TURKISH CAPITAL MARKETS ASSOCIATION

CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

I. INTRODUCTION

Morality, is defined as accepted principles and rules associated with right and wrong behaviour in a certain society or a culture[1]**.** According to this definition, morality is the judgement, attitude and behaviour that enable human actions to express the values of right or wrong. It resulted from people's relationship within themselves, society or the government, and it determines the attitudes and actions whether individuals "must" or "must not do"[2].

Morality is the code of conduct that contains self-formed and generally accepted evaluations, organizes actions of human beings in all areas of social life [3].

Morality takes its source from human being. The nature itself does not contain moral rules such as "do not kill", "never speak ill" or "be a good human". The individuals or societies created the concepts of morality during historical periods.

An individual finds morality as a set of rules already regulated that must be obeyed in the society. However, both the individuals and society question and evaluate the learnt moral judgements within themselves after they reach a certain level of maturity, and as a result, they may reach different rules of moral judgement. Such a questioning and evaluation process means that an individual or a society expresses their ethical actions in order to reach universal values and judgements.

Ethics is a process of "deep thinking" that subjects to morality itself with active participation of the individual, [4] and universal meaning is fulfilment of the "right action" (contemplation).

Each individual who thinks deeply about accuracy of her/his intended action before implementing it, and seeks an answer to the questions of "What should I do here?" and "Why?" is deemed to perform an ethical action and an ethical thinking.

Ethical thinking is a result of individual's freedom, and as a result of this ethical thinking,

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[1] Karaeminoğulları, A., Birey-Örgüt Uyumunun Ahlaki Değerlendirmeler ve Ahlaki Niyet Üzerindeki Etkisinin Kültürler Arası Bağlamda İncelenmesi, Istanbul University, Doctoral Dissertation, p. 17, Istanbul, 2012

[2] Simsek,S., Akgemci, T. and A.Çelik (2003), Davranış Bilimlerine Giriş ve Örgütsel Davranış, Adım Matbaacılık ve Ofset, Konya.akt: Semra Güney, "Ahlaki Liderliğin Kavramsallaştırılması ve Ahlaki Yönetimde Liderliğin Rolü",Yönetim ve Ekonomi, Vol.:13, 2006, p.135-148

[3] DELİORMAN R. B. AND KANDEMİR A. Ü. (2009), "Kamu Kurumu Niteliğinde Meslek Kuruluşları ve Etik", in Kamu Etiği Akademik Araştırmaları, Vol. 2, Ankara, 10-99

[4] Asst. Prof. Ertuğrul UZUN, Adalet Meslek Etiği, Turkish Republic Anadolu University Edition No: 2294 Edition No Of Faculty Of Open University: 1291

according to their own moral values, the individual decides whether to perform her/his intended action or not after evaluating. An action based on the freedom of an individual is independent from external, physical and intellectual impositions. On the other hand, an action performed by force and threat is not only unethical but also immoral, as it is not based on deep thinking. An individual establishes rules restricting her/his own freedom with her/his free will by thinking ethically.

Accordingly, while morality includes the rules which individuals accept without thinking on and abide by; ethics includes the rules which an individual finds right or wrong with her/his free will after thinking deeply, and establishes limits for himself/herself about whether to obey such rules or not.

Although it is agreed that moral principles may vary according to cultures, geographies and societies, it is also accepted that at least some moral judgements are right for everybody, that is, there are universal moral principles.

However, the developing social order has given an interwoven complex structure to the relationships of individuals with other individuals, society or government. The conditions have emerged that society has not experienced before, not generated moral principles and universal moral principles remained incapable. As a result of the fact that universal moral principles are not sufficient in defining right types of behaviour in newly developed relationships and operations, the cultural sub-groups of the society needs to determine their own ethical principles in order to meet their own needs. In order to meet the needs for moral principles, especially in fast developing sectors such as finance and technology; the public sector, trade bodies, non-governmental organizations or companies established ethical principles and directed those principles to the individuals under their spheres of influence.

Ethical principles are written, explanatory and official documents, which includes moral principles that guides the employees or organizations of a certain occupation, and directs the individuals or corporations who will show the mentioned attitudes in the process of taking or not taking action by deep thinking[5]. Such ethical principles are for the employees to perform their duties or occupations in the best way, obey the rules established for their occupations, and not to forget moral quality of their actions while performing their duties.

These principles are also called as **occupational ethics; that is** conducted and preserved according to certain occupational group. Members of this occupation group has to obey these principles, it also limits the personal tendencies, and excludes the people who are incompetent and unprincipled. Additionally, it is a set of professional principles that organize the internal competition and aims to protect service ideals[6].

On the other hand, in addition to the Ethical Principles, there are developed rules that lead, instruct and restrict employee of a certain occupation, to guide them about actions of their duty.

[5] Schawartz, M. “The Nature of the Relationship Between Corporate Codes of Ethics and Behaviour”, Journal of Business Ethics, Vol.: 32, N: 3, 2001, p.247-262.

[6] Baspinar, N.O., Cakiroglu, D. (2011). Meslek Etigi, Ankara: Nobel.

This document named as **Code of Conduct,** idealizes that how a prudent person must act in the circumstances encountered during works and transactions also, conforming the Ethical Principles. Ethical Principles address to abstract concepts that target personality and its development, while Codes of Conduct includes concrete directions for the implementation of a certain occupation.

II. CAPITAL MARKETS AND ETHICS

The basic function of financial markets is effective, efficient and economical distribution of sources and economic growth thereby[7].

The majority of economic and financial models assume that the markets operating in a full competition environment perform the function of distributing sources effectively, efficiently and economically by themselves without any intervention based on the assumption that individuals tend for utility maximization of their values and benefits therefrom.

However, the crisis in 2008 showed that, contrary to the assumptions of modern finance theory, market participants cannot choose the best option for themselves every time, a market cannot access all information that may affect prices, the existing information in the market may not completely reflected to the prices. Therefore, decisions on investment may not be taken effectively, efficiently and economically. The mentioned crisis showed the entire world that the customer representatives who compete for their own seperate interests might make an effort to issue debt that should not have been issued, the managers who have supervisory duty over such persons may consent to acts that should not have been approved of, and such debts should not have been securitized and marketed without being questioned by the financial institutions or, even if they are questioned, without heeding the results.

The main reasons for the said crisis destructive effect of which was felt all around the world include the fact that the persons at each level as a financial decision-maker do not ask the questions “What should I do here?” and “Why?”; that is, they do not perform the act of deep thinking.

Observation of the abovementioned fact required questioning of the deficiency in moral value judgements at each layer of financial markets and development of ethical principles to eliminate such deficiencies. Therefore, Ethics was placed as the fourth “E” to the basis of main functions of financial market.

“Codes of Ethics and Behaviour for Employees of Capital Market” (SPEK) was prepared as a guidance to the employees of capital market institutions in the

[7] Effectiveness shows to what extent targeted effect and actual effect of activities match up.
Effectiveness shows whether outputs of an activity and sources used to provide them are in proportion or not.
Economy is ensuring the measure of obtaining the highest efficiency with the lowest cost in the sources used for activities.

activities of capital market[8].

SPEK aims to help an employee of capital market who encounters with complicated ethical situations in determination of her responsibilities against her managers, subordinates, clients[9] and the entire financial market.

SPEK was prepared considering internationally accepted ethical principles and codes of behaviour[10]. However, when dynamics and fast movement of financial markets are taken into consideration, there will be circumstances when SPEK is insufficient or does not respond to the encountered dilemma adequately. In that point, an employee of capital market should move away her usual daily concerns, think deeply about the subject, and give her own ethical decision with her free will.

8 Employees in capital market institutions shall hereinafter be called as only "capital market employees".

9 "Customers" include all related parties in capital market such as customers, possible customers and investors.

10 While preparing the section of Ethical Principles and Codes of Behaviour of the present study, the publication called Standard Practice of Hand Book published by CFA Institute was taken into consideration. (http://www.cfainstitute.org/ethics/codes/ethics/pages/index.aspx)
The framework of the said publication was taken as basis; however, the legislation, principles, rules and sample events were changed according to Turkish arrangements.

III. ETHICAL PRINCIPLES AND CODES OF BEHAVIOUR FOR THE EMPLOYEES OF CAPITAL MARKET

A. Ethical Principles

i. **Core Principle: C**apital markets employee must be independent, honest, fair, competent, diligent, respectful, ethic and based on current information in their relationships with the public, clients, employer, colleagues and other participants of capital markets.

ii. **Independency, Honesty and Justice:** Capital markets employee must place the honour of capital markets and interests of their client above their personal interests, and provide clear, understandable, accurate, complete information and services in time, and treat each client equally without making any discrimination.

iii. **Care and Diligence:** Capital markets employee must act with care and diligence to details, as a careful and prudent person would act under the same circumstances, in operations and decisions.

iv. **Continuous Learning:** Capital markets employee must be aware of capital markets continuous change and development, and make an effort to update and improve their knowledge and skills.

v. **Preservation of Confidentiality:** Capital markets employee must not disclose any confidential information that they acquire about their institution and clients, and not use for the benefit of themselves or third persons.

vi. **Ethical Thinking:** Capital market employees must use their independent judgment based on their free will, considering the legislation of capital market and corporate values while performing capital market activities, and must encourage other individuals to act within the framework of ethical principles of capital market and protect the dignity of the profession.

B. STANDARDS OF PROFESSIONAL CONDUCT

i. PROFESSIONALISM

1. Knowledge of the Law: Capital markets employee must learn capital markets and other relevant laws, internal regulations, keep themselves up to date with and adhere to them. In case of inconsistency or contradiction between the law, rules and regulation must act according to the more stringent one. Employees must not intentionally violate regulations of the capital market, in the case of appearance of a violation, must exclude the possibility of the issue themselves, must not favour those who violate the matter, and violations must be reported to the authorities of the institution.

2. Independence and Objectivity: Capital markets employee must be independent and objective during professional activities and use reasonable care and opinions to maintain it. Capital markets employee must not accept any gifts, interests, pecuniary advantages and material provisions that might impair their or any other individual's independency and objectivity, and must not make any offers or demands leading to such interests.

3. Unreal Representation: Capital markets employee must not misrepresent capital market activities.

4. Misconduct: Capital markets employee must not show any professional attitudes regarding fraud, deceit or cheat; and must abstain from all kinds of actions that may have a negative effect on professional prestige, honesty and impressions about their competency.

ii. INTEGRITY OF CAPITAL MARKETS

1. Material Nonpublic Information: Capital market employees, who possess material nonpublic information on events and developments that may affect the value, price and investor preferences of capital market instruments, must not act or assist others to act on the information.

2. Market Manipulation: Capital markets employee must avoid performing operations that carries the factors of market manipulation and/or helping someone who perform such operations.

3. Predatory Practices: Capital markets employee must not perform any actions or an operation, which can not be explained by an economic or financial reason that disrupt reliable and steady operation of stock market and other organized markets, and abstain from helping those who perform such operations.

iii. Duties To Clients

1. Loyalty, Prudence and Care: Capital markets employee must act with reasonable care by considering liabilities of loyalty and attention to clients into consideration. In this context, a capital market employee must place interests of their clients above the interests of their employers and/or their own interests.

2. Fair Behaviour: Capital markets employee must treat all clients fairly while performing capital market activities.

3. Suitability:

a. Capital markets employee, before submitting capital market activities, must use standard tests developed to provide necessary information for investment experiences, risk, return objectives and financial limitations of the clients and must update the information in such tests and reassess it.

b. Capital markets employee must consider suitability of client's overall investment preferences, the status of the portfolio, personal needs, general economic and financial information and correlation of all these variables with each other in capital market activities.

c. Capital markets employee, in accordance to test results judges the suitability of clients buy will on a particular product, instruction, or in a manner.

d. Capital market employees must abide by account/portfolio constraints, when performing making investment recommendation.

4. Performance Presentation: When transmitting investment performance information, capital markets employee must be performing with complete, accurate, precise and, clear comparative data and indicators.

5. Preservation of Confidentiality: Capital markets employee must keep clients information confidential and not use for the interests of themselves or someone else, except under the circumstances that the information concerns illegal activities, disclosure of the information is required by laws, and the client permits disclosure of their information.

iv. Duties To Employers

1. **Loyalty:** Capital markets employee must work diligently and use their skills within job definition, and must act loyal to protect the interests of the employer.

2. **Additional Compensation Arrangements:** Capital markets employee must comply with in-house arrangements, processes, decisions and special instructions under the laws and general morality in the capital market institution.

3. **Disclosure of Benefits:** Capital markets employee must not accept any gift, interest, fee or compensation from any third person by not getting approval from employer for the services about employees work.

4. **Responsibilities of Supervisors:** Manager of capital markets employee, must make reasonable efforts to prevent and determine the violence of applicable legislation, professional rules, and generally accepted professional practices for anyone under their supervision or authority.

v. Presentation of Capital Market Activities

1. **Diligence and Reasonable Basis:** Capital markets employee must be accurate, consistent, careful, comprehensive and unique while presenting the capital market activities and have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, or action.

2. **Communication with Clients and Prospective Clients:**

a. Capital markets employee must explain to clients the basic variables, policies, principles and processes affecting the provision of capital market activities, and in case of any significant change in these variables, which might affect materially to preferences of a client, employee must inform to client immediately.

b. Capital markets employee must use professional judgment to identify important factors that could affect the capital market activities and those factors must be specified by employee in communications with clients.

c. Capital markets employee must inform to clients about significant constraints and risks related to capital market activities.

d. Capital markets employee must indicate the difference between theoretical studies with real data in the informative presentations of capital markets activities.

e. Capital markets employee must not make inaccurate, misleading and derogatory statements about other institutions and/or employees. Employee must know that every capital markets institution is a prestige establishment and must not show discrediting attitudes.

3. Record Retention: Capital markets employee must record the analyses, working notes and interview notes that constitute the basis of capital market activities and saves them for a reasonable period.

vi. Conflict of Interest

1. Disclosure of Conflicts: Capital markets employee must make complete, clear, perceptible, comprehensible and effective disclosure to their clients and employer regarding all subjects that could bring the possibility to impair their independence and objectivity, or negative impact on fulfilling their duty. Capital market employees must unsure that disclosures are prominent, in plain language, and communicate the relevant information effectively.

2. Priority of Transactions: Capital markets employee must give priority to the operations and transactions of clients and then the employer when compared to his own operations and transactions during performance of capital market activities.

3. Disclosure of Benefits Arising from Capital Market Activities: Capital markets employee must disclosure to their clients and employer regarding any fees, compensation and benefit that are provided from third parties or paid to third parties during the capital market activities.

vii. Professional Liabilities:

1. Capital markets employee must be aware that capital markets are based on confidence and prestige, and employee must avoid all kinds of attitudes that might be contrary to this fact.

IV. STANDARTDS OF CODES OF CONDUCT

i. Professionalism

1. **Know ledge of the Law**; Capital markets employee must learn capital markets and other related laws, in-house arrangements, keep themselves updated and conform to the legislations. In case of inconsistency or discrepancy between the laws, employee must act according to stricter regulation. Capital markets employee must not violate the regulations intentionally, in case of violating rules employee must keep themselves apart from issue, not assist those who violate the matter and the violation must be reported to the institutions and authorities.

Capital markets employee must be aware of the Turkish laws and regulations regarding the capital market activities and, in case they provide services in foreign countries, employees must understand the applicable regulations of the relevant countries. This rule does not require that capital market employee's expert on the relevant legislation. The capital markets employee must have sufficient knowledge regarding the legal framework to perform the activities completely and effectively in related capital market.

If the legislation of the relevant country conflicts with Turkish laws or there is no regulation about the subject in the relevant country and/or Turkish legislation, capital markets employee must obey the stricter regulation, when the foreign capital market activities offered to clients. Capital markets employee must understand the internal regulations and codes of conduct of the capital markets association. When the result of an action ethically considered, if a prohibited action appears according to both the Turkish law, as well as in foreign countries laws it must not be performed that damages the interest of investors and the capital markets.

If capital markets employee recognizes any potential violation during the operations and transactions by an institution or a client, employee must report the issue to related authorities, in the absence of process changes employee must cut off the relationship with the concerned action and/or the institution. In such cases, capital markets employee must notify the violation to Capital Market Board (SPK), Financial Crimes Investigation Board (MASAK) and/or Turkish Capital Markets Association (TSPB).

In case of contradictory during execution of the legislation, the capital markets employee must obtain support from compliance departments and/or legal affairs department of the capital market institution.

Capital market institutions allow to capital markets employee to access the Code of Conduct readily, and regularly informs employee regarding current regulation change, organizes trainings, and provides an environment that employee might inform of possible violations of the institutions.

The capital markets employee must be regularly updated about legislative amendments by capital market institutions by preparing a completed process. This process enables them to receive trainings, and creates environment that capital market employee can notify possible breaches within the institution.

Example 1: Nil works for a brokerage firm and is responsible for a corporate financing department. She discovers that deliberate action is taken at end of the period, profit appears higher than it supposed to be and there is inconsistency on current accounting standards, in presented financial statements to CMB during share exportation activities. Nil, seeks for an advice from the brokerage firm's legislative harmonization department. The compliance department officer states that the responsibility to prepare financial statements belongs to the firm and she is not required to make any notifications to CMB (SPK).

Comment 1: Although Nil is not assigned to prepare the financial statements and consulted to compliance department officer, she is not relieved from liability. Required action Nil should do is, to report the situation to the authorities of relevant institutions, and in case of not receiving any result, she should avoid from any kinds of activities and transactions, and must notify the issue to CMB, MASAK and/or TCMA.

Example 2: Ünal works in a portfolio management company. In his presentation related to the performance of clients' portfolios managed by the portfolio management company, he realizes, although, a threshold value was used, there was a benchmark criterion is taken as basis, the return of the managed portfolios was shown higher than the actual.

Comment 2: Misrepresentation of the performance is the breach of a legislative provision. Ünal should warn his supervisors, if necessary, the compliance officer and internal audit units about the issue. If the company continues to use presentations, he should avoid from any action, and inform to the relevant regulatory and auditing agencies.

Example 3: Sevda, who works in a large brokerage firm, conducts fundamental analyses as an international capital markets analyst. While making investigation regarding a resident company, at a country within the scope of her duty, she receives information that not disclosed to the public yet and might affect market value of the company. Crime of abusing information is not regulated in the related country.

Comment 3: Sevda must act according to stricter regulation in Turkish laws, and should consider this factor while preparing advices for her clients.

i. Professionalism

2. Independence and Objectivity: Capital market employees must be independent and objectivity during professional activities and use reasonable care and conviction to maintain it. Capital markets employee must not accept any gifts, interests, pecuniary advantages and material provisions that might impair their or other people's independency and objectivity, and must not make any offers or demands leading to such interests.

Independency and objectivity codes of conduct are intended to ensure capital markets employee not get affected by the conflict of interest that may arise during relationships with the clients and other people or situations, which affects a personal opinion negatively.

Capital markets employee might encounter with the inconsistency circumstances when presenting of the capital market activities. For instance, brokerage customer representative might not reach a decision regarding increasing the brokerage commission income or to make clients unnecessary buy-sale;

client representatives of an intermediary firm might be uncertain between increasing commission incomes of the intermediary firm and dissuading their customer from unnecessary purchase-sale; a portfolio manager of a portfolio management company might be uncertain among purchasing capital market instruments of a company included in the same issuance group and the responsibilities against the portfolio; and a rating surveyor might be affected by the managers of the relevant organisations for higher scores. In all such cases, the capital markets employee must not fail to recall that the responsibilities for both, proper operation of capital markets and liability of attention against the clients are necessary, and must always protect their independency and impartiality.

In order to affect opinions of a capital markets employee various advantages may be offered such as invitation to luxury entertainments, tickets for expensive shows, assurances to direct other operations and priority in public offerings of excess demand. Aforementioned advantages for the capital markets employee in return for a work are acceptable as the employees' independency and impartiality gets affected adversely. Capital markets employee must not accept implicit or explicit offers that will conflict the interests of client, and a special importance must be given to resisting such pressures. In this context, the most accurate method is to reject all kinds of gifts thought to threaten independency and impartiality.

Another possibility that can arise may affect independency and impartiality is that the clients may provide or promise various interests to the capital markets employee as an expression of satisfaction, as a result of presentation of capital market activities.

The client may offer the employee, vouchers to go holiday at a summer house, provide tickets for final matches of a football tournament, if the employee keeps purchase-sale cost at a certain level during and/or ensures a certain return during portfolio management can be listed among such interests. In these cases, the capital markets employee must inform the employer before the transaction. If it is not possible to inform before the transaction, an explanation must be provided to the employer at the first occasion.

Situations that may affect independency and objectivity can also occur during preparation of research reports. For instance, a company open to public and included in the scope of a survey report of research department is also a client of the brokerage firm. If the research department gives advice of “selling” the said company as a result of its financial analysis, this may lead to disruption of trade relationship between the brokerage firm and company. Another possibility is to direct the research department by the mentioned company to obtain buying advice. In such cases, the capital markets employee must not tarnish the independency and objectivity; the research reports must not contain implicit and uncertain statements and must always be prepared as to make the clients understand completely and accurately using generally accepted financial analyses.

Example 1: Çağla, who prepares research reports for mining sector in an brokerage firm, is invited to a visit to the facilities of a mining company quoted on the stock exchange for analysts. The company meets the expenses of transportation and accommodation in a hotel which is the only accommodation place around the facilities for the analyst group. Çağla does not accept meeting of her expenses and pays herself.

Comment 1: If accommodation expenses of Çağla are met by the company, it will not be contrary to Code of Conduct. Because, the above mentioned travel is made for job and there is no alternative accommodation option in the mentioned region.

Example 2: Ayşe works in research department of a portfolio management company. She finds in a research for banking sector that stock exchange price of a bank in the same group is higher. However, she worries about a negative research report may deteriorate their relationships.

Comment 2: Ayşe should behave independently and impartially and stand behind the research report.

Example 3: The brokerage firm where Gökhan works intermediates issuance of bonds of a company. Although the issuing company is in a very risky situation, return on bonds does not appear sufficient. Gökhan speaks with Esra who is the founder of portfolio Management Company in the same group with the brokerage firm and portfolio manager of the funds and directs her to buy bonds from the issuance for the portfolio of investment funds.

Comment 3: Esra has liability of care and loyalty against the funds she manages. Therefore, she should behave independently and objectivity to the request of Gökhan, evaluate risks and returns of the issue and determine whether it will be appropriate for the portfolios she manages.

Example 4: Kerim works in department of foreign customer transactions of an brokerage firm. The foreign clients give an average price while giving orders and Kerim tries to catch the average price with the transactions through stock exchange prices. When the transactions realize at a better level than the average price as a result of the assessment made with client at the end of the month, the clients gives Kerim two tickets for final match of the World Cup, accommodation for two days at a holiday village nearby, and opportunity to go to the dinner and match by limousine. Kerim does not inform his employer about these gifts.

Comment 4: Not informing his employer about the interests, Kerim behaved in a way that will affect his independency and objectivity adversely.

i. Professionalism

3. Misrepresentation: Capital markets employee must not misrepresent capital market activities.

Capital markets are based on confidence. Investors must be able to rely on statements and information provided to them by employee, whose financial knowledge is reliable. Employee, who misrepresents the capital markets activities, undermines confidence of the capital markets as well as damaging to investors.

Misrepresentation or giving a false impression might be in any form such as, neglecting and inaccurate or misleading statements. Capital markets employee must not provide misinformation deliberately in the documents, oral statements, research reports, public disclosure documents, market bulletins, newspaper articles, e-mails, and writings in social networks etc.; the employee must not hide any information that might be negative about them and create false impression about capital market institutions or capital market instruments.

Capital market institutions are able to develop models based on fundamental, technical and numerical analyses and base their investment advices and strategies on such models. As it is not possible to predict and understand, all possible variables contain a risk of loss in such models. Therefore, all possible scenarios must be explained to the clients completely and clearly during presentation of investment models.

Capital markets employee can also use compiled data and/or prepared reports by others in the presentations. The care must be given to the original source, while using such data and must not create the impression that they prepare the information. In case of contradiction to this code, the capital markets employee will be plagiarized and made misrepresentation to the investors regarding skills and competences. Breach of this code also will create contradiction to the regulations on intellectual and industrial rights.

Capital markets employee must not make any commitments of return about the investments during presentation of capital market activities. There are many variables that affect investment returns. It is not possible to have an effect on most of these variables. However, guaranteeing a certain rate of return on investments (e.g.; if the capital markets employee says “I guarantee that this investment will gain X% earnings”) bears misleading results for the investors and leads to loss of confidence in capital markets.

Example 1: Engin works as a customer representative in a bank, having license of brokerage for order transfers. He learns that Nazım, one of his clients, inherited substantial amount of money. Engin calls Nazım and states that he can provide all kinds of capital market activities if Nazım desires to use his investments in capital market products.

Comment 1: Brokerage for order transfer is made up of receiving customer orders and transferring them to a broker of transaction or portfolio. Therefore, Engin's expression that he could provide all kinds of capital market activities is unrealistic.

Example 2: İlker writes articles in an internet site about energy sector. Süleyman works as a research expert in a portfolio management company and follows the İlker's articles. In one of his articles, İlker gives comprehensive information about known and expected reserves, production capacity, current sales prices, possible restrictions on product supply and, as a consequence, possible sales prices of an energy company in Turkey. Süleyman adds the mentioned information to the customer presentations completely but he does not give any information about the original source.

Comment 2: Süleyman plagiarized since he uses the information completely without referring to original source.

Example 3: Serkan works as a sales manager of a brokerage firm that developed a business model about leveraged transactions. During the interviews with his clients, he gives the information that all warranties of the clients are under guarantee; that nobody can dispossess clients' warranty assets and, even if the intermediary firm goes bankrupt, the assets are within the scope of Investor Compensation Centre in accordance with the regulation under new capital market legislation.

Comment 3: Serkan gave unreal information. Although, Takasbank secures customer guarantees, there is a possibility that the brokerage firm can use the mentioned guarantees (without permission). Furthermore, there is an upper limit although, leveraged transactions can benefit from Investor Compensation. Therefore, Serkan should also give this information to the clients.

i. Professionalism

4. **Misconduct:** Capital market employee must not engage in any professional conduct including fraud, deceit or dishonesty; and must abstain from all kinds of actions that may affect professional prestige and honesty negatively and create wrong impressions about their competency.

The code of conduct for the capital markets employee to have knowledge on the legislation signifies the liability to comply with the regulations such as present laws, regulations, notifications, resolutions etc., the code of misconduct deals with all manner that deteriorate professional honesty, prestige or competence.

Any action containing lie, cheat, theft and other dishonest attitudes means breach of the code of conduct. The important point is that although the action is not inconsistence to the current legislation, undermines the confidence to capital market.

Example 1: Ahmet works at brokerage firm as a customer representative. Ahmet and his friends go to the shopping mall nearby for lunch and he also drinks alcohol. Ahmet sometimes overdrinks and as a result his friends are sceptical about investment advices of Ahmet after the lunch.

Comment 1: Ahmet's excessive drinking at luch raises questions about his professional reliability and impairs the functioning of capital markets, this means a breach of the code of conduct.

ii. Integrity of Capital Markets

1. **Material Nonpublic Information**: Capital markets employee, who obtains information, events and developments that not disclosed to the public yet but might affect the value and price of capital market instruments or investment decisions of the investors, must abstain from transactions and operations that may lead to the offence of information abuse and/or assist those who commit such offences and must take necessary actions to prevent such operations.

Transactions through use of internal information are prohibited by regulatory agencies as information asymmetry deteriorates effectiveness of capital markets, and impairs the confidence in transaction of the markets. The transactions used to generate personal profit in short terms may cause the investors to withdraw from capital markets in long term due to the issue of confidence. Thus, transactions based on internal information are not only an offence but also a breach of codes of conduct.

When determining whether any information is internal or not, the capital markets employee use professional skills, knowledge, experience and prudence. Any internal information must be determined not only by the content but its source as well. As the confidence in the source of information decreases, possibility of being internal will also decrease to the same extent. For example, the information about a new investment coming from an officer of a company, who has administrative responsibility, is more likely to be internal, whereas there is lesser possibility of the information being internal which is given by authorized officer of a rival company. Uncertainty of the effect of information on price contributes as a crucial factor. As uncertainty of its effect on the price increases, significance level of the information decreases. Therefore, the capital markets employee will determine, whether the information is internal or not, while taking such variables into consideration.

In general, information is internal until it is distributed to the market or become accessible by the market. For example, financial statements, which are published in the Public Disclosure Platform or distributed through a press release, deemed to be distributed effectively. However, it may not be possible to accept that the internal information given in a closed circuit presentation for a small group of investors, analysts or other market participants is spread to the public. Such information generally maintains its internality until it is submitted to all investors.

On the other hand, a research expert who makes investment analyses, examines financial statements of the company and researches the data in the sector of the company, and contacts with investor relations department of the company may forecast about market value of the company using his personal experience. Use of results obtained on the basis of such personal predictions are not included in the use of internal information. However, in such circumstances, capital markets employee must save the information and documents, serving as the basis of researches and results, to show as evidence in conflicts.

Example 1: The general manager of a publicly held company operating in telecommunication sector, calls customer representative of the brokerage firm and gives buy order for company shares, before the information related to a tender publicized by the company. During his interview with the customer representative, he also gives information about the tender. Thereupon, the customer representative also buys shares of the publicly held company for his personal portfolio.

Comment 1: The transaction above is not only an offence of capital markets but also a breach of the codes of conduct.

Example 2: Gökben works in a law office. Her friends visit her at the weekend. During their conversation, Gökben says that a big publicly held Retail Company desires to buy the largest store chain in Turkey and she is preparing the legal documents for this buy transaction. Ethem, one of Gökben's friends, works as a portfolio manager in a portfolio management company. Ethem immediately adds stocks of the mentioned store chain to the portfolios he manages. However, on the following days, Ethem talks with Gökben and learns that the mentioned buying process was given up. There is no change occured in the prices of that store chain.

Comment 2: The code of conduct for the use of internal information does not deals with reflection of information to the prices but with the level of information effect on prices. In this context, the information about mentioned buy transaction may affect the price and use of such information shall mean a breach of the code of conduct.

Example 3: İbrahim is a manager, responsible for investor relations of a publicly held company. He is making a department meeting about the new software developed by the company. During the meeting, Ayşe who is working as a servant goes in to serve tea but İbrahim continues to talk and says that the said software is on the point of finishing and, if the software comes onto the market, it might have a highly positive effect on the company value. After leaving the meeting, Ayşe calls her son Kemal who works as a customer representative in a brokerage firm, gives him the information she heard and makes her son buy stocks of the publicly held company.

Comment 3: İbrahim behaves negligently during the meeting since he talks about the internal information while there is someone in the meeting hall who should not know such information, and this is contrary to the code of conduct. Moreover, Kemal's use of this information although, he knows that it is internal and that means not only an offence but also a breach of the code of conduct.

Example 4: Selim works in investment consultancy department of a portfolio management company. Areas of responsibility of Selim include financial corporations. Selim attends a meeting where the problems of leasing sector are negotiated. While preparing a report on such problems and their effects on the sector, he calls Ministry of Finance and learns during the interview with the experts there that the low VAT rates in leasing sector of the Ministry of Finance are exploited, the Ministry of Finance are not pleased with this situation and plans to prevent this exploitation. Then, Selim adds this information to his report, gives advice of “selling” about leasing companies, and empties capital market instruments belonging to the leasing companies in his portfolio.

Comment 4: Selim acquires this information as a result of his researches and such information is not internal as it is based on his predictions.

ii. Integrity of Capital Markets

2. **Market Manipulation:** Capital market employee must abstain from performing the operations that carries the factors of market fraud and/or helping those who perform such operations.

Another externality preventing effective operation of capital markets is market fraud. Market fraud may be transaction based and/or information based. Capital markets law defines the act of market fraud as an offence. Additionally, capital market legislation imposes on the capital market employees the obligation to inform CMB (SPK) in case of realizing such transactions.

In this context, capital markets employee must not perform any work and operation that may regard market fraud, collaborate with those who performs such operations, and employee must inform to CMB (SPK) about those who seems suspicious of performing and collaborating for such operations.

Example 1: Demir works as customer representative in a brokerage firm. Hilal, his friend from another brokerage firm, calls him and says that there will be a movement in the rank of an energy company, and he should persuade his wealthy clients to buy these stocks, and after the transactions a certain amount of money will be given to him from the gained profit.

Comment 1: Demir's participation to such actions will mean explicitly a market fraud and create offenses as well as will carry a violation of the code of conduct.

Example 2: Esat created an Internet based forum site. The site has lots of subscribers, and the comments are about various stocks made by people including Esat. He thinks that the bank charges extra fee from him due to the loan he got. Mentioned bonds of the bank are listed on the stock exchange and being traded. In order to take revenge from the bank and to affect market prices negatively, Esat writes in his forum site that a considerable amount of deposits from the bank withdrawn, financial condition of the bank has weakened and Saving Deposit Insurance Fund (TMSF) will dispossess the bank in a short time.

Comment 2: The act of Esat is an offence and a breach of the code of conduct according to capital market legislation as well as banking legislation.

ii. Integrity of Capital Markets

3. **Predatory Practices:** Capital markets employee must not perform any actions and an operation which can not be explained with an economic or financial reason that disrupts reliable, clear and steady operation of stock market and other organized markets, and must abstains from helping those who performs such operations.

Although, some actions in capital markets are not too serious to be a judicial offence (trial with prison sentence) they may deteriorate the general operations of the market. The most typical example to this is that orders of one lot are entered to the stock exchange order submission screen continuously and transactions are made for the investors who cannot see the depth information as if there was an active buy-sale. Although such transactions do not distort price trend of a stock like market fraud, they damage effeciency of the market as they prevent the investors to make transactions with better results. Therefore, such actions are deemed as administrative offence (punishment with administrative fine).

Capital markets legislation classifies predatory practices as actions made on the basis of internal and continuous information, orders and transactions, communication and correspondence, transactions for one's own interests before executing the order of clients and other predatory practices.

Predatory practices impair the efficiency of capital markets; therefore it is also defined as a violation of the code of conduct. Capital markets employee must know predatory practices and abstain from operations and transactions that may lead to such practices, and must not help those who perform such operations.

Example 1: Çağlar works in investor relations department of a company. It is time to declare financial statements of the company. Before declaration of financial statements, Çağlar tells the amount of period income to his housemate Alper. Alper does not make any transactions on stocks of the company.

Comment 1: According to the regulation of predatory practices, there is no significance whether internal information is used or not in terms of distorting market action.

Example 2: Murat, a general manager of an brokerage firm, wants the brokerage firm portfolio to make transaction by itself on the same price, in the same stock in order to be at the higher ranks in brokerage transaction volume.

Comment 2: Murat's transactions are a predatory practice through orders and transactions.

Example 3: İbrahim is an analyst in a portfolio management company and has a substantial position stocks in a company. As a result of his research, he predicts that performance of the stock will be lower in the following period. On the same day, he attends a television program by telephone, makes some comments and gives advice of "buy" about the mentioned stocks. However, he emptied all company stocks in his portfolio on the next day after his advice.

Comment 3: İbrahim's act is a predatory practice through communication and correspondence and also a breach of the code of conduct.

iii. Duties To Clients

1. **Loyalty, Prudence and Care:** Capital markets employee must consider their loyalty against clients and act with reasonable care, and exercise prudent judgement in their relations with them. In this context, capital market employees must place their clients' interests above their own or employer's interests.

The main responsibility of capital markets employee against their clients is to act with loyalty, prudence and care in operations and transactions. Capital markets activities must be made for the benefit of clients. The benchmark weather an employee acts on behalf of the client or not, is employee's action that how employee would act for their own prestige and account transaction for the same transaction.

The starting point of the code of conduct for loyalty, prudence and care against the clients is the code of recognizing them. Capital markets employee will determine identity information of the client at first contact in order to protect both themselves and the clients. All clients must be classified into professional clients or general clients and according to this classification capital market activities must be offered.
Thereafter, performance of all operations according to variables, and reflection of any change to the clients profile are requirements of the code of loyalty, prudence and care.

Especially, behaving according to the variables determined by the client during the eligibility and/or conformability test, following up and updating these variables continuously mean balancing of risk and return.

Clients consign their assets to capital market institutions, based on trust. The underlying reasons for this trust of capital market institutions is, institutions are not subject assets to any transaction such as sale, mortgaging and giving as collateral without consent of the investor; that they will protect interests of the client while directing them or performing any operations in the name of them, and that the results of tests will be taken into consideration in the regulations of the client. Naturally, loss of such a trust of clients would affect the entire capital markets negatively. After all, regulations and audit of the capital markets for protection of rights and interests of the investors are listed among the objectives of Capital Markets Law, and abuse of confidence is decided as an offence with the severest punishment.

Therefore, the code of behaviour expected from a capital market employee is to behave in accordance with long term targets, expectations and interests of the customer and to abstain from operations and transactions that may abuse the confidence of the customer when preparing customer portfolios, realizing customer orders, saving customer assets and giving advices to the customer.

Finding the real user is another important issue in collective investment organizations and against whom a capital market employee shall be responsible. For example, who should have the responsibility of loyalty, prudence and care, when a capital markets employee working in a portfolio management company, which manages investment funds established by an insurance company). Even though personal pension company is in the position of employer of the asset management firm with its authority to represent and bind the investment funds, the code of loyalty, prudence and care of the asset management firm will be against the investors holding participation certificates of the mentioned investment fund, and the interests of these investors will be observed first.

One of the regulations on capital market activities is to realize the liability of customer order in the best way. According to this code, an investment organization is liable to realize the orders in the best way possible in accordance with the policy of order realization considering preferences of clients about price, cost, speed, exchange, saving, other party and similar issues during execution of commissioning activities. In the same code, it is agreed that the investment organization realizes customer order in the best way, when the customer instructs clearly that the order shall be transferred to a certain organization or market.

It is important to note that the operations must not be performed in the “cheapest” but in the “best” and “most appropriate” way for the interests of the client, in order to fulfil the liability of loyalty, prudence and care. The assumption lying behind the expressions of “the best” and “the most appropriate” used deliberatively relatively here is that no universal code can be established for each investor, and it is required to determine “the best”, “the most appropriate” operation according to investment preferences and targets of every investor. Therefore, a capital market employee should assess whether the operation is “the best” for the client. For example, when a clients of a brokerage firm desires to buy bonds, the brokerage firm has agreements also with five different portfolio brokers except for the stock exchange, and both the stock exchange and portfolio brokers give quotation for the bonds with various terms and returns, the code of loyalty, prudence and care of the capital markets employee is not to choose the cheapest one among these bonds but to choose the most appropriate one according to the risks, returns, constraints and targets of the customer.

Example 1: Mustafa is a representative of derivative financial instruments in an intermediary a brokerage firm. He assumes that the market will be affected negatively due to uncertainties before general elections. Therefore, he decides to take short position in the market of futures and options. However, he does not have sufficient amount of warrant for the position he wants to open.

Mustafa's aunt has stocks in her opened account in the same brokerage firm. His aunt controls her account once or twice a year and does not trade often in her account. Mustafa uses the stocks in her as the security of his own position. As Mustafa's expectation became reality, the market fell down. Mustafa closes the position after he gains a great earning from his short position and returns stocks of his aunt to her account.

Comment 1: Mustafa behaved contrary to the liability of loyalty, prudence and care. According to code of conduct, there is no significance of this transaction result whether it is a loss or not. Use of the said stocks without written approval of his aunt shall be contrary to this code. Moreover, such transactions are also an offence of capital market (abuse of confidence).

Example 2: Beyhan is a portfolio manager in a portfolio management company founded by a personal pension company and included in the same group which manages the investment funds. Beyhan transfers buy and sale orders through brokerage firm of the same group during portfolio management. The rate of introduction fee with the mentioned brokerage firm seems a bit higher than the precedent rates in the market. Beyhan receives service of investment advisory suitable to the strategy of portfolios she manages from the brokerage firm for a very low fee in return for transfer of the orders through the mentioned brokerage firm. Results of this investment consultancy seem very successful.

Comment 2: Liability of loyalty, prudence and care requires "the most appropriate" performance of the transactions. Even though the commission paid by Beyhan due to buy-sale orders is not "the cheapest", Beyhan doesn't behave contrary to the code of conduct as the service of investment consultancy is for the needs of portfolios and efficient.

Example 3: Hülya is a capital market employee in a bank. The pressure on customer representatives increases, and income targets get higher due to intense competition in the sector. Hülya has the targets of selling investment fund, bank bonds and gaining share market transaction commission as well as deposits and credit targets. Hülya tries to persuade her clients to make buy and sales for various notes in order to achieve her targets.

Comment 3: Hülya has liability of loyalty, prudence and care against her clients. Her directions not proper for risk and return preferences and restrictions and targets of her clients will explicitly be contrary to the code of conduct.

Example 4: The portfolio management company where Didem works manages investment funds established by a personal pension company. This personal pension company is also open to public and traded at the exchange. Recently, trading volume of the personal pension company has decreased significantly. If this decrease in the trading volume continues, exclusion of stocks of the personal pension company out of index 30 will come up. It is important for the stocks to be included in Index 30 because especially foreign investors make investments in the stocks of companies within this scope. In case of exclusion of the personal pension company out of index 30, corporate investors will make a great pressure for sales and the company will be affected negatively. Thereupon, general manager of the personal pension company calls Didem and asks her to make buy-sales with the same price and amount in the stocks of the personal pension company through the investment fund portfolios established by them and managed by Didem and states that there will be no profit/loss as a result of these transactions.

Comment 4: The liability of loyalty, prudence and care of Didem is for the owners of investment fund participation certificate, and she should behave taking interests of these owners into consideration. When Didem makes the mentioned transactions upon the request of general manager shall be contrary to the codes of conduct.

iii. Duties To Clients

2. **Fair Dealing:** Capital markets employees must treat all customers fairly while engaging in capital market activities.

Capital market employees are expected to treat their clients fairly while engaging in capital market activities.

Situations which require ethical thinking in association with fair dealing may be encountered by the capital market employees at every field of the capital market activities. Examples include: Which clients should be given priority when an issue is oversubscribed during an IPO? How should information on a capital markets product be distributed among the clients while providing financial advisory services? How should the clientele be prioritized in case the previously given financial advice is altered? How will the prioritization work when the stocks expected to appreciate are purchased for the clients' portfolios?

Fair dealing is paramount in terms of ensuring confidence in the capital markets. Investors will come to the market more easily and without hesitation provided they are sure that they will receive the appropriate service.

Here, the meaning of "fair dealing" must be clarified. Naturally, the capital market institutions have many clients in various sizes. While serving these clients, the range and the quality of services offered may differ depending on the client relations principles of the institution. This differentiation generally stems from the cost/benefit analysis. From this point of view, the code of "fair dealing" doesn't mean "equal treatment" of the clients but the equal treatment of various clients with the same qualitative and quantitative characteristics.

The capital markets law states that the capital market institutions must act fairly and honestly considering the interests of the clients and the integrity of the markets, and establish an organizational structure that prevents conflicts of interest between the company, partners, employees, managers, related persons and their clients or among the client. For this purpose, capital market institutions must establish a written policy.

Therefore, the first thing the capital markets employees must do is to get to know the in-house policies, and should these be policies be insufficient, think ethically for themselves.

Example 1: Serhat, who works in the research department of an intermediary firm, covers the technology sector. During his research, he finds that a company has made contracts that may generate high levels of income, that the profits of the company will surge in the upcoming period and that this development hasn't been adequately priced yet. Serhat writes a report that includes the data which supports his analysis and gives a buy recommendation for the stock. Meanwhile, a client of Serhat who is satisfied with his analyses invites Serhat for lunch. At the lunch, Serhat mentions the results of his research and explains that he will send the report out to his clients later in the day after a few corrections.

Comment 1: Serhat has violated the code of fair dealing. It is irrelevant whether Serhat's client buys or sells the security. Serhat has the same responsibility towards the client who invited him for lunch as he does to his other clients. Therefore, he must act fairly while disseminating the results of his research.

Example 2: Çağrı, who works in corporate finance, is currently working on a bond issue. The bond will be offered to qualified investors and not to the public at large. The return on the issue appears satisfying compared to the benchmark bond and the expectations on the interest rates before the issue matures. Consequently, the issue is oversubscribed. Çağrı gives priority to a few of his clients with whom he has good relationships while preparing distribution lists, then buys some of the issue for himself and lastly makes distributions to the other accounts. Some clients who subscribed to the issue weren't able to buy any securities.

Comment 2: Distribution principles on the issuance of capital market instruments are determined by the issuer and/or the authorized agency. The law is silent on the private placements that don't involve the public. However, the capital market employees are subject to the code of fair dealing within the scope of Code of Ethics and Standards of Professional Conduct. Therefore, Çağrı violated this code by discriminating against some of his clients in favour of others and by even trading on his own account.

iii. Duties To Clients

3. Suitability:

a. Capital market employees must use standardized tests to inquire as to the investment experience, risk and return objectives and financial constraints of their clients prior to providing any capital markets services and regularly update and reassess this information.

b. Capital market employees must assess the clients' investment preferences, current portfolios, personal requirements, the general economic and financial outlook and the correlation among these variables.

c. Capital market employees must act consistently with the test results when the clients demand services that involve various products, orders and investment styles.

d. Capital market employees must not go beyond previously determined constraints while trading on or providing investments advice for accounts/portfolios.

Capital market employees must consider the risk and return expectations of their clients, whether the risk and return expectations of the clients match with their financial situation, the clients' investment constraints, experience and future expectations in order to suggest the appropriate investment products, portfolios and investment strategies. The starting point of determining this information is the application of developed standard tests. These tests help determine the investment services offered to the clients prior to any transactions. On the other hand, there shall be situations where the type of transaction and results of the tests do not match with each other when the customer makes transactions or there are changes in the information of tests in time, and therefore, risk/return preferences and restrictions change. Therefore, the capital market employees must be aware that the these tests are not merely a legal technicality, that the tests are not static and must be revised and updated continuously, and therefore, that the tests are more than simple tests but living structures in their own right.

Even though the abovementioned tests are considered the duty of the capital markets employees who establish initial contact with the clients, the code of suitability must be observed by all employees at the subsequent encounters.

Capital market employees must consider the clients' risk/return preferences and constraints, financial knowledge, investment experience, general economic and financial outlook while providing capital market services. Furthermore, the capital market employees must know that the abovementioned variables are related with one another, any change in one of them will also affect another, and therefore, it would be wrong to consider the independent results of the variables, so they must provide their services accordingly.

It is clear that investment alternatives are not appropriate for every customer profile despite their possible returns. However, if the client still decides to make transaction, different attitudes should be taken according to the offered capital market activities. If it is determined as a result of the test that any product and/or portfolio or service is not appropriate for the client, the customer shall be warned in writing and no direct general investment advice shall be given to the client for the said product and/or portfolio or the service. If it is not possible to determine whether the product and/or portfolio or service is appropriate for the client or the client desires the transaction despite its inappropriateness, the capital market employee is free to provide the service or not. When the test is performed for asset management purposes, asset management or investment advisory services which are not conformable to the test results shall not be provided. In other words, the capital markets employees do not have the liberty to offer inappropriate products and/or portfolio services even if the customers so desire.

Example 1: Tolga, who works in a brokerage firm that is authorized to provide investment advisory services, advises his clients Zerrin and Beyhan on asset allocation. Therefore, he applies the test to both of the investors. Zerrin is at her 60s, her monthly income meets her monthly expenses, she is able to make savings after deducting the expenses, she has a high tolerance for risk and a long time horizon. Beyhan is at her 30s, she has a child who has just started going to elementary school, she has a high level of income but hardly meets her monthly expenses, she has a moderate tolerance for risk and a long time horizon. Tolga advises both of his clients to allocate 50% of their portfolio to stocks, 20% to treasuries, 20% to corporate bonds and 10% to guaranteed funds that include gold option contracts.

Comment 1: Tolga fulfilled the fundamental condition of the code of suitability by applying the test. However, in light of the results, it is not acceptable to recommend the same allocation to both of the clients.

Zerrin and Beyhan's profiles and preferences differ from each other according to the test results.

Example 2: Dilek, who works as a customer representative at a bank, has a client who is dissatisfied with her returns due to the falling interest rates. Dilek advises her client that she could sell TRY/USD options to the bank and earn premiums; meanwhile, she could continue to earn interest if she keeps her money in TRY deposit. The option will expire unexercised if the exchange rates move in her favour at the end of the term so she could generate higher returns. The client is a 65 year old, retired literature teacher who has no other income other than her monthly pension, resides with her husband and has no dependants. The client states that she likes taking risks and she wouldn't regret losses at such an advanced age. However, her suitability test shows that her previous investment preferences indicate a low tolerance for risk.

Comment 2: There appears to be a discrepancy between the client's stated capacity of and the willingness to take risk. Moreover, her overall know-how about the financial instruments does not seem adequate to understand the option contracts and the risks they involve. The test results reveal that the options are not suitable investment alternatives for the client. Therefore, Dilek violated the code of suitability by recommending the option contracts to her client.

Example 3: Yiğit, who works at an asset management firm, pays a visit to his client. He discovers that his client's mother recently passed away and that they sold the bequeathed house in Etiler for 1 million Turkish liras.

Comment 3: Wealth is one of the factors that affect an investor's capacity to take risk. The wealth available to Yiğit for investment purposes after the client's inheritance will increase his capacity of take risk. Therefore, the suitability test must be updated to reflect these recent changes.

iii. Duties To Clients

4. **Performance Presentation:** A capital markets employee must present the information on investment performance completely, accurately, exactly, clearly and in comparison with the indicator data.

A capital markets professional must give accurate, precise, clear and complete information on the performance of investment alternatives and avoid false statements or expressions that may mislead the client.

This duty covers both the historical and the future performance of the investment products. In this context, misleading presentations arising out of scale differences must not be displayed on graphs that present historical returns. No future return guarantee is promised for the investment products. The success of previous return of an investment product can not be used as the measure of its future performance. Expressions such as "the best", "the most reliable", "the most secured" and similar subjective and exaggerated statements must not be used for investment products.

Example 1: Özge works at an investment bank that is authorized for portfolio management and investment advisory services. Özge advises her client on investment alternatives during one of her visits to the client. While showing the graph of a stock which provided a 40% return last year, she states that they purchased the same stock for all portfolios last year, the clients were satisfied with the results, the stock would also show a similar performance this year, and that this stock should be bought for the portfolio of the client.

Comment 1: Within the scope of the code of conduct on performance presentation, the previous performance of investment products should not be presented as future results. Furthermore, Özge does not give any information on the annual volatility of the stock which provided a 40% return at the end of the year. Periodic volatility is crucial to the clients from a risk sensitivity standpoint. Performance presentation of Özge violates the code of performance presentation.

Example 2: Suna works at an asset management firm and is now preparing an offer to manage the portfolio of a big foundation. While preparing the presentation on the performance of portfolios managed by the asset management firm, she calculates the returns of all managed portfolios collectively and displays the results graphically altogether.

Comment 2: Suna shows the returns collectively and this is in violation of code of performance presentation. Due to the collective presentation, it will not be possible to determine what type of asset management is actually successful.

Example 3: Mert is preparing an advertisement to show the relative returns of the portfolios of the collective investment schemes managed by his asset management firm. Mert uses the bank deposit rates as the benchmark for an investment fund portfolio composed of 80% stocks.

Comment 3: In accordance with capital markets legislation, a benchmark must be determined according to the investment strategy of the collective investment scheme and characteristics of the assets and transactions involved in the investment process. Mert's use of deposit interest rate for a portfolio, content of which is composed of 80% shares, is not proper.

iii. Duties To Clients

5. **Preservation of Confidentiality:** A capital markets employee keeps client information confidential and does not use it for personal interests or the interests of third parties unless the information is related to illegal operations, disclosure is mandatory as per legislation and/or the client permits disclosure.

Capital markets employees have access to private data of their clients due to their positions. Investors share their personal information because of their confidence in the capital markets, its institutions and those working therein. An ethical capital markets employee is expected to protect the confidentiality of such information.

Another necessity of the code of confidentiality is that the capital market professionals must not use customer data for their own personal or a third party's benefit. Even if the customer consents to sharing of his/her information, the capital markets employees must keep the information they obtain confidential in all cases that may tarnish the interests of and affect the rights and liberties of the clients. Because of his position, a capital markets professional has the opportunity to find out the financial situation, trading preferences and the trading times of the clients. This is a privilege they enjoy as qualified capital market employees. In order to obtain the said qualification, candidates are required to graduate from college, have the opportunity of working at a capital markets institution as well as pass a comprehensive exam successfully. Therefore, the persons who reach this valuable position are expected to have a certain level of knowledge and determination to work, to think analytically, to be honest and reliable, and to think ethically. In this context, if a capital market employee uses client information for his own and/or others' benefits, he/she will tarnish both the qualification of the "capital markets employee" and the integrity of the capital markets.

Therefore, this code of conduct is a necessity for the reliable operation of the capital markets, the integrity of a specialized profession and the purpose of protecting the rights and interests of the investors. In order to secure this necessity, it is stated in various regulations of the capital markets legislation that the investment organizations, capital market employees and external service providers of investment organizations cannot disclose the secrets of their clients and use such secrets for their own or third parties' benefit. For example, as stated in the communique on market abuse frontrunning (the act of trading a security before a sizeable order is entered) is considered an abuse and is subject to administrative fine.

The Turkish Criminal Code includes a provision which states that a person who discloses, spreads or seizes personal information illegally shall be punished under the law and the penalty shall be further increased if the data is obtained in a professional capacity.

However, penalties and sanctions do not prevent abusive behaviour. The factor which makes a person choose between right and wrong about his/her planned action is in fact the act of ethical thinking. Therefore, the capital markets employees are expected to be aware of their positions.

The code of confidentiality continues to remain valid even if a client ends his/her relationship with an institution or a capital markets employee.

On the other hand, there are specific provisions in the legislation on prevention of laundering proceeds of crime that the capital market employees are required to report when they observe suspicious transactions in the capital markets. Naturally, such notifications are exceptions under the code of confidentiality.

Example 1: Hülya works as a customer representative in the private banking department of a bank. Hülya’s clients are composed of clients whose income levels are higher than those determined by the bank. Hülya’s husband Özgür imports and sells luxury cars. Özgür wants Hülya to give him the names, lastnames and contact information of her clients.

Comment 1: If Hülya provides the said information to Özgür, it will be not only be an offense but also a violation of the code of confidentiality.

Örnek 2: Seyhan works as a paediatrician in the premature infant department of a hospital. The biggest need of the hospital is sufficient incubators and respiratory devices due to the chronic lung problem of premature infants. Seyhan thinks they can raise money to meet this need. So, she wants his college friend Atila who works at a large asset management firm to help her. Atila says that the clients of his company are composed of wealthy people and most of them will help gladly, and gives the list of some of the clients to Seyhan. Seyhan calls the people on the list and explains the situation. As a result, 10 incubators and respiratory devices are bought for the hospital thanks to the donations of these people.

Comment 2: That the action is a bona fide social responsibility does not make the action legitimate. Atila’s giving the list to Seyhan violates the code of confidentiality.

Example 3: Ömer works at an asset management firm. Ömer manages the portfolios of big corporate investors. One of the corporate investors orders Ömer to sell one of the capital market instruments in its portfolio in order to meet an urgent need of cash. Ömer has the same capital market instrument in his own personal account. If the client's order is executed, the rank of the said capital market instrument will go down several trenches. Therefore, Ömer sells the stock in his own account, takes a short position for the stock in the futures market and also buys warrants for which the sad stock is the underlying asset before executing the order. Then, he executes the order; he buys the stock again for his own account after its prices go down and gains a considerable income from the transaction by closing his other positions.

Comment 3: Such operations are the most encountered violations in the capital markets. Ömer's transaction is an act which requires both an administrative fine as it is an abusive practice and constitutes a violation of the code of confidentiality.

iv. Duties To Employers

1. **Self-Work, Attention and Loyalty:** A capital markets employee is obliged to perform the activities within his/her job description personally and diligently and behave loyally in protection of the interests of his employer.

Capital markets activities must be offered by the capital market employees personally as stipulated by the labor contract between the capital markets employee and capital market institution. The employees must not assign their work to another person without the knowledge of theşir institution. This is due to the labor contract between the employees and the employer as the capital market employees are found to be qualified for the job considering their personality, skill, ability, competences and licenses.

The capital market employees must take care of customer database, developed software and other intellectual and industrial rights, trade secrets, technical systems, machinery, tools and devices under the property of the capital market institution they work for, and use and protect the assets such as the reputation of the capital market institution. Violation of the code of diligence shall also bring along legal and criminal liabilities.

The capital market employees must always place the interests of the clients above the interests of their employers and themselves. However, the employees must also consider the effects of their actions on the sustainability and the reputation of the employer. The code of loyalty to the employer states that capital market employees must conform to the responsibilities arising out of the labor contract with their employer as long as they are not in violation of the legislation, principles and rules. For example, the employee should not provide any service to a third person for a fee in violation of the code of loyalty and must not make any transactions which will specifically conflict with the interests of his/her employer during the period of service relationship.

Another result of the code of loyalty is that the capital market employees must not neither use the information they obtain at work for their own benefit nor disclose such information to anyone. This code shall survive the termination of the service relationship. It shall mean a breach of the code of loyalty if the capital markets employee:

- abuses trade secrets,
- discloses confidential information,
- contacts the clients and solicits them after he/she leaves his/her position,
- obtains without permission, uses or damages intellectual and civil rights such as information, database, documents, presentations and customer lists.

On the other hand, the code of loyalty does not mean placing the interests of employer above personal benefits in all respects. For example, a capital markets employee who quits his/her job may start or look for a business that may compete with his/her employer before he/she terminates the contractual relationship with the employer provided that the liability of loyalty is not violated. Furthermore, this code does not mean a liability of loyalty as to neglect the fulfilment of important personal and family liabilities.

Another exception of the code of loyalty is the act of not conforming to the activities of a capital markets institution that violates the laws when the institution acts so knowingly and wilfully. The protection of the reliability of the capital markets and rights and interests of the investors are above the interests of the employer. Therefore, for the acts of employer contrary to the regulations, an attitude of the capital markets employee which will violate his/her liability of loyalty to his employer under normal conditions, for example objecting to the instructions of the employer, violating certain policies and processes or copying and keeping the records of irregularities, may present an exceptional case. Such an action shall be an exception of the code of loyalty if the intent is clearly not for the personal benefits of the capital markets employee but for the protection of the reliability of the capitals markets and the rights and interests of the investors.

Example 1: Tevfik works at the corporate finance department of an investment bank. The bank will do an IPO of a very big real estate investment company. Tevfik is responsible for conducting the valuation of the company during the IPO. Tevfik knows company valuation models generally but he heard that the economic value added (EVA) methods have just come into use recently. Although Tevfik does not have a good understanding of the said method, he wants to include it in his report. Therefore, he wants help from his friend Serkan who works at another investments institution and commands a good knowledge of the EVA model. Tevfik shares with Serkan the company's data that will be used for valuation purposes.

Comment 1: Tevfik's conduct contains many breaches of the code of conduct. First, assigning the valuation task that he should do personally to another person without the knowledge of his employer is a breach of the code of self-work. Sharing the private data of the client that will be used for valuation with Serkan violates the code of preservation of confidentiality of client information. Furthermore, it is also possible that the reputation of the investment bank which will conduct the IPO will be tarnished. Because, the assumption lying behind delegating this job to the institution which will make the initial public offering is that this institution is considered competent in this respect. Performance of even a part of the valuation by another person and the possibility of dissemination of this information will tarnish the reputation of the investment bank. Therefore, Tevfik does not fulfil the liability of diligence.

Example 2: Serap works as a customer representative at an investment firm which conducts leveraged transactions as a market maker (forex)

Due to the intense demand for licensed personnel in the market, many brokerage firms in the same subsector try to recruit Serap. She accepts one of these job offers. Before she informs the brokerage firm she currently works at about the situation, she copies all the client information in her portfolio to a USB device.

Comment 2: If Serap takes the database out of the company and uses it in her new job, she shall both violate her liability of diligence against her employer and commit an offence with a penal sanction. If the situation is discovered, the former employer is likely to file a compensation and criminal complaint against her.

Example 3: Ufuk works at an asset management company and there also happens to be a brokerage firm in the same group. The brokerage firm is generally among the top five in terms of trading volume and uses its place at the upper ranks in trading volume as a marketing tool. However, trading volume of the brokerage firm goes down a bit recently. The CEO of the brokerage firm calls up the CEO of the asset management company where Ufuk works and requests that they buy/sell for the investment funds they manage the same stock at the same price and amount which the CEO of the brokerage firm states that there will be no profit/loss at the end and the asset management firm won’t be charged for the transactions. The CEO of Ufuk calls him and mentions the situation, and orders Ufuk to make transactions accordingly.

Comment 3: Ufuk’s investment funds have a liability of loyalty towards his clients. This is the first code of conduct to be observed in his transactions. Furthermore, the operation of capital markets in a reliable, fair and competitive environment is the basic rule to be obeyed by all the capital market employees. Even though the aforementioned transaction does not bear any loss and/or carry a factor of offence, information, statistics and results different from actual ones will be reflected to the market participants as a result of such transaction. Decision makers who use or observe this data will be misled and misinformed. Therefore, the ethical thought of Ufuk should be rejection of such transaction. This objection to the employer will be an exception to the code of loyalty.

Example 4: Ahmet works at the treasury department of a brokerage firm which performs leveraged transactions. He finds out that, in some cases, the orders of clients with a profit position are transmitted with a worse price and the clients are explained that the situation stems from slippage. However, when he delves into the issue further, he sees that such transactions occur for clients who meet certain variables within a computer program added to the transaction system.

Comment 4: If Ahmet attempts to prevent the aforementioned transactions and obtains no results, he must notify the relevant regulatory agencies. This notification will not be in violation of the code of loyalty to the employer. This is because confidence in the capital markets is beyond the liabilities towards the employer.

iv. Duties To Employers

2. Conformance to Regulations and Instructions: Capital market employees must conform to the in-house regulations, processes, decisions and special instructions of the capital market institution they work for provided they comply with the laws and general morality.

Institutions establish principles and rules on what their personnel must pay attention to in their in-house and external relationships, how they must act, what they must wear and similar matters according to their own internal processes and business models. While some of them concern the entire personnel, some may apply only for certain staff members or special situations.

Capital market employees are expected to act in accordance with such rules established by the Capital Markets Board.

Example 1: In accordance with internal regulations of the asset management firm where Ali İhsan works, the following rules are established to prevent conflicts of interest between the asset managers and fund board members of the investment funds:

1- Total amount of money and securities transactions made by the company employees from their own personal accounts in a single month must not exceed 10 times their gross salaries and the number of transactions/contracts must not exceed 100.

2- The employees inform the Compliance Department of our company about money and securities transactions they make from their personal accounts before and after each transaction.

3- The employees must not impose any advantages on themselves and/or third persons through the use of information they obtain due to their positions.

4- The employees must not take positions contrary to the portfolios or assets in the portfolios they manage or solicit.

Ali İhsan thinks that the aforementioned rules are very restrictive. Therefore, he opens an account in his sister's name and continues to make transactions through that account without power of attorney.

Comment 1: Capital market legislation includes a regulation on the management of conflict of interest. However, this regulation does not restrict the transactions of the employees. The decision for restrictions is made by the internal regulation of the company. Therefore, Ali İhsan is expected to obey this rule as required by the labour contract between him and the asset management firm he works for. Ali İhsan's continuing to make transactions through his sister's account violates the code of conduct. Furthermore, making transactions without authorization is also in violation of the capital market legislation.

Example 2: After the recent regulations in the capital markets took place, it is not possible for banks to provide investment advisory for capital market instruments. The bank where Ebru works publishes a circular about this regulation to notify its employees and the employees are asked to direct the demands for such advisory to the brokerage firm. Ebru works as a customer representative at the branch of a bank. Due to previous experiences, her clients continue to come to the branch or call Ebru to ask for her advice on their transactions. Since Ebru is aware of the regulation on this issue, she doesn't answer these calls. However, she calls these customers by her mobile phone at a later time and provides advisory.

Comment 2: Ebru'a actions violate both the capital market regulations and the internal regulations of the bank. If Ebru's transactions are made out or any of her clients files a complaint as a result of losses, the bank and Ebru will suffer legal and criminal repercussions. Ebru violates the code of conduct by acting contrary to the instructions of the bank.

iv. Duties To Employers

3. **Additional Compensation Arrangements:** Capital market employees must not receive any gifts, interests, fees or provisions from third persons without the explicit permission of their employers in relation to the services.

Capital market employees must inform their employers before accepting any benefit from third parties as a result of services they offer on behalf of their employers and must first obtain the written permission of their employers. This written permission can be in any written form such as e-mail. The reason for this code is that such benefits for the capital market employees may violate the code of loyalty and lead to a conflict of interest. Furthermore, if such benefits are known, the employers can evaluate the real costs of the employees' services.

Example 1: Enver works as a portfolio manager in the private wealth management department of an institution, and one of his customers tells Enver that he will give Enver the key of his summer house in Bodrum for a month and meet all of his transportation expenses if his portfolio returns are 20% or better at the end of period. Enver has a very successful year, this client included. His client keeps his promise, and Enver and his wife go on a holiday in the summer house of his client in Bodrum for fifteen days.

Comment 1: Before accepting this benefit, Enver is required to notify and seek the approval of his institution. Not having behaved accordingly, Enver violates the code of additional compensation arrangements.

Example 2: Gürhan works as an analyst in a research unit and writes a very positive report on one of the companies within the index 50. After this report, many investors, especially foreign corporate investors, add the stock to their portfolios. After the increase in trading volume and market value, the stock will likely be included within the index 30 and the number of analysts and investors who follow the company will increase. The CEO of the company is satisfied with this situation so he calls and thanks Gürhan and offers him to watch Beşiktaş – Dynamo Kiev UEFA European League Final Match in the loge together on Wednesday.

Comment 2: Provided that he informs his employer in writing and obtains his approval, it is not objectionable for Gürhan to accept the offered benefit.

iv. Duties To Employers

4. **Responsibilities of Managers:** Capital market employees with supervisory responsibilities must make reasonable efforts to prevent and determine the breaches of applicable legislation, professional rules, generally accepted professional practices of the employees under their authorities.

This code of conduct gives the capital market employees in supervisory positions the responsibility to act in accordance with all codes of conduct as well as monitor whether the employees under their authority behave in accordance with the codes and regulations and, if necessary, coach them as to how the employees must act. Naturally, this responsibility requires knowledge of applicable regulations and business conduct.

Ccapital market employees in supervisory positions must create processes which shall observe conformance to all regulations and codes and update the processes as necessary. Therefore, it is required to be aware of the laws and regulations on the capital markets and the Code of Conduct, and to put the requirements in these regulations in writing and notify the employees. While creating the processes, institution-specific rules must be established considering other factors such as size, trading volume, number of employees, complexity of transactions and types of offered capital market activities. For example, it shall be a minimum method for all capital market institutions to accept the Code of Conduct as the minimum ethical principles and conform to the rules thereof.

If the number of departments and employees under the responsibility of a manager increases, some duties may be delegated to the junior managers. However, their responsibilities under the Code of Conduct continue even in this situation.

If it is suspected that the regulations have been violated and examinations are being made, necessary precautions must be taken to prevent possible future breaches. For example, it may be required to restrict the capital market activities of a staff member who violated the Code.

Negligence of the Code despite all necessary efforts does not constitute a breach of the code of responsibilities of managers. However, the manager shall be required to prove his faultlessness. Especially, it is the right method for a capital markets employee in a supervisory position to warn the top management of the institution about the processes which he considers insufficient.

Example 1: Erkan is the manager of the research department of a brokerage firm. As a result of their analysis, they will change their “sell” advice to “buy” about a stock they follow which they previously had considered a “buy” before.

Erkan sends his research report to his close friends for their examination before sending it to out his clients and asks for their opinions. Seeing the change of advice in the report, one of his friends sells the stock in his own account.

Comment 1: Sharing the information in the report before disseminating it to the clients, Erkan violates the code of conduct. Erkan is required to act in accordance with the code of loyalty to clients and the code of responsibilities of managers. Erkan's prediction that the information in the report will spread and get out of control if he distributes it is a behaviour expected from a prudent manager.

Example 2: Arzum works as a manager in the compliance department of an asset management company. Two years ago, the company prohibited portfolio managers to take positions in their personal accounts for the stocks in the portfolios they manage. Arzum informs all employees about the aforementioned rule by e-mail and distributes signed forms of the regulations to the employees. Investigations reveal that a portfolio manager is buying/selling the same stocks for his/her personal accounts before the stocks are bought/sold for the client portfolios.

Comment 2: Distribution of in-house regulation to the employees by Arzum means that she does her fair share of the work. In subsequent periods, the inspection department will audit whether the code is being observed.

v. Presentation of Capital Market Activities

1. **Diligence and Prudence:** Capital market employees must make presentations of their capital market activities correctly, consistently, diligently, comprehensively and uniquely, and bases all kinds of investment analyses, advice and transactions on reasonable and adequate reasons by supporting with sufficient research and examinations.

Capital market employees provide and explain the services produced in capital market institutions to the relevant persons and direct these people. No matter what quality of the produced service, the capital market employees who use this service must be able to understand and explain it.

The clients getting contact with capital market employees consider them as having certain qualities, competencies and knowledge and want the employees to direct them. In this context, the capital market employees represent both their institutions and the capital markets due to their position, and they should present capital market activities correctly, consistently, diligently, comprehensively, uniquely and based on the knowledge with a sound substructure.

Especially during investment advisory, in-house reports serving as basis for directions, research reports arranged by third parties and models based on digital data can be used. While some of these reports can be understood by the capital market employees and his clients, some reports may include information above the level of knowledge of the capital market employee and the customer. In such cases, it shall be a correct behaviour for the capital market employee to direct the clients who want to learn assumptions behind the report and logic of the model or need more explanations to the right persons.

It is possible for the capital market employees to use the studies performed by third parties during his presentation of capital market activities. A reasonable effort should be shown to determine reliability of such studies and whether they have necessary substructure. This reasonable effort includes at minimum source of the used information, reliability of the source, accuracy of assumptions behind the knowledge, whether the information is updated or not, and questioning of impartiality and independency of the information. Especially, the models developed on the basis of digital databases may give very different results depending on assumptions with a basis and the variables used. In the presentations of capital market activities based on such models (especially during investment consultancy and asset management), the capital market employees must be able to grasp the logic of model and, if they are not, they must be able to explain at least how the clients having the command of such models can use the results of research based on these models.

Example 1: Gülşah works as customer representative at a bank with the authorization to transfer market orders of stock exchange debt instruments. The bank does also have certificate of authorization for portfolio brokerage. After the final regulation, there is a liability to fulfil the orders in a way that will give the best result as much as possible according to price, cost, exchange, saving, counter party and similar preferences of the clients. One of Gülşah’s clients calls her and tells her that she has money in time deposit and she wants to buy bonds with it. The bond preferred by the customer has quotation both from stock exchange and from the bank portfolio. The price given in the stock exchange is better than that of the bank. Gülşah sells the client the bond from the bank portfolio.

Comment 1: Within the scope of capital market regulation, a client’s order must be directed in a way that it will be best for the client. Although the price in the stock exchange is for the benefit of the client, Gülşah’s making sales from the bank portfolio is contrary to the code of conduct. With this transaction, Gülşah violates both the code of loyalty towards the clients and the code of conduct for diligence and prudence during the presentation of capital market activities.

Example 2: Cem works as a customer representative at a brokerage firm and follows social media, especially the posts about economy, finance and capital market activities closely. Going to work by bus, Cem reads the comment of an economist he follows that the short term interest rates are expected to fall as a result of termination of uncertainty due to elections and long term interest rates will protect their current levels. When he informs his clients by phone, he explains: “according to my analysis, short term interests will likely fall so, I recommend you to buy long term debt instruments”.

Comment 2: In accordance with the code of diligence and prudence, directions made by capital market employees must be based on reliable researches. Use of a comment in social media without examining its assumptions sufficiently violates the code of diligence and prudence. Furthermore, that Cem mentions about the analysis as if he made it by himself during his meetings with the clients under the assumption that the said analysis has reliable and comprehensive bases, is also a violation of the code of conduct for unreal representation.

v. Presentation of Capital Market Activities

2. Communication with Clients and Prospective Clients:

a. Capital market employees explain to the client basic variables, principles and processes affecting performance of capital market activities, and in case of any significant change in these variables which may affect preferences of a client, they inform the customer as soon as possible.

b. Capital market employees use their professional opinion in order to determine the factors that may affect capital market activities and mention the factors during the interviews with the customers.

c. Capital market employees inform the customers about significant constraints and risks related to capital market activities.

d. Capital market employees give the difference between actual data and theoretical studies during the presentations made for capital market activities.

e. Capital market employees do not make inaccurate, misleading and derogative statements about other institutions and/or employees. They know that every capital market institution is a prestige establishment and does not show discrediting attitudes.

In order to determine whether an investment is suitable for a client, standard tests developed within the scope of capital market legislation are applied. The importance of applying and updating the tests is stated as code of duties to clients.

Under the title of communication with clients during presentation of capital market activities, it is regulated that the factors which may affect investment decisions of the client must be told accurately and completely during oral, written, visual communications with the customers, directions, transactions processes during or after the tests. For example, if a client calling by phone is informed about an order in liabilities in the market and what the price will be when an order is given from assets is an important information that will enable the client to decide which one will be in his/her favour.

Another example showing importance of communication is the misperception created by the expression of “protection” in the title of protected investment funds and the resulting customer dissatisfaction. Accurate and complete communication is the basic factor of correct and complete investment decisions of the client.

During brokerage services, it shall be a right method to inform the client completely, correctly and comprehensibly about the steps in the process from taking order from the client to submission thereof to the stock market and/or portfolio broker such as time/price priorities, submission of the order which gives the best quotation, the place of custody, the time of delivery and order types. While giving investment consultancy, presenting general investment advice or financial information, it shall be a right method when the language used for communication is simple, understandable and suitable for the knowledge of client, and when the factors serving as basis for advisory or advice are stated during oral or written communication. During portfolio management, the issues such as correct analysis of client risk and return preferences, restrictions, complete determination of client needs, offering of alternatives according to such needs and expectations, explanation of individual risk/return results of the products for which portfolio is bought and portfolio risk/return occurring as a result of their interactions with other assets groups in the portfolio, follow-up of changes in parameters of clients and giving information about the state of portfolio and deductions from the portfolio should be taken into consideration in communication.

On the other hand, clients may not behave rationally in some cases when giving investment decisions and making transaction preferences. Examples to such behaviours can include buying/keeping company stocks to the portfolio with the opinion that the products of the company will be a good investment, continuing to buy the stocks in order to reduce the cost although market value of the company decreases, giving investment decisions without economic/financial grounds depending on insights, and making investments by generalizing with the thought that an investment which provided a high profit previously will also yield profit in the future. Capital market employees must be aware of the fact that such behavioural patterns are not rational, and therefore, expectations of the client may differ significantly from actual results, and should provide the right communication to direct his client.

Capital market employees must transfer actual data and estimated data in a way that can be noticed by the client during their communication. Especially, estimated results are produced in econometric modelling using economic/financial data in research reports or in return/risk analysis by creating modal portfolios during portfolio management. Naturally, the difference between realized value and assumed value of a variable behind the said models may lead to significant differences between results of the model and actual results. The clients who make investments with great expectations according to the results of the model may make loss instead of profit. Therefore, it is important to emphasize the difference between actual data and estimated data clearly in terms of protection of client interests, prevention of possible conflicts and avoidance from loss of confidence in capital market.

The future changes in the information given to the client at the first contact should also be forwarded to the client quickly, clearly, completely and correctly.

Capital market employee must not give the clients inaccurate, misleading and derogatory statements about other institutions and/or employees. They abstain from making inaccurate, misleading and derogatory statements about activities, services and financial powers of capital market institutions. They know that every capital market institution is a prestige establishment and does not show discrediting attitudes. Again, the employees refrain from making misleading explanations about qualities, activities of themselves, their institutions and managers, services given to the clients, their professional experiences and competencies.

Example 1: Beysu works at a bank, and there is a sales and marketing agreement between her bank and an asset management company, an affiliate of the bank, for the funds established by the company. Beysu mentions protected funds to her clients. Telling about 100% capital-protected funds, Beysu says that all of the money to be invested will be regained absolutely at the end of the term, a part of the fund money will be invested in fixed income products issued by the bank and, with the remaining part, premium will be gained by selling gold backed call options, and they aim to benefit from recent decreases in gold prices.

Comment 1: Beysu violates the code of conduct for communication with clients. It is not absolute to regain all of committed capital in protected funds. In the example above, the fund sells call options. If the opposing party exercise the options in case of any increase in gold prices, the fund may lose and this loss may even influence the capital of investors.

Example 2: After the quick increase seen in algorithmic transactions in recent periods, the brokerage firm where Pamir works enters into an agreement with a software company and starts to develop software which enables high frequency transactions. Pamir and her team determine the parameters to be used in buy/sell decision module of the software and complete the software with intense work in one year. In the studies using data of previous years, it is seen that the algorithmic transaction software provides 70% success in downward-sloping and upward-sloping market but the success decreases to 30% in static markets. While explaining the model to her customers, she says that the model is very successful and the rate of beating the market is 70%; however, she fails to mention the rate in static markets.

Comment 2: As required by the code of communication with customers, Pamir must give all information to make her clients to make the right decision. Telling a single achievement of the model and concealing the part showing relatively worse performance violates the code of communication.

Example 3: Şebnem works as a customer representative at a brokerage firm and one of her clients buys the shares offered to public of a publicly traded technology retailer company. Then, the client asks Şebnem for her opinion about the company. Şebnem sees that the company is not in a good position when she examines the financial statements and the capital data of the company. When the company starts to be traded at the exchange after the IPO, the value of company's shares decreases by 10% on the first day. Şebnem's clients tells Şebnem that the decrease is not very important, the company is selling high quality products, the company expects to post higher profits in the following periods and she even wants to buy more shares of the company in order to decrease the cost.

Comment 3: Şebnem's client displays an irrational attitude. Şebnem must raise the awareness of her client about this issue as required by the code of communication with clients, and to make her be aware of the fact that the investment made by her may not bring about the expected results.

v. Presentation of Capital Market Activities

3. Record Retention: C apital market employees record analyses, working notes and interview notes about capital market activities and save them for a reasonable period.

Capital market legislation includes regulations on keeping records and documents that document client transactions. In addition to these regulations, as a code of conduct, capital market employees must keep the records showing reasons and justifications of their research made for the services they offer.

This code of conduct is also important for the capital market employees in terms of protecting themselves and the interests of their institutions.

The records to be kept include personal notes about meetings, presentations, parameters of purchase/sale models, outputs and analyses, and notes of the interviews made with the clients.

Property of records kept by the capital market owner about their works belongs to the employees. However, the rights arising out of these records can be used by the employer. In other words, the owner of the notes kept by capital market employees about their clients during a meeting shall be the capital market owner; however, the right related to use of the notes for commercial purposes shall belong to the relevant capital market institution. Therefore, although it is possible for capital market employees to take notes they keep while working in a firm with themselves when they leave the firm, it shall not be possible to use the notes in another firm for commercial purposes.

Example 1: Okan works at an asset management firm and prepares a research report to be sent to his clients within the scope of investment advisory. He prepares this research report for real estate investment trusts, and he uses demographic data of Turkish Statistics Institute, construction unit cost data of the Ministry of Public Works and housing sale data of TOKİ, and he also tries to estimate the state of housing demand in the following period with a regression analysis that includes macroeconomic variables such as interest rates and growth expectations.

Comment 1: In accordance with the code of record retention, Okan is required to keep and save the data behind his study regularly and to be able to answer the questions from his clients about the issue Rights of use of this information prepared by Okan due to his job will belong to his employer.

Example 2: Nazım develops a model to be used in transaction system of the brokerage firm he works in. Then, Nazım quits his job in the brokerage firm, starts to work as a portfolio manager at an asset management firm, and he takes a copy of the model he develops at the brokerage firm with himself and suggests to use it in his new company.

Comment 2: This act of Nazım violates both the code of record retention and the regulations on intellectual and industrial rights.

vi. Conflicts of Interest

1. **Disclosure of Conflicts:** Capital market employees inform their clients and employer about all subjects with the possibility of tarnishing their independency and impartiality or expected to have negative effects on performance of their duties completely, clearly, perceptibly, comprehensibly and effectively. Capital market employees transfer such notifications to the other party reasonably with a permanent, simple and clear expression.

Non-occurrence of conflicts of interest during presentation of capital market activities is impossible. Capital market legislation accepts this as is and, in its various regulations, requires information of clients before conflicts of interest, the conflicts of interest are included in risk notification form, establishment of organizational structure of capital market institution accordingly and preparation of policies for conflict of interest.

The reason for including the concept of conflicts of interest in many regulations of capital market legislation specially is to make capital markets reliable, transparent, effective, steady, fair and competitive.

Therefore, in accordance with the aforementioned target, the capital market employees are expected to be aware of the conflicts between his clients and employers, to prevent such cases if possible, and to explain those which are not possible to prevent comprehensibly and noticeably. In that way, the clients and the employer will be enabled to give right decision taking the situation into consideration.

The following examples are the most typical conflicts of interest:

1- The capital market employee does also have a position in the presented capital market instruments.
2- A conflict of interest arising out of marketing a capital market to the clients in return for the earnings to be gained from this capital market issue of which will be brokered.
3- Service presentation of a capital market employee conflicts with the interests of client as a result that investment organizations can take position against client as they can perform portfolio brokerage.
4- A conflict of interest resulting from the demands of big clients provided that investors are treated equally and fairly in public offering of capital market instruments.
5- Conflict of interest that may occur when the person to whom service is given is

the same with the person from whom the fee is taken in the activities such as valuation or rating.

6- With the necessity that a research report prepared by a capital market employee should be impartial, the results of the report conflict with the interests of the company.
7- Inclusion of stocks in the managed portfolio in personal accounts.
8- Conflicts that may occur during buy/sell directions due to the code of loyalty and duties to clients.

It is possible to diversify the examples above. The important point is that a capital market employee must behave in a way that protects prestige of the capital markets.

Example 1: Kanat works as a customer representative at a brokerage firm. Due to intense competition in brokerage sector, the customer representatives are asked to find new investors and make these investors perform as many transactions as possible. Kanat takes the list of people they work with from other companies in the same group with the brokerage firm, calls them by phone and opens accounts for them. Then, he gives information about market and stocks in order to make the customers buy and sell the stocks in their portfolios daily. The clients who trust Kanat buy and sell a capital market instrument daily even though it is not suitable for their risk and return preferences and constraints. Kanat gains a high bonus at the end of the year due to the trading volume he creates.

Comment 1: This act of Kanat is a typical example for conflicts of interest that may be encountered in all areas of the capital markets. Taking the pressure created by competition into consideration, the important point is to sustain the reliability of capital markets, its institutions and employees. Even if the business model created by the employer of Kanat enables the institutions to save the day in short term, it will bear negative results due to loss of confidence by the investors in the capital markets in the long term. The thing Kanat must do is to inform his clients and employer about the conflicts of interest, if insistence continues, to relieve himself from such transactions.

Example 2: Tuna works in the department of fixed income products at an asset management firm. A brokerage firm in the same group with Tuna's company is underwriting the public offering of the bonds of a company. Kemal, a friend of Tuna from the brokerage firm, calls Tuna and asks him to inform his clients about the issuance and buy the stocks for their portfolio. Tuna calls his clients and gives details about the issuance, and furthermore, gives information about the current state of brokerage firm, issuer and the institution he works in.

Comment 2: The basic method of preventing conflicts of interest is to give the information that may lead to conflicts of interest comprehensibly, completely, correctly and noticeably. If Tuna gives information to his clients in such way, he will be deemed to behave in accordance with the code of conduct.

vi. Conflict of Interest

2. **Priority of Transactions:** Capital market employees give priority to the operations and transactions of clients first and then the employer when compared to their own operations and transactions during performance of capital market activities.

The capital market legislation does not include any regulation which prevents a capital market employee from keeping portfolio and making transactions. The issue deemed important by the capital markets is the correct management of the conflicts of interest.

Naturally, there shall be situations when the interests of the capital market employees conflict with the interests of client and employer. At this point, there shall be no non-ethical situations if the client or employer suffers no losses due to the transactions of capital market employees, the capital market employee does not gain any personal profit through the client or employer due to the transaction, and the transaction conforms to the laws and the Code of Conduct. Sale of a capital market instrument which is included in employees' own portfolios and for which they give advice to buy previously in order to meet their urgent need can be an example to this situation.

Except for such cases, the priority for all transactions is that a capital market employee must place the interests of his/her customers and employers above his/her own interests.

Example 1: The brokerage firm of Serhat who works in the corporate finance department underwrites the IPO of a company which is at a very good position. The IPO is subsequently oversubscribed. Serhat makes distribution to his own account first in the amount he desires. Demands of some customers are not met.

Comment 1: Making distributions to his own account first violates the code of priority of transactions. After this transaction of Serhat, some clients cannot make any purchase from the issuance. Serhat should give priority to the client demands in distribution.

Example 2: Duru works at an asset management firm. This asset management firm develops software which will give signal when there is an update in web page of Turkish Statistics Institute. Today, TUIK (Turkish Statistics Institute) will announce inflation data. The expectations in the market are towards lower figures. TUIK places the figures in its website before announcing public release and the software at Duru's company gives alert about the update. When she looks at the data, Duru sees that the inflation rates are very high contrary to the expectations of the market. Thus, Duru sells the bonds in her personal account first, and then sells the stocks in the portfolio she manages.

Comment 2: Duru's using the information obtained by means of the developed software is not a non-ethical behaviour. However, that she makes sales from her own account first and not the portfolios about which she has a responsibility of loyalty and diligence due to proxy relationship violates the code of priority of transactions.

vi. Conflicts of Interest

3. **Referral Fees:** Capital market employees explain the fees, provisions or interests paid by or to the third parties for the capital market activities provided to the employer and clients.

This code of conduct does not prohibit benefits/payments from third parties due to the offered capital market activities. The benefits may be in the form of commission, discount and free utilization as a result of transactions. In case of such benefits/payments, notifying the employer or clients about the situation shall be sufficient to conform to the code of behaviour.

Thanks to this notification, the employer or the client can measure real cost of the offered service and predict the conflicts of interest that may occur during the service.

Example 1: The brokerage firm where Taner works underwrites the bonds of a factoring company. The brokerage firm says to the customer representatives that a premium of 10% will be awarded from the introduction fee to be obtained from sale.

Comment 1: The code of conduct to be obeyed by Taner is to mention about the said benefit he will obtain while marketing to the clients.

Example 2: The asset management firm where Emrah works submits all customer orders through the brokerage firm in the same group. The brokerage firm applies commission a bit higher than the market average. As the size of portfolio managed by the asset management firm is under the amount described in the legislation, he receives research service from the brokerage firm. However, the asset management firm does not pay any fees due to the purchase of research service in return for submitting the orders through brokerage firm in accordance with the agreement between the two firms.

Comment 2: There is no inconvenience in the business model between the brokerage firm and asset management firms in terms of the legislation (it is assumed that the commission fee collected by the brokerage firm is not different apparently from its precedent and there is no hidden income transfer). However, Emrah must disclose the relationship to his clients.

vii. Professional Liabilities:

1. Capital market employees must be aware of the fact that capital markets are based on trust and prestige and abstains from all kinds of acts that may be contrary to or disrepute this fact.

No matter what the capital market legislation, capital market institutions and capital market instruments are updated, innovative and effective, the persons who shall direct, apply and observe these legislations, institutions and instruments are capital market employees.

That a capital market employee should be reliable with his/her knowledge, personal qualities and conformance to ethical principles and codes of behaviour is the first condition to gain confidence of the customers and issuers.

No matter how an issued product is perfect, if there is not any capital market employee who will know the said product correctly and market it to the right persons, understand customer needs correctly, make right analyses and manage portfolios, it shall not be possible to talk about effective, economic, efficient and ethical operation of the capital markets.

Which is why, a capital market employee should be aware of the fact that capital markets are based on confidence and prestige, and therefore, he/she should abstain from all kinds of behaviours that may be contrary to or damage this fact.