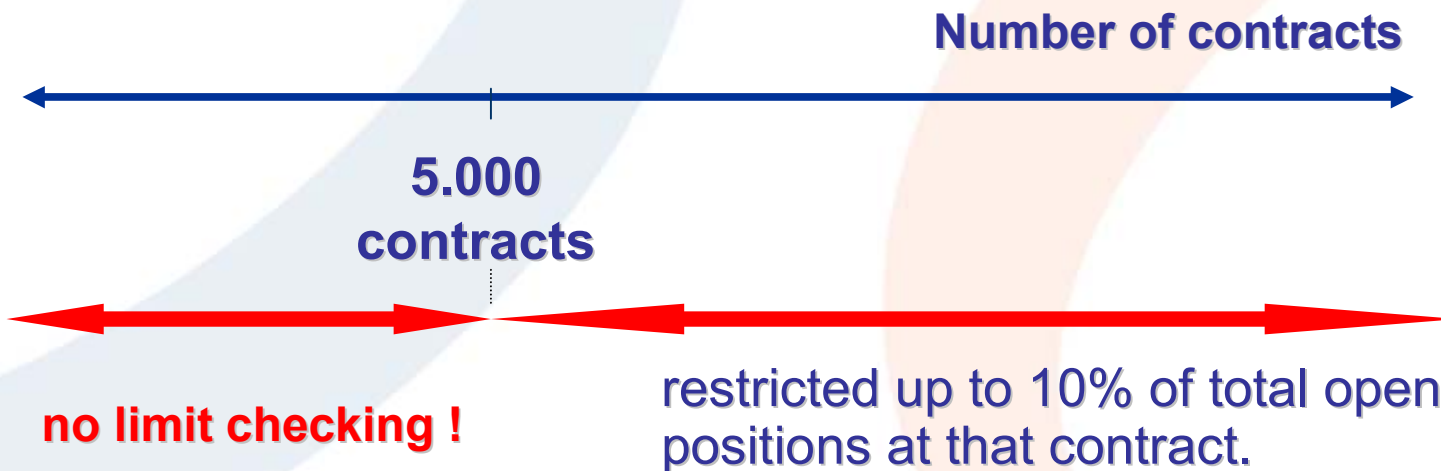


- ✓ Strong capital adequacy rules are enforced by CMB.
- ✓ Required minimum net capital (approximately free cash holdings) **of securities dealers is about USD 440,000**. Average actual net capital is much more higher than this. (About USD 4.7 million)
- ✓ Banks must meet capital adequacy ratio according to current regulation.

Protection of the Market: Position Limits



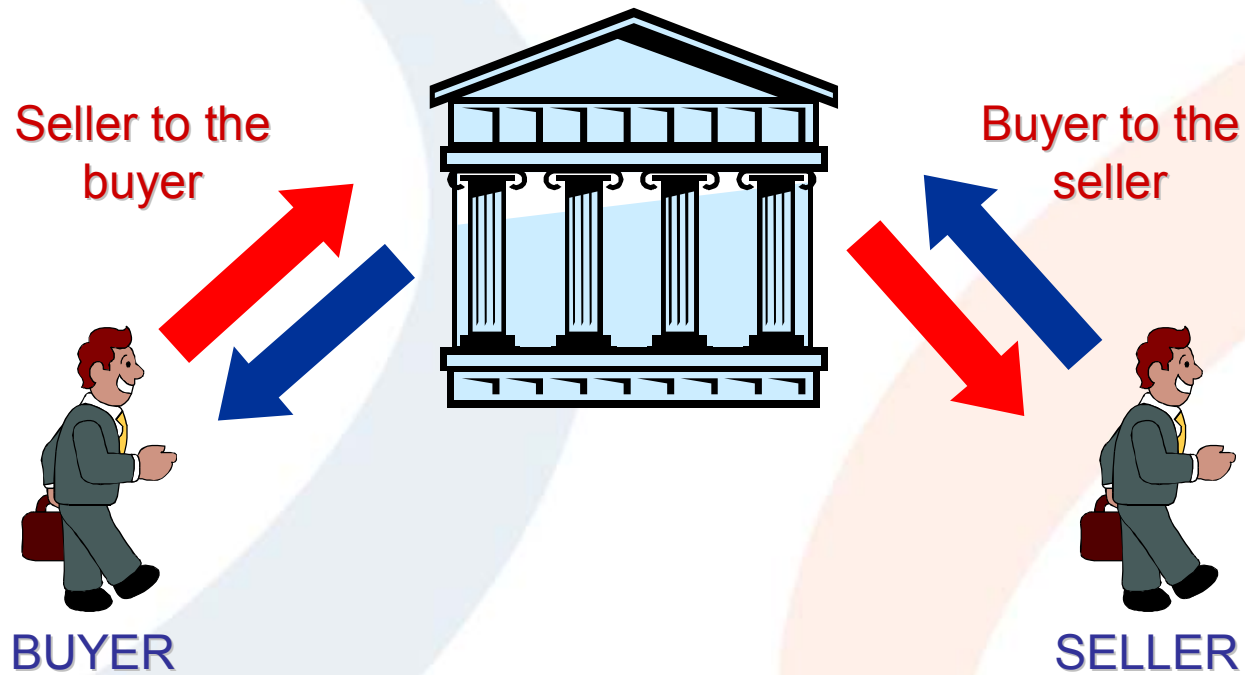
Position limits are based on the number of open positions for each contract per account.



Clearing House (1)

- ✓ Central Securities Depository of Turkey
- ✓ Clearing and Settlement Center for the Istanbul Stock Exchange
- ✓ National Numbering Agency of Turkey

Clearing House (2)



Being central counterparty Takasbank acts like the buyer to every seller, and the seller to every buyer.

Clearing House (3)

- ✓ Futures contracts are marked-to-market daily and final settlement is on T+0 ,
- ✓ Contracts are cash settled,
- ✓ Margin calls are paid in cash (TRL),
- ✓ Receivables are subject to transfer,
- ✓ Clearing system and collateral management system are totally customer based.

At **first**, margin,

Second, defaulted member's share of guarantee fund,

Third, the rest of the guarantee fund (other members' share) and defaulted members' capital is utilized.

Members' capital is secure against default of other members.

Part 5

Trading System and IT Infrastructure

Electronic Trading & Clearing Systems



- ✓ Trading software allows order processing & matching,
- ✓ Upfront online real-time margining system,
- ✓ Market operation,
- ✓ Market surveillance,
- ✓ Information dissemination through data vendors.

1. Access through WAN and trading floor,
2. Electronic matching with continuous auction based on price and time priority,
3. Order routing, margining and position controlling on account basis,
4. Integrated market makers module.

5. Integrated risk management module :

- ✓ Upfront on-line real-time margining,
- ✓ Profit/loss calculation periodically during session,
- ✓ Position limits on account and/or member basis,
- ✓ Fixing sessions held if necessary,
- ✓ Theoretical price calculation,
- ✓ Circuit breakers.

6. Reporting system for statistical and surveillance purposes,
7. Many detailed inquiry screens available,
8. On-line real-time information dissemination.

- ✓ TurkDEX Exchange Operations System (TEOS) is a fully computerized trading platform on which all trading activities are performed.
- ✓ TEOS is basically composed of an electronic order matching system and remotely accessible network.

IT Infrastructure (2)

- ✓ TEOS is based on Computershare Ltd.'s software,
- ✓ The software has been customized to comply with Turkish financial system and TurkDEX requirements,
- ✓ Software has also been customized to comply with New Turkish Lira operations.

The primary sub-systems of TEOS are :

- ➔ **E**lectronic trading and matching system,
- ➔ **M**arket reporting, querying and monitoring system,
- ➔ **M**argin verification and risk calculation system,
- ➔ **I**nformation dissemination system,
- ➔ **S**ecurity and exchange administration system.

Matching:

All orders entered by members are collected in an electronic order book and matched according to the rules and parameters defined by exchange administration modules.

Exchange members will be able to both enter orders and monitor their positions by means of their trading client software.

Access to TurkDEX:

TEOS-NET is the Wide Area Network consisting of permanent data lines and network systems among TurkDEX, its members, and other relevant institutions.

TurkDEX will provide their members with the facility of accessing the exchange via remote data lines, with trading client software. A trading room will be supplied at TurkDEX headquarter.

Hardware Architecture:

TEOS is constructed on three tier hardware architecture.

- ✓ First tier is the server level where all back-end trading processes are performed,
- ✓ Second is the communication level where all network packets are routed among other levels and some queries are answered,
- ✓ The third one is the client level which accommodates member trading clients in their offices.

Database:

TurkDEX will employ a relational database management system (DBMS) in which all critical information and data will be stored (Informix of IBM is being used as DBMS).

Client Interface :

Client interface is a Graphical Use Interface (GUI) and easy to use & swift.

Fault Tolerance :

TEOS is an entirely fault tolerant system.

- ✓ All critical appliances are duplicated in case of an emergency, fault or disaster possibility,
- ✓ Operational datacenter is also mirrored in a different physical location,
- ✓ Highly available UNIX based servers are utilized in back-end to ensure uninterrupted activity,
- ✓ All electronic equipments are based on HP's PA-RISC UNIX systems and Cisco's Active network appliances.

Part 6

Products

Contract design is based on:

- ✓ Consideration of the market needs,
- ✓ Focus on retail customers,
- ✓ Small contract size.

FINANCIALS

Interest Rate Futures

3 months Government Bond
12 months Government Bond

Equity Index Futures (ISE 30)

Currency Futures

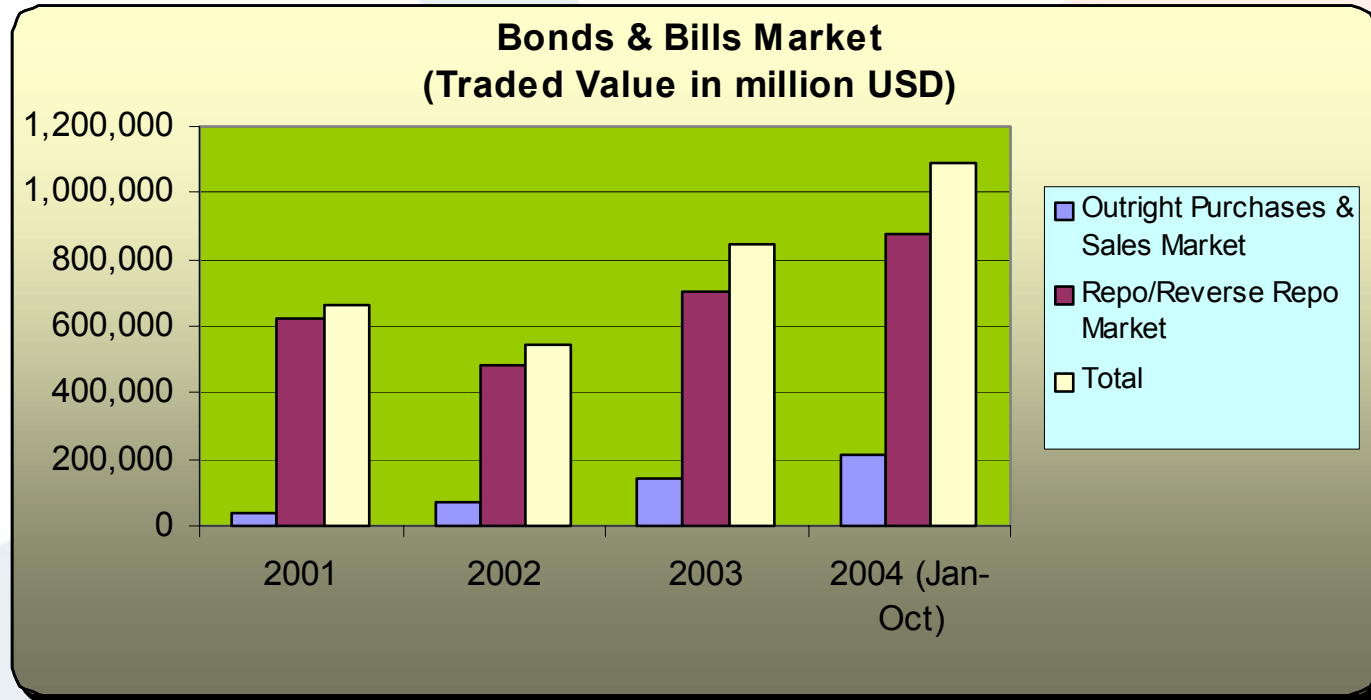
USD/Turkish Lira
EURO/Turkish Lira

COMMODITIES

Wheat Futures
Cotton Futures
(Two major agricultural
commodities of Turkey)

Interest Rate Market Volume Data

Istanbul Stock Exchange Bonds and Bills Market Volume
Exceeded **\$ 1 Trillion** in 2004



Source: Istanbul Stock Exchange

91 Day T-Bill Futures

Underlying Instrument	91 day Turkish Treasury Bills having a face value at maturity of 100 TRY
Contract Size	10,000 TRY (100 T-Bills each having a face value of 100 TRY)
Quotation	Quoted by per 100 TRY face value (94.547 TRY or 94.624 TRY)
Initial Margin	200 TRY
Maintenance Margin	75% of initial margin (150 TRY)
Daily Price Limit	2% above or below the prior day's settlement price
Minimum Price Fluctuation	0.001 TRY per 100 TRY face value (0.1 TRY per contract)

91 Day T-Bill Futures

Contract Months	3 nearest months out of February, April, June, August, October and December (like February, April, June or April, June, August)
Settlement Day	The next business day after the auction of the 91 day reference T-bill. If there isn't any auction on the contract month, the settlement will be made on the third Tuesday of the contract month. If this is a holiday, the settlement will be made on the next business day.
Last Trading Day	If there is a 91 day reference T-Bill auction of the Treasury on the contract month, the last trading day is the Monday of the auction week. And the trading ceases at 12:00 noon on that day. If there is no auction on that month, the last trading day is the third Monday of the contract month.
Settlement Type	Cash settled
Last Settlement Price	The value of 91 day reference T-Bills issued by the Turkish Treasury on the last or the day after the last trading day of the contract month. If there is no issue on these days then the last settlement price is calculated by using the Istanbul Stock Exchange 91 day T-Bill Index declared on the last business day.

365 Day T-Bill Futures

Underlying Instrument	365 day Turkish Treasury Bills having a face value at maturity of 100 TRY
Contract Size	10,000 TRY (100 T-Bills each having a face value of 100 TRY)
Quotation	Quoted by per 100 TRY face value (84.540 TRY or 82.650 TRY)
Initial Margin	500 TRY
Maintenance Margin	75% of initial margin (375 TRY)
Daily Price Limit	5% above or below the prior day's settlement price

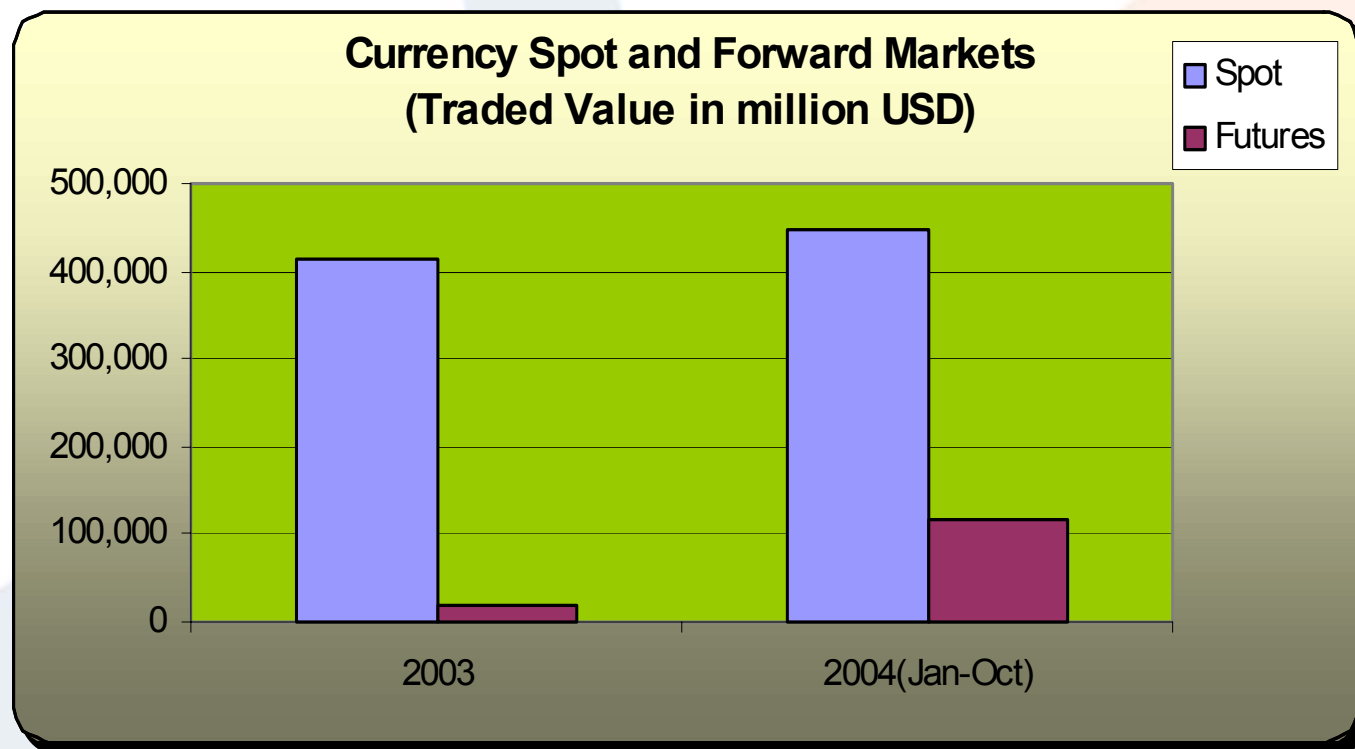
365 Day T-Bill Futures

Minimum Price Fluctuation	0.005 TRY per 100 TRY face value (0.5 TRY per contract)
Contract Months	3 nearest months out of February, April, June, August, October and December (like February, April, June or April, June, August)
Settlement Day	The third Tuesday of the contract month. If this is a holiday, the settlement will be made on the next business day.
Last Trading Day	The third Monday of the contract month. If this is a holiday, the last trading day will be the next business day.
Settlement Type	Cash settled
Last Settlement Price	The last settlement price is calculated by using the Istanbul Stock Exchange 365 days T-Bill Index declared on the last business day .

FX Market Volume Data



Spot and Forward FX Market's Total Volume Exceeded
\$ 500 Billion in 2004

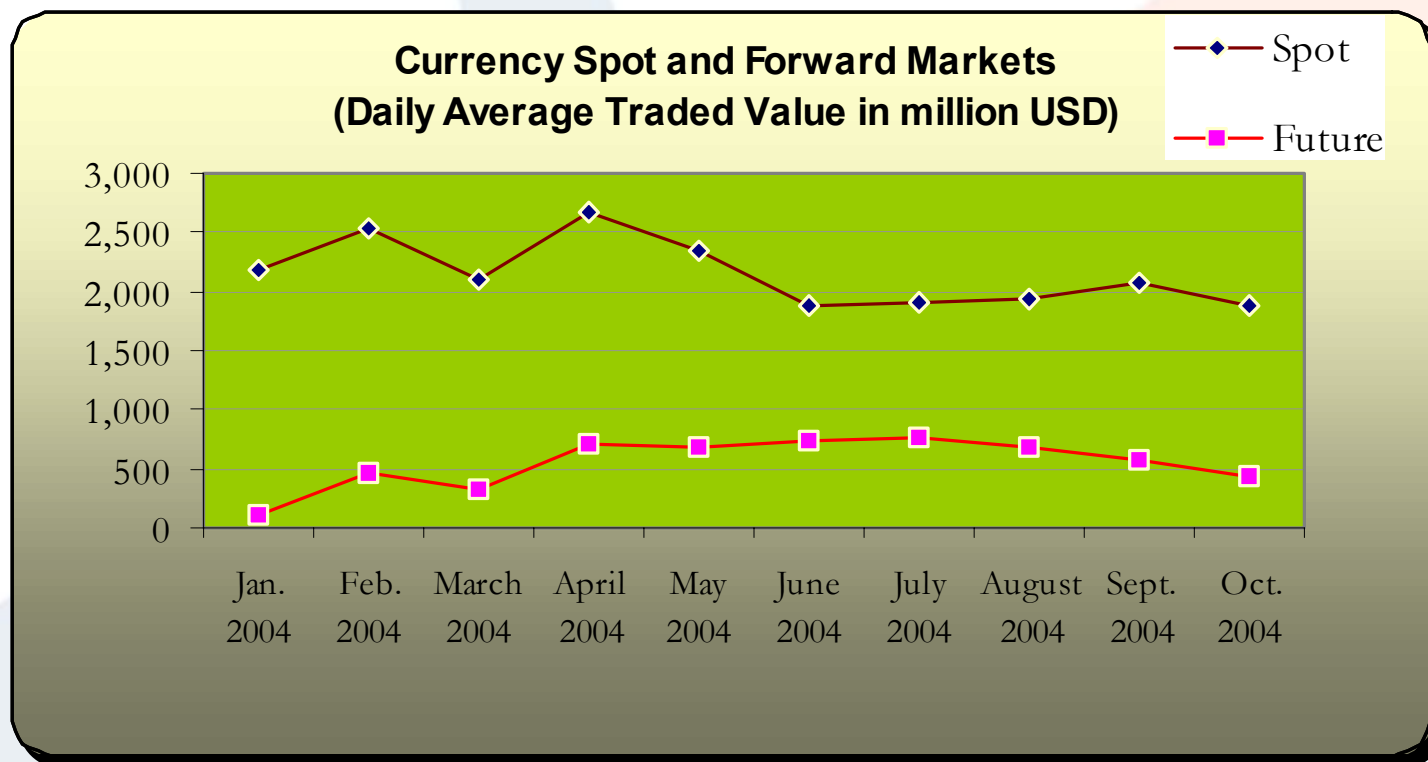


Source: The Central Bank of Turkey

FX Market Volume Data



Daily Average Spot Market Volume Is Around \$ 2 Billion & Daily Average Forward Market Volume Is Around \$ 500 Million



Source: The Central Bank of Turkey

TRY/USD Parity Futures

Underlying Instrument	TRY/USD Parity
Contract Size	1,000 USD
Quotation	New Turkish Lira per U.S. Dollars. Sample quote = 1.4750
Initial Margin	150 TRY
Maintenance Margin	75% of initial margin (150 TRY)
Daily Price Limit	10% above or below the prior day's settlement price

TRY/USD Parity Futures

Minimum Price Fluctuation	0.0005 TRY
Contract Months	3 nearest months out of February, April, June, August, October and December (like February, April, June or April, June, August)
Settlement Day	Last business day of the contract month
Last Trading Day	Last business day of the contract month
Settlement Type	Cash settled
Last Settlement Price	USD selling rate announced by the Central Bank of the Republic of Turkey at 3:30PM of the last trading day

TRY/EURO Parity Futures

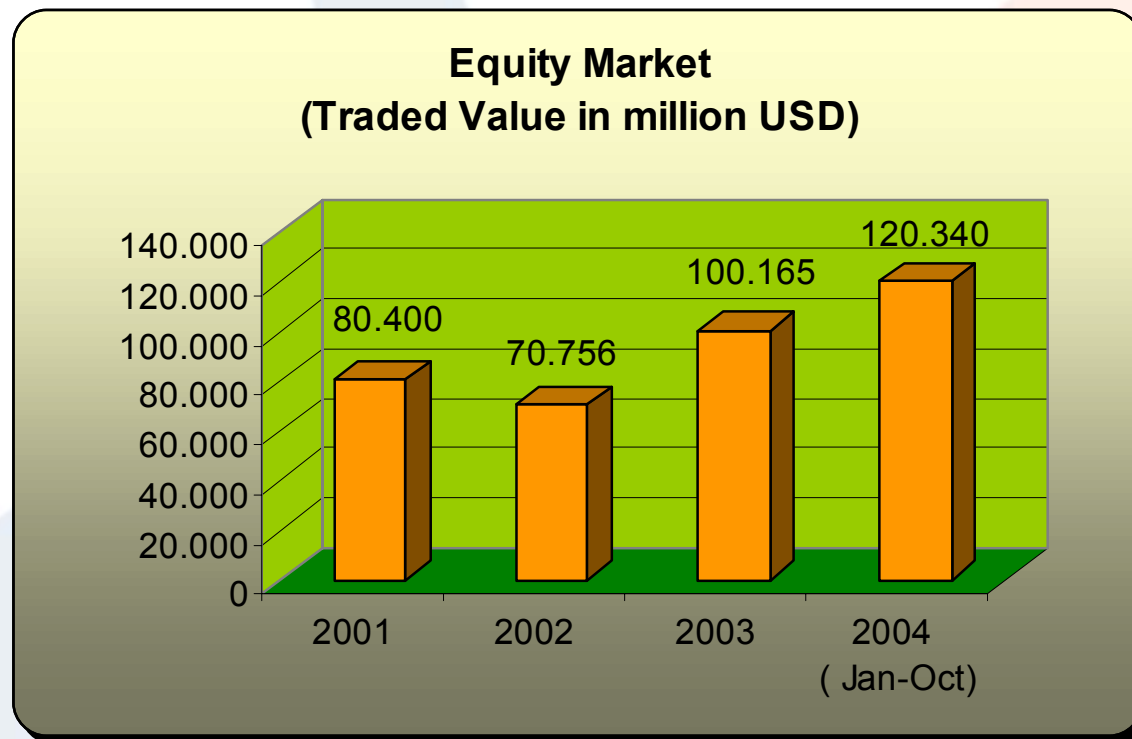
Underlying Instrument	TRY/EURO Parity
Contract Size	1,000 EURO
Quotation	New Turkish Lira per Euro. Sample quote = 1.8450
Initial Margin	200 TRY
Maintenance Margin	%75 of initial margin (150 TRY)
Daily Price Limit	10% above or below the prior settlement price

TRY/EURO Parity Futures

Minimum Price Fluctuation	0.0005 TRY
Contract Months	3 nearest months out of February, April, June, August, October and December (like February, April, June or April, June, August)
Settlement Day	Last business day of the contract month
Last Trading Day	Last business day of the contract month
Settlement Type	Cash settled
Last Settlement Price	Euro selling rate announced by the Central Bank of the Republic of Turkey at 3:30PM of the last trading day

Equity Market Volume Data

Istanbul Stock Exchange Equity Market Volume Exceeded
\$ 100 Billion in 2003



Source: Istanbul Stock Exchange

ISE 30 Index Futures

Underlying Instrument	Istanbul Stock Exchange 30 Index (ISE 30)
Contract Size	100 TRY times the value of the ISE 30 Index which was divided by 1,000 (Ex: ISE Index=23,565 Contract Size=100*23.565=2,356.5 TRY)
Quotation	ISE 30 Index value divided by 1,000
Initial Margin	250 TRY
Maintenance Margin	75% of initial margin (187.5 TRY)
Daily Price Limit	10% above or below the prior settlement price

ISE 30 Index Futures

Minimum Price Fluctuation	0.005 TRY
Contract Months	3 nearest months out of February, April, June, August, October and December (like February, April, June or April, June, August)
Settlement Day	Last business day of the contract month
Last Trading Day	Second business day prior to the settlement day
Settlement Type	Cash settled
Last Settlement Price	Arithmetic mean of random 10 ISE-30 Index values during the last 15 minutes of trading at TURKDEX on the last business day. When the trading at the ISE is over before TURKDEX, arithmetic mean of random 10 ISE-30 Index values during the last 15 minutes of trading at ISE (the time interval between the random values must be higher than 30 seconds).

Wheat Futures

Underlying Instrument	Anatolian Hard Red Wheat (Bezostaja-1, Dogu- 88, Gun- 91, Haymana- 79, Ikizce- 96, Karasu- 90, Lancer, Odeskaya- 51, Sahin)
Contract Size	5 tones
Quotation	New Turkish Lira (TRY) per kg. Sample quote = 0,3865
Initial Margin	200 TRY
Maintenance Margin	75% of initial margin (150 TRY)
Daily Price Limit	8% above or below prior day's settlement price

Wheat Futures

Minimum Price Fluctuation 0,0005 TRY

Contract Months March, May, July, September, December

Settlement Day Last business day of the contract month

Last Trading Day Last business day of the contract month

Settlement Type Cash settled

Last Settlement Price

- Weighted arithmetic mean of the prices belonging to Anatolian Hard Red Wheat announced by Polatlı, Edirne, Eskisehir, Konya, Gaziantep, Karaman, Corum, Uzunkopru Mercantile Exchanges in the last business day of the contract month and one business day before that day.
- If there are no trades at the Exchanges mentioned above or if the Settlement Price Committee defines prices as unreal at those days, the last settlement price should be calculated and declared by the Committee.

Cotton Futures

Underlying Instrument	Aegean Standard 1 Cotton
Contract Size	1 tone
Quotation	New Turkish Lira (TRY) per kg. Sample quote = 1.825
Initial Margin	200 TRY
Maintenance Margin	75% of initial margin (150 TRY)
Daily Price Limit	6% above or below prior day's settlement price

Cotton Futures

Minimum Price Fluctuation	0,005 TRY
Contract Months	March, May, July, October, December
Settlement Day	Last business day of the contract month
Last Trading Day	Last business day of the contract month
Settlement Type	Cash settled
Last Settlement Price	<ul style="list-style-type: none">• Weighted arithmetic mean of Aegean Standard 1 cotton prices announced by Izmir Mercantile Exchange at the last trading day of the contract month and minimum two business days prior to the last trading day.• If there are insufficient trades during these days, price quotations are taken from minimum twelve members of Izmir Mercantile Exchange. After eliminating the best and the worst prices, the arithmetic mean of these prices and the available prices at the Izmir Mercantile Exchange is declared as the last settlement price.

Thank You ...