

SEPTEMBER 2010

# TURKEY

## BROKERAGE INDUSTRY 2010 SEMIANNUAL REVIEW

**EQUITY**  
MARKET

**DERIVATIVES**

**ASSET MANAGEMENT**

**FIXED INCOME**

**CORPORATE  
FINANCE**



**TSPAKB** The Association of Capital Market  
Intermediary Institutions of Turkey



# TURKISH BROKERAGE INDUSTRY 2010 SEMIANNUAL REVIEW

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## ABBREVIATIONS

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<b>Term</b>	<b>Definition</b>
CBRT	Central Bank of the Republic of Turkey
CMB	Capital Markets Board
CRA	Central Registry Agency
IFRS	International Financial Reporting Standards
ISE	Istanbul Stock Exchange
MCap	Market Capitalization
Takasbank	Settlement and Custody Bank
TL	Turkish Lira
TSPAKB	The Association of Capital Market Intermediary Institutions of Turkey
TurkDex	Turkish Derivatives Exchange
WFE	World Federation of Exchanges
Y-t-d	Year-to-Date
Y-o-y	Year-on-Year

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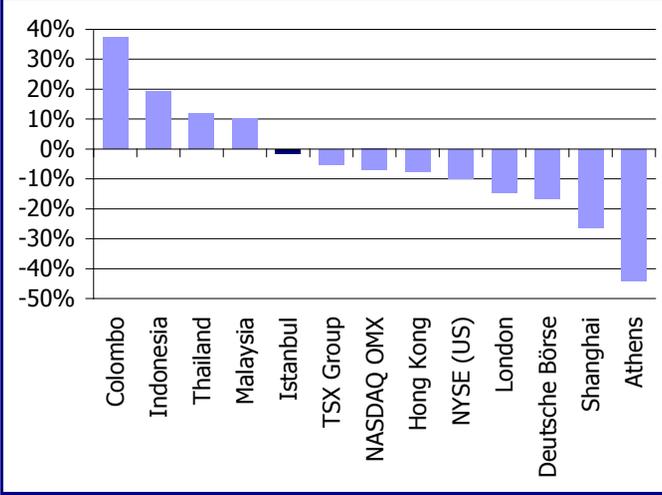
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# MARKET RETURNS

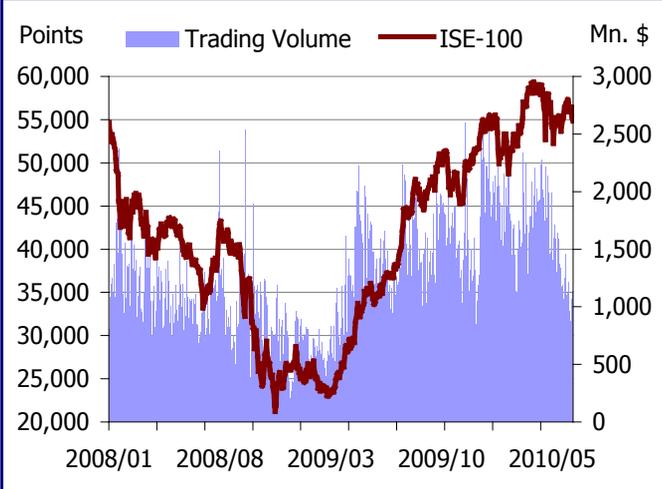
**Selected Market Returns (US\$ Based-2010/06)**



Source: WFE

In 2009, with positive expectations on the global outlook, markets performed well as compared to 2008. But in 2010, this trend seems to have reversed in many countries. The emerging markets like Colombo and Indonesia have been among the best performers in 1H2010. However, in the same period, ISE-100 Index has declined by 2% in US\$ terms.

**ISE-100 Index & Trading Volume**

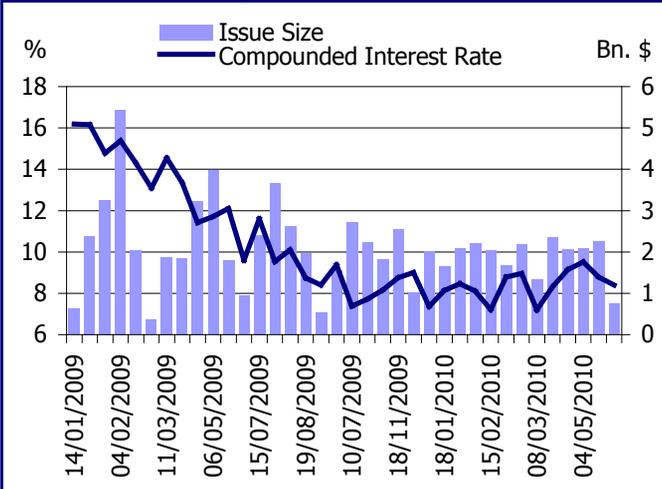


Source: ISE

The equity market was hit by the global crisis in 2008, but in the second quarter of 2009, an up trend started. Hence, ISE-100 index ended the year with a staggering return of 102% in US\$ terms. During 2010, the market moved sideways and the ISE-100 index closed the first half of the year at 54,839 points by a 4% y-t-d rise in TL terms.

The average daily trading volume increased by 38%, from US\$ 1.2 billion in 2009 to US\$ 1.7 billion in 1H2010.

**Discounted Treasury Bill Auctions**



Source: Treasury

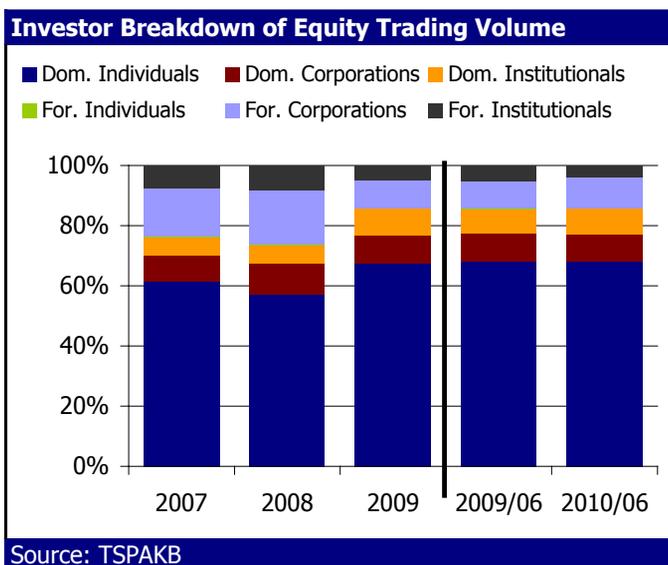
The Treasury held 2 auctions for discounted T-bills per month, on average, in the first half of 2010. Maturities ranged between 6 to 22 months. Average issue size has been US\$ 1.9 billion per auction.

Following the sharp decline in 2009, interest rates fluctuated around 8% in the first half of 2010. The peaks of the interest rates in the chart correspond to longer maturities, whereas the troughs correspond to auctions for shorter terms.



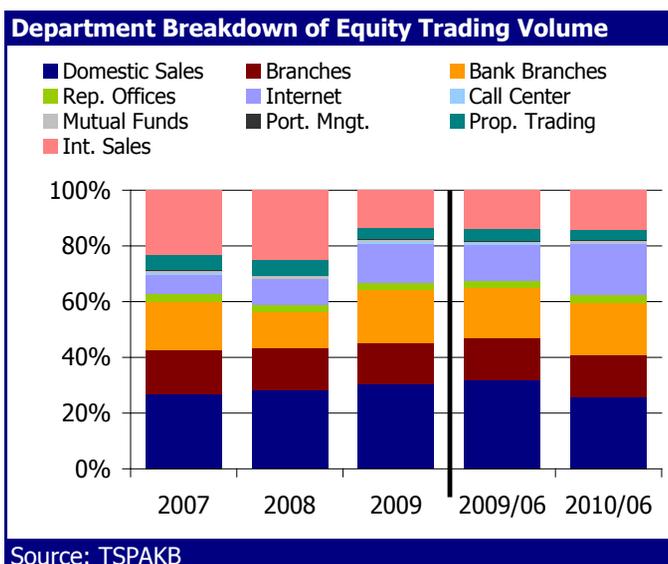
In Turkey, only brokerage firms are allowed to trade equities. Although there are 104 licensed firms as of June 2010, this report is based on the aggregate results of 93 brokerage firms, excluding the dormant ones. The following analyses cover only the brokerage firms' operations unless otherwise specified.

With the market recovery, total trading volume has reached US\$ 217 billion in the first half of 2010. This indicates a 69% increase when compared to US\$ 129 billion in 1H2009.



Domestic investors have generated 86% of total trading volume. With a 68% share, domestic individual investors are the major investor group, providing liquidity of the market. On the other hand, these investors hold around only one fifth of the free float as of June 2010. Volume share of domestic corporations and institutionals are stable around 9% each.

The share of foreign investors in the trading volume continuously increased from 2004 until the last quarter of 2008, to reach a peak of 26%. But as the financial crisis deepened, foreign investors' activity started to shrink and their volume share went down to 14% in 2009. Foreign investors' share remained stable in 1H2010 as well.

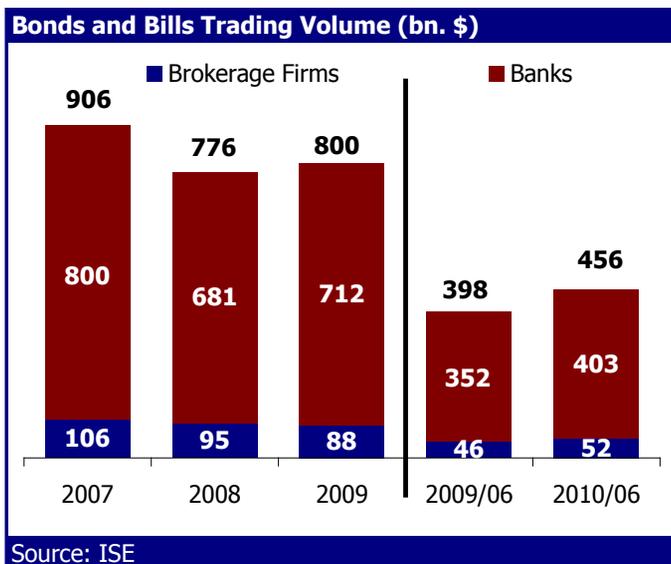


Department breakdown of the equity trading volume shows the channels through which trading is done. Domestic sales refer to the headquarters of the brokerage firms. Branches are owned by the brokerage firms. Bank branches show the order flow from banks.

Domestic sales department is the major channel for brokerage firms, and 26% of total trading volume is generated through headquarters. Bank branches come in second, with a 19% share. The most significant change in the department breakdown has been observed in the trading volume of internet during this period. The share of internet trading reached an all time high of 19% in 1H2010.

International sales departments' share of the trading volume is around 14%, parallel to the share of international investors.

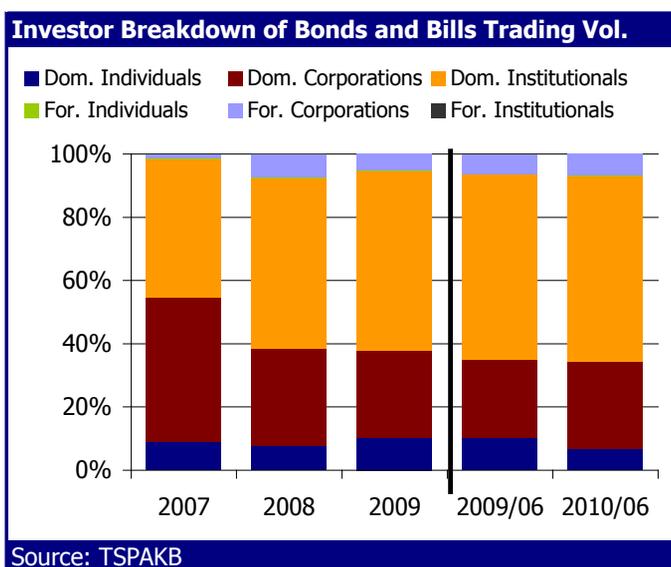
# BONDS AND BILLS MARKET



In the fixed income market, both brokerage firms and banks are authorized to trade. Fixed income market is composed of government bonds and repo transactions. Figures in this section represent the sum of T-bill and corporate bond trading in the regulated Istanbul Stock Exchange and OTC markets. Corporate bonds have negligible trading volume.

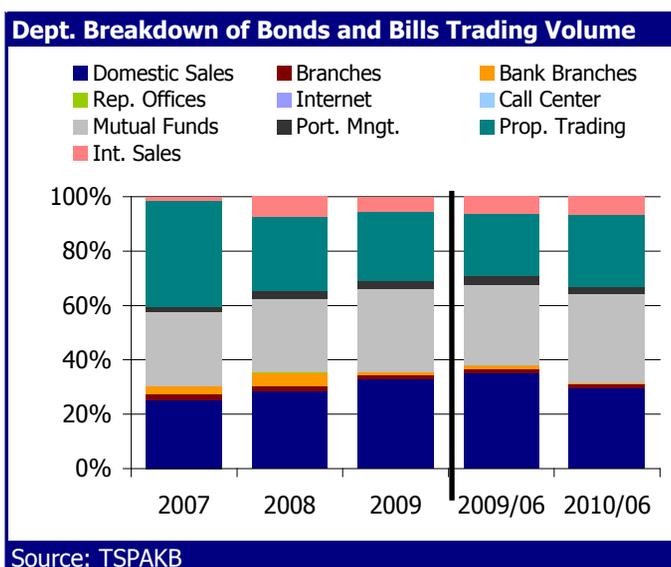
In the first half of 2010, bonds and bills trading volume has increased by 15%, y-o-y, to US\$ 456 billion. Banks dominate the market with a share of 89%. 67 brokerage firms generated US\$ 52 billion of bond trading volume in the first six months.

The breakdown of trading volume, in terms of departments and investor categories, includes the brokerage firms' statistics only.

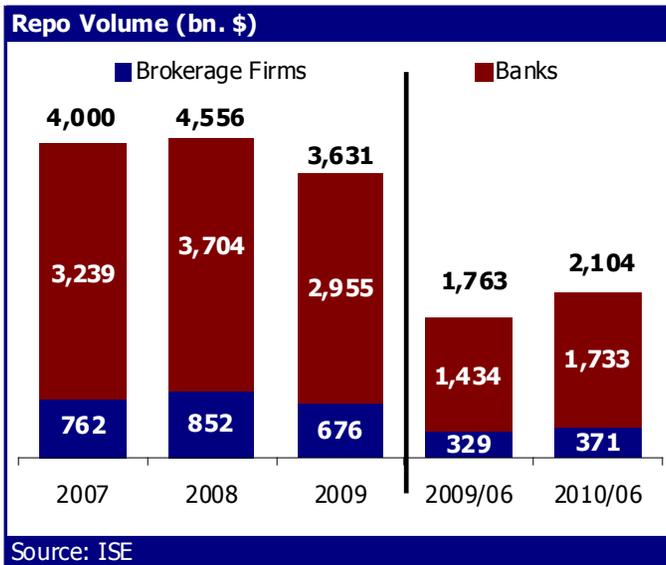


93% of bonds and bills trading volume is generated by domestic investors. Domestic institutional investors, which represent mutual funds, investment trusts and pension funds, is the leading group with 59% share of the trading volume. Domestic corporations, mainly including the proprietary trading of brokerage firms, generated 28% of bonds and bills trading volume, which indicates a 3 percentage points y-o-y increase. The share of domestic individuals has fallen to 7% from 10% in the same period.

On the other hand, foreign investors' share remained at 7% in 1H2010. One brokerage firm generated 96% of total foreign investors' trading volume. It is known that foreign investors prefer to trade bonds and bills through banks rather than brokerage firms.

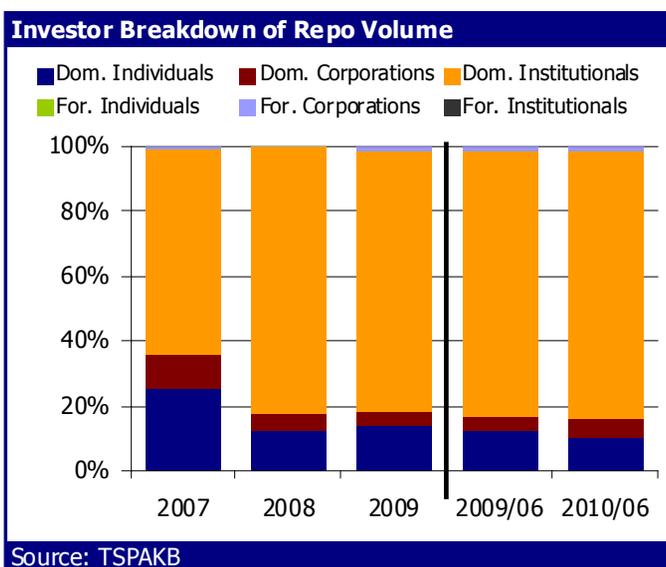


Bonds and bills trading is done mainly through domestic sales, mutual funds and proprietary trading. Mutual funds that represent the funds managed by brokerage firms, have generated one third of trading volume. In parallel with the decrease in domestic individuals' trading volume, domestic sales' share has decreased to 30% from 35%, y-o-y. 26% of bonds and bills trading volume was done for brokerage firms' own portfolio in 1H2010.



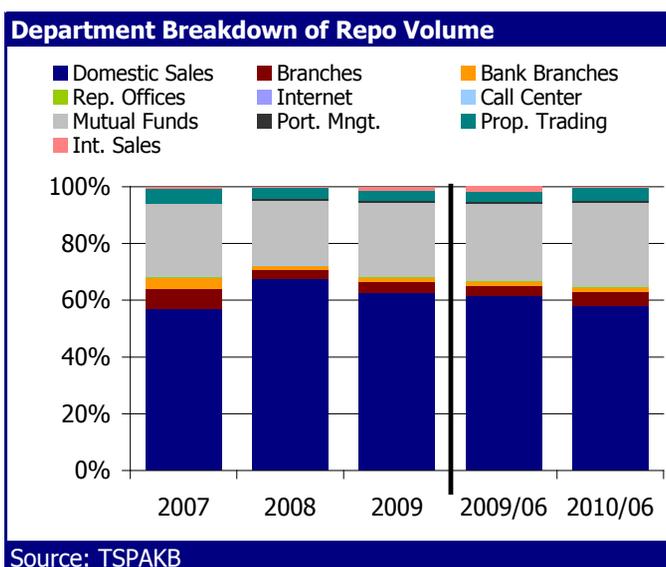
Total repo trading volume, including ISE and OTC markets' transactions, has increased by 19% to US\$ 2.1 trillion in 1H2010. Similar to bonds and bills trading volume, banks dominate the market with US\$ 1.7 trillion trading volume. Brokerage firms' share of total repo trading volume has fallen to 18% by 1 point in this period.

As in bonds and bills trading, the breakdown of the repo volume, in terms of departments and investor categories, includes the brokerage firms' statistics only.



Domestic investors create almost the entire repo trading volume, while foreign investors' share has decreased slightly in 1H2010 to less than 1%.

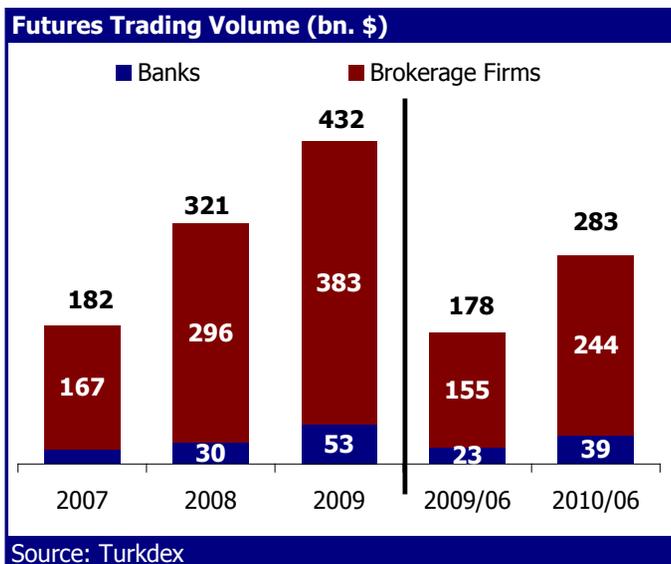
In this breakdown, domestic institutional investors, which mainly indicate the money market mutual funds managed by brokerage firms or their affiliated portfolio management companies, are the major investor group with a volume share of 84%. One brokerage firm generated 47% of domestic institutional investors' repo volume.



A considerable amount of repo trading volume is done through domestic sales (58%) and mutual funds (30%).

A detailed analysis of the repo market shows that, concentration in repo transactions among brokerage firms is relatively high. A single brokerage firm generated 41% of total repo transactions.

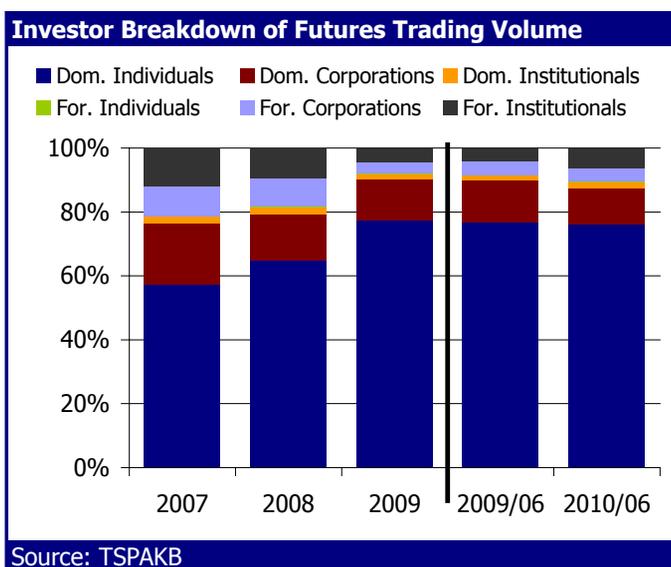
# DERIVATIVES MARKET



In the derivatives market, brokerage firms, derivative brokerage firms and banks are authorized to trade.

Although the trading volume of the futures market increased by 59%, reaching US\$ 283 billion as of June 2010, the high growth of the market during inception periods started to slow down. Contrary to the fixed income market, brokerage firms dominate the market with an 86% trading share.

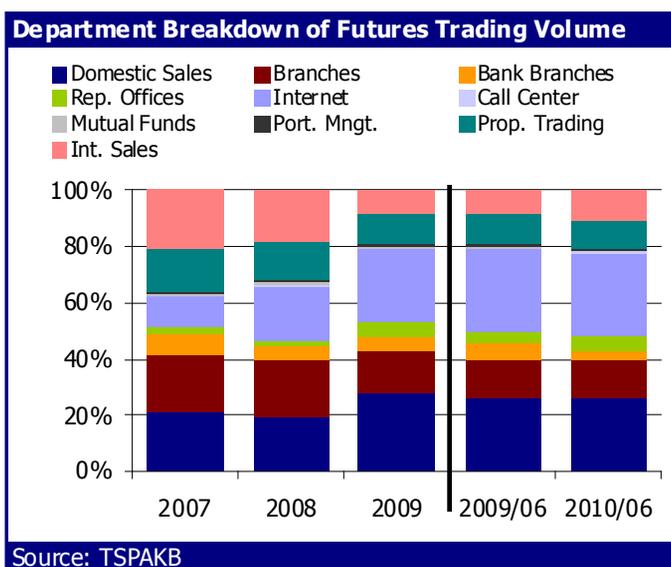
The breakdown of trading volume, in terms of departments and investor categories, includes the brokerage firms and derivative brokerage firms' statistics only.



Domestic individual investors are the main investor group in the futures market, with a share of 76%. Domestic corporations' trading volume increased by 24%, but their market share declined slightly to 11% by 2 points, y-o-y.

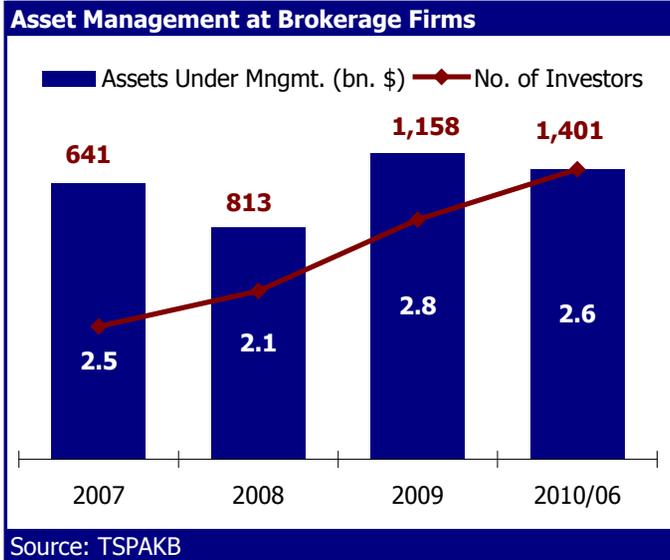
Foreign investors' share of trading volume slightly increased to 11% in 1H2010. The share of foreign investors was around 20% before the crisis, in 2007 and 2008.

Meanwhile, concentration in foreign investors' futures trading volume is high. Two brokerage firms generated half of the total foreign investors' trading volume.



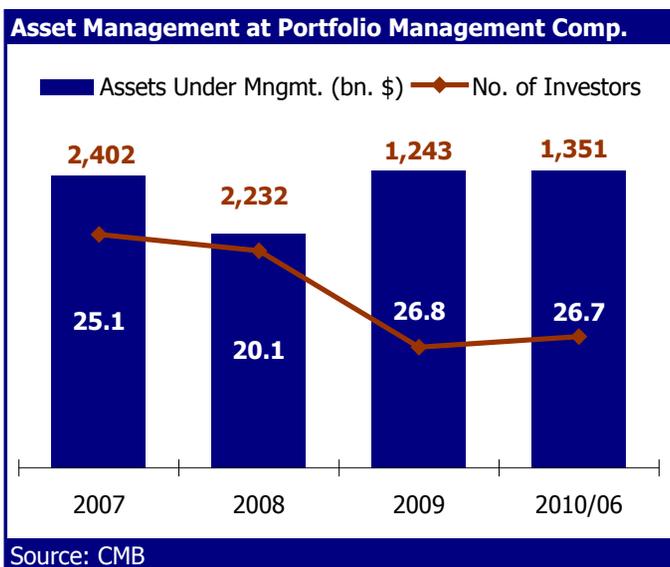
There is not a significant change in this breakdown in the first half of 2010 as compared to the same period of previous year. Internet trading is the major channel of futures trading with a 29% share. The share of futures trading through internet has exceeded that of equity trading volume.

Domestic sales, representing the headquarters of the brokerage firms, generated 26% of the futures trading volume. 23% of futures transactions have been done through brokerage firms' branches, representative offices and bank branches.



Asset management services are provided by portfolio management firms and brokerage firms. The data for portfolio management firms has been gathered from the Capital Markets Board. Portfolio management firms are generally either subsidiaries, or within the same financial group of brokerage firms. Portfolio management companies have 91% share in assets under management.

34 brokerage firms have offered asset management services as of June 2010. The number of investors increased to 1,401; but assets under management declined slightly to US\$ 2.6 billion. 71% of this portfolio belongs to B-type funds (fixed income funds, most of which are money market funds) generally founded by the managing brokerage firms.



The number of investors at portfolio management companies has slightly increased to 1,351 in 1H2010. As in brokerage firms, assets under management have not changed much and remained at US\$ 27 billion. 547 institutional investors and corporations own 98% of this portfolio.



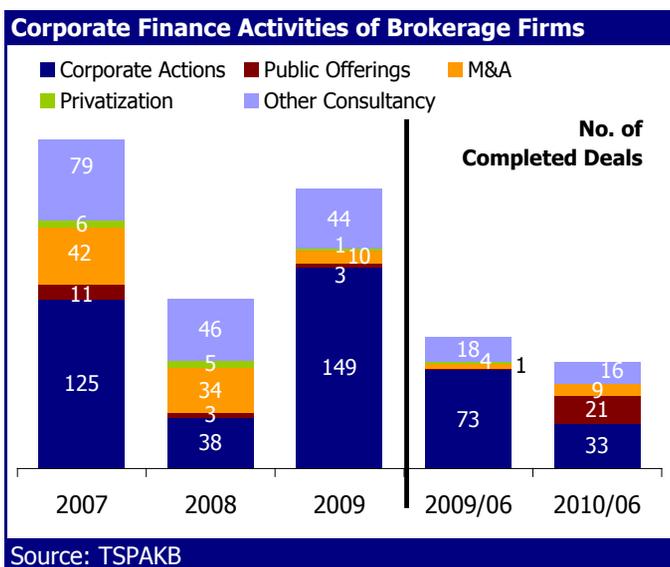
During the global financial crisis, total loan size and the number of margin trading investors decreased sharply. But then, as in other activities of brokerage firms, a recovery started from the second half of 2009. By the end of June 2010, total loan size and margin trading investors have increased to US\$ 340 million and 9,655, respectively. Average loan size per client is around US\$ 35,000. 61 brokerage firms have margin-trading customers as of June 2010.

# CORPORATE FINANCE & BRANCH NETWORK



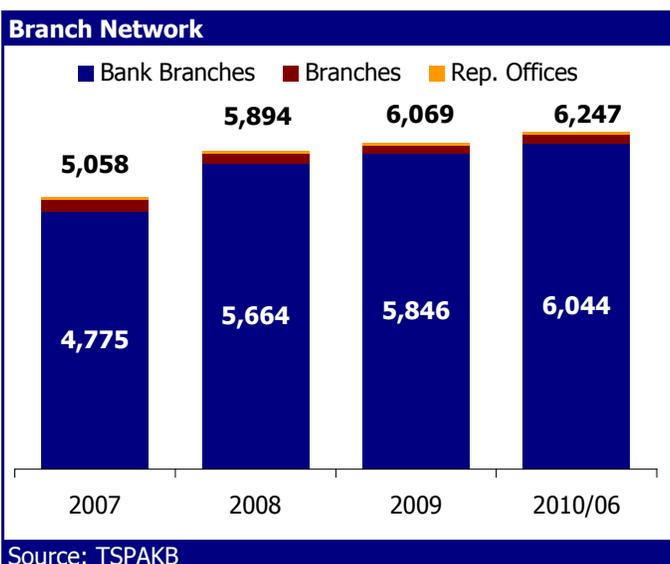
Global financial crisis limited the number of public offerings. In 2009, there were 2 public offerings, amounting to only US\$ 76 million. But in the first half of 2010, the market revived and 11 public offerings took place, amounting to US\$ 795 million.

Meanwhile, brokerage firms are becoming listed companies themselves. A brokerage firm went public in June 2010, while another one's IPO took place in July. Currently, three brokerage firms are being traded on the Istanbul Stock Exchange.



Corporate finance services are provided by brokerage firms, as well as consultancy companies. However, this section covers only the corporate finance activities of brokerage firms. In the first six months of 2010, 24 brokerage firms were active in this market.

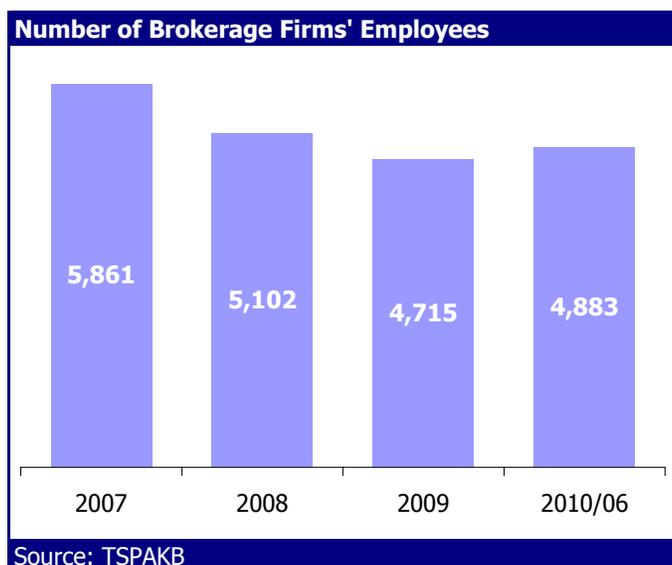
In 1H2010, the number of completed transactions went down from 97 to 79, y-o-y. The declining number of corporate actions was the underlying reason of this fall. In 1H2010, 15 companies increased their paid-in capital through brokerage firms, while 18 companies used brokerage firms to pay dividends. On the other hand, with the recovery in public offerings, brokerage firms completed 21 public offering projects, 8 of which are debt instruments. Two brokerage firms co-lead managed two IPOs and they were double counted in this section.



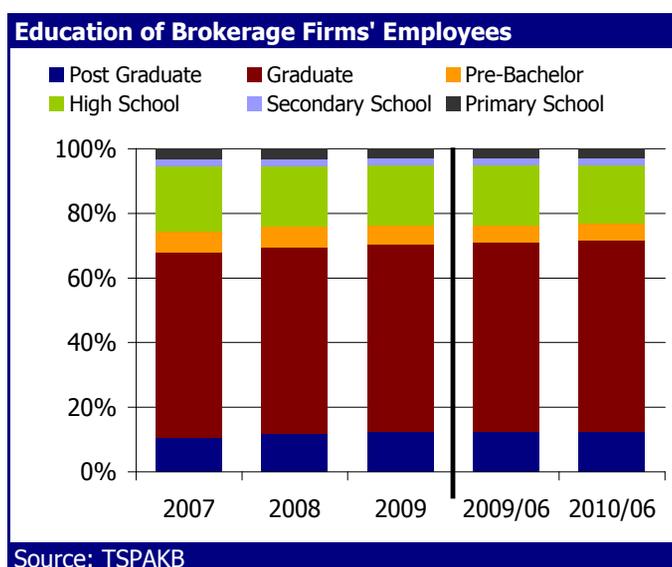
Brokerage firms reach investors through three sales points; bank branches, own branches and representative offices.

Branches and representative offices are owned and staffed by brokerage firms. On the other hand, bank branches are also used as sales agents, based on agreements between the banks and the brokerage firms.

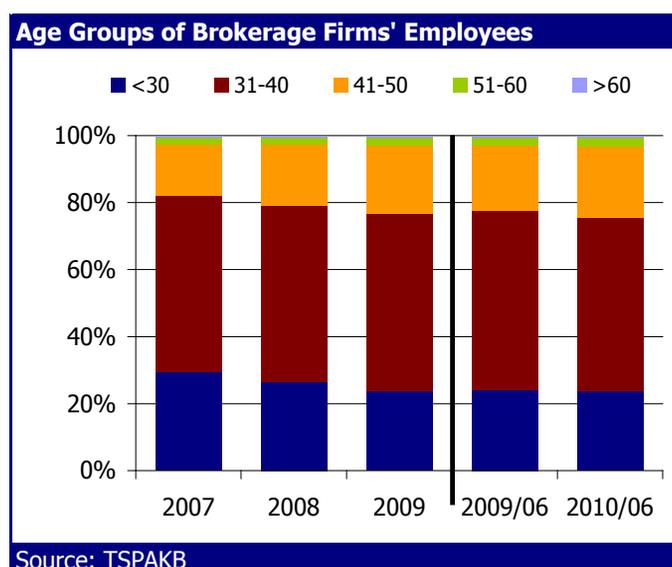
With the effect of the global financial crisis, brokerage firms started to close down their branches and representative offices since 2008. For the first time since 2006, an increase in the number of branches and representative offices has been seen by the end of June 2010. The number of branches and representative offices are 161 and 42 respectively. Besides, the number of bank branches continued to increase and reached 6,044, from 5,846 at the beginning of the year.



Between 2004 and 2007, brokerage firms employed around 5,900 personnel. In 2008, due to the global crisis, the number of employees declined to 5,102. The decline continued in 2009 and total number of employees came down to 4,714. Thanks to the market recovery, the number of employees started to rise after 2009 and increased to 4,883 by the end of June 2010. The most significant increase in the number of employees has been in branches, due to the newly opened ones.

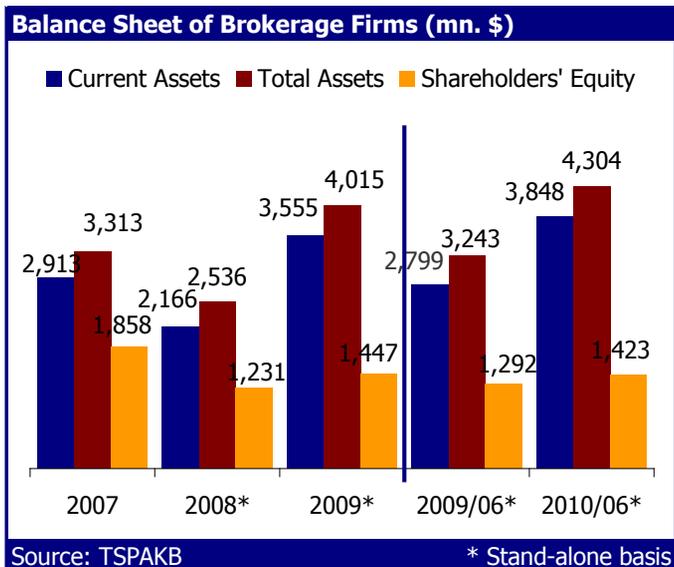


The education level of the sector has been increasing. 77% of brokerage firms' employees have at least a graduate diploma. New hires took place in the graduate and post-graduate segment, and their share increased by 1 point to 71%.



Although the majority of employees are aged under 40, an aging trend is observed. The breakdown shows that the share of employees under 40 decreased by 2 points, y-o-y, to 76% as of 1H2010.

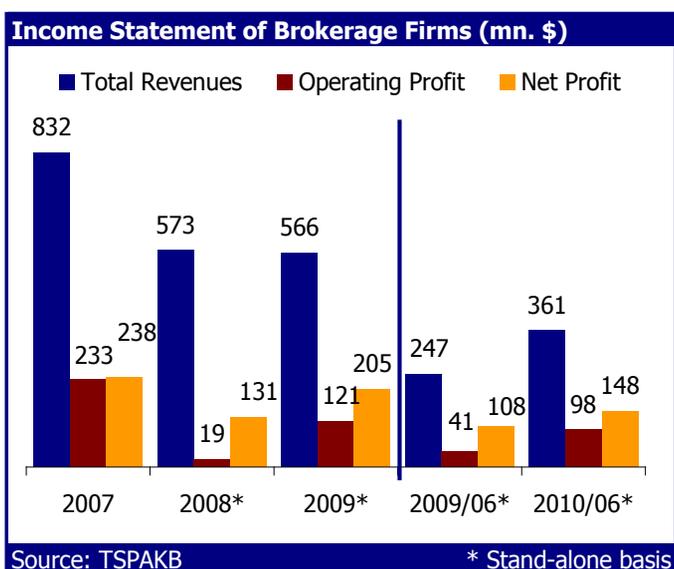
# FINANCIAL STATEMENTS



International Financial Reporting Standards (IFRS) have been adopted in capital markets since 2005 and revised in 2008. In this section, financial statements cover the aggregate data of 92 brokerage firms in 2009/06 and 93 firms in 2010/06.

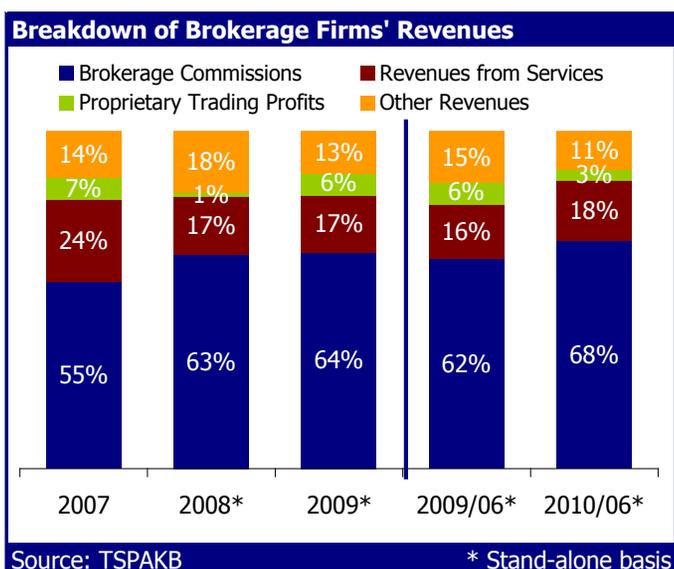
By the end of 1H2010, total assets of the brokerage industry reached US\$ 4.3 billion. Brokerage firms' liquidity remained strong. 89% of the total assets is composed of current assets. Major account of the current assets is cash and cash equivalents, forming 56% of total assets.

Shareholders' equity of the industry is US\$ 1.4 billion, equaling to 33% of total liabilities. Short term financial liabilities (66%) are related to overnight borrowings and settlement dues. 3 brokerage firms, which borrowed short term from the money market and invested in longer term bank deposits, owe 90% of overnight borrowings.



In the first half of 2010, brokerage firms' total revenues increased by 46% to US\$ 361 million, y-o-y. In the same period, operating profit of the industry reached US\$ 98 million.

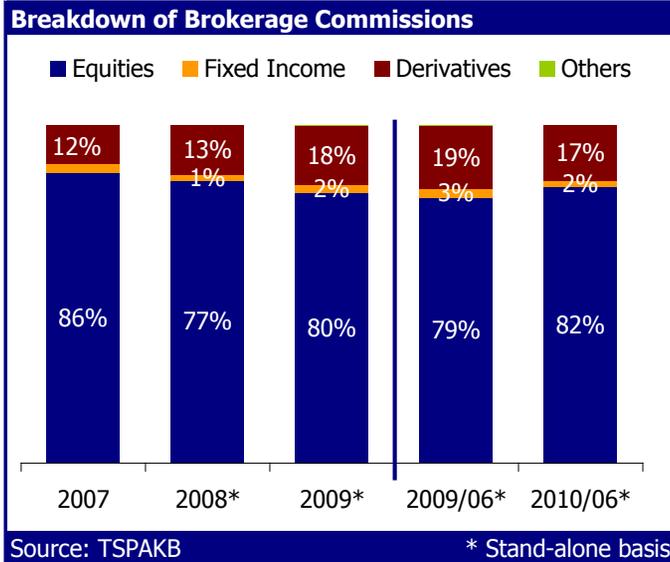
Brokerage firms generate revenues from brokerage commissions, services, proprietary trading and other operations.



Brokerage commissions are the major revenue source of the industry. 68% of the revenues are generated by brokerage commissions in the first half of 2010.

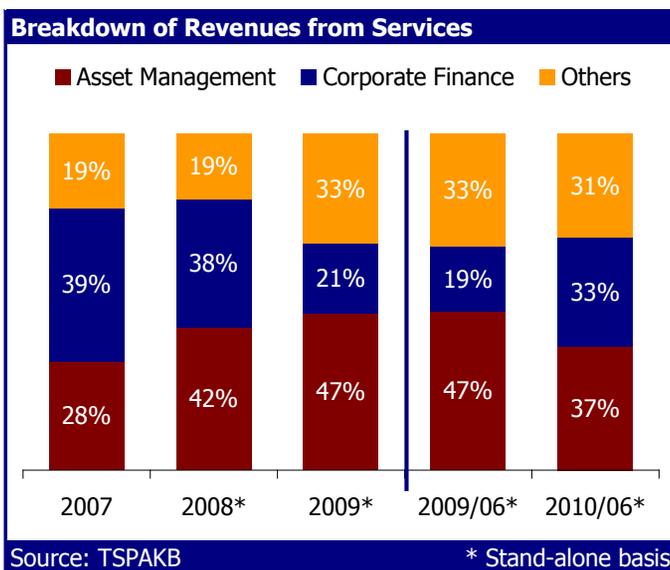
Brokerage commissions are followed by revenues from services, which refer to corporate finance and asset management activities, with a share of 18%. Brokerage firms posted US\$ 14 million proprietary trading profits, which constituted 3% of total revenues in 1H2010.

Share of other revenues, including interest income and dividends received, declined by 4 percentage points to 11%, y-o-y.



In the first half of 2010, brokerage firms generated US\$ 244 million in brokerage commissions. Commissions from equity trading have dominated the income structure with a share of 82%. While equity trading volume has increased by 69% in US\$ terms between 1H2009 and 1H2010, the commissions generated on equities increased by 63% to US\$ 200 million.

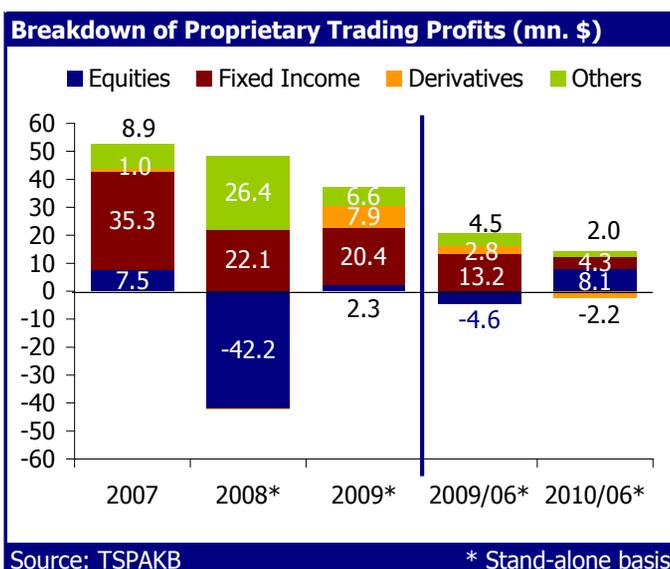
Effective commission rate on equity trading could be calculated by the net amount left to the brokerage firm, excluding rebates to clients and revenue sharing with the sales agents. In 1H2010, the effective commission rate was 0.048% as compared to 0.050% in 1H2009. Please note that this should not be interpreted as the rate charged from the client. Although derivatives trading volume and commissions increased by 40% in 1H2010, its share in the commission revenues decreased slightly by 2 points, y-o-y. The effective commission rate was 0.018%.



Revenues from services cover mainly asset management and corporate finance fees. "Others" refer to fees charged on custody services, as well as money and securities transfers. Services' revenues reached US\$ 64 million in 1H2010 with a 58% y-o-y increase.

In the first half, the most remarkable change has been in the revenues from corporate finance activities. The brokerage industry doubled its revenues from these activities to US\$ 21 million in 1H2010, due to the recovery in public offerings.

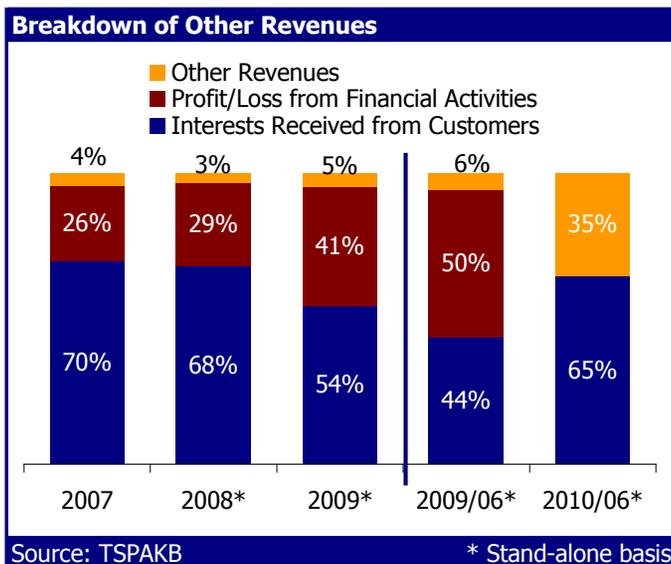
Although asset management revenues increased by 23% to US\$ 23 million in 1H2010, its share decreased by 10 percentage points to 37%.



Brokerage firms' proprietary trading profit decreased from US\$ 16 million in 1H2009 to US\$ 12 million in 1H2010.

The losses from proprietary equity trading in 1H2009 turned into a profit of US\$ 8 million in 1H2010, in line with the recovery in the market. On the other hand, fixed income trading (public sector bonds and bills) profits decreased from US\$ 13 million to US\$ 4 million. US\$ 2.2 million losses were incurred from derivatives trading, in contrast to a profit of US\$ 2.8 million in 1H2009.

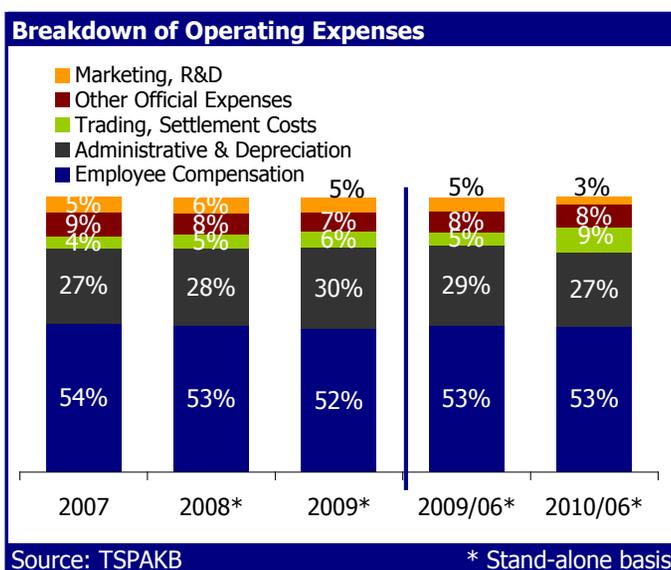
# FINANCIAL STATEMENTS



In the first half of 2010, other revenues increased by 6% to US\$ 41 million.

Since 2007, profit/loss from financial activities was reflecting one brokerage firm's arbitrage trading. In 2010, this particular firm started to classify these revenues under "other revenues". Therefore, other revenues' share increased significantly to 35%.

Meanwhile, interest revenues from margin trading activities reached US\$ 26 million, with a 57% y-o-y increase.



In 1H2010, operating expenses of the brokerage industry increased by 20% to US\$ 270 million. 53% of the expenses come from employee compensation, which refer to salaries, social security payments, health insurance and alike. The average monthly cost of an employee increased from US\$ 4,109 in 1H2009 to US\$ 4,929 in 1H2010.

Due to an increase in the trading volumes, trading and settlement costs doubled, reaching US\$ 25 million.

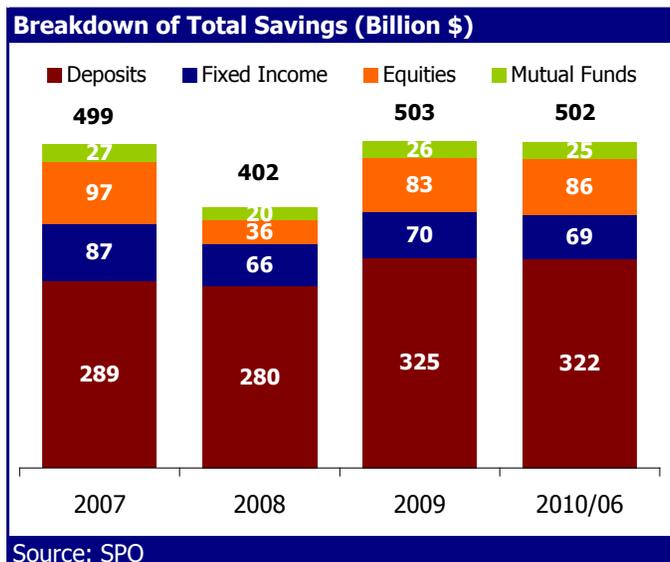
Administrative and depreciation expenses, which include office rents, other infrastructure expenses and depreciation, represent 27% of total expenses.

**Breakdown of Brokerage Firms' Profits**

	2009/06	2010/06	Change
No. of Profit Makers	63	65	3%
No. of Loss Makers	29	28	-3%
Total Profits (Mn. \$)	123	158	28%
Total Losses (Mn. \$)	-15	-9	-39%
<b>Net Profits/Losses</b>	<b>108</b>	<b>148</b>	<b>38%</b>

Source: TSPAKB

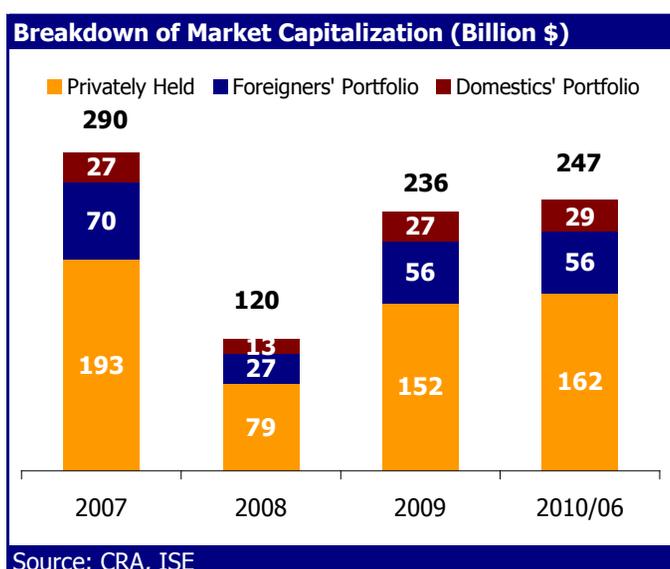
In 1H2010, while 65 brokerage firms recorded a profit of US\$ 158 million, 28 brokerage firms posted US\$ 9 million losses. Aggregate net profit of the industry increased by 38% to US\$ 148 million, in the first six months of 2010.



By the end of June 2010, total savings remained at the same level around US\$ 500 billion. Domestic residents hold the majority of the total savings with an 83% share.

The popularity of bank deposits within the investment preferences continue to be high. Investors hold US\$ 322 billion in bank deposits as of June 2010.

In total savings breakdown, bank deposits are followed by equities and fixed income with shares of 17% and 14%, respectively. Mutual funds, with a US\$ 25 billion size, represent 5% of total investments.



As of 1H2010, market capitalization of the ISE increased by 5%, y-t-d, to US\$ 247 billion. US\$ 162 billion of market capitalization is privately held, indicating that 34% of ISE companies' shares are freely floating.



Foreign investors have been holding two-thirds of the free-float market capitalization since 2005. The highest figure of the foreigners' share (%72) was recorded in 2007. In 1H2010, it came down slightly to 66%, from %67 at the beginning of the year.

Foreigners' share in trading volume, on the other hand, declined substantially from 27% in 2008 to 14% in 2009. In the first half of 2010, the trading volume share remained stable.

## INVESTORS

<b>Number of Equity Investors</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010/06</b>
<b>Domestic Investors</b>	<b>934,070</b>	<b>983,264</b>	<b>993,253</b>	<b>1,023,203</b>
Dom. Individuals	931,433	980,337	990,388	1,020,151
Dom. Corporations	2,223	2,492	2,429	2,560
Dom. Institutionals	414	435	436	492
<b>Foreign Investors</b>	<b>6,696</b>	<b>6,586</b>	<b>7,008</b>	<b>7,215</b>
For. Individuals	3,984	4,181	4,094	4,164
For. Corporations	1,350	734	856	923
For. Institutionals	1,362	1,671	2,058	2,128
<b>Total</b>	<b>940,766</b>	<b>989,850</b>	<b>1,000,261</b>	<b>1,030,418</b>

Source: CRA

The number of investors with equity holdings increased to 1.03 million by the end of June 2010, with the participation of around 30,000 new domestic individual investors in 6 months. Number of domestic investors surpassed the threshold of 1 million for the first time since 2002.

Although there was a slight increase in the number of foreign investors, they still represent 1% of equity investors.

<b>Equity Ownership (mn. \$)</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010/06</b>
<b>Domestic Investors</b>	<b>27,020</b>	<b>13,205</b>	<b>27,292</b>	<b>28,928</b>
Dom. Individuals	15,080	7,090	16,476	17,300
Dom. Corporations	8,838	4,677	7,886	8,674
Dom. Institutionals	3,102	1,439	2,930	2,954
<b>Foreign Investors</b>	<b>70,454</b>	<b>27,332</b>	<b>56,274</b>	<b>55,873</b>
For. Individuals	202	87	296	185
For. Corporations	38,619	8,565	15,913	16,117
For. Institutionals	31,634	18,680	40,065	39,571
<b>Total</b>	<b>97,474</b>	<b>40,537</b>	<b>83,566</b>	<b>84,801</b>

Source: CRA

Total equity holdings increased from US\$ 41 billion in 2008 to US\$ 85 billion by the end of June 2010. Nevertheless, it is still below the pre-crisis level.

The breakdown of equity ownership indicates that, although foreign investors still hold two-thirds of the equity portfolio, domestic investors' share has increased from 27% in 2007 to 34% as of June 2010.

Among the foreigners, institutional investors are the major investor group with a US\$ 40 billion equity portfolio. With US\$ 16 billion portfolio, foreign corporations, which include banks and brokerage firms, are the other important category in the ownership structure.



