PROJECT TITLE:
ASSISTING THE CAPITAL MARKETS BOARD OF TURKEY (CMB) TO COMPLY FULLY WITH EUROPEAN UNION CAPITAL MARKETS STANDARDS

Project number: TR 0402.06
Twinning number: TR/2004/IB/FI/01

1. Basic Information

1.1 Title: Assisting the Capital Markets Board of Turkey (CMB) to comply fully with European Union capital markets standards
1.2 Sector: 1.3 Location: Ankara and Istanbul, Turkey
1.4 Duration: 2005 - 2007

2. Objectives

2.1 Overall Objective:
To improve the availability of investment via capital markets through better regulation.

2.2 Project purpose:
To Complete the alignment of the capital markets legislation and its proper implementation, in accordance with the EU Acquis.

2.3 Accession Partnership (AP) and NPAA priority
2.3.1 Accession Partnership priorities
Short-term priority:
Economic Criteria: “Continue the swift implementation of the financial sector reform, in particular the alignment of prudential and transparency regulations and their surveillance with international standards.”

Freedom to provide services: “Complete legislative alignment in financial services and strengthen the supervisory structures and enforcement record including maintaining the independence of regulatory bodies.”

Free movement of capital: “Remove all restrictions affecting foreign investments (originating from the EU) in all economic sectors in Turkey.”

Company Law: “Complete alignment with the acquis on company and accounting legislation.”

Medium-term priority:
Economic Criteria: ”Complete the reform of the financial sector...”

Freedom to provide services: “Complete and implement aligned legislation in this area and remove all obstacles to the right of establishment and freedom to provide services.”

2.3.2 NPAA priorities
The NPAA *Chapter IV* sections 3, 4 and 5 provide an overview of legal gaps to comply fully with the EU acquis. The references NPAA Chapter IV, Sections 3.2 (Freedom to Provide Services), 3.2.1 (Banking and other Financial Institutions), 3.2.2 (Capital Markets); 4.1.1 Free Movement of Capital; and Chapter 5 (Company Law), 5.1.1 (Alignment with the Company Legislation), 5.1.2 (Accounting and Auditing) set adoption and implementation of the EC acquis, with appropriate training, as a final objective.

NPAA *Chapter V*, Administrative Capacity for the Implementation of the Acquis, Section 6.3 on Freedom to provide Services, states: "Important developments to strengthen administrative capacity have been realised...". Section 6.4 states: "In the field of Free movement of Capital, the priorities that Turkey has to harmonise are related to the legislative harmonisation and do not include important steps to be taken in the field of administrative capacity..."

The "necessary administrative and institutional changes" include:

- "The improvement of the CMB-ISE computer based market surveillance system to monitor securities trading activities";
- "Ensuring the collection and public disclosure of financial statements using the internet".

For Training, all three NPAA Sections envisage:

- "Training of staff for the harmonisation of the relevant legislation and consultancy";
- "Training of experts and obtaining consultancy for the harmonisation of the EU acquis 2003-06".

For IT the NPAA envisages improvement of "computer based market surveillance system" and "collection and public disclosure of financial statements using the internet".

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP): Not applicable

2.5 Cross Border Impact: Not applicable
3. Description

3.1 Background and Justification

The table below gives an overview of key figures on the general economy and the capital markets. It is seen that the economy in general and the capital markets demonstrate recovery from the peak of the economic crisis in the year 2001.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (USD)</td>
<td>2,146</td>
<td>2,622</td>
<td>3,412</td>
</tr>
<tr>
<td>Consumer Prices (YtY), %</td>
<td>68.5</td>
<td>29.7</td>
<td>18.4</td>
</tr>
<tr>
<td>External debt /GDP</td>
<td>76</td>
<td>72</td>
<td>61</td>
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<tr>
<td>Total trade ISE (bUSD)</td>
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<td>619</td>
<td>946</td>
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<tr>
<td>- of which stock market (bUSD)</td>
<td>80</td>
<td>71</td>
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<tr>
<td>Stock market capitalisation (bUSD)</td>
<td>48</td>
<td>34</td>
<td>69</td>
</tr>
<tr>
<td>Stock market capitalisation / GDP %</td>
<td>32</td>
<td>19</td>
<td>29</td>
</tr>
</tbody>
</table>

Sources: Capital Markets Board and Association of Capital Markets Intermediaries (TSPAKB))

Turkey has had a very difficult recent economic history with two economic crises and a major earthquake disaster placing severe strain on economic recovery and development policies, on capital markets, and on domestic and international investor confidence. In 2001 inflation reached more than 70% and GNP declined by 9.5%. The IMF approved the new Stand-by Agreement amounting to US$ 16 billion for 2002-04, which improved Turkey’s credit rating. Some progress was made early in 2002, but slippage in mid year on political concerns reversed the improved credit rating. Nevertheless, inflation had declined to 29.7% by end 2002, GNP growth was 7.8%. The improvement continued in 2003 with inflation falling to 18.4% and to 14.3% currently (February 2004). In March 2004, Japan credit rating agency JCR raised Turkey’s local long-term senior debt to B+ on the basis of the Government’s success in realising a beneficial cycle of reducing inflation, falling real interest rates, increased private consumption, export growth and improving public sector primary surplus at 6.5% of GNP (2003).

With the crises, public sector debt grew rapidly and debt/GNP reached 98.4% in 2002. This rapid growth in debt stock led to domination of the domestic financial markets traded at the Istanbul Stock Exchange (ISE). Whereas in the early 1990’s there was an almost even distribution of 56% public debt securities and 44% common stocks, by end 2002 these percentages were respectively 92% and 8%. The balance in 2003 moved very little, with common stocks accounting for only 12% of the market.

The total number of corporations listed at ISE is 285 (2003) a decline of about 10% from year 2000 and in line with international trends in the period. The market, in common with markets generally, declined by 24.8% in 2002 (world average -23.5%), and improved rapidly in 2003. Despite the difficult financial markets the improved regulatory environment, particularly in relation to capital adequacy where new regulations came into force in 1998, has helped to avoid any major crisis for intermediary bodies.
The relative market capitalisation is still low compared to European Union countries and due to the former instability in the economy, most investors still have a short time horizon for their investments. The stock market is also highly driven by international investors and all this leads to a higher volatility and therefore a demand for a higher risk premium. There is a need in the market for long-term institutional investors such as pension funds.

3.1.2 EU Acquis Impact Assessment on Financial Markets

Movement to EU acquis and international standards will help to promote international investor confidence in Turkey as an investment and commercial destination. This should produce wide-ranging benefits for properly regulated transparent and efficient Turkish financial markets. Movement towards the budgetary and debt targets of the Maastricht principles should pave the way towards lower interest rates. This will benefit public finances, the economy generally and will be very attractive for Turkish and international bond portfolio investors.

Attainment of the EU acquis and top class international standards in the financial markets will benefit the Turkish economy. A rapidly growing financial market will encourage domestic and foreign investment in Turkey, and play a crucial role in the development of the embryonic private pensions industry. It will also assist in releasing the passive gold investment (estimated USD 80bn gold hoarded), safeguard investor interests and help in the fight against fraudulent activity and money laundering.

EU acquis will also make it easier for financial institutions and intermediaries from other member States to establish in Turkey. This will inevitably mean increased competition. Outside competition should benefit the markets generally by increasing the international investor base thus compensating eventual negative impact on Turkish financial institutions. The better institutions are already capable of competing with international companies, and others will upgrade to compete or form local or international strategic alliances or joint ventures.

3.1.3 Legislative Overview

The NPAA implies in its comment sections that much of the legislative structure is already in place to meet with the EU community acquis. However some gaps are identified where the EU legislation has not been fully implemented.

Within the capital markets area the deviations on the one hand can be considered relatively small in the sense that much of the contents of the Directives regulating the capital markets, have been implemented in Turkey. On the other hand none of the directives have been fully implemented. Often only small deviations remain but as these gaps will also have to be filled for full compliance with the Directives, some substantial amount of work in the legal sphere remains.

3.1.4 Overview: Administrative, Training and IT
The NPAA does not envisage any significant change in the administrative structure. Much administrative work will be necessary in implementing the legislative changes to meet the requirements of the EU community acquis.

CMB Administrative Structure

The Capital Markets Board (CMB) which was founded in 1982 is the main responsible institution from the alignment of securities market legislation with the EU Acquis as stated in NPAA. The CMB provides the full range of the standard international regulatory and supervisory functions for the Turkish securities markets and for the gold market. Its goals include:

- Enhanced investor protection;
- Adopt the norms of the international markets and fully integrate them into the regulations;
- Enhance the infrastructure of the capital markets;
- Enhance the quality of the work products and staff of the CMB.

The CMB has power to regulate and supervise the following activities and institutions:

- Public offering of securities;
- Brokerage houses and banks limited to their capital market activities;
- Mutual funds including pension funds and investment companies including real estate investment companies and venture capital investment companies;
- Auditing firms providing services to the public companies and capital market institutions;
- Stock exchanges and secondary markets in general;
- Precious metal exchanges (Turkish Treasury is also empowered in relation with precious metals);
- Other related institutions operating on the capital markets such as portfolio management companies, investment advisers, rating agencies, and clearing and depository institutions;
- Capital market instruments including futures and options.

The CMB has an organisation structure consisting of an Executive Board and Chairman, 4 Executive Vice Chairmen, and 10 departments based mainly on market sectors.

In terms of EU acquis, there is no standard model for regulatory organisations in member States. This reflects different national legislation and different procedures in attaining the common goals of integrity and transparency in financial markets. It is also a reflection on the origin of the regulator in many cases. Many regulatory bodies have derived relatively recently from ministries, central banks, stock exchanges e.g. FSA from Bank of England, DTI and London Stock Exchange. Many are of the same model as CMB, with departments mainly dealing with various market sectors and activities. Others have departments organised on
functional lines across the entire market. Inevitably some, like France, combine the two systems. The advantage of the functional organisation is that allows the focus to be placed on the investor/consumer, safeguarding his rights and preserving his confidence, and it can allow more focus on fighting financial crime.

**Changes in administrative structure**

The case can be made to change to a functional organisation, but as noted there is no uniform international recommendation for organisation. Major organisational changes might be postponed until the many changes in the legal and administrative framework foreseen through the final compliance with the EU acquis are considered and implemented in the context of the Twinning project.

Any reorganisation will have implications for IT systems and data feeds and also perhaps for staff location and accommodation, all of which will need to be carefully evaluated.

**Training**

NPAA envisages extensive training of CMB staff for the harmonisation and implementation of the relevant legislation. A Public Awareness Programme is also a priority to protect the investor, to encourage investor confidence and to assist in the fight against financial fraud.

It is foreseen that training for CMB staff and public awareness programmes are necessary for all financial market participants.

**IT**

In addition to the NPAA IT requirements, an upgrade of the existing IT systems and introduction of new systems is required based on the expected larger turnover on the capital markets and the expected increased number of investors and issuers. Three areas have been identified as key areas at this stage for the further development of the IT capacity at the Capital Markets Board with respect to the implementation of the EU Acquis:

- Strategic Information Systems Plan
- Electronic data gathering and reporting
- Advanced surveillance system.
3.2 Gap Analysis
An EU financed technical assistance project to assist the CMB in preparing a project fiche for the 2004 programming took place between February and April 2004. A Gap analysis and Action Plan have been prepared within the context of this project by three consultants, legislative, administrative and IT consultants.

3.2.1 Legislative and Administrative Issues

The main principles in the EU legislation on the capital markets have been implemented into Turkish legislation. But still some major discrepancies can be observed.

The Gap analysis carried out has examined 27 Directives relevant for the capital markets area. For all of them there were found discrepancies in the Turkish legislation to comply fully with them. The GAP analysis details the discrepancies but the key differences can be summarised as:

- Scope regarding consolidated accounts
- Not fully compliant with capital adequacy regulation regarding calculation of risks
- Forward-looking statements in prospectus including description of risk factors
- Investor-compensation scheme
- Unit Trusts
- Regulation on insider dealing and market manipulation
- Commercial banks access to capital markets activities including equity trading
- Some 'technical' adjustments to Corporate Law

The detailed Gap Analysis identified few administrative, organisational or structural deficiencies at present but in connection with the required legislative amendments there will be a need for significant administrative work to implement the changes and provide guidance to market users. In the Gap analysis, there is also a concern as to the effectiveness of some of the functions in the area of market abuse and enforcement, listed companies’ accounts.

CMB consults and evaluates the potential impact of new legislation and regulation. However, CMB does not systematically review the implementation of legal or regulatory changes to assess their impact on market participants or their effectiveness. Clearly, major problems are quickly raised by those affected, but a systematic assessment procedure needs to be designed and implemented.

The implementation of the full EU acquis will require a substantial amount of legislative and administrative support and practical advice on how to manage the new set of rules.
3.2.2 Training Issues

The training needs identified associated with the legislative and administrative issues have been addressed in the Gap Analysis.

During the work with the Gap analysis, research and discussions with market participants brought a number of other matters to light. They constitute deficiencies, which will need to be addressed in the context of achieving EU acquis, and these have been included in the Project Fiche.

The principal results envisaged for the project are as follows:

- Need for training programmes for market participants and Public Awareness Programmes for the protection of investors.
- CMB experts need to be trained for implementing the legislation aligned with the EU acquis and practice in EU countries

3.2.3 IT needs

An IT-needs analysis has been prepared and three areas have been identified as key areas at this stage for the further development of the IT capacity at the Capital Markets Board to implement the legislative and administrative procedures necessary to comply fully with the EU acquis:

- Strategic Information Systems Plan;
- Electronic Data Gathering Application System;
- Advanced Surveillance System.

a. Strategic Information Systems Plan

For the further proper development of well functioning IT system in the CMB, it is considered the most critical and fundamental requirement is to undertake a Strategic Information Systems Plan in order to ensure the proper technical organisation of present and future information systems. Among the issues that have to be analysed are:

- Information needs across business applications;
- Data needs reflecting the information needs;
- Applications by function as well as by department;
- Communications protocols and internet standards;
- Technologies (for example, hardware, system software, applications tools, databases) that should be applied;
- Business processes and workflow analysis;
- Standards for communications and security.
The objective is a technology plan for next three years to govern how best resources are allocated and technology to be used.

b. **Electronic Data Gathering Application System**
In the Action Plan it is recommended to prepare a feasibility study including full technical specifications of the system by providing technical assistance to CMB for this. The feasibility study shall enable the CMB to commence the development of an IT system for data gathering and reporting to:

- address the gaps in information delivery and reporting; and
- produce reports on market information and disclosure

in order to comply with the requirements of EU acquis.

The feasibility study will include full technical specifications building on the preliminary technical specifications prepared in March 2004.

c. **Advanced Surveillance System**
Implementation of the full EU acquis in the capital markets area is expected to raise investor confidence into the market integrity and increase trading volumes. Therefore, there will be a need for more advanced surveillance systems to detect market abuse transactions efficiently.

As stated in the Action Plan, such systems are currently being developed in some EU countries and as the requirements can be assumed to the same for the system in Turkey, it might be useful to consider purchase of an existing system. The other option is to develop an in-house system. Here the advantage is that it can more easily be fit into the current IT environment.

A feasibility study is recommended in the Action Plan to provide technical assistance for the full technical specifications of the system and the evaluation of existing systems. The required technical specifications can build on the preliminary technical specifications prepared in March 2004.

3.2.4 **Sequencing**

Sequencing for all tasks will be determined by progress on legislative harmonisation. In general terms, the administrative tasks will follow the conversion of a directive, but there may be flexibility to allow the administrative aspects to be dealt with in parallel. Similarly, training can begin at any stage depending on availability of trainers and staff. Best training results are usually achieved when the relevance of the training is apparent, i.e. close to implementation or to assist operating manual preparation.
3.3 Results

- Capital Markets legislation adopted in conformity with the EU acquis;
- Administrative capability of CMB in accordance with EU and international best practice and operating manuals completed, to ensure that monitoring of market sectors and effective enforcement in Turkey is in line with EU standards;
- Regulatory impact assessment system designed to review the implementation of new legal provisions, and their impact on market effectiveness and efficiency;
- CMB staff trained (minimum 50% of relevant experts) to implement the new legislation; and train the trainers programme completed so that best practice is promoted in all market sectors;
- Public Awareness Programme planned, approved and launched to deal with the Turkish investment environment;
- A Strategic Information Systems Plan and two feasibility studies developed for the use of information technology over the coming 3 years.

- The Strategic Information Systems Plan shall ensure the appropriate information, data, applications and technologies be defined, implemented and deployed.
- A feasibility study including full technical specifications for an Electronic Data Gathering Application System adopted for implementation. The study will enable the CMB to commence the development of an IT system for data gathering and reporting.
- A feasibility study including full technical specifications for an Advanced Surveillance System adopted for implementation. The study will enable CMB to decide on the development of an Advanced Surveillance System.

3.4 Activities

Activities within the project will cover three major components.

3.4.1 Component 1: Assistance in legislative framework and administrative procedures

- Compare the current Turkish legislation and administrative practices with the EU standards, based on the GAP analysis prepared.
- Assist the CMB to draft capital markets legislation complying fully with the EU acquis. Provide assistance to legislative proposals in other areas affecting the capital markets.
- Review operational procedures of the CMB and compare with 'best practice', e.g. the twinning partner and assist in the preparation of operation manuals. In addition, assist in the design of regulatory impact assessment.
3.4.2 Component 2: Training and Public Awareness Programme

- Identify priority areas for training programmes for CMB staff according to the Training needs analysis and the implementation of the new legislation and procedures. The training programmes should be revised regularly to reflect also new legislation from EU.
- Prepare training material;
- Arrange train-the-trainers for selected CMB staff so that they can provide training for experts;
- Conduct training programmes for CMB staff. Training should be on the EU Acquis in the fields of the securities markets as well as monitoring and reporting techniques for the staff of CMB in order to achieve effective implementation;
- Plan study tours to the twinning institution for staff from CMB departments and the EU group to see how the administration and supervision is carried out;
- Plan and launch public awareness programme with CMB so that it can arrange seminars and workshops for investors, issuers and the wider public, on capital markets issues, including such topics as the European Union legislation and its impact on the capital markets.

Staff from the twinning organisation will support the training programmes. Appendix 8 gives an indicative training needs analysis.

3.4.3 Component 3: IT Needs

- Prepare Strategic Information Systems Plan. The Plan has been described in section 3.2.3. The Plan is seen as the base for the future design and planning of information systems for the Capital Markets Board;
- Provide Technical Assistance for Electronic Application and Data Gathering System. The main objectives of this system are to receive information from market participants, transmit disclosed information to market participants and make use of electronic signatures;
- Prepare full technical specifications for Electronic Application and Data Gathering System;
- Provide Technical Assistance for the Advance Surveillance System. Under this heading it is envisaged to:
  - Specify technical requirements for the system;
  - Prepare a survey of existing systems under operation of European supervisory authorities;
  - Prepare a cost / benefit comparison between in-house development and external acquisition.

3.4.4 Necessary inputs
a. **Component 1 and 2**

Component 1 and 2 are implemented through one Twinning covenant.

The Capital Markets Board will need assistance from European experts familiar with the legislation and in particular familiar with the administrative and supervision practice from European Union countries. The best solution will be a twinning programme with a similar organisation from a Member State. This solution provides the guarantee of appropriate training and hands-on assistance on supervision, enforcement, procedures for approval of prospectus and other important areas. The 'twinning partner' will have to be found in the group of Financial Markets Supervisory Authorities in the member countries.

The twinning period will be 24 months.

To co-ordinate activities between the Capital Markets Board and the twinning organisation, a Resident Twinning Adviser (RTA) will be assigned for 24 months.

**Pre-accession Adviser:**

- At least 10 years experience with capital markets regulation and practice
- Possess adequate academic qualifications in business administration, economics, finance or law, preferably with long-term practical experience in capital markets
- Substantial knowledge of European legislation and administrative practice
- Substantial knowledge of legal and organisational restructuring including related to training

**Tasks of the RTA:**

- To co-ordinate the programme and act as Team leader
- To co-ordinate with other projects considered relevant
- To mobilise short-term experts
- To arrange Study Tours
- To ensure proper quality of outputs
- To report on project progress

**Medium and Short-term experts**

Short-term experts from the twinning organisation can be called for within the budget limits. Among areas of expertise assessed relevant for short-term input can be mentioned:

- Accounting in financial institutions;
- International accounting standards;
- Regulation of securities market instruments;
• Capital adequacy regulation;
• Approval of prospectus including and other information from issuers;
• Investor-compensation scheme;
• Unit Trusts;
• Combating insider dealing and market manipulation;
• Commercial banks access to capital markets activities including equity trading;
• Investment services;
• Some 'technical' adjustments to Corporate Law;
• Free movement of capital;
• Clearance and settlement, including custody services.

Short-term experts are expected to cover, among others, the tasks listed below (for indicative purposes):

• Preparation of operational manuals for procedures of the CMB in accordance to new legislation;
• Support in reviewing and drafting regulation;
• Preparation of monitoring standards and reporting system;
• Review of operational procedures of the CMB and compare with 'best practice';
• Preparation of the methods of regulatory impact assessment.

• Organisation of train-the-trainers programmes, training seminars;
• Preparation of training materials;
• Conducting training;

Experts' studies, legal assistance and experts on an ad hoc basis

To reach all results of the project, experts' studies, legal assistance and experts on an ad hoc basis will be provided within the limits of the budget.

b. Component 3

This component will be carried out by a separate service contract. This service contract will comprise services from three short-term-experts. The required qualifications for the experts are as follows (length of assignments indicative numbers only):

Information Systems expert (120 days)
• Possess adequate academic qualifications (university degree or post graduate degree in computer sciences, electronic engineering or similar, preferably specialised in capital markets)
• Substantial knowledge and in setting up of data processing systems, information and data modelling
• Knowledge of supervision and regulation systems and technologies
• Proven capacity to prepare a Strategic Information Systems Plan
Database expert (40 days)
- Possess adequate academic qualifications (university degree or post graduate degree in computer sciences, electronic engineering or similar, preferably specialised in capital markets)
- Substantial knowledge/experience with complex and multi-layered databases, data warehousing, toolkit and application based reporting systems
- Knowledge of supervision and regulation systems and technologies
- Proven ability to prepare feasibility studies, technical specifications and tender documents in compliance with EU practice

Surveillance systems expert (40 days)
- Possess adequate academic qualifications (university degree or post graduate degree in computer sciences, electronic engineering or similar, preferably specialised in capital markets)
- Substantial knowledge of the surveillance systems in use used in correspondent institutions of EU member states
- Proven ability to prepare feasibility studies, technical specifications and tender documents in compliance with EU practice

The Information Systems expert will be appointed as team leader and will ensure timely delivery of inputs from the experts. The expert will also be responsible for the overall consistency of reports and deliverables produced under this assignment.

Location of twinning
The RTA and other experts will be based at the Capital Markets Board premises in Ankara, but when appropriate project activities may be carried out at Istanbul.

3.5 Linked Activities

Technical assistance has been provided from EU in order to prepare the project documents like project fiche, gap analysis and action plan. Three consultants (legislative, administrative and information technology) worked with the CMB in February - April 2004. The project prepared the Gap Analysis and Action Plan regarding Turkish securities markets to fully comply with the EU acquis. As part of the project, meetings were held in Istanbul with the participants from Istanbul Stock Exchange, Association of Capital Markets Intermediaries of Turkey, Central Registry Inc., ISE Settlement and Custody Bank. Also a brokerage house in Istanbul was visited.

A workshop was held in Ankara with the participation of senior level officials of The Capital Markets Board, senior managers of capital market institutions (Istanbul Stock Exchange, Association of Capital Markets Intermediaries of Turkey, Central Registry Inc., ISE Settlement and Custody Bank, Istanbul Gold Exchange, Turkish Derivatives Exchange),
officials of relevant ministries and the representatives from the Embassies of the EU countries.

3.6 Lessons Learned

At the end of the Project entitled "Assistance to the Capital Markets between February - April 2004, a gap analysis and action plan has been prepared. The gap analysis brought forward three sets of gaps: legislative, administrative and IT. The report identifies that the main elements of EU regulation has been introduced, but a large number of Directives have not been fully implemented. Although there are no major administrative, organisational and structural deficiencies at present, there will be a need for administrative work to implement the changes in connection with the required legislative amendments. The importance of training of staffs and trainers is also verified in the report. Especially, training of trainers is important for sustainability of the project. The IT part of the report indicates the importance of the Strategic Information Systems Plan in order to ensure proper organisation of information systems and modern technology to implement capital market regulation properly. The gap analysis and action plan have been approved by the Board of the CMB.

Besides, World Bank Report on Non Bank Financial Institutions and Capital Markets - February 2003 makes a detailed analysis of Turkish capital market and introduces a number of recommendations. In this report, importance of development of non-bank sources of finance has been stressed in order to enhance the financial sector's capacity to support private sector development, and economic growth, and to reduce its vulnerability to shocks. The report identifies the key policy issues that should be addressed for this purpose. One of the key recommendation of the report is to strengthen confidence in financial markets by improving corporate governance, accounting & auditing standards and practices and financial services industry oversight. In the report, some references to the EU Directives are made and the necessity of the amendments to comply with these directives are stressed. The report also supports the proposal for a Public Awareness Programme. It identifies "educating the public on investments in financial interests" and states "the retail investor in Turkey could benefit from a well planned investor education programme".

In addition to these works, IOSCO Principles of Securities Regulation February 2003, sets out a number of principles of securities regulation, which are based on three main objectives of securities regulation. These objectives are the protection of investors, the reduction of systemic risk and ensuring that market efficient, fair and transparent. The principles described in this IOSCO report should be practically implemented to achieve desired objectives. Especially, section 6.5 is important since it states "Regulators should play an active role in the education of investors:

- Assist investor protection
- Help the investor understand the role of the regulator"
- Help the investor assess risk and guard against fraud
- Put investor education material on websites
4. Institutional Framework

4.1 Steering and monitoring
A Steering Committee will be established for steering and monitoring of the project. The Committee will include representatives from the Capital Markets Board and the Twinning Partner. The Central Finance and Contracts Unit (CFCU), the Secretariat General for EU Affairs and the EC Representation will participate in the Steering Committee as observers.

4.2 Implementation

The implementation of the project will be secured by the CMB in Turkey. CFCU will be responsible for tendering and contracting.

4.3 Beneficiaries

The beneficiary of the project is the Capital Markets Board of Turkey.

5. Budget:

Thousands of Euros (kEURO)

<table>
<thead>
<tr>
<th>Component</th>
<th>Investment Support</th>
<th>Institutional Building</th>
<th>Total EC Assistance (I+IB)</th>
<th>National Co-financing</th>
<th>Total</th>
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<tbody>
<tr>
<td>Technical assistance to CMB Twinning Service</td>
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<td>2,000</td>
<td></td>
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<tr>
<td>Technical assistance (IT)</td>
<td>450</td>
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<td><strong>Total</strong></td>
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<td><strong>2,450</strong></td>
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<td></td>
<td><strong>2,450</strong></td>
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</tbody>
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Annex 3 contains the Contracting and disbursement schedule
Annex 9 contains a breakdown of the Twinning covenant

Turkish contribution to the twinning will cover provision of office equipment and space for the RTA and other costs non-eligible for funding as specified in the “Reference Manual on Twinning Projects.”

6 Implementation Arrangements:

6.1 Implementing Authority and Implementing Agency:

The Central Finance and Contracts Unit (CFCU) will be the implementing agency and will be responsible for all procedural aspects of the tendering process, contracting matters and financial management (including payments) of the project activities.
6.2 Twinning

The components 1 and 2 will be implemented in the form of one Twinning covenant between Turkey and a Member State. The twinning partner will manage all aspects of execution in close collaboration with the CMB, as well as securing a pool of international and national experts.

6.3 Non-Standard Aspects

Not applicable
6.4 Contracts

Component 1 and 2: Twinning
Twinning covenant: 2,000,000 EUR

Component 3: Technical assistance for IT
Service contract: 450,000 EUR

7. Implementation Schedule:

<table>
<thead>
<tr>
<th>Component</th>
<th>Start of tendering</th>
<th>Start of Project Activity</th>
<th>Project Completion</th>
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<tr>
<td>Twinning</td>
<td>10/2004</td>
<td>04/2005</td>
<td>03/2007*)</td>
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</table>

*) Completion date upon the assumption that the Financing Memorandum will be prolonged.

8. Equal Opportunity:

The CMB as principal beneficiaries implementing the project will be responsible for ensuring that equal opportunity applies in all aspects of this project.

9. Environment:
Not applicable

10. Rates of Return:
Not applicable

11. Investment Criteria:
Not applicable

12. Conditionality and sequencing:

Action Plan adopted by the Capital Markets Board.
Important milestones of the project are as follows:
1. Twinning organisation selected (CMB, CFCU)
2. Twinning commences
3. Service contract in tender (CFCU, CMB)
4. Award of contract (CMB, CFCU)
5. Technical assistance for IT systems commences
6. Technical assistance for IT systems finalised
7. Twinning finalised

Annexes to project fiche
1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter
4. Reference list of feasibility studies
5. Reference list of relevant laws and regulations
6. Reference list of relevant strategic plans and studies
7. Terms of Reference for IT services
8. Training Needs Analysis
9. Indicative budget (cost breakdown)
# ANNEX 1

Logframe planning matrix for the EU project on assistance to the Capital Markets Board of Turkey to comply fully with European Union standards

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions and Risk</th>
</tr>
</thead>
</table>
| To improve the availability of investment via capital markets through better regulation. | Increased market share of trade with corporate securities relative to trade with government bonds | • The EU NPAA Progress Report  
• Other international organisations (i.e. IMF, the World Bank and OECD) reports  
• Monthly and annual reports of stock exchange and Capital Market Boards | Macro economic situation and financial markets environment will continue to improve. Continued support to the Accession Process  
No adverse changes in Government policies: (a) regarding EU Acquis (b) regarding financial markets |

Date of Drafting: 31.03.2004  
Total budget: 2.45 mEUR
<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions and Risk</th>
</tr>
</thead>
</table>
| To complete the alignment of the capital markets legislation and its proper implementation, in accordance with the EU Acquis | Full adaptation of the Turkish Capital Market Law and other regulation to the EU acquis and a transparent timetable for any transitional measures by the end of 2007 Q1. | • EU Regular Reports  
• Turkish Official Gazettes  
• Other international organisations (i.e. IMF, the World Bank, OECD and IOSCO) reports  
• Quarterly and annual reports of ISE and CMB  
• Reports from market users | Twinning partner can be appointed.  
If not: apply for technical assistance for critical areas via EC Assistance service contract |
<p>|  | CMB staff trained in the legislation and administrative practice according to the EU Acquis by the end of 2007 Q1. |  |  |
|  | Reports and data from market users in accordance with the new legislation by the end of 2007 Q1. |  |  |</p>
<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions and Risk</th>
</tr>
</thead>
</table>
| 1. Capital markets legislation adopted in conformity with the EU acquis | Necessary legislation and administrative enhancements accomplished by the end of 2007 Q1. | • EU Regular Reports  
• Turkish Official Gazettes  
• Other international organisations (i.e. IMF, the World Bank, OECD and IOSCO) reports | Adequate legal expertise available with the CMB |
| 2. Administrative capability of CMB in accordance with EU and international best practice. Operations manuals completed | Manuals in use by CMB and by appropriate markets users by the end of 2007 Q1 | Data from market users in line with requirements from manuals | Adequate time for provision of job related training |
| 3. Regulatory impact assessment designed | System procedures established by the end of 2006 Q3. | Procedure implemented CMB Annual Report | |
| 4. | 4.1. CMB staff trained to implement the new legislation.  
4.2. Train-the-trainers programme completed | At least 50% of relevant CMB experts (approximately 125 staff) have received training by the end of 2006 Q3. CMB operating in accordance with 'best practice' (e.g. twinning partner) by the end of 2007 Q1. | • CMB Training Programme  
• Participant questionnaires | Selection of appropriate trainees |
| 5. Public Awareness Programme planned, approved and launched to deal with the Turkish investment environment | Program launched by the end of 2006 Q1. List of activities by the end of 2007 Q1. | • Announcements  
• Invitations to seminars  
• Participant questionnaires | • Funds available  
• Trainers (speakers) available and trained |
| 6. A Strategic Information Systems Plan and two feasibility studies developed for the use of information technology over the coming 3 years. | Strategic Information Systems Plan submitted for approval by the end of 2005  
Feasibility study for Data Gathering (EDGAS) submitted for approval by the end of 2005. Feasibility study for an advanced surveillance system submitted for approval by the end of 2005. | Minutes from Board meeting Expert reports | Qualified staff available in IT Department |
<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Cost</th>
<th>Assumptions and Risk</th>
</tr>
</thead>
</table>
| 1. Component 1: Legislative framework and administrative procedures of the CMB in line with EU standards | 1. Contract: Twinning  
   The Resident Twinning Adviser (RTA) for 24 months  
   Medium and short term experts | Contract 1 Twinning Total value 2,00m EUR | Suitable twinning partner can be selected |
| 1.1 Compare current legislation and administrative practices with EU standards, based on the findings from the GAP analysis and new legislation in the EU and new EU legislation (for result 1 and 2) | | | |
| 1.2 Assist CMB draft legislation to implement the EU acquis in the capital markets sector (for result 1) | | | |
| 1.3 Review operational procedures of the CMB and compare with ‘best practice’ (for result 2); assist in preparation of operational manuals (for result 2) and assist in design of regulatory impact assessment (for result 3) | | | |
| 2. Component 2: Training needs | 2. Resident Twinning Adviser (RTA) for 24 months  
   - Medium and short term experts  
   - Training seminars  
   - Study visits | | |
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Identify priority areas of training programmes according to the indicative training need analysis</td>
<td></td>
<td>Expertise available when needed</td>
</tr>
<tr>
<td></td>
<td>Revise every 6 months in accordance with the development in EU legislation and administrative practice (for result 4)</td>
<td></td>
</tr>
<tr>
<td>2.2 Prepare training materials (for result 4)</td>
<td></td>
<td>Expertise available when needed</td>
</tr>
<tr>
<td>2.3 Train-the-trainers (for result 4):</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Conduct training for experts from CMB selected to provide training in the future.</td>
<td>Trainers available</td>
</tr>
<tr>
<td></td>
<td>• Other experts might attend the training course.</td>
<td>Staff can be released for training</td>
</tr>
<tr>
<td></td>
<td>• The training course may have to be adjusted after evaluation of the first course</td>
<td></td>
</tr>
<tr>
<td>2.4 Conduct adjusted training programs for CMB staff (for result 4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trainers available</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Staff can be released for training</td>
</tr>
<tr>
<td>2.5 Plan study tours to relevant public authorities in EU-countries for selected staff from relevant CMB departments and the EU-group (for result 4)</td>
<td></td>
<td>Study Tour Programme can be agreed with Twinning organisation</td>
</tr>
<tr>
<td>2.6</td>
<td>Plan and launch Public awareness programme on capital markets issues including EU legislation (for result 5):</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>---------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Seminars on public awareness and information for investors, issuers and the public</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Seminars to combat fraud</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training materials</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Seminars</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Workshop</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Web-site</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Twinning budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Twining partner support</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CMB support</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component 3: IT needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Service contract for technical assistance</td>
</tr>
<tr>
<td>Budget for service contract 450,000 EUR</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3.1</th>
<th>Prepare Strategic Information Systems Plan (for result 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>External experts</td>
</tr>
<tr>
<td></td>
<td>Budget</td>
</tr>
<tr>
<td></td>
<td>Availability of qualified IT staff</td>
</tr>
<tr>
<td></td>
<td>Documentation for present information systems available</td>
</tr>
<tr>
<td></td>
<td>Description for future plans available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3.2</th>
<th>Technical assistance for Electronic Application and Data Gathering System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full technical specifications (for result 6)</td>
</tr>
<tr>
<td></td>
<td>Availability of qualified IT staff</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3.3</th>
<th>Technical Assistance for Advance Surveillance System</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full technical specifications (for result 6)</td>
</tr>
<tr>
<td></td>
<td>Information on advanced surveillance systems can be furnished</td>
</tr>
<tr>
<td></td>
<td>Availability of qualified IT staff</td>
</tr>
<tr>
<td></td>
<td>Qualified experts can be mobilised</td>
</tr>
</tbody>
</table>
**Annex 2: Implementation Chart**

<table>
<thead>
<tr>
<th>Activity</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
</tr>
<tr>
<td>1.a Twinning partner selected</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.b Service contractor selected (IT)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Legislative tasks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Information to Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Accounting standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Protection of Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 UCITS (Unit trusts)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Implementation Chart (Indicative)**

<table>
<thead>
<tr>
<th>No</th>
<th>Activity</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.a</td>
<td>Twinning partner selected</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.b</td>
<td>Service contractor selected (IT)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Legislative tasks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Information to Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Accounting standards</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Protection of Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>UCITS (Unit trusts)</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Timeline:**
- **Q1:** January - March
- **Q2:** April - June
- **Q3:** July - September
- **Q4:** October - December

**Legend:**
- **N:** Negotiation of Twinning covenant
- **T & C:** Tendering and contracting
- **I:** Implementation and payments
<table>
<thead>
<tr>
<th>No</th>
<th>Activity</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Q2</td>
<td>Q3</td>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>6</td>
<td>Electronic commerce and marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Accounts of financial institutions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Investment services and competition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Corporate Law and Audit</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>10</td>
<td>Other regulation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Administrative tasks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Review operational procedures and regulatory impact assessment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Manuals on procedures for main areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Training tasks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Prepare training material</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Arrange and conduct train-the-trainers training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Training programmes for CMB staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Seminars and workshops for the public</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Study Tours to EU countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>IT-tasks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Prepare Strategic Information Systems Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>TA for Electronic Application and Data Gathering System</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>21</td>
<td>TA for Advance Surveillance System</td>
<td></td>
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</tr>
</tbody>
</table>
### ANNEX 3: Contracting and disbursement schedule

#### Contracting and Disbursement Schedule (in kEUR)

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service contract for IT component</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Cumulated Disbursement (in kEUR)

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twinning</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td>600</td>
<td>700</td>
<td>950</td>
<td>1,400</td>
</tr>
<tr>
<td>Q3</td>
<td></td>
<td></td>
<td>1,400</td>
<td>1,600</td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
<td>1,850</td>
<td>2,050</td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td>2,350</td>
<td>2,450</td>
</tr>
<tr>
<td>Total</td>
<td>870</td>
<td>1,150</td>
<td>1,400</td>
<td>1,850</td>
</tr>
</tbody>
</table>

- **2004**: Twinning 2,000 kEUR, Service contract for IT component 450 kEUR
- **2005**: Twinning 700 kEUR, Service contract for IT component 450 kEUR
- **2006**: Twinning 950 kEUR, Service contract for IT component 1,400 kEUR
- **2007**: Twinning 1,400 kEUR, Service contract for IT component 1,850 kEUR
- **Total**: Twinning 600 kEUR, Service contract for IT component 270 kEUR
- **Cumulated**: Twinning 2,000 kEUR, Service contract for IT component 270 kEUR
ANNEX 4: Reference list of feasibility studies

EC Assistance funded project “Assistance to Capital markets Board”
(012/NPAFAP/TR/ACMB) February - April 2004:

Technical assistance has been provided from EU in order to prepare the project proposal for twinning and technical assistance. Three consultants (legislative, administrative and information technology) worked with the CMB in February-April 2004 and prepared Gap Analysis and Action Plan regarding Turkish securities markets to fully comply with the EU Acquis.

The prepared Gap Analysis and Action Plan are attached to this document.
ANNEX 5: Reference list of relevant laws and regulation

I. European legislation

A. The freedom to provide services

Directive 85/611/EEC on undertaking for collective investment in transferable securities (UCITS)
Directive 86/635/EEC on accounts of banks and other financial institutions
Directive 88/627/EEC on acquiring major holdings in a listed company
Directive 89/117/EEC on financial reporting of branches of financial institutions
Directive 89/298/EEC on requirements to the prospectus to be published
Directive 93/6/EC on capital adequacy of investment firms
Directive 93/22 EEC on investment services in the securities industry
Directive 95/26/EC on prudential supervision
Directive 97/9/EC on investor compensation schemes
Directive 98/26/EC on settlement
Directive 98/31/EC on capital adequacy for investment firms
Directive 98/33/EC on capital adequacy for investment firms
Directive 2000/31/EC on electronic commerce
Directive 2001/34/EC on admission of securities for listing
Directive 2002/87/EC on supervision of investment firms
Regulation (EC) 2002/1606 on the application of international accounting standards
Directive 2002/65/EC on distance marketing of consumer financial services
Directive 2003/6/EC on insider dealing and market manipulation

Under implementation:
Directive 2003/71 on prospectus
Directive 2003/125/EC on the fair presentation of investment recommendations

B. Corporate Law and accounting

Directive 68/151/EEC on the registration of capital
Directive 77/91/EEC on the capital of limited liability companies
Directive 78/660/EEC on annual accounts of limited liability companies
Directive 78/855/EEC on mergers of limited liability companies
Directive 82/891/EEC on the division of limited companies
Directive 83/349/EEC on consolidated of limited liability companies
Regulation (EC) 2002/1606 on the application of international accounting standards
Regulation (EC) 1725/2003 adopting certain international accounting standards
C. Free movement of capital

Directive 88/361/EEC on free movement of capital
Directive 98/26/EC on settlement

II Turkish legislation

A. Capital Market Law

B. Several Communiqués on Principles Regarding Registration of Securities with the Board (Serial I to Serial III), including;

- Communiqué on Principles Regarding Registration with the Board and Sale of Shares
- Communiqué on Principles Regarding the Registration of Profit and Loss Participating Shares
- Communiqué on Principles Regarding Nonvoting Shares
- Communiqué on Principles Regarding Registration with the Board and Sale of Bonds
- Communiqué on Principles Regarding Convertible Bonds
- Communiqué on Principles Regarding Issuance of Participating Shares
- Communiqué on Principles Regarding Registration with the Board and Sale of Commercial Bonds
- Communiqué on Principles Regarding the Registration with the Board and Sale of Foreign Capital Market Instruments

C. Serial: IV Communiqués on Obligations of Publicly Held Joint Stock Companies, including;

- Communiqué on Principles to be followed by the joint Stock Companies Subject to Capital Market Law
- Communiqué on Principles Regarding Registered Capital System
- Communiqué on Principles Regarding Exemption Requirements for Issuers and Removal from the Board’s Register
- Communiqué on Public Disclosure of Material Events
- Communiqué On Principles Regarding Proxy Voting At Shareholders’ Meetings Of Publicly Held Joint Stock Corporations, Proxy Solicitation And Tender Offer
- Communiqué on the principles regarding the dematerialization of capital market instruments
- Communiqué on the principles regarding distribution of the dividends and interim dividends in publicly Held Joint Stock Companies subject to Capital Market Law.
- Communiqué on Regarding Principles of Cumulative Voting in General Meeting of Joint Stock Companies subject to the Capital Market Law
- Communiqué on Principles Regarding Sales Methods of Capital Market Instruments Through Public Offering (Serial:VIII, No:22)

D. Serial: V Communiqués on Intermediary Activities and Intermediary Institutions, including;

- Communiqué on Principles Regarding Intermediary Activities and Intermediary Institutions
- Communiqué of the Capital Markets Board Regarding the Principles on Intermediary Activities and Intermediary Institutions.
- Communiqué on Principles Regarding the Portfolio Management Activities and Portfolio Management Companies
- Communiqué on Principles Regarding Investment Advisory Activity and Institutions Undertaking This Activity
- Communiqué on Repurchase and Reverse Repurchase Agreement
- Communiqué on Margin Trading, Short Sales and Lending & Borrowing of Securities
- Communiqué on Principles Regarding Capital and Capital Adequacy Requirements of Brokerage Houses
- Communiqué on Licencing Standards

E. Serial: VI Communiqués on Investment Companies, including

- Communiqué on Investment Companies (Serial:VI, No:4)
- Communiqué on Venture Capital Investment Companies (Serial:VI, No:15)
- Communiqué on Real Estate Investment Companies (Serial:VI, No:11)

F. Legislation on Mutual Funds

- Regulation on Principles Regarding Establishment and Operation of Pension Funds
- Communiqué on Principles Regarding Mutual Funds
- Communiqué on Principles Regarding Registration with the Board and Sales of Foreign Mutual Funds Shares, Series VII No 14

G. Communiqué on Rating Agencies (Serial: VIII, No:31)
H. Serial: X Communiqués Regarding Independent Auditing in the Capital Markets

I. Serial: XI Communiqués on the Financial Statements and Reports in Capital Markets, including;
   - Communiqué on Rules and Principles Regarding the Financial Statements and Reports in Capital Markets (Serial:XI, No:1)
   - Communiqué on Rules and Principles Regarding the Internal Financial Statements in Capital Markets (Serial:XI, No:3)
   - Communiqué on Rules and Principles Regarding Financial Statements and Reports of Mutual Funds (Serial:XI, No: 6)
   - Communiqué on Rules and Principles Regarding Consolidated Financial Statements and Accounting for Investments in Associates in Capital Markets (Serial: XI, No:21)
   - Communiqué on Rules and Principles Regarding Financial Statements in High Inflation Periods (Serial: XI, No:20)
   - Communiqué on Accounting Standards in Capital Market (Serial:I, No:25)

J. Legislation on Stock Exchanges, including;
   - Decree Law Regarding Stock Exchanges No. 91
   - Regulation on Principles Regarding Establishment and Operations of Stock Exchanges
   - Regulation on Istanbul Stock Exchange
   - Regulation on Istanbul Stock Exchange Listing Requirements
   - Istanbul Stock Exchange Settlement and Custody Institutions Regulation
   - The Istanbul Stock Exchange Futures and Options Market Operations and Membership Regulation
   - The Regulation Regarding the Operations and the Membership of the Istanbul Stock Exchange Futures and Market Clearing Center

K. Legislation on Investors Protection Fund and Central Registry, including;
   - Regulation Concerning Incorporation, Operation and Supervision of the Central Registry
   - Regulation on Investor Protection Fund
   - Communiqué regarding terms and conditions governing book-entry of dematerialised Capital Market Instruments

L. Legislation on Precious Metal Exchanges, including;
- General Regulation Concerning The Foundation And Operation Principles Of Precious Metal Exchange
- Regulation Of The Istanbul Gold Exchange
- Regulation Of Istanbul Gold Exchange Precious Metals Lending Market
- Regulation On Futures And Options Market Of Istanbul Gold Exchange

M. Legislation on Derivatives Exchanges including
- Regulation on Principles Regarding Establishment and Operations of Derivative Exchanges
ANNEX 6: Reference list of relevant strategic plans and studies

World Bank Country study / Turkey:

"Non-Bank Financial Institutions and Capital markets Report"
February 2003
ANNEX 7: DRAFT TERMS OF REFERENCE FOR IT-SERVICES

1. BACKGROUND
General background

As part of its commitment to become a full member of the European Union, the Turkish Government has undertaken to harmonise the capital markets legislation with the EU Acquis as well as improving the institutional structure to implement this legislation effectively. Areas that need to be harmonised were identified in the National Programme for the Adoption of the Acquis (NPAA), published in 2003. In the capital markets area the main responsible Turkish body is the Capital Markets Board of Turkey (CMB).

The CMB has power to regulate and supervise the following activities and institutions:

- Public offering of securities;
- Brokerage houses and banks limited to their capital market activities;
- Mutual funds including pension funds and investment companies including real estate investment companies and venture capital investment companies;
- Auditing firms providing services to the public companies and capital market institutions;
- Stock exchanges and secondary markets in general;
- Precious metal exchanges;
- Derivative exchanges;
- Other related institutions operating on the capital markets such as portfolio management companies, investment advisers, rating agencies, and clearing and depository institutions;
- Capital market instruments including futures and options.

1.2 Subject Area

The CMB is the responsible institution for the adoption and implementation of the EU Acquis in the capital markets area. The NPAA specifies:

- *Economic criteria:* Continue the swift implementation of financial sector reform, in particular the alignment of prudential and transparency regulations and their surveillance with international standard;
- *Freedom to provide services:* Complete legislative alignment in financial services and strengthen the supervisory structures and enforcement record including maintaining the independence of regulatory bodies;
- *Free movement of capital:* Remove all restrictions affecting foreign investments (originating from the EU) in all economic sectors in Turkey;
- *Company law:* Complete alignment with the Acquis on company and accounting legislation.
The NPAA regards the transposition of the related EU Acquis into national legislation for capital markets as a vital short-term priority.

2. DESCRIPTION OF THE ASSIGNMENT

2.1 Beneficiary

Capital Markets Board of Turkey
Eskisehir Yolu 8. Km. No: 156
06530 ANKARA

Contact Person
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Deputy Head of European Union Department
Capital Markets Board of Turkey
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Fax: +90-312-2929000
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Secretariat General for EU Affairs
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Fax: +90-312-2856377
e-mail: iatac@abgs.gov.tr

Contact Person at the EC Representation
Aslan Umut Ergezer
Phone: +90-312-4465511
Fax: +90-312-4462339
e-mail: aslan-umut.ergezer@cec.eu.int

2.2 Global objective

- To provide investment for the productive sector via the capital markets.
2.2.1 Specific objectives

An IT-needs analysis for the CMB has been prepared and the following needs have been identified as obstacles to implementing the legislative and administrative procedures necessary to comply fully with the EU acquis:

- Strategic Information Systems Plan
- Electronic Data Gathering Application System
- Advanced Surveillance System

The specific objectives of this assignment are (1) to undertake a Strategic Information Systems Plan, (2) prepare a feasibility study of the Electronic Data Gathering Applications System (EDGAS) and (3) prepare a feasibility study for an Advanced Surveillance System.

2.3 Requested services

2.3.1 SISP: The requested services are to undertake a Strategic Information Systems Plan (SISP) for the CMB with the aim of supporting the usage of information technology across all major functions, departments and business areas, eliminating gaps and availing of strategic technologies. The experts shall:

- Define the information needs of the CMB across business applications;
- Produce appropriate data models for the CMB reflecting the information needs;
- Re-define in a consistent way the business applications by function as well as by department;
- Determine the communications protocols and internet standards;
- Assess the most strategic technologies (for example, hardware, system software, applications tools, databases) that should be applied;
- Ensure that the SISP connects to the business process and workflow analysis;
- Recommend appropriate standards for communications and security.

2.3.2 EDGAS: The experts shall prepare a feasibility study that enable the CMB to commence the development of an IT system for data gathering and reporting to:

- address the gaps in information delivery and reporting; and
- produce reports on market information and disclosure

in order to comply with the requirements of EU acquis.

The experts are requested to:

- Define business aims and functions to be performed;
• Define architecture, application relationships & standards;
• Specify information needs, data models and workflow relationships;
• Assess appropriate database and related server technologies;
• Review toolkits to produce reporting to required standards;
• Define secure infrastructure for ‘information cordon’;
• Outline the business case for the planned investment, e.g. a cost/benefit analysis;
• Prepare detailed and resourced project plan for EDGAS.

The feasibility study shall include full technical specifications.

2.3.3. Advanced Surveillance System:

The experts shall prepare an overview for suitable existing systems in use at European supervisory institutions. In addition, they are requested to:

• Specify Advanced Surveillance needs;
• Review potential sources for solutions;
• Determine the most appropriate approach;
• Prepare specification of requirements for external tendering (if required);
• Prepare a detailed and resourced plan for Advanced Surveillance.

The experts shall analyse if the system best can be provided by internal development or by acquiring an existing system. The feasibility study shall include full technical specifications.

The experts can make use of an analysis of the IT needs of the CMB as well as draft technical specifications previously prepared for EDGAS and the advanced surveillance system.

2.4 Expected results

In accordance with the requirements of Section 2.3, the experts shall produce:

1. Strategic Information Systems Plan for the next 3 years;
2. A feasibility study for Electronic Data Gathering Application System;
3. Full technical specifications for the system;
4. A feasibility study for an advanced surveillance system;
5. Full technical specifications for the system.

3. EXPERT PROFILE

In total three experts are required for the assignment. The proposed experts shall have professional qualifications and experience to successfully cover all activities indicated in these Terms of Reference. 120 days input are foreseen for the expert for the Strategic
Information Systems Plan and 80 days (40 days each) for the experts for the feasibility studies for EDGAS and the advanced surveillance system.

3.1 Expert profile

3.1.1 Education and experience

Information Systems expert (120 days)
- Possess adequate academic qualifications (university degree or post graduate degree in computer sciences, electronic engineering or similar, preferably specialised in capital markets)
- Substantial knowledge and in setting up of data processing systems, information and data modelling
- Knowledge of supervision and regulation systems and technologies
- Proven capacity to prepare a Strategic Information Systems Plan

Database expert (40 days)
- Possess adequate academic qualifications (university degree or post graduate degree in computer sciences, electronic engineering or similar, preferably specialised in capital markets)
- Substantial knowledge/experience with complex and multi-layered databases, data warehousing, toolkit and application based reporting systems
- Knowledge of supervision and regulation systems and technologies
- Proven ability to prepare feasibility studies, technical specifications and tender documents in compliance with EU practice

Surveillance systems expert (40 days)
- Possess adequate academic qualifications (university degree or post graduate degree in computer sciences, electronic engineering or similar, preferably specialised in capital markets)
- Substantial knowledge of the surveillance systems in use used in correspondent institutions of EU member states
- Proven ability to prepare feasibility studies, technical specifications and tender documents in compliance with EU practice

The stated numbers for input of workdays are indicative only.

The Information Systems expert will be appointed as team leader and will ensure timely delivery of inputs from the experts. The expert will also be responsible for the overall consistency of reports and deliverables produced under this assignment.

3.1.2 Category of expert

All experts are required to be category 1 experts.
3.1.3 Working language

Experts are required to have good communication and reporting skills in English.

4. LOCATION AND DURATION

4.1 Starting date

It is envisaged that the activities related to the contract shall start on April 1, 2005

4.2 Finishing date

The finishing date should not be later than January 2, 2006

4.3 Scheduling and Sequencing

It is envisaged that the assignment will be carried out in three phases:

1. Inception Period (10 days)
   Relevant material to be studied
   Work plan to be approved by the beneficiary

2. Phase 2 (50 days)
   Screening of market for surveillance systems
   • Draft feasibility studies to be discussed with CMB

3. Phase 3 (60 days)
   • Draft Strategic Information Systems Plan to be discussed with CMB
   • A workshop will be conducted for key staff from the IT Department in CMB and other relevant departments for discussion of the three draft outputs
   • Preparation of the final outputs

4.4 Location of the Assignment
The experts will work in Ankara during the assignment in Turkey.

5. REPORTING

Progress Reports should be prepared each month. The Strategic Information Systems Plan and the two feasibility studies with technical specifications should be ready for the final review of CMB, CFCU, EUSG and EC Representation by September 1, 2006. This should incorporate all comments of the EC and Turkish authorities. Within 3 weeks after the end of the assignment period, the experts are expected to produce a draft final report in English.
with 3 originals both in CD-Rom and hard-copy. The draft report shall be submitted to CMB, CFCU, EUSG and EC Representation. The reporting language will be English. The documents produced may be required to be further revised by the experts in light of the comments of the CMB and the EC Representation. All reports and deliverables will be approved by CMB before the final payment.

6. **BUDGET**

CMB will provide working space for the experts for the period of the stay in Ankara. CMB will be responsible for organising any presentations and workshops.
ANNEX 8: Indicative Training Needs Analysis

<table>
<thead>
<tr>
<th>INDICATIVE TRAINING NEEDS</th>
<th>Indicative No of Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Train the trainers/Training/Workshops on application of IAS standards</td>
<td>20</td>
</tr>
<tr>
<td>Seminars on IAS standards</td>
<td>15</td>
</tr>
<tr>
<td>Train the trainers/Training/workshops for CMB staff on company law directives</td>
<td>20</td>
</tr>
<tr>
<td>Training/workshop on Ucits</td>
<td>10</td>
</tr>
<tr>
<td>Seminars on mergers and take-overs</td>
<td>10</td>
</tr>
<tr>
<td>Workshops on solvency</td>
<td>10</td>
</tr>
<tr>
<td>Workshop on corporate governance</td>
<td>10</td>
</tr>
<tr>
<td>Workshop on collective investment schemes &amp; pensions</td>
<td>10</td>
</tr>
<tr>
<td>Train the trainers/seminars on accounts and financial analysis, expert report to CMB</td>
<td>20</td>
</tr>
<tr>
<td>Train the trainers/Training / Workshop for CMB legal matters, regulation, listing requirements, prospectus requirements</td>
<td>20</td>
</tr>
<tr>
<td>Intensive seminars for intermediaries on legal matters, regulation, listing requirements, prospectus requirements</td>
<td>10</td>
</tr>
<tr>
<td>Training for CMB staff to provide intensive seminars for companies on legal matters, regulation, listing requirements, prospectus requirements</td>
<td>20</td>
</tr>
<tr>
<td>Train the trainers/Training for CMB staff on EU capital adequacy implementation</td>
<td>15</td>
</tr>
<tr>
<td>Workshops on capital adequacy</td>
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<tr>
<td>Workshops &amp; seminar on capital adequacy for brokerage firms</td>
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<tr>
<td>Train the trainers/Workshops on Basle II</td>
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<tr>
<td>Seminars on Basle II</td>
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<tr>
<td>On the job training on monitoring and surveillance</td>
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<tr>
<td>Monitoring and surveillance in context of active derivatives market</td>
<td>10</td>
</tr>
<tr>
<td>On the job training on enforcement</td>
<td>20</td>
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<tr>
<td>Workshop on market abuse, enforcement and implementation of legal sanctions</td>
<td>10</td>
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<tr>
<td>Possibly Round Table with regulators from EU member States on market abuse</td>
<td>10</td>
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<tr>
<td>Workshop on Investor compensation</td>
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<td>----------------------------------</td>
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<tr>
<td>Workshop on licensing including e-licensing</td>
<td>10</td>
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<tr>
<td>Workshops on alternative electronic trading systems</td>
<td>6</td>
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<tr>
<td>On the job training on enforcement in the electronic environment</td>
<td>10</td>
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<tr>
<td>Workshop on combating Internet securities violations</td>
<td>6</td>
</tr>
<tr>
<td>Train the trainers for Public Awareness Programme, investor information seminars, seminars on combat of fraud</td>
<td>18</td>
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<tr>
<td>On the job training in all functional areas of CMB on interpretation and implementation of EU best practice</td>
<td>30</td>
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<tr>
<td>Training assignments at regulator in EU member State</td>
<td>10</td>
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<tr>
<td><strong>TOTAL DAYS</strong></td>
<td><strong>400</strong></td>
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</table>
# ANNEX 9: Indicative Budget (Cost breakdown) for Twinning Covenant

(kEUR)

<table>
<thead>
<tr>
<th>Description</th>
<th>Institution Building</th>
<th>Investment</th>
<th>Total</th>
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<tbody>
<tr>
<td>The Resident Twinning Adviser (RTA)</td>
<td>900</td>
<td></td>
<td>900</td>
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<tr>
<td>Short-term experts (including ad hoc experts)</td>
<td>850</td>
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<td>850</td>
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<tr>
<td>Translation and Interpretation</td>
<td>100</td>
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<td>100</td>
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<td>Study Tours</td>
<td>50</td>
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<td>50</td>
</tr>
<tr>
<td>Contingency fund for adjustments of estimated costs</td>
<td>100</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,000</strong></td>
<td></td>
<td><strong>2,000</strong></td>
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</table>