

Turkish Derivatives Conference

(13-14 November 2012, Istanbul)

Attila Köksal, CFA

Chairman

The Association of Capital Market Intermediary Institutions of Turkey

Dear Chairmen, Dear Chairlady, ladies and gentlemen, Good morning and Welcome to the Turkish Derivatives Conference.

First, I would like to thank the organizers, namely the Institute for Financial Markets and the Futures Industry Association, for their excellent organisation of the event.

Dear guests,

The Turkish economy is the 16th largest economy in the world, but the size of our capital markets dramatically lags those of comparable emerging market countries. Between mid-1970s to early-2000s, we lost almost three decades to high inflation, high real interest rates and domestic political uncertainties. Our equity and fixed income markets remained under enormous pressure by the crowding-out effect of government securities which offered real returns of 20 to 30 % for many years.

Even though plans have been in place to establish a derivatives exchange since early 1990s, because of this environment, the Turkish Derivatives Exchange (TurkDex) could not start trading until 2005. Between 2005 - 2010, Turkdex has experienced enormous growth to become one of the world's fastest growing exchanges. Today, it ranks 27th among 54 exchanges in terms of the number of contracts traded, according to the Futures Industry Association figures.

As you all know, the Turkish government has a master plan of making Istanbul a regional financial center. In line with this plan, all capital markets institutions, namely the Capital Market Board of Turkey, Istanbul Stock Exchange, our Association, Turkdex, Institutional Investor's association, etc. cooperate fully towards restructuring our capital markets. A new Capital Markets Law has been drafted which soon will be vetted by the Parliament. This new law will dramatically impact the structure of the Turkish Capital Markets. As you may have heard from the press, all exchanges, including Turkdex, will be consolidated under the so-called "Borsa Istanbul" to create a more efficient, more competitive market place.

To further stimulate the growth of our capital markets, we (all capital markets institutions) are running two major nationwide campaigns. The **Public Offering campaign** targets to increase the number of public companies as well as the free floats of the existing public companies through initial and secondary offerings. On the other hand, the **Investor Education Campaign** targets to reshape the investment preferences of Turkish investors who suffered from inflation for many years and developed their unique investment patterns which are not applicable in this environment anymore.

We envision a huge growth in the Turkish Capital Markets in the next decade. Considering that less than 15 % of the top 1,000 companies are public and also considering that the corporate bond market was almost non-existent until two years ago the potential is huge. (by the way, there is already an exponential growth in corporate bonds in 2011-12).

The same potential applies to our derivatives market as well. We are proud of Turkdex and its growth during 2005-2010. However, looking forward, we have to be realistic. During the last two years, growth of Turkdex has stalled. It is a well-known fact that, almost 90 + % of Turkdex volumes are based on only one contract. In the future, we have to expand the range of our derivatives products by developing new contracts that will appeal not only to equity market investors but also to local and international institutional investors and corporations as risk management tools. We have to make significant investments into research, and re-design the commodities and fixed income derivatives products to make them attractive to a wide range of investors.

In the past, the hybrid (public / private) structure of the Istanbul Stock Exchange hindered its technology and human resource investments. Turkdex also suffered deeply from both structural and technology issues. Going forward, Borsa Istanbul will be the right platform to nurture our derivatives market. As the investment industry, we are looking forward to trading exchange-traded options and single-stock futures in Istanbul Stock Exchange soon.

Ladies and gentlemen,

We lost a lot of valuable time to build our derivatives market. Finally, stars are aligned for us and we now have the right environment and infrastructure. We derived lessons from our past mistakes and identified our strengths and weaknesses. I am confident that success will follow.

I will end my words with a quote from Henry David Thoreau "Never look back unless you are planning to go that way."

Thank you and enjoy the conference.