

# ISE 25<sup>th</sup> ANNIVERSARY CONFERENCE 2010

## TURKISH CAPITAL MARKETS

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**Chairman**

**The Association of Capital Market Intermediary Institutions of Turkey**

**Honourable Minister,  
Distinguished guests,**

It is a great pleasure and honour to be with you on the occasion of "Istanbul Stock Exchange's 25<sup>th</sup> Anniversary Conference". I would like to congratulate the Istanbul Stock Exchange for organizing this esteemed conference to mark its history of a quarter century. Also, I would like to thank the organizers, for inviting me for the opening speech.

Yesterday, we all had the chance to see the development of the Istanbul Stock Exchange in the last 25 years. This morning, I want to give you a brief overview of developments about the brokerage industry and listed companies. Then I will touch upon our vision for the future by explaining the two important projects; Investor Education and the Istanbul Financial Centre. Istanbul Financial Center project will be discussed in detail later today.

### **SLIDE 2- History**

Istanbul Stock Exchange was founded in December 1985. The first bell rang only one month later in January 1986. I was working at the Capital Markets Board at that time. I remember those days like it was yesterday. We invited 23 banks, 8 brokerage firms and 2 individual brokers to attend the first general meeting of ISE. That was the meeting when Istanbul Stock Exchange was officially established.

With the development of the market, the number of intermediaries increased considerably. From 8 in 1986 to 112 in 1992. The number of banks also increased from 28 to 60 during the same period.

In 1997, with the decision of the Capital Markets Board, only brokerage firms are allowed to trade equities. Banks were required to transfer their equity market operations to a brokerage firm. Then, banks started to establish new brokerage firms as subsidiaries. With the new additions, the number of brokerage firms reached 142 in 1998. However, the market consolidated later.

### **SLIDE 3- TSPAKB**

Let me also briefly introduce our association. The Association of Capital Market Intermediary Institutions of Turkey has been established by law as a self-regulatory organization in 2001. We will be celebrating our 10<sup>th</sup> anniversary next year.

All banks and brokerage firms that offer investment services have to be our members. Membership is compulsory. Currently, 103 brokerage firms, 1 derivatives brokerage firm and 41 banks, which are authorized for capital market operations, are our members.

We regulate and oversee activities of our members. This is our Association in a nutshell.

#### **SLIDE 4- Contents**

That was a bit of background. Now, I would like to mention the current picture of the brokerage industry.

#### **SLIDE 5- Financial Institutions**

On the left side of this slide, we see total assets of financial institutions which mostly reflect banks' assets. As you know, our financial sector has not been affected by the global crisis. Banks and other financial institutions were resilient during the crisis. Actually, total assets of these institutions continued to rise during the crisis.

When we consider brokerage firms only, we see that asset growth has continued in spite of the crisis. Overall, total assets of brokerage firms increased by five-folds in the last decade. However, they still constitute a small portion of the financial industry.

#### **SLIDE 6- Brokerage Firms**

Now, I would like to talk a little bit about the operations of our brokerage firms.

As you see on the left chart, currently there are 104 brokerage firms in our market. As I have mentioned, this figure was much higher towards the end of 1990s.

Currently, establishment of a new brokerage firm is not allowed. So, in the last five years, we saw newcomers entering the market by acquiring existing brokerage firms. Many global investment banks also acquired small brokerage firms in Turkey. Currently, foreign institutions have controlling stakes in 26 brokerage firms out of 104.

The workforce has been negatively affected during the crisis. After the 2001 crisis, the number employees stabilized around 6,000. However, with the recent global crisis, the figure came down to below 5,000. Nevertheless, a small improvement occurred lately with the market recovery. But, this recovery is not as sharp as in other indicators.

On the right chart, you see the major sales points of brokerage firms. They are mainly using bank branches to reach investors. The branch network doubled in the last decade because of the rise in bank branches.

To sum up, in the last decade, while brokerage firms' assets have been growing steadily on one hand; on the other hand, the number of brokerage firms and employees in the industry contracted. This means that less number of brokerage firms are sharing a larger market now. It also points to increased efficiency of the brokerage firms.

Meanwhile, with the help of increased branch network and internet penetration, brokerage firms are able to reach investors throughout the country. There is no problem in reaching the investors.

#### **SLIDE 7- Contents**

Now, I want to touch upon listed companies in ISE.

## **SLIDE 8- Listed Companies in ISE**

Here, we see the number of listed companies and market capitalization of ISE. Total number of companies has been increasing until 2001. The crisis led to a decline after 2001, but later it recovered. Indeed, total number of listed companies increased from 80 in 1986 to 347 in 2010.

The growth of the market capitalization during the same period has also been remarkable. It increased from \$ 1 billion to \$ 306 billion.

On the right chart, you see the funds raised through the ISE. Total amount of funds raised have reached USD\$ 48 billion since beginning. We see that IPOs accelerated in 2010. 24 IPOs have been completed so far due to the IPO Awareness Campaign. I would like to talk about this project now.

## **SLIDE 9- IPO Campaign**

A Cooperation Protocol has been signed in 2009, between our Association, Capital Markets Board, Istanbul Stock Exchange and the Union of Chambers and Commodity Exchanges of Turkey. The Union represents more than 1.2 million enterprises in Turkey.

The project aims to provide training to businesses and raise awareness on the functioning of the capital markets and issuing securities. Our Association will be providing support for the training of these potential issuers.

## **Slide 10-IPO Campaign**

Currently, seminars are being held in different cities almost every month. These seminars are designed to provide information on how to become listed on the Istanbul Stock Exchange.

An IPO Summit has been held in May where more than 1.000 companies attended. Another one is held in Bursa last month. We are trying to raise interest towards capital markets. We are trying to explain companies that there are alternative methods of providing finance, rather than bank loans only.

Wide and continuous press coverage through events and PR activities were held. Capital Markets Board facilitated the IPO process and applications are processed more quickly.

As we remember the figures from the former slight, we can say the IPO campaign has been very successful.

## **SLIDE 11- Contents**

On the other hand, we believe that demand side should be strengthened as well. We all agree that investors stand in the heart of our industry. Now, the next step will be the investor education campaign. Our Association is planning to start a nationwide financial education project to expand the investor base in cooperation with the Capital Markets Board, the Istanbul Stock Exchange and other related institutions.

Before summarising our studies so far, I want to mention that our Association became the Board Member of the International Forum for Investor Education and Asia Forum for Investor Education, which are the leading international institutions in this area.

## **SLIDE 12- Investor Education Project**

First of all, we have conducted a study to measure the perception of the general public. We wanted to understand why some people stay away from these markets and we wanted to know how familiar people are with the financial institutions and instruments.

The study was divided into two: Qualitative and quantitative surveys.

In the qualitative section, we have done in-depth interviews with five groups of stakeholders. Current investors are people with investments in securities. Potential investors are the people who have savings but do not invest in securities. The most interesting group, according to me, is the Lost Investors group. These are the people who once invested in securities but later sold their holdings and stayed away from the markets. We have also spoken with the academics and people from the media.

On the other hand, the quantitative survey was done with 2010 people, representing the whole population.

## **SLIDE 13- Initial Findings**

We have seen that the general public is not informed about the investment instruments and investor protection mechanisms. Therefore, they do not have confidence in the market and prefer to stay away.

Gold is on top of the public's investment preferences, followed by real estate. Capital market products are ranked on 5<sup>th</sup> and 6<sup>th</sup> place, preferred by only 3% of the population.

Therefore, in the light of this survey, we are planning to design a detailed investor education programme, in cooperation with the regulatory authorities, exchanges and other financial institutions.

## **SLIDE 14- Contents**

In the final section of my speech, I would like to talk about the Istanbul Financial Centre project. Today, you will listen more of this project in details, so I will be brief.

## **SLIDE 15-Istanbul: Strengths**

Our Association has been working on the idea of positioning Istanbul as a regional financial centre, for some time. We believe that Istanbul has the potential to become a financial centre for the Eurasia region, covering Eastern Europe, Middle East and Central Asia. We have strong reasons to believe in this.

In the region that we are targeting, we are the largest country in terms of GDP, population, market capitalisation, market liquidity etc.

We have a well-developed regulatory structure and institutions in line with global standards. There is a qualified talent pool, especially in the finance sector.

Moreover, we are close to the major financial markets and located at the heart of the region. With a 2 or 3 hours flight, you may reach Istanbul from anywhere in this region.

All these factors suggest that Istanbul could easily become a regional financial centre, if we do our homework well. And we have started doing it.

### **SLIDE 16- Istanbul Financial Centre Project**

The government endorsed the idea and coordinated studies started in 2009. More than 300 people, from more than 80 institutions worked on shaping the Strategy Report.

The report was made public last year in October, by the Minister of Economy, during the IMF and World Bank meetings in Istanbul.

A new organisation structure has been formed by the government. The working committees have already started working on the details of implementing the strategy.

The plan to make Istanbul a financial centre is a long-term project. The successful outcome of this project will offer significant benefits to Turkey. Besides this, we believe, each step taken during this project will provide an important contribution to the development of our capital markets.

For this reason, our Association conducted various studies on this issue since 2006. Currently, we are fully involved in every step of this project.

### **SLIDE 17- Target: Istanbul Financial Centre**

Dear guests,

I have come to the end of my presentation. Before concluding, I would like to summarise our vision for the future.

In the very near future, we are willing to have a market with a wider investor base, having more listed companies, offering a variety of investment instruments and surrounded by an effective regulatory framework in line with international standards. I strongly believe that we will reach our vision of making Istanbul a regional financial centre in the medium-term.

Turkey's capital market is moving towards this direction. Meanwhile, on behalf of the financial intermediaries, I would like to express our heartfelt thanks to the Istanbul Stock Exchange for their dedication to reach this goal in the last 25 years.

### **SLIDE 18**

Thank you very much for listening.