



Turkey

Key Development Issues



The World Bank

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Key Development Issues and Questions

- Equity Markets
- Private Pension Schemes
- Financial Sector Taxation
- Accounting and Auditing

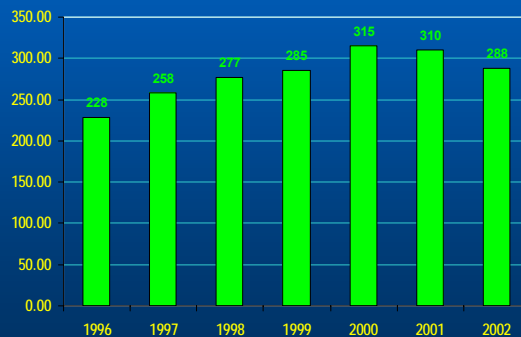
Equity Markets – Breadth and Depth

What are the issues?

- Only 288 companies traded
- No functioning ‘small company market’
- Low free float
- Weak corporate governance
- Ownership structure of the ISE

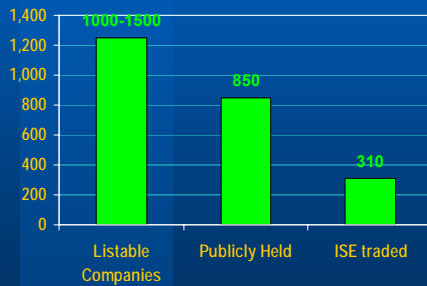
Equity Markets – Companies Traded

Number of Companies Traded at ISE
(All Segments, 1996 - 2002)

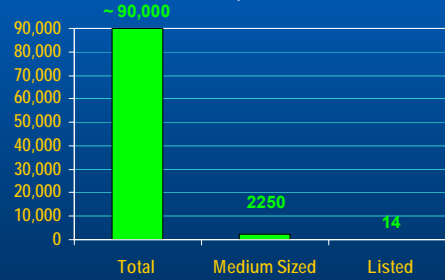


Equity Markets – Listing Potential

Large Companies, 2002



SMEs, 2002

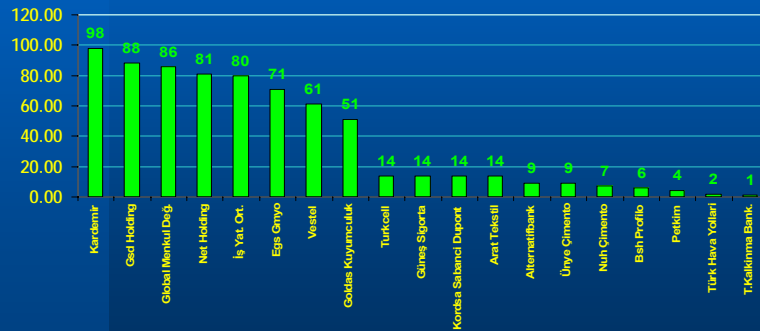


Equity Markets - Free Float Requirements

	Min. # of shareholders	# / Value of shares	"Free float" requirement
Korea	1,000	> 1 if capital < US\$83 > 2 if capital < US\$207 > 6 if capital > US\$207	30% if capital < US\$ 41.4 10% if capital > US\$ 41.4
Turkey			15% if capital < US\$0.5 10% if capital US\$0.5-1 5% if capital > US\$1
Poland	500	> \$10.3	25%
Thailand	600	> 10 > 15 > 125	20% if capital < US\$ 11.5 15% if capital US\$11.5- 23 12.5% if capital US\$23-230 10% if capital > US\$ 230
USA	500 if volume > 1 2200 if volume > 0.1	> 1.1	

Equity Markets — Free Float

Free Float of largest ISE listed Companies

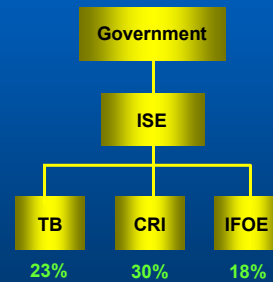


Equity Markets – Corporate Governance

- Weak minority shareholder rights
- No disclosure of indirect shareholdings >10%, related party transactions
- Lack of authority of Board of Directors and GSM
- Outdated TCC
- Lack of reliable financial statements

Equity Markets - Role of the ISE

- No competition
- Limited incentives to innovate
- Uneven functioning as an SRO
- Downstream ownership of C&S institutions
- Transaction taxes



Equity Markets

Key questions and possible solutions?

- Raising free float requirements
- Leveraging SOE privatization
- Developing a small company market
- Upgrading listing rules
- Strengthening corporate governance
- Privatizing the ISE

Private Pension Schemes

What are the issues?

- Lack of interest in new third pillar
- Unregulated existing funds
- Asset concentration and suitability
- Tax differences

Private Pension Schemes - Overview

	First Pillar Substitute (mandatory)	Second Pillar (mandatory)	Existing Third Pillar (voluntary)	New Third Pillar (voluntary)
Sponsors	Banks, Insurers, Exchanges, Chambers of Commerce	Oyak, Amele Birliđi	CBT, Banks, Police Force, Teachers Unions, Private Firms	Pension companies licensed by GDI
Beneficiaries	Staff and family of sponsors	Staff and family of sponsors and staff of firms > 50% owned by Oyak	Staff and family of sponsors	Open to all individuals
Type of Benefits	DB (same as SSK) or a mix of DB & DC	mix of DB and DC	DB, DC and hybrid	DC only
Other Activity	PAYG health, disability and term life insurance (similar to SSK)	Disability, term life insurance, mortgage and consumer loans (Oyak)	Disability, term life insurance, death benefits, spousal & children allowance, loans	Pension companies can provide life and accident insurance

Private Pension Schemes – Overview (continued)

	First Pillar Substitute (mandatory)	Second Pillar (mandatory)	Existing Third Pillar (voluntary)	New Third Pillar (voluntary)
Legal Basis	SSK Law Temporary Art. 20, Law on Vakifs	Fund specific legislation (e.g., Law on Oyak)	Civil Code, Law on Vakifs	New Private Pension Fund Law
Legal Form	Vakifs	Unique form of non-profit foundation owned by members	Vakifs	Pension sponsor and portfolio manager both separate from the actual pension fund
Regulator	GDF, Ministry of Labor	Ministry of Defense (Oyak) Ministry of Labor (Amele Birliđi)	GDF	Pension companies licensed regulated by GDI; pension funds licensed and regulated by CMB
Accounting Standards	Same as for all vakifs, set by GDF	Same as for private firms, set by Ministry of Finance	Same as for all vakifs, set by GDF	For pension companies set by GDI; for pension funds set by CMB

Private Pension Schemes

Key questions and possible solutions?

- Further reform of PAYG social security system
- Transition plans for existing schemes
- Equal tax incentives
- Common regulator, OECD standards
- Lower minimum capital requirement for pension companies

Financial Sector Taxation

What are the issues?

- Savings in inflation hedges and tax shelters
- Few positive tax incentives for long term investments and risk capital
- Unintended impact on financial intermediaries

Personal Income Tax

Real Estate	Weak enforcement of rent tax Exempt from CG tax if held > 4 years
Government Debt	0% withholding tax on interest income
Equity	Only partial integration of equity income
Corporate Debt	12% withholding tax on interest income
Venture Capital	Exempt only if VCIT
Mutual Funds	Type A funds exempt till end 2002
Pension Funds	EEE or ETT for existing funds, EET for new funds
Life Insurance	Less favorable EET than for new pension funds

Corporate Income Tax

Banks	BITT 0% on leases, 1% on factoring Emission premium income BITT exempt Loan loss provisions tax deductible
Insurers	No offset of withholding tax on investment income BITT, Fire Insurance Tax Mandatory reserves not tax deductible
Lessors	5% BITT, provisions not tax deductible
Factors	5% BITT, provisions not tax deductible
Corporates	0.3% tax on IPOs VAT 18% on bank-financed equipment; 1% on lease-financed equipment
Venture funds	Full pass through for VCITs only
Mutual funds	Partial pass through; subject to 10% corporate income tax

Financial Sector Taxation

Key questions and possible solutions?

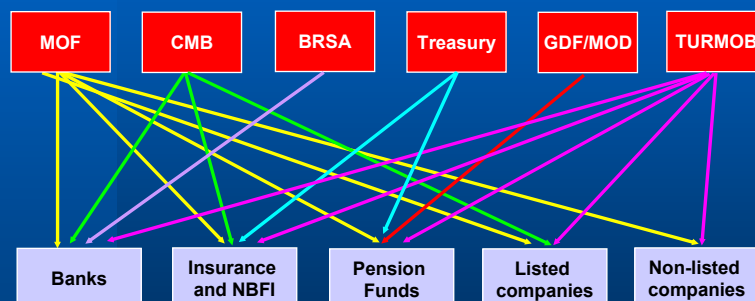
- Pooled exemption, indexation
- Level playing fields for: (i) all private pension products; (ii) sovereign and corporate debt securities; and (iii) bank finance, leasing and factoring
- System to integrate equity income
- Lower taxation for insurance products that encourage long term savings
- Abolition of transaction taxes

Private Sector Accounting and Auditing

What are the issues?

- “Stovepipe” approach to private sector accounting and auditing
- Standards not in line with IAS and ISA
- Weak enforcement
- Lack of oversight over audit profession

Current Infrastructure for Private Sector Accounting and Auditing



Private Sector Accounting and Auditing

Key questions and possible solutions?

- Common accounting standards platform
- IAS for all public interest entities
- Chamber of Auditors to oversee audit profession
- ISA
- Training

Proposed Infrastructure for Private Sector Accounting and Auditing

