



SERMAYE PİYASASI KURULU  
CAPITAL MARKETS BOARD OF TURKEY

# LEGAL FRAMEWORK OF TURKISH INVESTMENT FUNDS

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# Subject & Purpose of CML

- *Subject → to regulate and control the secure, transparent and stable functioning of the capital market and to protect the rights and benefits of investors.*
- *Purpose → ensuring an efficient and widespread participation by the public in the development of the economy through investing savings in securities.”*

# Legislation Method



- 1) COMMUNIQUÉ ON PRINCIPLES REGARDING MUTUAL FUNDS
- 2) COMMUNIQUÉ ON PRINCIPLES REGARDING EXCHANGE TRADED FUNDS
- 3) IMPLEMENTING REGULATION ON THE PRINCIPLES REGARDING ESTABLISHMENT AND OPERATION OF PENSION INVESTMENT FUNDS
- 4) COMMUNIQUÉ ON PRINCIPLES REGARDING REGISTRATION AND SALE OF FOREIGN MUTUAL FUNDS



# Scope of Fund Regulations

- **Turkish Funds** → Rules and principles regarding establishment, registration of PU, public offering/sale, fund types, operation, organization, public disclosure, valuation, portfolio management...
- **Foreign Funds** → Rules and principles regarding registration and sale of participation units.



# DEFINITION of FUND

“the property established to manage a portfolio of capital market instruments, real estate, gold, or other precious metals, by gathering money collected from the public in return for participation units, on the account of unit holders and under the principle of risk distribution and fiduciary ownership.”→

**Unincorporated Form (no legal personality)**

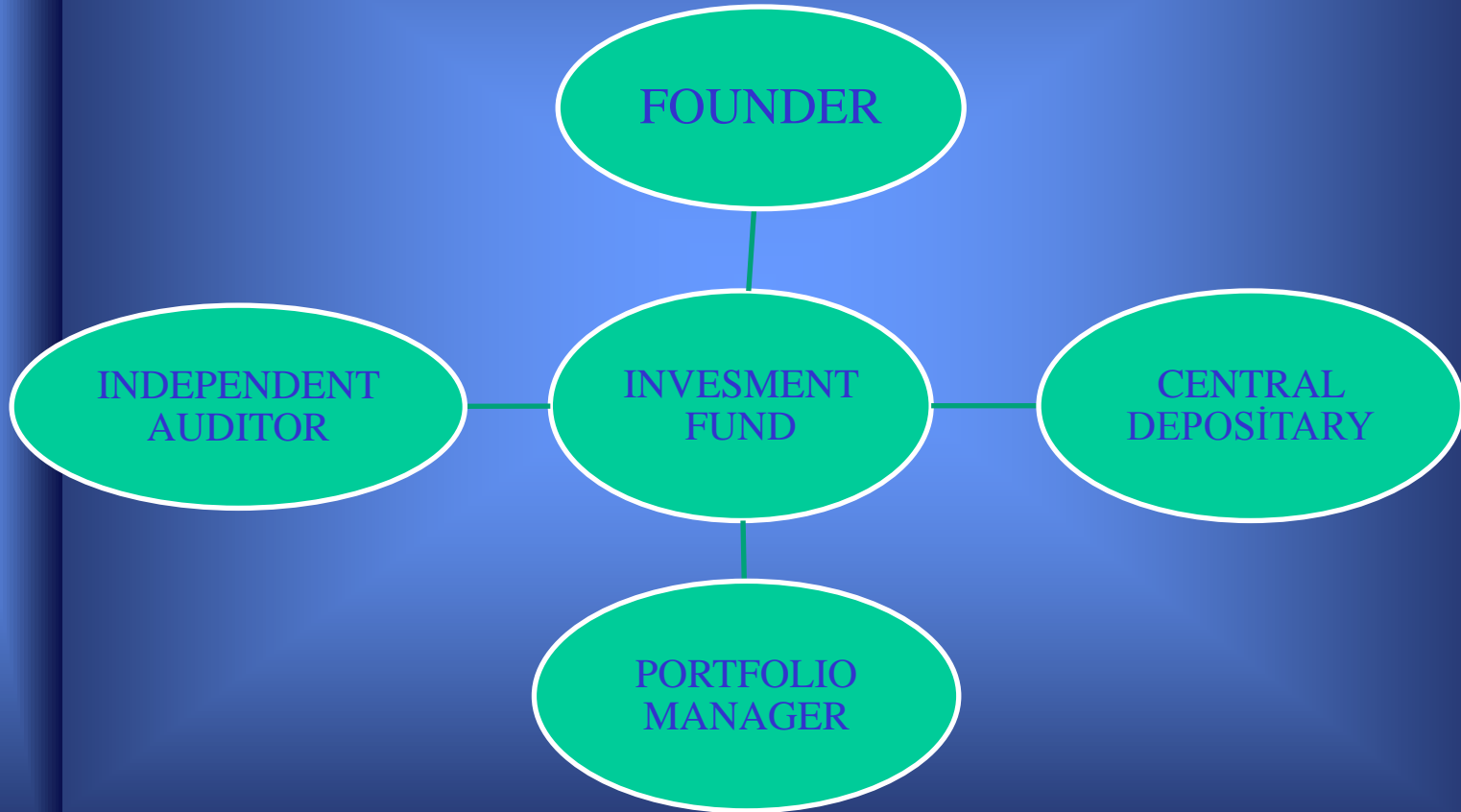


# FUND TYPES

- Fund types differentiated in terms of portfolio composition and investment strategies. For eg., equity funds, bond-bill funds, sector funds, index funds, gold fund...etc. (Mutual fund communique covers 17 fund types)
- Fund of funds, hedge funds, capital protected/guaranteed funds→relatively new fund types
- Pension funds and exchange traded funds are regulated in seperate communiques.



# OPERATION-BASIC ACTORS





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- **FOUNDER** → Banks, intermediary institutions (brokerage firms), insurance companies, retirement and pension houses.
  - \*Fund assets separate from founders'
  - \*Fiduciary ownership → Responsible for management, representation and custody of fund assets.
- **MANAGER** → Licensed portfolio management companies, non-depository banks, intermediary institutions
  - \* Assigned by the founder
- **CENTRAL DEPOSITARY** → ISE Settlement and Custody Bank, İstanbul Gold Exchange and/or other authorized inst. appointed through internal statute.
- **INDEPENDENT AUDITOR** → Financial reports audited twice a year (*exception: hedge funds, sub-funds of guaranteed/protected funds*)





# Establishment & Registration

- Establishment → CMB approves the internal statute.
- Registration → CMB approves prospectus in accordance with “*public disclosure*” principle and participation units are registered: **Half open-ended structure (max amount that can be sold is limited to total registered amount)**
- CMB concludes establishment and registration applications at the same time (exception: ETFs, hedge funds and pension funds)



# Umbrella Fund Structure

- A fund consisting of several sub-funds
- Mandatory structure for capital guaranteed and capital protected funds; not mandatory for other fund types.
- Single internal statute and each sub-fund has its own prospectus; only prospectus approval for sub-funds
- Accelerated registration process



# Portfolio Composition & Valuation

- Portfolio can be comprised of capital market instruments (*stocks, bonds, fund PU, warrants...etc*), gold and precious metals, derivatives and money market instruments
- Borrowing and lending securities, OTC repo-reverse repo, use of credit is possible within certain conditions and limits
- Short-selling is possible for only hedge funds
- Portfolio restrictions and valuation rules defined in Communiqué
- Daily valuation and unit price announcement (*exceptions: hedge funds, capital protected and capital guaranteed funds*)



# Participation Units

- Different unit classes based on portfolio management fee, distribution fee and entrance/exit commissions can be created.
- Dematerialized form → Central Registry Agency



# Electronic Fund Distribution Platform

- A very recent development→an electronic platform whereby fund founders can sell other fund's PU; voluntary membership.
- Aims to eliminate barriers against competition that stem from inefficient distribution channels.



# PUBLIC DISCLOSURE -1

## Basic Information Sources:

- **Prospectus** → basic fund info (type, capital,...etc), investment strategy, portfolio management, custody, fund personnel, portfolio restrictions, price calculation, taxation, expenditures, rights of unit holders, info about the issue, liquidation...
- **Circular**→ Summary of prospectus
- **Internal Statute**
- **Audited Financial Reports**
- **Periodic Reports**



## PUBLIC DISCLOSURE-2

- Periodic Reports:
- \***Daily report**→portfolio disclosure, price calculation.  
(*exception:hedge funds, guaranteed/protected funds*)  
Used for surveillance.
  - \***Monthly report**→ fund performance, movements of securities and PU.
  - \***Annual report**→audited financial reports, portfolio and net asset value, and important developments throughout the period.



## PUBLIC DISCLOSURE-3

- Management fee ,commission rates and monthly comparison of benchmark and fund performance should be announced on founder's web site
- **Medium of disclosure**→Web site, disclosure forms on web (accessible from CMB site), newspapers, official gazette.
- **Recent development**→monthly and annual reports, prospectus, circular, internal statute, financial reports and announcements will be disclosed at “**Public Disclosure Platform**”; newspaper disclosure will be terminated.





# Consolidated Statistics Of Investment Funds

<b>Period</b>	<b>#Funds</b>	<b>Total Net Asset Value (Billion \$)</b>	<b>Funds assets as a share of GDP (%)</b>	<b>#Investors</b>
12/2010	486	21,6	3,00	3.248.601

<b>Consolidated Portfolio Composition (%)</b>					
<b>Stocks</b>	<b>Debt securities</b>	<b>Reverse repo</b>	<b>Other Money Market</b>	<b>Foreign Securities</b>	<b>Other</b>
3,71	28,42	53,93	7,93	0,39	5,63



# Important Statistics

- Money-market funds dominate; %74 of the industry & money market instruments dominate portfolio composition → short-term oriented bond fund
- Capital guaranteed/protected funds increased rapidly in short time; appr. \$1,4 billion (12/2010)



# Exchange Traded Funds

- Index funds; traded on Institutional Products Market; a sub-market of ISE
- At least 80% of portfolio assets shall be comprised of replicated index
- At least 90% correlation shall be kept between the NAV/ unit with value of the replicated index.
- Market price and calculated NAV/ unit
- Assigned brokers involved in creation-redemption of fund units ( primary market operations)
- Currently equity indexes, bond indexes and gold indexes are used by ETF's
- Seperate public disclosure rules
- 11 ETF traded on exchange, \$152 million consolidated NAV ; one ETF with \$66 million NAV (based on gold index)



# Pension Investment Funds

- Investment instrument of the private pension system
- System introduced in 2001, PIF were introduced in 2003
- Two regulators in the system: CMB & Undersecretariat of Treasury. CMB only regulates pension investment funds.
- Similar to mutual funds in terms of qualified assets, portfolio restrictions, valuation rules and safekeeping of the assets
- **Basic Differences** : Founder must be a pension firm (pension firms regulated by UoT) Portfolio shall only be managed by a licensed portfolio management company



# Consolidated Statistics of the Pension Investment Funds

<b>Period</b>	<b>#Funds</b>	<b>Net Assets Value (Billion \$)</b>	<b>Net Assets as share of GDP (%)</b>	<b>#Participants</b>
12/2010	140	7,8	1,01	5.014.298

<b>Portfolio Composition (%)</b>				
<b>Equity</b>	<b>Debt securities</b>	<b>Reverse repo</b>	<b>Other Money Market</b>	<b>Foreign Securities</b>
11,99	57,78	13,40	16,69	0,14



# Foreign Investment Funds

- UCITS complying foreign investment funds and investment trust with variable capital
- Preliminary conditions stated in related communiqué
- Fund units or trust shares, that will be sold in Turkey, shall be registered by the CMB.
- Shall have a representative in Turkey : either a bank or an intermediary institution
- Transactions related to subscription and redemptions made through the representative
- The representative is legally responsible to make necessary payments to investors in any default / suspension case
- 69 funds with portfolio value of \$35 million (12/2010)



# Regulatory innovations in last 5 years !

Pension Investment Funds	<ul style="list-style-type: none"><li>*Exposure in derivative contracts</li><li>*Warrants and units of participation banks: eligible assets</li><li>*Unit classes (based on management fee)</li></ul>
Investment funds	<ul style="list-style-type: none"><li>*Umbrella fund structure : Accelerated registration process</li><li>*Unit classes</li><li>*New types of funds (Funds of funds, capital protected and guaranteed funds, hedge funds, short-term oriented bond fund)</li><li>*Risk management system</li><li>*Management fee limitation (3,65 %/year and 2,73% for MMF after 01/07/11)</li><li>*Warrants and OTC debt securities: eligible assets</li><li>*Public Disclosure Platform, Electronic Distribution Platform</li></ul>



# Amendments Related to Funds in new Drafted CML

- Fund management companies as founders and managers
- Only prospectus registration
- The obligation to have a depositary
- Compliance with the UCITS Directive in terms of disclosure documents





# Ongoing Projects

- Venture Capital Investment Funds
- Real Estate Investment Funds
- Continuously make reviews and amendments on regulation to have maximum harmonization with EU regulations ( UCITS)



Thank you for your attention...