



FINANCIAL MARKET INFRASTRUCTURE

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Reform and Regulation in Financial Markets
Istanbul, January 31, 2012

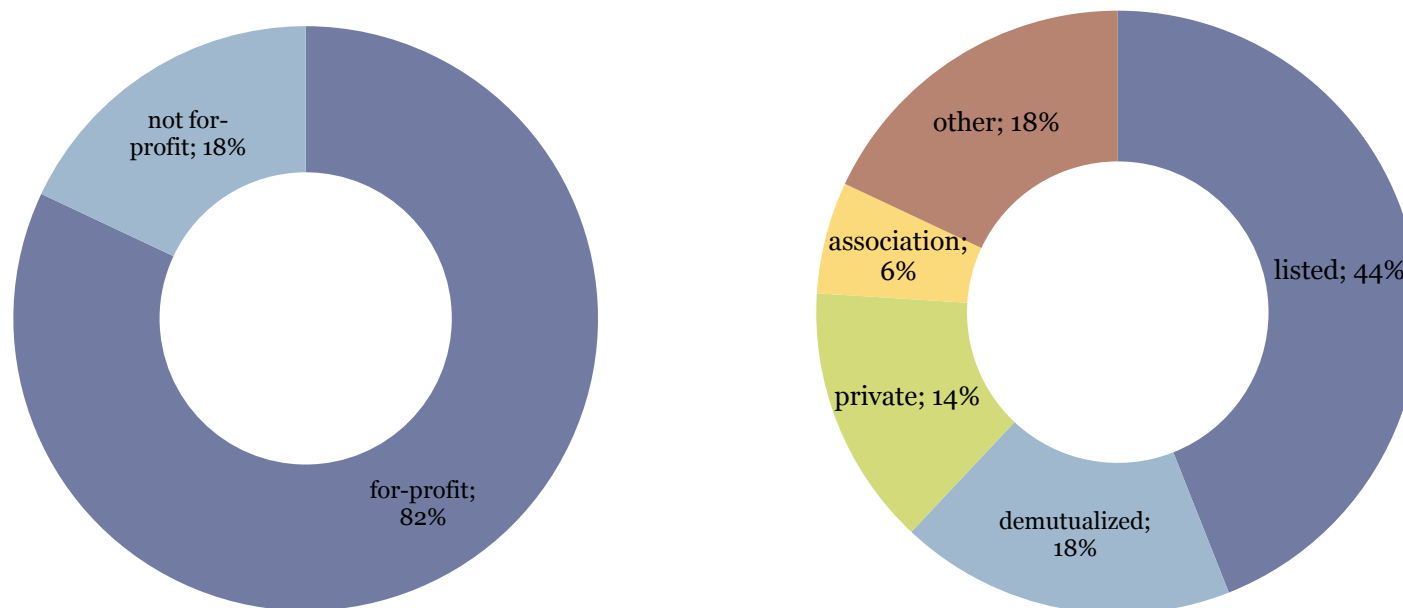
Outline

- Recent trends in the industry
- Current status of IMKB/ISE
- IMKB/ISE: key driver of Istanbul Financial Center
- Regulatory insights

Recent trends in the industry

- **Demutualization and Self-listing**
 - By 2010, 82% of WFE-member stock exchanges are for-profit, compared to only 38% in 1998

WFE members by legal status, 2010

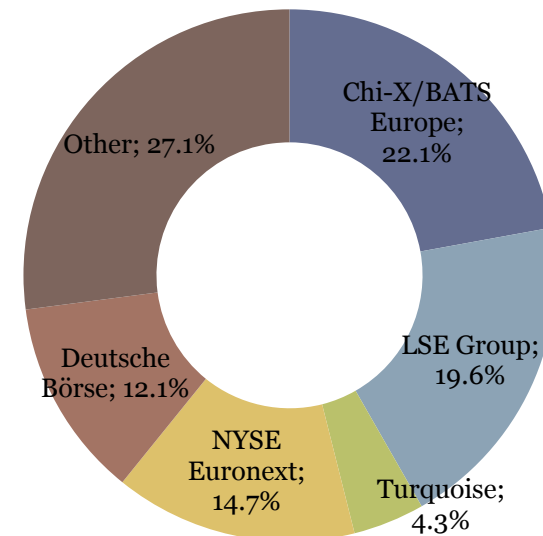


Recent trends in the industry

- **Competition, Institutional Differentiation**

- Exchange-MTF competition
 - Regulated markets loose market share to MTFs
 - Reshaped business models
 - Increased role of technology
- Market fragmentation
 - Quality of price discovery and data
- Central clearing of OTC derivatives
- Interoperability
 - Integration of the post trading
 - Competition among the CCPs

Equity trading value in Europe, 2011



Recent trends in the industry

- **The industry is shaped by M&A activities**
- - utilizing economies of scale
 - coping with competition introduced by the MTFs
 - accessing to derivatives business

Recent M&A activities

Year	Acquirer	Target	Status
2011	TMX Group	Bermuda SE	Completed
2011	Osaka SE/Tokyo SE	Tokyo SE/Osaka SE	Pending
2011	BATS Global Markets	Chi-X Europe Ltd.	Completed
2011	Deutsche Börse	NYSE Euronext	Pending
2011	LSE Group	TMX Group	Terminated
2011	MICEX	RTS	Completed
2010	SGX	ASX	Terminated
2009	LSE Group	Turquoise	Completed

Two largest Moscow-based stock exchanges, MICEX and RTS merged in December 2011

- Expected benefits
 - Ending competition among the two exchanges to focus on increasing the number of investors and companies
 - Creating a “one-stop-shop” for stocks, derivatives, bonds and currencies
 - Reducing transaction costs and enhancing liquidity
 - Revenue diversification
 - Helping transform Moscow to an international financial center

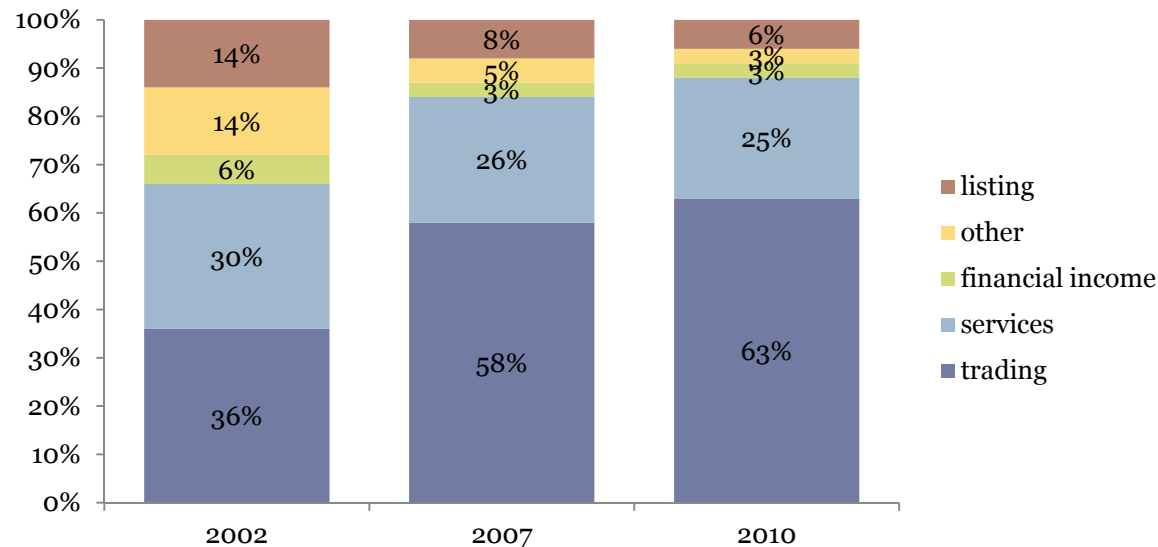
BOVESPA and BM&F merged in 2008

- Expected benefits
 - More operational efficiency
 - Revenue diversification
 - Strategic Investments
 - Ability to invest in technology, regional and international expansion, increasing company presence as a for-profit company
 - Use staff and resources more efficiently while optimizing the use of available resources and further professionalizing the regulation and oversight of markets

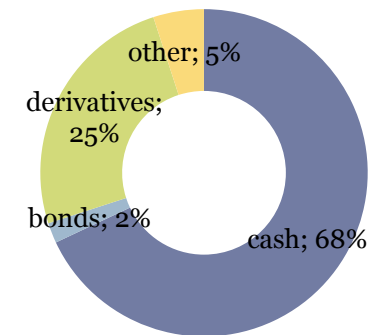
Recent trends in the industry

• Revenue Diversification

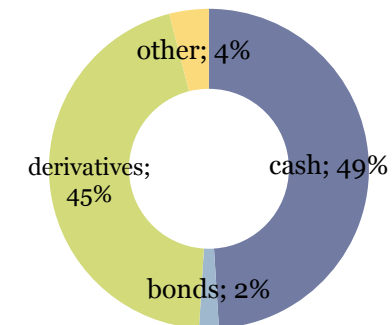
- Need for revenue diversification led by the shift in the industry structure
- Decreasing share of cash trading and listing
- New sources of revenue
 - Derivatives trading
 - Market data
 - Post-trade services
 - IT services



Trading revenue breakdown, by product, 2007



Trading revenue breakdown, by product, 2010



Current status of the IMKB/ISE

- Not for-profit public organization
- Regulated by the CMB, considered independent in its financial and administrative decisions
- Recent changes in the structure of the Board of Directors
 - Seven members
 - Chairman and three members appointed with joint degree upon proposal by the Minister
 - Remaining three members elected by the General Assembly
- Demutualization on the agenda
 - more efficient governance structure
 - ability to make decisions more easily
 - strategic flexibility
 - Catch-up with the global trends
 - consolidation
 - changing revenue models
 - strategic partnerships

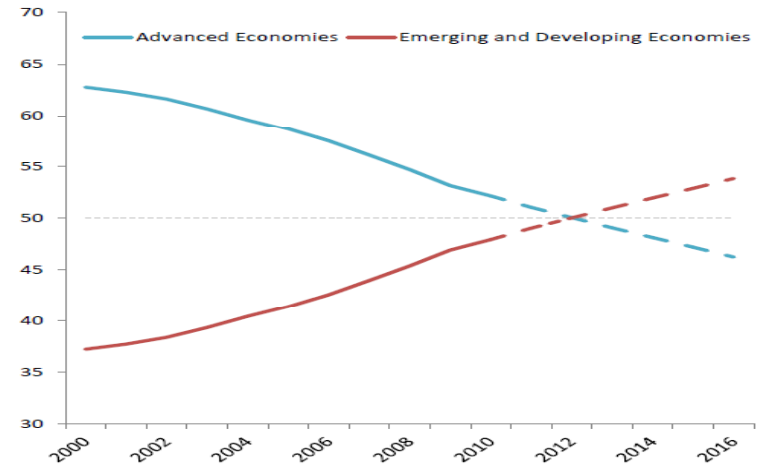
IMKB/ISE: key driver of Istanbul financial center

- Istanbul International Financial Center (IFC-Istanbul)
 - Vision and strategy
 - Put in place at a time when opportunities grow for emerging markets to develop as new financial centers
 - The increasing role of EMs in the new economic landscape

**GDP Annual Change
(Percent, YoY)**

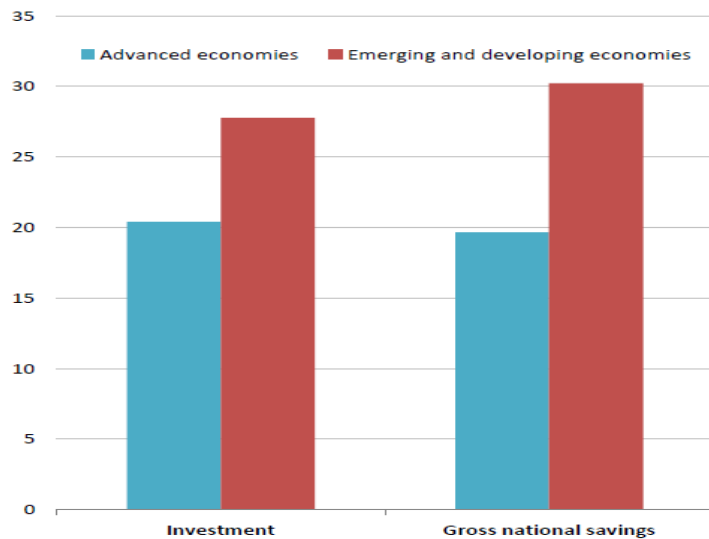


**Share in World Total GDP
(Percent, PPP based)**



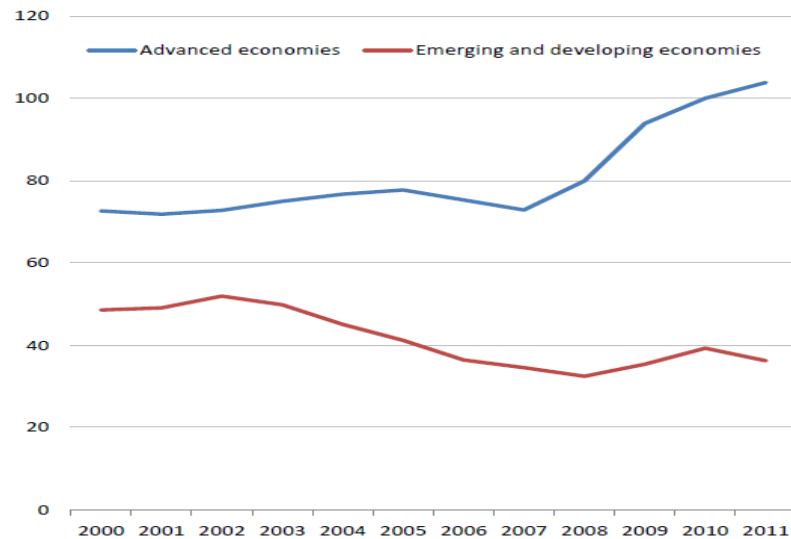
Source: IMF WEO.

**Savings and Investment
(Percent, Ratio to GDP, Average of 2000-2011)**



Source: IMF WEO.

**Government Debt
(Percent, Ratio to GDP)**

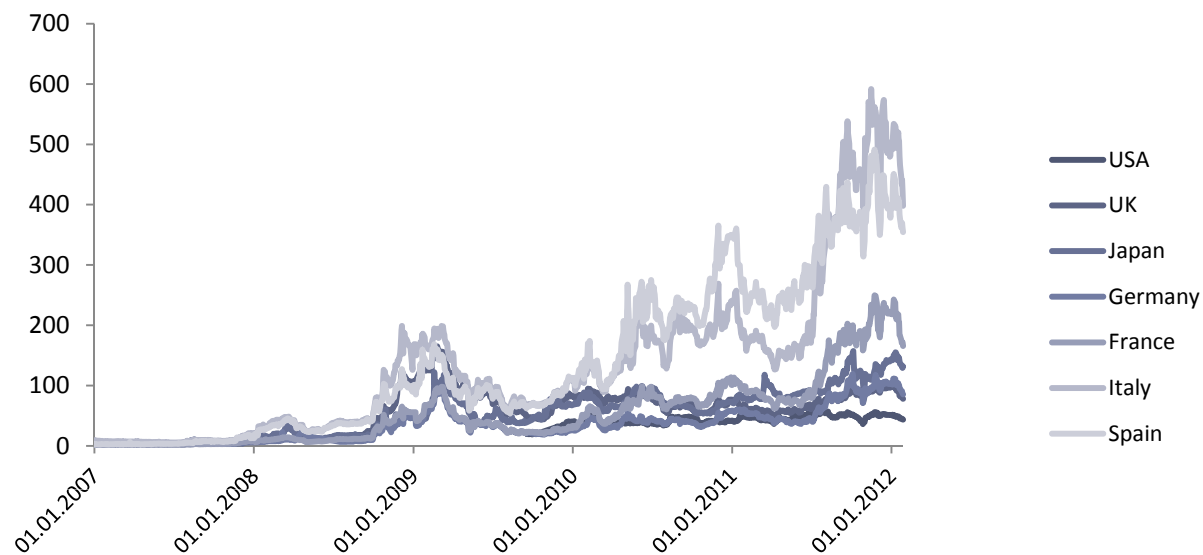


Source: IMF WEO.

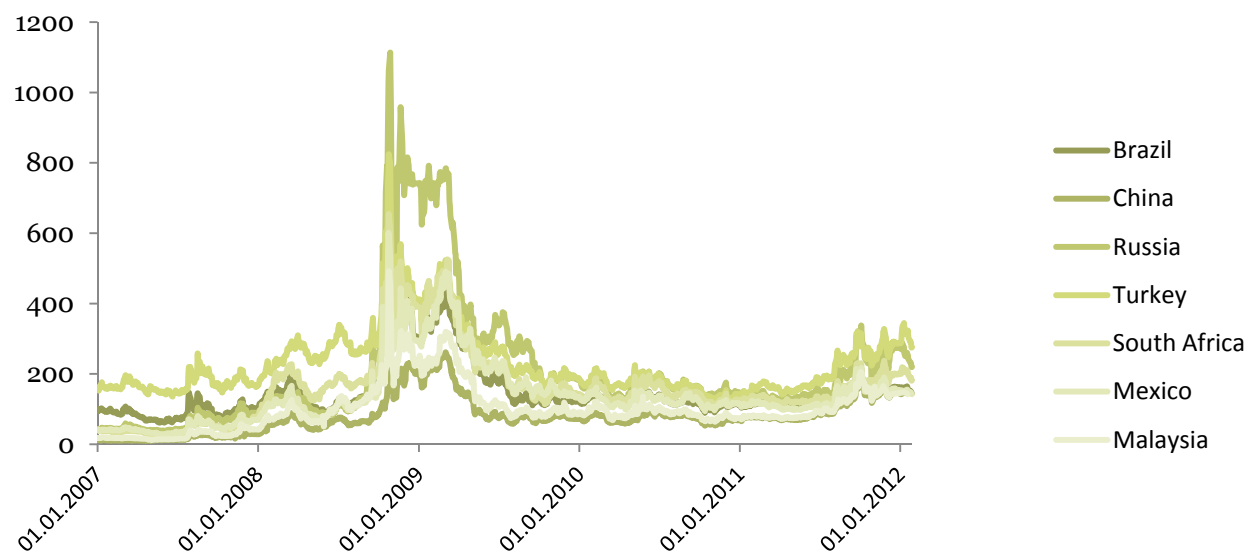
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 - The perception of risk changes in favor of EMs

CDS, advanced economies, 01.01.2007-27.01.2012



CDS, emerging and developing economies, 01.01.2007- 27.01.2012



IMKB/ISE: key driver of Istanbul financial center

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 - The increasing role of EMs in the new economic landscape
 - The perception of risk changes in favor of EMs
 - The incumbent financial centers loose strength
 - Eurozone debt crisis has affected the European financial centers
 - Tax costs accompanying the fiscal consolidation efforts
 - Financial transaction tax to be introduced
 - Shanghai, Seoul, Istanbul and Moscow are among the rising stars

IMKB/ISE: key driver of Istanbul financial center

- Istanbul International Financial Center (IFC-Istanbul)
 - Comparative advantages
 - Macroeconomic and political stability
 - Fiscal discipline- enabling to pursue a competitive advantage
 - Well-functioning market economy, no capital restrictions
 - Support of government
 - Coordinated efforts of stakeholders from both public and private sector
 - Geographical positioning
- Istanbul Stock Exchange
 - Key driver in developing Istanbul as an international financial center
 - Embodying both the market and the public perspective, IMKB/ISE has the experience and tools to foster the IFC-Istanbul Project
 - has a technology provider role in Turkish capital markets
 - introduces new products and markets
 - As a leader in its region, IMKB/ISE serves the potential to be utilized in positioning Istanbul as an international financial center
 - Highest turnover and largest market cap among the FEAS members and the Eastern-European FESE members

The financial centers are characterized by the stock exchanges



Regulatory insights

- Global Crisis has shown the importance of transparent and fair structure and hence, organized markets
 - Regulations
 - must pave the way for development of markets
 - must provide market disclosure environment to ensure the concurrent and equal information flow to all market participants
 - must ensure the market discipline and transparency which is key to establish and maintain the investor trust
 - must secure the efficient price discovery function of stock exchanges

Regulatory insights

- Encouraging capital market growth
 - Offering new financial instruments
 - High IPO potential
 - Product diversification
 - Derivatives and structured products
 - Products for local needs and preferences
 - Investor base to be enlarged
 - Potential investors
 - Young population: Half of the population is under 30
 - Protection of investors' rights
 - Financial Literacy
 - National-level campaign for awareness
 - Institutional investors
 - A mechanism safeguarding the investor rights
 - Crucial for access of individual investors to capital markets
 - Pension funds and mutual funds should utilize more of their potentials

Regulatory insights

- Enabling to pursue alternative business models
 - Consolidation of markets in emerging countries
 - Rationale
 - Utilization of economies of scale
 - Optimisation of market operations
 - Reduction of overlapping functions
 - Reduction of transaction costs
 - Creation of a multi-asset platform
 - Fragmentation is the main challenge for
 - price discovery
 - surveillance
 - public disclosure
 - data distribution
 - Stock exchanges diversify their sources of revenue
 - Product diversification
 - Vertical integration
 - Post-trade services
 - Technology
 - Geographical expansion
 - Strategic partnerships create meaningful synergies
 - Regional positioning is critical
 - Technology-licensing partnership to be considered

The way forward & challenges

- Organized capital markets play a key role for sustainable economic growth
- The regulatory framework should support the market development
- Positioning itself in the center of the IFC-Istanbul Project, IMKB/ISE aims at,
 - changing the structure of its organization to a joint stock company
 - evaluating alternative business models and involving in strategic partnerships
 - increasing product and service diversity to meet the preferences of local and foreign investors
 - increasing the number of listed companies and market cap in parallel to the GDP growth
- **Challenges**
 - Progress takes time
 - Response to changing market issues
 - Regulations
 - Fragmentation
 - Competition
 - Technology
 - New Business Models