

T.C.
MARMARA ÜNİVERSİTESİ
AVRUPA BİRLİĞİ ENSTİTÜSÜ
AVRUPA BİRLİĞİ İKTİSADI ANA BİLİM DALI

**IS THE NEW FINANCIAL CENTER ISTANBUL COMPATIBLE WITH
THE EUROPEAN UNION FINANCIAL NORMS**

Yüksek Lisans Tezi

Erden Ziya GÖKAY

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Danışman: Doç. Dr. Başak TANINMIŞ YÜCEMEMİŞ

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ONAY SAYFASI

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ABSTRACT

It has an important place in both trade and business center in the world , International financial centers such as London, New York, Hong Kong having an important place in terms of both trade and business center have turned into financial management units in which the most popular of the world have become resident and all financial products of the world are used at the highest level. While this situation poses advantages for the companies in the said financial centers to benefit from scale economies as well as many factors in terms of geography and strategy; it also significantly contributes to economies of cities and countries in which they are located. In this thesis, the latest stage reached in the works performed in Istanbul Financial Center (İFM) project starting as one of the most important projects in Turkey in 2009 has been assessed and compliance with national and international norms such as action plans, European Union (EU), General Agreement on Tariffs and Trade (GATTs) has been questioned. To what extent the stock indices of developed countries in the world are co-integrated between October, 2005- the date in which EU negotiations began- and December 2015 has been tested econometrically. It has been concluded that stock index of ISTANBUL STOCK EXCHANGE (BİST) is not cointegrated with stock exchanges of US, HONG KONG, DUBAI, EUROSTOXX50, ENGLAND and SWITZERLAND in the above-mentioned period. The said empirical finding means that there is not long-term connection between variables. Although Istanbul has significantly proceeded in the ranking of developed financial centers considering the work done towards becoming a FC it has been observed that it has not reached the desired level yet.

Keywords: Istanbul Financial Center, General Agreement on Tariffs and Trade (GATTs), Turkey - EU Relations, European Union, International Financial Centers, Cointegration Analysis

ÖZET

Dünyada hem ticaret hem de imerkezi olarak önemli bir yeri olan Londra, New York, Hong Kong gibi uluslararası finans merkezleri dünyanın en gözde mali kurumlarının yerleşikhal aldığı ve dünyadaki tüm finansal ürünlerin en üst düzeyde kullanıldığı finansal yönetim birimlerine dönüşmüştür. Bu durum; söz konusu finans merkezlerinde yer alan firmalar için coğrafi ve stratejik açıdan pek çok faktörün yanında ölçek ekonomilerinden de yararlanma avantajı yaratırken içinde buldukları diğer ve ülke ekonomilerine de ciddi katkılar sağlamaktadır. Bu tezde Türkiye'nin en önemli projelerinden biri olarak 2009 yılında başlayan İstanbul Finans Merkezi (İFM) projesinde Çuana dek yapılan çalışmalarda gelinen son aşama değerlendirilmiş, eylem planları, Avrupa Birliği (AB), General Agreement on Tariffs and Trade (GATTs) anlaşması gibi ulusal ve uluslararası normlara uyum sorgulanmıştır. AB müzakerelerine başlangıç tarihi olan Ekim 2005 ile Aralık 2015 tarihleri arasında dünyanın gelişmiş ülke borsaları endekslerinin ne ölçüde eşbütünleşik olduğu ekonometrik açıdan test edilmiştir. Yukarıda sözü edilen dönemde BORSA İSTANBUL (BİST) borsa endeksinin ABD, HONG KONG, DUBAI, EUROSTOXX50, İNGİTERE ve İSVİÇRE borsaları ile eşbütünleşik olmadığı sonucuna varılmıştır. Söz konusu ampirik bulgu, değişkenler arasında uzun dönemli bağlantı olmadığı anlamına gelmektedir. İFM olma yolunda yapılan çalışmalar incelendiğinde gelişmiş finans merkezleri sıralamasında İstanbul'un oldukça yol almış olmasına rağmen henüz istenilen seviyeye ulaşmadığı görülmüştür.

Keywords: İstanbul Finans Merkezi, General Agreement on Tariffs and Trade (GATTs), Türkiye - AB İlişkileri, Avrupa Birliği, Uluslararası Finans Merkezleri, EĞ Bütünleşme Analizi

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LIST OF ABBREVIATIONS

AB	Avrupa Birliđi
ABGS	European Union General Secretariat
ADF	Augmented Dickey-Fuller
AEX 25	Dutch companies that trade on NYSE Euronext Amsterdam
AIM	Alternative Investment Market
BAT	The Banks Association of Turkey
BRSA	Banking Regulation and Supervision Agency
BEL 20	The Benchmark Stock Market Index Of Euronext Brussels
BİST	Borsa Ğstanbul
BRIC	Brazil, Russia, India and China
BVLP	Euronext Lisbon
CAC 40	Euronext Paris
CBT	The Central Bank of the Republic of Turkey
CEPA	Closer Economic Partnership Agreement
CFA	Chartered Financial Analyst
CMB	Capital Markets Board
CME	Chicago Mercantile Exchange
CRA	Central Registry Agency
DFSA	Dubai Financial Services Authority
DFMGI	Dubai Financial Market General Index
DIFC	Dubai International Center
DIFCA	Dubai International Financial Center Authority
DIFX	Nasdaq Dubai
DTCC	Depository Trust & Clearing Corporation

ECM	Emerging Companies Market
EU	European Union
ESA	European Securities Authority
EURONEXT	Pan European Exchange
FEAS	Federation of Euro-Asian Stock Exchanges
FED	Federal Reserve
FICS	Financial Industry Competency Standards
FOE	Futures and Options Exchange Inc.
FSA	Financial Service Authority
FSAP	Financial Services Action Plan
FTSE	Financial Times Stock Exchange
FX	Foreign Exchange
G20	Developed 20 Economies
G8	Developed 8 Economies
GAAP	Generally Accepted Accounting Principles
GATTs	General Agreement on Trade in Services
GDP	Gross Domestic Product
GDRs	Global Depository Receipts
GDS	Government Debt Securities
GFCI	Global Financial Centers Index
GDP	Gross Domestic Product
HANFA	Croatian Capital Market Authority
HIBOR	Hong Kong Interbank Offered Rate
IGE	Istanbul Gold Exchange
IMM	The Istanbul Metropolitan Municipality

IFC	Istanbul Financial Center
İFM	İstanbul Finans Merkezi
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
ISEI	Istanbul Stock Exchange Inc.
ISED	Istanbul Stock Exchange Derivatives Market
IOSCO	International Organization of Securities Commissions
IT	Information Technology
LIFFE	London International Financial Futures and Options Exchange
LIBOR	London Interbank Offered Rate
MAS	Monetary Authority of Singapore
MIFID	Markets in Financial Instruments Directive
MNC	Multi-National Companies
MTF	Multilateral Trading Facility
NASDAQ	National Association of Securities Dealers Automated Quotations
NYSE Alternext	Alternext Equity Trading Market
NYSE	The New York Stock Exchange
NYSE Arca	A fully electronic trading Exchange
NYSE Euronext	Euronext Euro American securities Exchanges
NYSE MKT	The exchange for small-cap companies
OECD	The Organization for Economic Co-operation and Development
OTC	Over the Counter
PDP	Public Disclosure Platform
PSI 20	Portuguese Stock Index

SFC	Securities and Derivatives Commission in Hong Kong
SGX	Singapore Exchange
SIMEX	Singapore International Monetary Exchange
SME	Small and Medium-Sized Enterprises
SMI	Swiss Market Index
SPO	State Planning Organization
SWI	Swiss Market Index
SWOT	Strong Weak Opportunities Threat Analysis
SWX	Swiss Exchange
SDIF	Savings Deposit Insurance Fund
TARGET	Trans-European Automated Real-Time Gross Settlement Express Transfer System
TEFTP	Turkey Electronic Funds Trading Platform
TGNA	Turkish Grand National Assembly
UCITS	Undertaking for Collective in Transferable Securities Instrument
USA	United States of America
WTO	World Trade Organization

INTRODUCTION

Financial center is defined as "the city of commercial and business center in which world famous banks and stock exchanges operate". Financial center represents a region where local and international banks and institutions operate broadly and the buying and selling of securities are performed.

The advantages of being a financial center may be listed as; to contribute to economic growth and development, to increase employment, to attract the international fund flows in the country, to increase productivity and to support the increase in quality of life. The disadvantages may be expressed as; faster transmission of international financial problems and facilitating of money laundering operations.

A financial center attracts the senior executives, experts, lawyers and employees in other occupational groups from world's different countries. This situation leads to multiculturalism; provides technology transfer and allows other professional services that will support the financial institutions enter the country quickly. Financial centers are classified as international, regional, or product oriented based on the geography they appeal to and the products they own.

Various studies are globally carried out for evaluating the financial centers and global centers. General Financial Centers Index (GFCI) is one of the most important indices rating the financial centers directly. The index which has been regularly updated once a six month since 2007 and has been evaluating the 79 cities regarded as financial centers around the world considers the six different criteria including business environment, human resources, taxation, image, infrastructure, access to markets in evaluation process.

The fact the world financial system gradually advances and financial product diversity increases have has a positive effect on the financial sector in our country as well. Since the financial sector is mainly based on banking in Turkey, the practices carried out for the activities in this field with the nature of reform have led that banking sector demonstrated a higher performance and international competitiveness increased in the period after 2000. The world's first stock exchange was established in this land where Turkey is located. Ruins belonging to the first stock exchange of the world are found in Aizanoi ancient city located in Çavdarhisar district that is quite close to Kütahya city center. Also, Istanbul's Grand Bazaar is the oldest known shopping center in the world.

Liberalization process was experienced together with the international expansion beginning in 1980s in Turkey's economy and this process has gained momentum after the 2001 crisis. The financial sector has tended to be more integrated with international markets as in other sub-sectors of the economy as a result of GATTs agreement dated 1995 and European Union negotiation process beginning in October 2005. The studies began to firstly make Istanbul regional financial center and then an international financial center with the decision taken by Turkish government in 2009. Istanbul Financial Center was planned to be built on a land of 2.5 million m². The center overtakes the financial centers in New York, London and Dubai with this scale. The proposal to make Istanbul an international financial center was first included in the 9.th development plan. Strategy and Action Plan of Istanbul International Financial Center was approved and entered into force with the decision of Supreme Planning Council dated 29 September 2009 and numbered 2009/31 as a result of studies performed under the leadership of Banks Association of Turkey and efforts of study groups (Official Gazette dated 2 October 2009 and numbered 27364). The main strategy determined by the IFC project is to make Istanbul regional financial center first and then make it global financial center. Seventy-one action titles were determined in the said Strategy and Action Plan. Dated 01.05.2010 has been identified. The steps to be taken with regard to the said actions were determined with the circular issued by Prime ministry on 01.05.2010. In this context; IFC High Council, IFC National Advisory Board, IFC

Coordinatorship, Working Committees and IFC International Advisory Council were established in order to coordinate, support and carry out IFC studies by also considering the Strategy and Action Plan. Working Committees began working in July, 2010. The project related to Center planned to be established in Ataşehir, Istanbul began in November, 2012 and the tender on "Private Project of Istanbul International Financial Center and Revenue Sharing Work of Recreation Land Sales" was held. When the project is completed, the headquarters of institutions such as Halkbank, Vakıfbank, Ziraat Bank, Banking Regulation and Supervision Agency, Capital Market Authority located in Ankara will be moved to Istanbul. It is anticipated that the Center will be administrated under a different municipality structuring as in City of London (the region where financial institutions densely gather in London).¹

Large amounts of funds from international markets have entered the Turkish capital markets in recent years. In addition, the fact that Moody's and Fitch rating agencies upgraded Turkey's credit rating to the status of investable country has led to pension funds of developed countries to invest in Turkish capital markets. It is expected that the compliance of IFC to leading financial markets in the world will increase during the integration process.

The purpose of the study; is to reveal the contributions provided by the studies performed since 2009 regarding the project of Istanbul Financial Center that does not consist of city zoning project only, to evaluate the status of Istanbul and to compare stock indices with an econometric study by addressing the major financial centers in the world in detail. In the conclusion section, answers was sought for the question of "Would Istanbul be a successful financial center".

In this context, the importance of financial centers was addressed in the first section of the study consisting of four sections. It was endeavored to determine the common features and advantages and disadvantages of financial centers. Also

¹Istanbul Financial Center, (2012), **Istanbul Stock Exchange Magazine**, Issue.2, p.30.

theoretical framework on the global financial centers was included. The studies conducted in the process of making Istanbul a global financial center were evaluated. In this regard established committees, legal infrastructure, taxation principles, organizational structure of IFC, strategy and action plan, development plans were examined. In the fourth section, it was endeavored to analyze the compliance of Istanbul Stock Exchange to the indices of shares in the developed financial centers with an empirical application.



CHAPTER I

CONCEPT OF FINANCIAL CENTER AND DETERMINANTS

1.1. Concept of Financial Center

A consensus was not reached in defining the concept of a financial center. The concept of financial center "can be expressed as the region where financial institutions are concentrated in an urban area in the narrow sense. In a broad sense the financial center; could be defined as a city or a certain part of a city which has advanced commercial and communication infrastructure with intense number of financial institutions and in which significant amount of national and international securities transactions are carried out.² The financial center may also be defined as a city or a certain part of a city which is a commercial or business center where world famous banks and stock exchanges operate. On the other hand, a broad definition could be made as; a city which can provide financial services for different financial centers at certain levels, where advanced investment regulations are in force in terms of financial services, a fast track infrastructure is present for settlement of disputes, the safety of persons is ensured at the highest level and bribery and corrupt are at the lowest level.

It is seen that factors such as qualified human resources, a stable business environment and regulations, effective infrastructure, quick and easy access to the international market, higher competitiveness are among the common features of major cities regarded as global financial center today.³

Kindleberger (1984) states that international financial centers are highly specialized in lending out and they serves as clearinghouse between countries.⁴ Financial centers are traditionally considered as regions that provide banking and

²Sassen, S., (1999), "The Global City: Introducing a Concept", **The Brown Journal of World Affairs**, Volume XI, Issue 2, p.8.

³Istanbul International Search Conferences, (2011). **Evaluation Report**. Introduction, p.1.

⁴Kindleberger C., (1984),"Multinational Excursions", **Cambridge Mass: MIT Press**, p.57.

financial services in national and international sense. They are classified as national, regional, global centers according to the geographical region where they are located.⁵ The total proportion of employees in the total workforce employment, assets of financial institutions, turnover that occurs in stock market, asset of foreign banks, asset of multinational non-financial banks are among the factors that determine the Financial Center Index.⁶

1.2. Common Features of the Global Financial Centers

The global financial center is a place where transactions are performed by means of using financial instruments in order to meet financial service demands by any institution located around the world.⁷ The following criteria are projected to be necessary common features in order to establish global financial centers.

- The volume of financial services market should be large,
- Number of internationally qualified financial experts should be large,
- Local market to be reached by international companies should be large,
- The center should have an image capable of providing service to high-volume and different markets,
- It should have a legal framework with international norms,
- Political and economic stability should be ensured in the country,
- Effective and accepted arrangements should be made,
- Ease of establishing and managing local, regional and global scale business should be ensured,

⁵ Daly M.T., (1984), "The Revolution in International Capital Markets Urban Growth and Australian Cities", **Department of Geography**, University of Sydney, Sydney, NSW, Australia, Environment and Planning Article:16, p.1017.

⁶ Kerr D., (1965), "Some Aspects of The Geography of Finance in Canada", **Financial Magazine**, p.183.

⁷ Tekbağ, M. ğ., (2012), "Istanbul Regional and International Financial Centre (IFC)", p.5.

- Cost of doing business in the financial services sector should be lower,
- Rule of law principle should be adopted; a fair justice system should be established,
- Financial technology at international standards should be established,
- Banks strong in terms of economics and with high credibility should be established,
- International Capital movements should be free,
- Exchange stability should be ensured,
- Competitive environment should be formed,
- Good quality environmental conditions that could attract the qualified financial service sector employees to the country,
- Accessibility to support services should be easy, a well-functioning communication network should be established and the physical infrastructure and transport should be formed.⁸

McKinsey⁹ Consulting firm defined the required qualifications so that a region could become a financial center as follows according to results of questionnaire performed among senior executives of 15 financial service sectors operating at international level in 2004.¹⁰ Accordingly rational legal basis, lively domestic market, political stability are listed as primarily important criteria and capital market with a developed infrastructure, strategic geographical location and good quality of life could be expressed as secondary important criteria.

⁸BRSA, (2009). **Evaluation of Istanbul's Potential to Become International Financial Center.** Deloitte Consulting Report, p.7.

⁹ McKinsey is a firm working on international financial consulting.
http://www.mckinsey.com/about_us/who_we_are_to, Accessed: 03/05/2015

¹⁰ Barton, D., (2004), "What Makes a City Financial Hub?", **Research Brief Mc Kinsey Quarterly 3**, p.13.

Performing equal transactions for both domestic and foreign companies, enabling free circulation of the capital, also having a reliable currency and predictable, consistent and logical arrangements, forming a globally competitive tax structure, having a developed legal system and flexible work permits are among necessary conditions in order to constitute a rational legal infrastructure. Legal infrastructure of the financial center, tax laws should conform to international norms. Special provisions protecting the property rights and small investors' rights should be inserted for the viability of financial markets.¹¹

For a buoyant domestic market; large and developing domestic companies which are capable of risk management, are accountable for their partners and could render an account, adopt the corporate management principles should be present.

Political stability is ensured by means of constituting a harmonious relationship between the government and the business community and establishing stable, transparent and reliable institutions and independent central banks.

There should be capital market which could provide the necessary services to companies, has the infrastructure to manage an extensive customer portfolio and comprehensive liquid and long term investments could be made in this capital market involving financial institutions over a certain scale and under adequate number. For an advanced infrastructure there should be a qualified labor pool specific to financial sector that is able to speak good English, the labor market must be flexible, the unions should work in compliance with the employers and underperforming employees should be able to laid off. Foreign fund managers could work comfortably in the financial centers with a completed infrastructure services, reliable and developed telecommunication system and transportation system that does not lead to traffic jams.

¹¹ Abramov, D., et al, "Moscow as International Financial Center, Ideas, Plans and Perspective", **Journal of Euroasian Studies**, p.1.

We can define the financial centers which are close to important markets and constructed in places not bearing the risk of natural disaster as the centers having geographical location with strategically importance.¹²

Better quality of life opportunities should be provided for foreign staff working in the financial center. Residential areas which have low cost and conform to international standards should be present for people coming from other countries. In particular, the native population in the city where the financial centers are located should have a cultural structure that is open to foreign people, foreign products and services.

1.3. Advantages and Disadvantages of Being a Global Financial Center

It is quite difficult to forecast the future of financial sector which is vibrant, dynamic, fast-growing and highly-competitive. The sector is often directly dependent on fundamental changes in the international financial services and macroeconomic conditions. It can be mentioned that there are very successful financial areas operating regionally with a large effect as well as the development of 4-5 financial centers globally providing service that could adapt to these changes. The existing global scale financial centers in the world are working to expand the market scale as well as providing a variety of services. There are many cities aiming to become global financial centers and many countries are aiming to create similar centers. Since, there are several advantages of becoming a global financial center. However, there are also some disadvantages of becoming a global financial center.

1.3.1 Advantages of Becoming a Global Financial Center

Under this title the advantages provided by becoming a global financial center to a county's economy and all finance sectors are included.

¹²Association of Capital Market Intermediary Institutions in Turkey, (2007). **Global Financial Centers and Istanbul Report**. p.10.

a. Increase in Economic Growth

When a city begins to be regarded as a global financial center it attracts a massive capital inflow. Domestic and foreign financial institutions open representative offices in fields such as accounting, information technologies that are sub-actors of financial institutions in the city. On the other hand, it is suggested that sources of finance will be diversified and become cheaper with the increasing fund flows. Companies and investors could be more easily funded with access to low cost sources of funding. Thus, economic activity increases across the country as well as the city where financial center is located and the growth accelerates. Concentration of financial activities helps the labor force become qualified, the service providers are constituted and the technological infrastructure develops.¹³ This leads to an increase in productivity and reduction of costs. Likewise, Borenszte et al. (1998) indicates that foreign direct investment makes a greater contribution to the local economy through technology transfer than domestic investment.¹⁴

b. Increase in Employment and Skilled Labor

Employment could be considered as another indication of the domain of global financial centers. When the city and the country becomes the financial center, growth also accelerates as noted above along with increasing domestic and foreign investments. New business opportunities increase in a growing economy and the employment is positively affected by this situation.

Financial centers also contribute to the quality of employment in addition to numerical increase. One of the most important requirements of being an international financial center is the presence of qualified employees. Availability of skilled labor is an important factor in becoming an international financial center of the city. Availability of skilled labor ensures that financial institutions make investment decisions easier. In

¹³Jorge, A., et al., (2007), "IMF Working Paper Contagion Risk in The International Banking System and Implication for London as a Global Financial Center", **IMF Working Papers**,p.6.

¹⁴Borensztein, J., et al., (1998), "How Does Foreign Direct Investment Affect Economic Growth?", **Journal of International Economics**, 45, p.115.

fact, the relationship is reciprocal. A city including a financial center attracts more skilled labor. A center where foreign and domestic skilled labor wishes to work is formed thus the city is becoming a qualified labor pool.

The quality of the local labor force is directly related to the presence of a good education system. From the perspective of the financial sector, the presence of the employees which are good at English at least as well as professional features, follow the developments in information technology closely and could apply these developments gradually becomes more important.¹⁵

c. Compliance to International Norms

The legal infrastructure of the financial center is brought in compliance with international norms. Thus, it is attempted to reach the international competitiveness. In addition, special provisions protecting the property rights and small investors' rights are inserted for the viability of financial markets.¹⁶

d. Easy Accessibility to Information

In terms of financial sector, the accuracy, accessibility, reliability of information, its appeal to financial companies and whether it creates opportunities or not are important. Financial centers are cities which develop effective policies in terms of politics and economics and also could offer important opportunities with the amount and quality of information.

Business world needs great information that is capable of collecting, publishing and expressing. Financial companies with very high levels seek international cities where they can easily access to information and benefit from the cheap price. Also, having a modern infrastructure and physical proximity to financial markets are very

¹⁵TUSIAD, (2002). **Turkey's Window of Opportunity - Demographic Transformations and Projections, Labor Market and Unemployment in Turkey**, p.168.

¹⁶Abramov, D., et all, Ibid., p.1.

important in terms of easy accessibility to information. Convenience results from both the physical transportation and working hours under close time periods. The most significant factor determining the price formation in money and capital markets in today's financial markets is information. Today, information should be disclosed simultaneously with the financial data providers otherwise that would lead to unfair competition which may affect the reliability of the financial center. Easy, accurate and simultaneous access to information should be one of the most important tasks of public institutions inspecting the financial center. Proximity of information providers to information generators is a factor that reduces both the asymmetry of information and cost of labor.¹⁷

e. Development of Infrastructure Services

Reed (1981), states that financial centers should first have national status then international status.¹⁸ Financial centers should have the most advanced communication systems in terms of both telecommunication and technological infrastructure. Widespread, efficient and cost-effective internet access and the studies carried out for this purpose will be beneficial. Infrastructure services needed by business life should be free of problems. Infrastructure services will primarily reach a status which could better provide a well-functioning transportation network, an advanced telecommunications system and living spaces capable of meeting the needs.

f. Increase in International Fund Flows

When the international cash flows start to arrive at financial centers in an intensive manner, they could lead to significant impacts on the country's economy. In this sense Stiglitz (2000) notes that capital markets are important for the funds requiring investment projects.¹⁹ As long as there is a massive capital inflow in the country need

¹⁷ Simon X.B., et all, (2004), "Determining Factors of The Development of a Nation Financial Center: The Case of China", **Magazine of Finance**, p.3.

¹⁸ Reed H. (1981), "The Preeminence of International Financial Centers", **New York: Praeger Publishers**, p.38.

¹⁹ Stiglitz J.E., (2000), "Capital Market Liberalization, Economic Growth and Instability", **The World Bank**, Washington DC, USA, World Development, Vol.28, No:6, p.1078.

for debt decreases. In this case, the country's economy grows in addition financial markets deepen as well. Deepening decreases the economic fragility of hot money outflows to a certain scale.

g. Opportunity for Fast Establishment

When the countries decide to become a financial center and develop programs for this purpose, the implementation of these plans and beginning to accomplish results take place faster than production sectors. Banks, insurance companies, other financial institutions and similar institutions could begin operating when they complete infrastructure needs such as office, information technology and personnel. However, this transformation does not take place at the same speed since a significant amount of capital increase is needed in order to establish this center in the countries aiming to be the technological production center. In short, the financial sector requires relatively low capital investment and can become operational quickly.

h. Productivity Growth in Financial Sector

When the country becomes an international financial center, many foreign financial institutions will begin to compete with domestic institutions. Increased competition will allow the increase in efficiency of domestic financial institutions, decrease in transaction costs and consequently providing a better quality service to account owners.

Also, financial liberalization takes place quicker and easier in the countries that become a financial center. Financial liberalization helps the foreign investors invest in domestic securities and also domestic investors access the opportunity to trade foreign securities. Bekaert and Harvey (2000) define the financial liberalization as a factor reducing the cost of capital and increasing the number of investors.²⁰ The liberalization of the stock market has two important effects. First, it reduces restrictions on financial

²⁰Bakaert and Harvey C.R., (2000), "Foreign Speculators and Emerging Equity Markets", **Journal of Finance** 55, p.32.

assets, which leads to the more capital. On the other hand, foreign investors would demand better corporate governance which also allows local investors to invest in domestic corporate companies managed under better quality. According to an econometric study conducted by Lundblad (2001), the financial liberalization allows a proportion of one percent growth per year for five years in gross national product calculated by actual numbers.²¹

i. Less Environmental Pollution

Effects of the services provided by the financial sector on environmental pollution are negligible compared to the production sectors. For this reason, countries, local governments and the public are rarely faced with the additional costs caused by environmental pollution.

j. Protection of Investor

The protection of investors is one of the most important factors which ensure the increase of investments since the capital markets develop and gain international qualification. Quality and effectiveness of the rule of law is one of the most important factors explaining why foreign investors do invest more in some countries. Foreign investors make more investments in the countries where there are high confidence in the legal regulations.

Foreign investors see themselves as small partners of the company which they invest in. Therefore, foreign investors deal with how to prevent large shareholders and executives from retaining their rights. La Porta, Lopez-de-Silanes Shleifer and Vishny (2000) define retaining the rights of small partners as direct theft or cheap transfer of company assets and shares in the interests of others.²² Employing unqualified family members in executive positions by the company and paying higher wages to executives

²¹Lunbland C. (2001), "Does Financial Liberalization Spur Growth?", **Indiana University**, Bloomington, p.4.

²² La Porta, Lopez-de-Silanes and Vishny, (1999), "Investor protection and corporate governance", **Journal of Financial Economics** 58, p.4

could be indicated as other unlawful profit cases. According to Johnson, Boone and Friedman (2000), the lack of efficient management could be attached to lack of knowledge and absence of adequate communication with public institutions. For example, high devaluation was experienced during the Asian crisis (1997) for similar reasons and foreign investors suffered sharp losses.²³

Higher legal standards ensuring the protection of investors give high market prices according to the book value. According to Claessen, Djankov, Joseph & Long (2002) various applications such as high amount of dividend distribution and paying less wages to executives pose positive impact on the protection of investors.²⁴ This will improve the stock markets and allow more foreign portfolio investment in the financial center. (Nenova 1999 Zingales 1994).²⁵

k. Creation of Higher Value Added

The establishment of an international financial center is quite attractive since there is not higher fixed cost required to invest in another industry in terms of providing higher value added. Financial center with higher value added could be regarded as an environment where highly qualified personnel is employed, personnel with higher amount of disposable income works, the approach of international law perceptiveness dominant, political authority does not make any intervention instead political authority conducts inspection in a predictable manner with the predetermined regulations of supervisory institutions. As a consequence, the funds inflow will accelerate in the country and interest rates fall; thus tax collection reaches to higher levels as well.

²³Boone J.S., Breach A., Friedman E. (2000), "Corporate Governance in The Asian Financial Crisis", **Journal of Financial Economics** 58, p.142.

²⁴Djankov C., et all (2002), "Disentangling The Incentive and Entrenchment Effects of Large Shareholdings", **Journal of Finance** 57, No.6, p.3.

²⁵Nenova, T., (1999), "Corporate Ownership Around The World", **Journal of Finance** 54, p.7, & Zingales L. (1994), "The Value of Voting Right: A Study of The Milan Stock Exchange Experience", **Behaviour of Financial Studies** 7, p.23.

1.3.2 Disadvantages of Being a Global Financial Center

The disadvantages of being a global financial center are described as follows.

a. Decrease in International Fund Flows

If international capital flows are reversed for any reason, a serious recession and even crises may be experienced. Thailand is a very clear example in this regard. Thailand revealed many important applications in line with the goal of becoming a global financial center as of the beginning of 1990s. It reached the target in a very short time, a serious capital inflow accelerating more and economic growths were experienced after 1993. However, the country entered into a deep crisis and long recession since the international capital left the country in 1997.

b. Contagiousness of Corporate Financial Problems

Risks of countries and foreign institutions are reflected to financial centers as the significance of internationally operating companies in the world economy increases. On the other hand, when a significant crisis is experienced in a city or country regarded as a financial center and the institutions resident in that place are in financial difficulties; this case affects the financial institutions in other countries and their economies as well. Integration in the international stock markets has become more important due to two issues in particular referred to below over the past decade. First, extraordinary advances in technology causes that the information is very quickly transmitted to other markets from financial market. Secondly, the less control over the movement of funds between countries has increased the amount of funds entering the countries.²⁶

In particular, the effect of contagiousness was seen in Southeast Asian countries excluding Japan in 1997-1998 Asian financial crises and this led to a sharp drop in the stock markets of all the countries in the region. The financial crisis showed

²⁶ Fernandez A. et al (2004), **International Transmission of Stock Exchange Volatility: Empirical Evidence from The Asian Crisis**, Global Finance Journal 15, p.126

its transitivity effect in Russia and Brazil after the first half of 1998. Fragility and the negative effects in the financial markets also affected the real sector and Korea, Indonesia and Thailand were faced with negative growth during the years of 1997-1998. This decline in growth also affected all Latin countries and sharp declines were experienced in their GDPs. Some financiers state that financial liberalization provides more fund inflows to attractive markets. This makes a better impact in the direction of boosting financial markets by increasing productivity and growth. However, Allen and Gale (2000) suggested that funds entering into share markets leads to bubbles and persons borrowing from banks invest in risky assets and this causes major banking crises subsequently recessions.²⁷ Baig, Goldfajn (1999) and the Forbin, Rigoho (2002) defined the contagiousness of financial problems as the spreading of a shock to another country from a certain country due to exceptional dependence in the markets.²⁸

c. Money Laundering Risk

When the fund flows are accelerated, the risk of using financial companies in a country with the aim of money laundering increases as well. The country could lose its reputation by becoming a money-laundering center unless necessary measures are taken under sufficient sensitivity. This case may increase the risk of losing a country's title by damaging its title of being a global financial center. The recovery of the lost reputation is possible in a very long process and requires great effort.

Revenues earned by means of money laundering offense can also lead to harmful results in macroeconomic terms. Since the revenues earned from offense do not act according to rational manner and basic indicators it is unknown when these incomes will enter or leave the country consequently conjuncture-independent unexpected fund movements occur. While the revenues earned from an offense encourage the informality, they also cause that public finance policies are damaged and tax revenues are decreased by preventing the registered legal actions. In terms of companies it will

²⁷Gale A.F. (2000), "Bubbles and Crisis", **Economic Journal** 110, p.236.

²⁸Baig T., Goldbajn, (1999), "The Russian Default and Contagion to Brazil", **IMF Working Paper** 2000/160, p.4

bring about changes to the financial structure of enterprises in micro base and will create risks. Such revenues may cause an unhealthy competition among investors and also can create a debilitating effect for economy.²⁹

d. Title Slickness and Protection of Investor

It was previously stated that becoming a financial center required relatively low fixed capital and it could be established quickly. Thus, a region or city can become an international financial center in a very short time. The disadvantage is the risk that this title could be rapidly lost. When an unexpected risk occurs in the country or a better competitor country occurs, a new place is rapidly able to become financial center. In this field the cost of a failure that may arise for various reasons is high. The most important of these costs is to lose credibility and trust in the international arena. The recovery of lost reputation requires great effort; its cost is also high.³⁰

e. Fragility Increase

Especially highly leveraged transactions of financial institutions can lead to fragilities in the macro economy. Leveraged transactions refer to derivative transactions that are carried out on credit or guarantee. In this structure, higher proportions of losses or gains could be obtained with a very small price fluctuation. In this case, large funds entering into the domestic market lead to appreciation of the exchange rate and have a negative impact on export revenues. While speculations based on exchange rate increase the real economy based on this is affected negatively.³¹

In addition, relatively small fixed investments to be made in the international financial centers will be compensated by higher investment in human resources. Investments in human resources show a very high degree of mobility unlike fixed investments. For this reason, the international financial centers are fragile and highly

²⁹Ghafferi, A., Berzi A.K., (1994), "The Importance of Fighting with Money Laundering in Iranian Banking System", **Technical Journal of Engineering and Applied Sciences**, p.1.

³⁰Budak, A. (2007), "Global Financial Centers and Istanbul", **Gündem Magazine**, Issue No. 32, p.7.

³¹Kaufman G.G., (2001), "Emerging Economies and International Financial Centers", **Loyola University Chicago and Federal Reserve Bank of Chicago**, p.3.

depend on human existence. Over the years a large number of cities and countries served as an international financial center, but very few of them have managed to survive until today.

f. Fragility Increase against Intervention of Political Authority

The fact that political authority makes intervention to the functioning of autonomous institutions that make independent decisions in the economy damages the concept of competition. The institutions such as Central Bank, Capital Markets Board (SPK), Banking Regulation and Supervision Agency (BRSA) should be able to take independent decisions, operate in compliance with international norms and be predictable when following their policies. Tax policies should be monitored in compliance with international tax tariffs; elements distorting the full competition should be avoided.

1.4. Theoretical Framework for Global Financial Centers

The emergence of financial centers is not as random events that occur. Financial center formations are based on various theories including theory of selected section and place, economy of scale, financial geography and theory of global cities. All these theories are related among themselves as well. In other words, they are not independent of each other and there are some cross-cutting aspects.

1.4.1. Theory of Selected Place and Location

Davis' (1990) theory of selected section and place is the version of selected industrial location theory applied to financial field. Micro-economic methods and economic externality related to demand-supply are used in a decision taken on the formation of financial centers. In the work, Davis argues that it is the principle of profit maximization.³²

³²Davis, E. P., (1990), "International Financial Centers- an Industrial Analysis", **Bank of England Discussion Paper**, p.2

The following factors should be considered in terms of supply; the availability of qualified personnel, the degree of difficulty in market access and the openness of initiative, ancillary activities and market coverage, the provision of appropriate office equipment, the stability of the economic and political conditions, facilities of protecting the profits of consumers and investors, the costs of activities related to the fund supply and demand, the tax regime, the efficiency of payment and clearing system and uncomplicated financial regulations.

In terms of demand, market accessibility and acquisition of customer are the main factors to be taken into account by financial institutions.

In the place theory represented by Walter Christaller's (1966) it is claimed that spatial injustice leads to city hierarchies. Producers agree the market range where the limit of demand is located has geographical limitations and there should be a minimum scale to meet normal profits. If the place is far, consumers and producers prefer to move the place to closer since the market range is dependent on distance and size. The markets at certain distances and in different areas are the ones which have high valued goods and services nonetheless smaller centers are the places that produce less valuable goods and services.³³ Less the hierarchical difference is larger the center settlements are and smaller the scales are. The importance of the financial center's place results from value of the products. In the Christaller's work the distance to be endured by the consumer is compared to demand level of the products that is "value" of the products. So, the area of financial center grows and the distance to be tolerated by consumers increases as long as value of the products is higher.

Spatial structuring of the city centers take place in a hierarchical manner depending on the value of the goods and services they produce. As the concentration of the financial center and volume of its high-valued goods and services increase, the economic borders are concentrated. Therefore, the absolute magnitude of the financial center develops on a city layout depending on the economic infrastructure.³⁴

³³Christaller, W., (1966), "Central Places in Southern Germany", **Prentice Hall**, p.330.

³⁴ Jarvis, D. S. L., (2011), "Race for the Money: International Financial Centers in Asia", **Journal of International Relations and Development**, 14, pp.60-95. doi: 10.1057/jird.2010.19

1.4.2. Economy of Scale

The economy of scale theory is also decisive in the development of financial centers. According to Jarvis economy of scale is described as follows: the concentration or clustering of financial service institutions in a center decreases the cost of operation and transaction by benefiting from information economies and increasing the productivity gain as well as providing ease of transaction. For example, clustering; creates allied markets and allows competition and gathers everything together by decreasing the capacity of qualifications and collective industrial cost in financial management, engineering, legal and payment systems due to market size and specialization. In addition, economy of scale provides employment pools of high skilled labor in order to avoid large fixed costs required in training and skills development. In addition to above, economy of scale and clustering also allow the emergence of the trust relations and norms of corporate transactions.³⁵

1.4.3. Finance Geography

Financial geography focuses on information center.³⁶ A specific city acting as regional center is the region with the best access point for the profitable use of the valuable information flow.³⁷ Information imbalance has pushed financial institutions to consume as little as possible. There is a clear imbalance in the financial markets. There is no regulatory information; distance and relationship are limited, it is difficult to get accurate information for different audiences, quality and costs are separated.

The imbalance of information generally makes the competition more difficult for foreigners who are unable to understand the local market regulations and most policies as accurate and efficient as the local companies. The costs of collecting and confirming information are very high, thus approaching to information has a large influence on the profit especially for the distant party.

³⁵Jarvis, D. S. L. (2011), *Ibid.*, p.70

³⁶Gordon, L. C., Meric, S. G., & Maryann, P. F., (2003), "The Oxford Handbook of Economic Geography", **Oxford University Press**, p.373.

³⁷Porteous, D., (1995), "The Geography of Finance: spatial Dimensions of Intermediary Behavior", **Aldershot: Avebury**, p.30.

Financial decisions are very sensitive to policy information and distance to information source plays a key role for the ones to utilize the information since acquiring useful information they has a higher cost. Accessibility, disseminating the information accurately and quickly provides high cost savings. The problem of information imbalance is eliminated as a result of geographical proximity to policy information sources and cost advantage is ensured.

In addition, the size of information background is a very important factor to attract financial companies. Therefore, finance geography could bring together the high quality information and robustly improve the financial center in economic and financial terms by ensuring political protection.³⁸

Many scholars has argued that the geography is no longer important for finance with the development of new technology and innovation in telecommunications however finance geography is still important for finance sector and financial centers. Also, the fact that financial centers have modeled in the form clustering as settlement has indicated its power is continuing and this affects the finance sector in a positive manner.³⁹

The formation of finance geography as clustering also reduced the costs. Therefore, economy of scale refers to effect of merger, market thickness, information flooding and other external influences. Furthermore the immobility of production factors, land rent, transportation costs are also effective on the settlement of financial geography as other external influences. The quality and contribution of the financial geography could show itself on "increasing returns".

1.4.4 Global City Theory

Since the 1970s, new technology and information technology have enabled the decentralization of economic activities. Global movement of goods and services,

³⁸Simon X.B. Zhao, L. Z., Danny T. Wang., (2004), "Determining factors of the development of a national financial center: the case of China", **Geoforum**, Issue.35, pp.577-592, doi: 10.1016/j.geoforum.2004.01.004

³⁹Elliott, D. J., (2011), "Building A Global Financial Center in Shanghai Observations from Other Centers", **J. Thornton (Ed.)**, p.4.

capital, information and personnel has accelerated and has spread beyond the state borders. The network among the cities has begun to dominate the world. All of these have increasingly begun to play an important role in centralization, control and management of global economic activities and global metropolises have concentrated. Therefore, many scholars have done extensive research about the world cities or global cities on the basis of globalization since the 1980s. World's developed cities have also become global financial centers over the time. In this respect the theory of world city can explain the formation of global financial centers. In this regard, various studies were conducted by Friedman (1995), Sassen (1991,2001) Castells (1996) and GaWC* group of British Loughborough University.

Friedman (1995) argued that the international professional human capital in the dominant position around the world is the key factor for a world city. The movement of human capital on international level is both a cause and a result of the world city formation. In Friedman's hypothesis, the city which is a financial center links the national or regional economy to global economy.⁴⁰

According to Sassen (1991,2001) cross-border networks have been developing with economic globalization and modern communication technologies and resources have been concentrated in strategic locations. In order to develop a global financial empire, Multi-National Companies (MNC) tend to shift their centers, subsidiaries and associates to global cities where they can effectively control and coordinate them with global communications network.⁴¹

MNC seek competitive places which especially have adequate transportation and communication infrastructure, have developed in terms of accounting and financial services, and have social and cultural facilities, higher quality of professional service and ingrained legal regulations (Peter, 1998).⁴² Therefore MNC centers and financial

* Created in the Geography Department at Loughborough University, this network focuses upon research into the external relations of world cities.

⁴⁰Friedmann, J., (1995), "Where We Stand: a Decade of World City Research", **UK: Cambridge University Press**, p.21.

⁴¹Sassen, S., (1991), "Elements in a Global Hierarchy The Global City: New York, London, Tokyo", **Princeton, NJ: Princeton University Press**, pp. 168-191. & Sassen, S., (2001), "The Global City: New York, London, Tokyo", **Princeton, NJ: Princeton University Press**, p.85.

⁴²Peter, D., (1998), "Global Shift: Transforming the world economy", **New York: Guilford Press**, p.33.

centers are concentrated in the same key residential areas. Pattern of coming together in the same place has contributed to the formation of a global city or a region of global city (Tong, 2009).⁴³

According to the literature of world and global city; only one city could coordinate and control the economies by offering various services and products supporting the development and construction of world economy with financial functions as the economic production is concentrated worldwide.⁴⁴ Along with world city hypothesis there are also other studies that view the world cities as the epicenters of financial transactions (Reed 1981; Goldberg et. al 1988; Mc Gahey et. al 1990). Situated in the global city system in London, New York and Tokyo (Great Trinity) located in the global city system have become the financial centers compatible with theoretical framework in the literature. Ben Edwards referred the said cities as "the capitals of capital" in the Economist (1998).

Sassen (2001) claimed that global cities are the primary factors in the production of financial services. The ability to offer these services on a global scale requires international cooperation. Sassen viewed the world cities as the central production sites of complex financial activities. Supply-driven factors became prominent as decisive in construction of a global city system and formation of international financial centers.⁴⁵

To sum up, there are many common features regarding the global cities in the formation of financial center although there are opinions emphasizing the different aspects in the literature of world city theory.

⁴³Tong, S., (2009), "Shanghai: Aspirations and Reality, and Implications for Hong Kong", **Hong Kong Journal**, Volume.16(4), p.8.

⁴⁴King, A. D., (1990), "Global cities: Post-imperialism and the internationalization of London", **London: Routledge**, p.53. Clark, D., (1996), "Urban world/global city" **New York: Routledge**, p.38. Knox, P., (1995), "World cities in a world-system", **Cambridge: Cambridge University Press**, p.29.

⁴⁵Sassen, S., (2001), "The Global City: New York, London, Tokyo", **Princeton, NJ: Princeton University Press**, p.17.

CHAPTER II

GLOBAL FINANCIAL CENTRES

2.1. Emergence of Financial Centers in the World

The opinions on the emergence of financial centers in the world are included in this section. According to Tschoegl the places where international financial centers are located are not accidental. The historical past of their location allowed banks and financial institutions to convene in a certain area and carry out their financial activities.⁴⁶

Kindleberger examined the history of financial centers. According to Kindleberger there were many financial centers providing financial services in regional and global sense before 1870.⁴⁷ But none of them could be considered more dominant or superior than the others. These centers could be listed as; Amsterdam, Berlin, Florence, Frankfurt, Geneva, Hamburg, London, Milan, New York, Rome, Venice and Zurich. London and Paris began to stand out compared to other financial centers towards the ends of 19th century. As the Franco-Prussian war in 1870 resulted in favor of Germany, London reached the leading position among financial centers in the world and maintained this position until the World War I that broke out in 1914. After the war, New York overtook London in spot markets and stock markets especially during Great Depression years in the 1930s. In the years following the Second World War, restrictive rules referred as "Rule Q" were imposed on American banks and competitive interest rates applied on deposits were blocked. The higher returns that were not recommended for deposit accounts and credits in the main financial center in the 1970s began to be provided to newly opened and rapidly growing Eurodollar and Eurocurrency markets. Rule Q constraints of United States of America led the high-stakes financial activities to return the London again. Especially, the popularity of the financial centers showed both

⁴⁶Tschoegl Adrian E., (2000), "International Banking Centers, Geography and Foreign Banks", **Financial Markets Institutions and Instruments**, pp.1-32.

⁴⁷Kindleberger C. P., (1974), "The Formation of Financial Centers: A Study in Comparative Economic History" **Princeton Studies in International Finance No: 36 Princeton University**, p.45.

increase and decrease sometimes during the world wars. Financial centers were usually established in the cities which were centers of marine transportation, political centers and headquarters of central banks. At the same time, the regions which were the centers of transport, policy and trade became the main factors increasing the importance of financial centers.⁴⁸

After World War II, Hong Kong and Singapore reached these criteria to some extent; Tokyo and London reached all of these criteria to a large extent. Frankfurt achieved the status of financial center of continental Europe by overtaking its rivals Dusseldorf and Frankfurt, despite not having a port, with the establishments of central bank and European Central Bank in the coming years.

2.2. Overview of the Global Financial Centers

2.2.1. London as a Financial Center

2.2.1.1. Economy of England with Macro Economic Data

England is the second largest economy after Germany in the European Union and fifth largest economy in the world. The tertiary sector accounts for about three quarters of GDP in the England. The financial sector accounts for about 10% of GDP, while tax revenue represents the 11% of tax revenue. After the crisis in world, GDP narrowed in the rate of 4.9% in 2009, however the country's economy rose out of recession by growing 1.3% in the following year. The country's GDP is \$ 2.9 trillion as of 2014. England has entered into the recovery process due to the decline in oil prices in the world. The inflation rate took place as 0.5% in 2014 due to low energy prices. Although its population is over 62 million, the unemployment rate stands at 5.7% by the end of 2014. As a result of crisis in 2009, GDP per capita declined to 35,885\$ that was the lowest level in 2010 and it reached to level of 46,332 \$ by the end of 2014 (see Table 1.) According to end of year data in 2013 it is the 21st. country with the highest National Income level. England is 14th rank in 2014 according to the United Nations

⁴⁸Kaufman, G. G., (2001), "Emerging Economies and International Financial Centers", **Loyola University Chicago and Federal Reserve Bank of Chicago**, p.15.

Human Development Index (See Annex-3). It is in the front rows with the score of 75.8 in the Economic Freedom Index prepared by Heritage Foundation (See Annex-4).

Table 1: Economy of England with Macroeconomic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	2,486	2,296	2,988
Change at Current Prices (%)	0,6	0,1	0,7
GDP per capita (\$)	38.585	35.885	46.332
Inflation Rate (%)	3	3,7	0,5
Direct Foreign Investment (Billion \$)	203.636	66.734,6	45.456,6
Unemployment Rate (%)	5,5	7,9	5,7
Population	60.409.000	62.027.000	64.597.000

Source: Arranged by ourselves after obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> arranged by our website. (Accessed: 17.04.2016)

2.2.1.2 London Stock Exchange

Beyond the political borders with the international characteristics, London is a financial center where financial transactions of high amount that place and mostly foreign financial institutions are clustered. It has been maintaining its first rank determined by fund managers according to the Global Financial Centers Index (GFCI) for a long time. (See Annex-5) In London, transactions could be performed with other financial center and service providers twenty-four-hour a day.

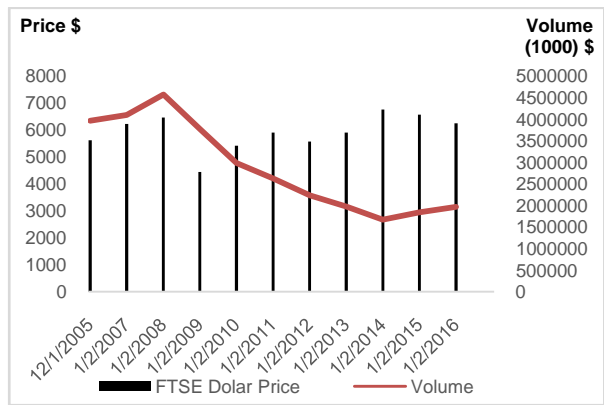


Chart1: Trading Volume and Price of London FTSE Index (US Dollar)

Source: Taken from <http://www.bloomberg.com> (Accessed: 17.04.2016)

The chart above indicates both the trading volume and price of London FTSE index based on dollar over the past decade. As is seen, global crisis occurring in USA in 2008 and 2009 showed its effect on stock indices and it decreased to in terms of both volume and index indicators. In said period, the shares of some banks were expropriated by the government in England and the spread of the crisis to England was prevented however this situation led to the fall of the stock market indices.

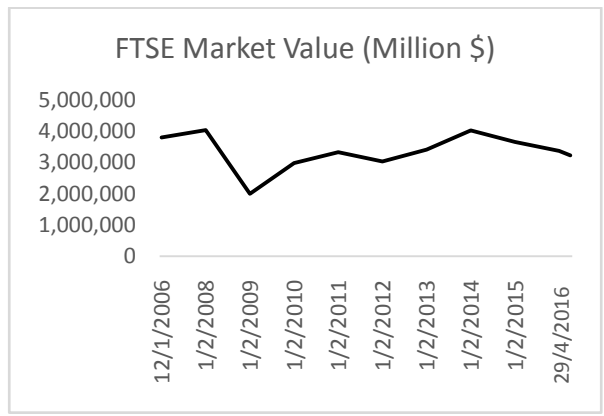


Chart2: Market Value of FTSE (Million \$)

Source: Taken from <http://www.bloomberg.com> (Accessed: 17.04.2016)

In the above chart, the market value of shares traded on the stock exchange on the basis of million dollars is seen. LIBOR, Royal Exchange, Futures and Options

Exchange, London International Financial Futures Exchange, International Petroleum Exchange, Baltic Exchange, Lloyd's International Insurance Market could be ranked as resident financial institutions in London.

As one of the major international financial centers, London receives a large share both from improved domestic economy and global services industry. Of the 500 largest companies in Europe 100 companies have their headquarters in London. More than 550 international banks and 170 global securities institutions have offices in London. London is introduced as the world's banking center and the main business center in Europe.⁴⁹

London's leading role in financial services as international financial centers substantially separated from New York and Tokyo which have large-scale local economies. Although London has a smaller-scale economy, its success is largely based on international credibility. London is consistently able to respond to international market opportunities and it has been able to build its success on innovation and openness. It has a role to ensure a competitive business environment for the financial service of government and other networks. This situation means that the regulations are compatible with fair and macroeconomic objectives. London is recognized as a leading center in terms of access to skilled labor. However, unattractive tax regime poses the most important threat to the dominant position of London. London Stock Exchange and the relevant market, the Alternative Investment Market (AIM) constitutes the largest stock exchange in Europe and the second largest stock exchange in the world after New York Stock Exchange (NYSE). AIM was established to provide capital to domestic and foreign companies. AIM companies provide tax benefits to venture capital investors of England in order to encourage the investment as well.⁵⁰ London is the second largest hedge fund management center in the world after New York and it is also largest in Europe.

⁴⁹Budak, A., (2007), "Global Financial Centers and Istanbul", **Gündem Magazine**, Issue No. 32, p.7.

⁵⁰The Banks Association of Turkey, (2009). **Evaluation of Istanbul's Potential to Become International Financial Center**. Deloitte Report Part B Annexes, p.10.

England has one of the lowest corporate tax rates among G8* countries. But it has lost some part of its competing characteristics. Britain offers an attractive tax regime for foreign residents. The present tax law is supported by the court and tax authorities, and therefore taxpayers rely on the system against all kinds of uncertainty that may occur in a complicated tax system. The law could be frequently amended and uncertainty has been increasing as a result of inadequate counseling incompatible with the law or retroactive works failed to be examined carefully. Corporate tax applications have been assessed over a rate increasing in terms of international transactions recently in an unrighteous manner. England is the country with the most comprehensive avoidance of double taxation treaty in the world. Its transfer pricing is in accordance with all standards of Organization for Economic Cooperation and Development (OECD).

The supervision of financial service is carried out by government's Financial Services Authority (FSA). FSA has four strategic objectives. These are stated in Financial Services and Industries Act dated 2002. These goals are a) Market confidence: Increasing consciousness for the financial system, b) Consumer Protection: ensuring a reasonable protection level for consumers, c) Reducing the financial crimes, d) Creating active, regular and fair markets, having individual customers under fair state and increasing the efficiency of work capacity.⁵¹

England commissioned numerous authorities such as "Central Finance Research Unit" under Serious Organized Crime Agency in order to investigate and prevent the money laundering. England has a comprehensive legal framework and sanctions against money laundering and terrorist financing.⁵²

FSA facilitates the merging of International Financial Reporting Standards (IRFS) and US Generally Accepted Accounting Principles (GAAP) by working together with the Auditors of European Securities.⁵³ FSA is an independent, non-governmental unit. It has legal rights under the Law on Financial Services and Markets. Treasury

*8 countries with the most developed economies; USA, Japan, Germany, United Kingdom, France, Italy, Canada and Russia.

⁵¹FSA, Financial Services and Industries Act, www.fsa.gov.uk, p.2, (Accessed on: April 12, 2015).

⁵²UK FATE, (2007). **Third Mutual Evaluation Report**. p.3.

⁵³FSA, (2008). **Annual Reports: Strategic Business Plan**. p.9.

appoints the FSA Board. The FSA is accountable to the Treasury Bank, and therefore the council. However, it is operationally independent from the treasury.

2.2.2. New York As a Financial Center

2.2.2.1. The US Economy with Macro Economic Data

According to data in 2014, USA is one of the most important markets in the world with the population exceeding 310 million, its 8th. rank in the human development index ranking (See Annex-3) and its GDP exceeding 17 trillion US Dollars (See Table2). Apart from being the world's largest importer, the country is a target market for both developed and developing countries with its position involving the largest direct foreign capital resources in the world. The US economy is an important and decisive economy in the world since it has the power to directly influence the world economy. The crisis began in US in 2007, has been the deepest crisis that has been experienced since the Great Depression of 1929. In 2009, the country struggled with the economic recession on the one hand and rising unemployment on the other hand; it tended to overcome the crisis in 2010. GDP showed an increase of 1.3% in 2013 and 2.5% in 2014. The unemployment rate was 5.7% in 2014. The inflation rate was 0.8% in 2014. The tertiary sector constitutes a large portion of GDP. The financial sector also gets a significant share from the tertiary sector. Per capita income was 54,630\$ at the end of 2014. According to the yearend data in 2014, it is the 10th. largest economy in the world (see Annex-2). In US, monetary policies are arranged by Federal Reserve System (FED) independent of the government. FED implemented the monetary expansion policies as economic recovery tool in order to eliminate the effects of the crisis in 2008. Monetary expansion process was terminated in May 2014, the rates rose 0.25 points by preferring the first interest increase in December 2015. The currencies of developing countries experienced depreciation with the expectation that the US would make new interest rate increases and significant outflows were experienced in capital markets.

Table 2: The US Economy with Macro Economic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	13,85	14,96	17,41
GDP Change at current prices (%)	2,4	2,7	2,5
GDP per capita (\$)	44.224	46.907	54.630
Inflation Rate (%)	2,5	1,5	0,8
Direct Foreign Investment (Billion \$)	294,28	259,34	131,82
Unemployment Rate (%)	4,5	9,5	5,7
Population	299.567.000	308.745.000	323.341.000

Source: Arranged by ourselves after obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> arranged by our website. (Accessed: 17.04.2016)

2.2.2.2. New York Stock Exchange

New York is 2nd in the ranking of financial centers as of March 2016 (see Annex-5). Unlike London, New York is a financial center where national funds mostly perform financial transactions. According to data in 2016, the number of New York Stock Exchange personnel having Chartered Financial Analyst (CFE) certificate is 7066 (see Annex-6).

New York Stock Exchange (NYSE) is the world's oldest and largest stock exchange. The foundations of New York Stock Exchange were laid with the gathering of 24 brokers on Wall Street on 17 May 1792 and it was officially founded under the name of New York Stock Exchange Board in 1817. NYSE receiving the present title of New York Stock Exchange in 1863 in the name has been identified with New York Stock Exchange within Euronext group.⁵⁴ The Dow Jones index considered to be America's most important index began to be published on 26 May 1896. It has become a huge market with almost 20 trillion \$ daily trading volume in which indices such as Dow Jones, Nasdaq, NYSE Composite, S&P 500 dominating the world economy are traded after overcoming the events such as Wall Street crisis in 1907, World War I in 1914, the First World War, World Economic Crisis on 24 November 1929 going down in the history as Black Thursday, 19 November 1987 going down in the history as Black

⁵⁴ www.newyorkborsasi.net (Accessed on: April 12, 2015).

Monday and September 11 Terrorist Attacks in 2001. Foreign currency exchange (FX), commodity, bonds, interest rate transactions are carried out in New York Euronext Stock Exchange. One third of the stock exchange in the world is performed in NYSE in terms of volume.

Technologically high-quality transaction, data transfer, infrastructure engineering services and solutions are provided. Along with 8000 listed companies NYSE consists of; Euronext stock markets NYSE, NYSE Euronext, NYSE MKT, NYSE Alternext and NYSE Arca and these markets are the world's most liquid markets. NYSE Arca is the world's most advanced electronic stock trading platform. NYSE Euronext's Global Index & Exchange Traded Product Group determines strategy indices in accordance with 450 different criteria with 25 years of experience. These indices determine the indices in the various parts of NYSE Euronext and the global markets. There are indices of many important stock exchanges in Europe such as AEX 25, BEL 20, CAC 40, PS 20 which have been listed to NYSE.⁵⁵

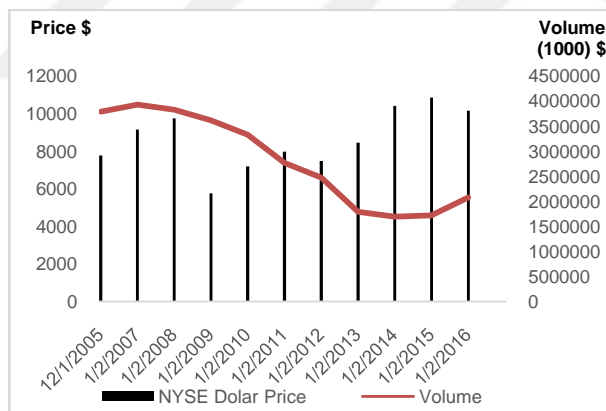


Chart3: Volume and Price of NYSE Index (US Dollar)

Source: Taken from the Bloomberg data service provider.

⁵⁵New York Stock Exchange. Who we are, www.nyx.com/who-we-are (Accessed on: April 12, 2015).

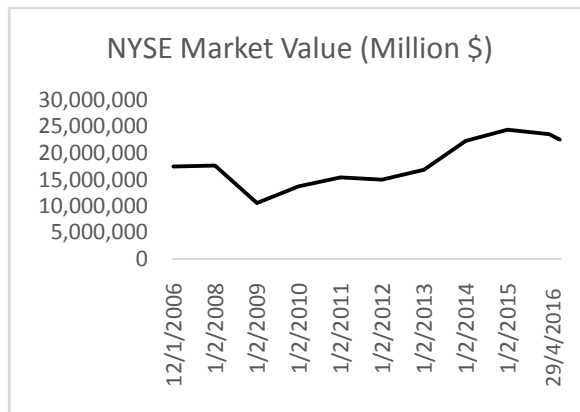


Chart4: Market Value of NYSE (\$ Million)

Source: Bloomberg data service provider

Chart 3 and 4 indicate the index values of trading volumes and market values of traded stocks over the years in New York Stock Exchange. Stock market entered into a downtrend with the effect of crisis in US Stock in 2007, 2008 and 2009 as of 2006. After 2009, the stock index entered into increase trend and reached new heights due to expansionary monetary policies of FED. FED increased the policy interest rates by 0.25 for the first time at the meeting dated December, 2015 and this led to decrease in Dow Jones index throughout the market until February, 2016. Here, New York Stock Exchange was investigated in terms of structure.

NYSE Euronext is the world's leading futures and options trading platform. NYSE Liffe is the market where international derivative transactions of NYSE Euronext is carried out. NYSE Arca is faster and low cost trading platform compared to other stock exchanges in which option shareholding option of option markets are traded automatically. NYSE Technologies offers effective solutions for financial institutions in terms of transactions by means of computer programs also involving the automated primary dealer system. NYSE Global Technologies Connectivity is an institution providing connection to networks and world's leading infrastructures.⁵⁶ NYSE Regulation Inc. is a non-profit institution with the objective of ensuring the connection of markets with each other and protection of investors. NYSE Euronext has a system

⁵⁶ <http://www.nyx.com/en/regulation> (Accessed: March 6, 2015).

carrying out the transactions of Amsterdam, Brussels, Lisbon, London and Paris stock exchanges. The transactions in these markets are carried out in accordance with the European Union Financial Instruments directive.⁵⁷ Although it does not have a governmental regulatory authority, National Association of Securities Dealers Automated Quotations (NASDAQ) is a private stock exchange established in New York as an automated information network which demonstrates the purchase prices for securities traded Over the Counter (OTC) in over the counter markets. It is known as the world's technology stock market.

2.2.3. Euro Zone as a Financial Center

2.2.3.1. Euro Zone with Macro Economic Data

Euro zone or area is comprised of countries using the currency of euro as national currency and twenty-three EU member countries. European economy recovering after the crisis in 2008 but entering into shrinkage process in 2012 and 2013 failed to achieve steady growth. The European Central Bank has begun to implement the policies that were not implemented previously against the deflationary pressure in addition to weak growth since last year. Europe trying to overcome the effects of the debt crisis in grew by 1% in 2014. Unemployment rate realized as 11.2% according to year-end data of 2014 (see Table-3). GDP produced in the euro area has been decreasing. As a result, a deflationary period has begun in the region and unemployment has reached high levels. In order to eliminate the negativities experienced in the economy in this period, European Central Bank has begun negative interest rate applications. The European Central Bank carries out its settlement and custody services in large quantities through the TARGET system. Euro was accepted and introduced as common currency by European Union in 2002. Euro's management is performed by European System of Central Banks; its center is located in Frankfurt. Therefore, Frankfurt is the most important financial center of continental Europe.

⁵⁷ www.nyx.com/en/regulation (Access March 6, 2015).

Table 3:Eurozone With The Macro-Economic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	3.165,43	3.213,45	2.939,06
GDP Change at current prices (%)	3,8	2,4	1
GDP per capita (\$)	34.712	39.612	45.802
Inflation Rate (%)	1,9	2,2	-0,2
Direct Foreign Investment (Billion \$)	87,44	86,05	83,90
Unemployment Rate (%)	7,6	10	11,2
Population	355.309.000	374.164.000	399.528.000

Source: Arranged by obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>. (Accessed: 17.04.2016)

2.2.3.2. Euronext Stock Exchange

Euronext was established with the aim of creating a European stock exchange offering high liquidity and low transaction costs for the participants as a result of the globalization of capital markets. Euronext N.V is a holding company which has been established under the laws of the Netherlands in by the merger of Amsterdam, Brussels and Paris stock exchanges on 22 September 2000 and operates through local affiliates. In early 2002, the group expanded with the acquisition of London International Financial Futures and Options Exchange (LIFFE) and with the participation of Portuguese Stock Exchange (BVL). Euronext offers many services such as the listing of financial instruments, spot and future transactions of securities, clearing, and reconciliation procedures, publication of market data and information technology support and solutions.⁵⁸

The transactions are carried out on two main markets including spot and future transactions. The spot market is named as Euronext and futures market is named as Euronext.liffe. The investors are allowed to access to the stock exchange from the desired centers. Transactions are central and market rules have been harmonized. Euronext uses technology as a basis for cross-border integration strategy. Based on the transactions on central operations screen Euronext is number one stock exchange in Europe and second largest futures stock exchange in the world.

⁵⁸Emre, Z., (2005), "Euronext Agenda of the Capital Market", **Gündem Magazine**, Issue.34, p.6.

Alternext is a stock market which has an objective set by Euronext to enable easy entry for small and medium scale issuers that wish to provide capital to Eurozone. European Union directive entering into force in November 2007 further simplified cross-border stock trading and increased competition among trading platforms. This led to decrease of monopolistic trading platforms and disappearance of the effect of rules thereby it was able to create new liquidity.⁵⁹

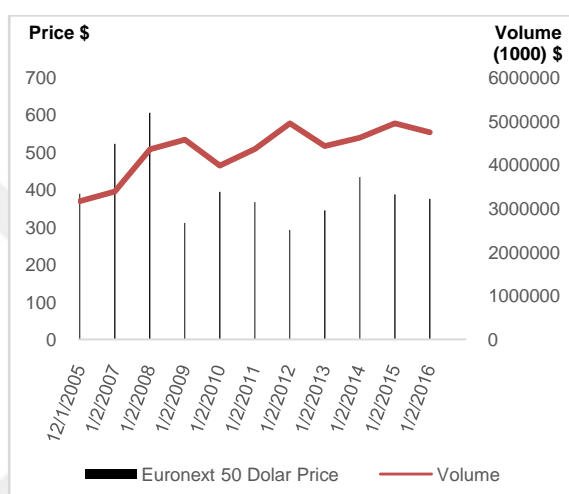


Chart5: Trading Volume and Price in Euronext 50 (US Dollars)

Source: Bloomberg data service provider

Euronext 50 market index continued to rise in general between 2005 and 2016. The index decreased in 2009 because of mortgage crisis showing impact all over the world, later it entered into an increase trend as a result of expansionary policies conducted by all central banks in the world. US dollar began to gain value against euro as FED announced it would terminate the expansionary policies in 2013 and this situation has affected the exporting stocks and Euronext 50 has continued to rise until today 50, albeit slowly.

⁵⁹ www.euronext.com (Accessed March 5, 2015).

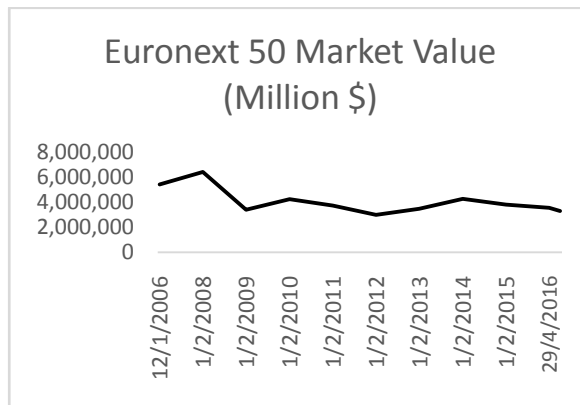


Chart 6: Euronext 50 Market Value (Million \$)

Source: Bloomberg data service provider

The rise in stocks affecting the index did not spread to the rest of the market so the market value of the stocks on the market did not show great variability from 2009 to 2016.

2.2.4. Hong Kong as a Financial Center

2.2.4.1. Hong Kong with the Macro Economic Data

While Hong Kong was a colony and group of island under United Kingdom until 1 July 1997, it became special administrative region under People's Republic of China as of this date. Hong Kong is Asia's largest free trade zone and financial center. Closer Economic Partnership Agreement (CEPA) was signed between People's Republic of China and Hong Kong on 29 June 2003 and it has been updated in line with the needs of the parties until today. According to the agreement, third country entrepreneurs could jointly enter into markets in People's Republic of China through (CEPA). The agreement also includes provisions for financial cooperation between the two governments.

In 2009, the crisis began in US affect EU as well and the demand for Chinese products decreased. This situation also affected the economy of Hong Kong which was in position providing tertiary sector regarding China. Improvement has been observed in the world trade as a result of monetary expansion policy implemented by FED in recent

years; in this framework 2014 GDP of Hong Kong which is an important trade and financial center in Asia, has entered into increase trend. Per capita income is around 40,000 \$ in Hong Kong in which more than seven million people live (see Table-4). According to data from 2014, Hong Kong is 24th in the ranking on the countries with the highest per capita in the world (see Annex-2). It is 12th in terms of Human Development Index published by the United Nations as of 2014 (see Annex-3).

Table 4:Hong Kong with the Macro Economic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	0,20	0,23	0,29
GDP Change at current prices (%)	12,5	10	7,2
GDP per capita (\$)	28.031	32.421	40.170
Inflation Rate (%)	2,8	4,6	1,5
Direct Foreign Investment (Billion \$)	44,90	82,71	115,980
Unemployment Rate (%)	4,1	4,1	4,09
Population	6.857.100	7.024.200	7.241.700

Source: Arranged by obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>. (Accessed: 17.04.2016)

2.2.4.2. Hong Kong Stock Exchange

Hong Kong is inarguably one of the leading financial centers in the world.⁶⁰ Hong Kong has declined one row and has been 4th as of March 2016 according to 2015 ranking of international financial centers (see Annex-5). This index is considered under five titles including created human resources, business environment, market access, infrastructure and general competitiveness. Hong Kong ensured the title of financial center by means of transparency policies implemented in financial services following the World War II and foreign expansion policies of People's Republic of China after 1978.⁶¹ Hong Kong which has the world's 40th largest economy is one of the major business and financial centers in the world (see Annex-1).

⁶⁰Jao Y.C., (1997), "Hong Kong as an International Financial Center: Evolution, Prospects and Policies", **City University of Hong Kong**, p 1.

⁶¹Catherine R., (2002), "Banks and Emergence of Hong Kong as an International Financial Center", **Schenk Journal of International Financial Markets Institutions and Money**, pp.321-340.

There are different agencies regulating the Hong Kong financial center. Banking is regulated by; Hong Kong monetary authority, Securities and derivatives are regulated by; Securities and Derivatives Commission (SFC), Hong Kong Stock Exchange, the Futures Markets, Insurance are regulated by; Undersecretary of Insurance, Pension Fund, Compulsory Social Fund. In addition to various units formed by the intermediaries in the market there are organizations created for the training of employees as well. (SFC) established in 1989 is responsible for regulating the securities and derivatives markets in Hong Kong. The objective of the SFC is to maintain fair, effective, competitive, transparent and regular structure of Hong Kong capital market. SFC gained an independent structure as a result of changes regarding the capital markets in 2003. Interest rate used in Hong Kong money markets is the rate used in HIBOR money markets.

Hong Kong in the center of financial flows with its reasonable tax rates, physical infrastructure and skilled labor force. The funding is ensured by using the financial center through debt instruments for the investments to be made in China. Hong Kong financial center is pointed as the place where international syndicated loans are organized in the region.

Hong Kong is the first in the Economic Freedom Index determined by the Heritage Foundation.⁶² In this index; ranking is made regarding 10 issues such as trade, fiscal, monetary, government spending, investment, financial and labor freedoms and property rights.

Applicable taxation regime provides great advantage in the financial studies of the country. In Hong Kong taxation is carried out through profits only. As of July 2009, corporate income tax is 17.5% (constant) and the income tax is maximum 16%.

Hong Kong has provided various facilities for the quotations of foreign companies. Different conditions are applied for the listing of foreign companies on the stock exchange. However, People's Republic of China subjected the companies in Bermuda and Cayman Islands to numerous arrangements after 2007 and the companies

⁶²USA-based think-tank organization founded in 1973 (<http://www.heritage.org>) (Accessed: July 13, 2015).

of these countries began to be subjected to same conditions with the domestic companies wishing to be listed.⁶³

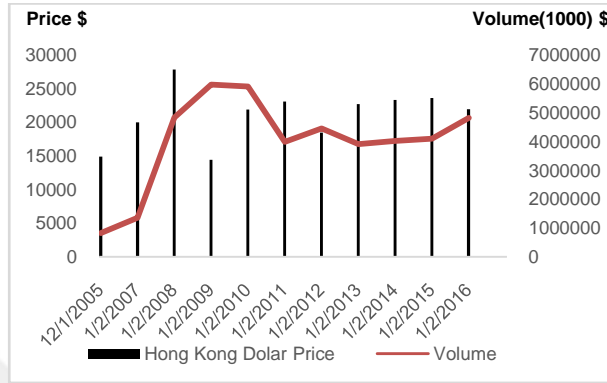


Chart7: Trading Volume and Price of Hong Kong Stock (US Dollars)

Source: Bloomberg data service provider

Hong Kong Stock Exchange was affected from the crisis experienced in 2008 and 2009 with delay in 2011 and the stock index showed a decrease. In subsequent years, a rise was observed in trading volumes and stock index began to increase at a moderate pace.

⁶³Değertekin, E.E., (2009), "Hong Kong Capital Markets", **Agenda of the Capital Market**, Issue: 87, p. 23. www.tspb.org.tr/tr/Portals/AIM_Yayin_ve_Raporlar_Aylik_Yayinlar_2009_gundem_200911.pdf (Accessed on: May 19, 2016).

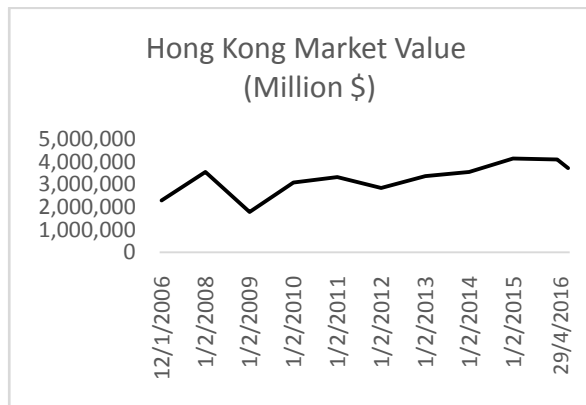


Chart8: Market Value of Hong Kong Stock (Million \$)

Source: Bloomberg data service provider

Market values reached to the lowest level under the effect of world financial crisis in 2009 as well and then market values have been on the rise until 2016 due to dissolution of impacts of the crisis.

2.2.5. Dubai As a Financial Center

2.2.5.1. Dubai Economy with Macro Economic Data

Dubai is one of seven emirates that constitute the United Arab Emirates. It is the second largest emirate after Abu Dhabi. Dubai has the lowest unemployment rate in the world. Dubai which provides the funding of mega projects through borrowing from foreign capital and international markets was directly affected by the 2008 financial crisis. Difficulties experienced in financing high levels of debts forced Dubai to the search for financial support. In this period the Emirate of Abu Dhabi provided the necessary financial support. In subsequent years, the fact that sectors such as re-export, aviation, financial services, to which the economy of Dubai is dependent has entered into growing trend has caused positive developments in economic terms for Dubai's economy.

Table 5: Dubai Economy with Macro Economic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	0,23	0,29	0,40
GDP Change at current prices (%)	22,98	12,82	3,17
GDP per capita (\$)	82.754	56.245	67.674
Inflation Rate (%)	-1,9	3,02	4,41
Direct Foreign Investment (Billion \$)	18,31	29,23	8,02
Unemployment Rate (%)	2,6	0,8	0,3
Population	1.421.000	1.905.000	2.446.000

Source: Arranged by obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>. (Accessed: 17.04.2016)

GDP increased compared to the years after the 2008 financial crisis in Dubai. Dubai rapidly recovering in 2010 enhanced its 290 million dollars GDP to 400 million dollars in 2014. In 2010, GDP per capita decreased to 56245\$ from the level of 82754\$ in 2006 and it reached to level of 67674\$ by entering into increase trend, albeit slowly.

First Dubai International Center (DIFC) was established in Dubai and it was declared as financial free zone. DIFC became operational on 20 September 2004 and has been operating in six major sectors. Banking, capital market, asset management, insurance and reinsurance, Islamic finance can be classified as operational support activities. The advantages offered to companies operating in DIFC could be stated as; zero tax on any profit, authorizing 100% foreign partnership, full freedom for currency transactions and capital movements, all kinds of bureaucratic convenience and infrastructure support. There is no tax on incomes in the financial centers and the possibility of up to 100% ownership of shares is offered to foreign investors. This center is most important funding center in the Middle East. This financial center is 13th in the world index ranking of GFCI dated March, 2016 (see Annex-5).

DIFC Financial Services Authority (DFSA) has created a legal infrastructure by examining the world's financial centers legislation.⁶⁴ Dubai International Financial Exchange (DIFX) has been established in order to become an international stock exchange and to trade the derivative products. Derivative products regarding stocks, debt instruments, Islamic financial products and indices have been developed in DIFX.⁶⁵

General administration and supervision of DIFC are carried out by DIFC Authority (DOFCA). While Dubai Financial Services Authority (DFSA) is responsible for orderly and safe operation of finance, business and transactions, DIFCA has regulatory and supervisory powers on other matters such as company law, commercial law, labor law, real property law and the institutions which request to operate in DIFC make an application to DIFCA in order to obtain certificate of activity license. DIFCA is appoints an applicant's official responsible for the transactions. This official helps the applicant company in every aspect including obtaining the relevant license for the company, developing the work plan, establishing the technological infrastructure.⁶⁶

Dubai has also come to the fore with the perception of urban development and the city has been elected as the best city reflecting the economic development since the 1990s in the world along with Las Vegas and Dublin. Dubai is one of the most important financial centers in the Middle East by reflecting the economic transformation from a small fishing village along with its foreign visitors in large numbers.⁶⁷

In short, a financial free zone was established in 2004 in Dubai. First, a new legal infrastructure to prevail in this free zone was formed. For this, the financial regulations of countries such as US, Britain, Hong Kong and so on was investigated. Upon investigation, a legal framework combining the common points was formed. New regulatory authorities were established after the legal framework. While one of the authorities DIFCA was in charge of operations throughout the free zone, the other

⁶⁴Budak, A., (2007), "Global Financial Centers and Istanbul", **Gündem Magazine**, Issue.32, p.25.https://www.tspakb.org.tr/tr/Portals/ AIM_Yayin_ve_Raporlar_Arastirma_Raporlari_Global_Fin_Mer.pdf (Accessed: May 30, 2015).

⁶⁵Budak, A., (2007) Ibid., p.26.

⁶⁶Budak, A., (2007) Ibid., p.27.

⁶⁷Pacione, M., **City Profile Dubai** ,. www.elsevier.com/locate/cities (Accessed: 04/06/2015).

DFSA was in charge of financial activities in the zone. The operations in the zone were exempted from tax. As a result of active promotion and marketing strategy, it was ensured that centers such as London, New York and Zurich opened a branch in DIFC.

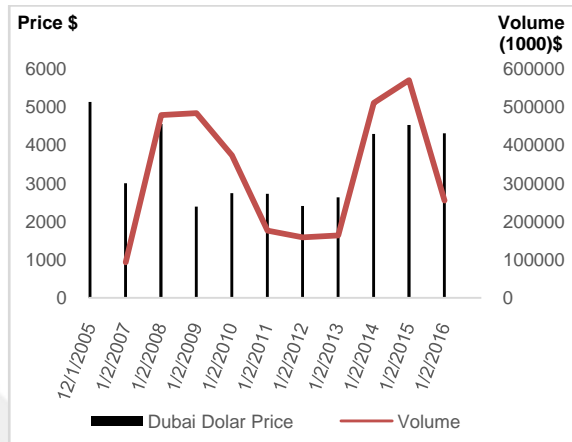


Chart 9: Trading Volume and Price of Dubai Exchange

Source: Bloomberg data service provider

Dubai Stock Exchange could not immediately recover from the crisis in 2009, it continued to decline until February, 2009. Another reason for this is that oil prices decreased and consequently energy stocks declined as well. Since the foreign fund made purchases in 2014, a rally was experienced until the end of 2015. Since the beginning of 2016, sizeable sales have entered into stock market and index has fallen rapidly due to events continuing in the Middle East.

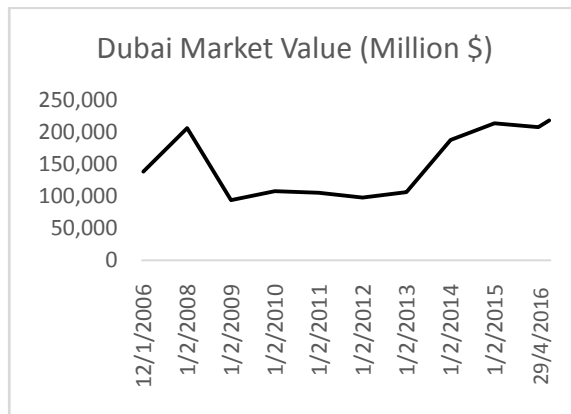


Chart 10: Market Value of Dubai Stock Exchange (Million \$)

Source: Bloomberg data service provider

The market value of shares belonging to companies traded on the Dubai Stock Exchange has increased since 2012 and reached to the highest level at the beginning of 2016 until today.

2.2.6. Switzerland as a Financial Center

2.2.6.1. Swiss Economics with Macro Economic Data

Switzerland which is located between the world's 20 largest economies is among the countries with the highest per capita income. Switzerland reached to level of 701 \$ in terms of GDP data at the end of 2014. GDP per capita reached to level of 85594\$ at the end of 2014 from the level of 65442 \$ in 2010. (See Table 6). In particular, the banking and finance sector have the status of leading sector in Switzerland. Although Switzerland is not a member of EU, it has close relationships with EU. The only institution authorized to implement monetary policy in Switzerland is Swiss National Bank. Switzerland has provided the Central Bank in January 2015, the Swiss franc against the dollar and euro appreciation of the franc. Switzerland ranked among the world's leading countries with regard to Index of Economic Freedom by scoring 80.5 (see Annex-4).Switzerland was introduced as the third best country of the world in the Human Development Index prepared by the United Nations (see Annex-3).

Table 6: Swiss Economics with Macro Economic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	0,41	0,55	0,70
GDP Change at current prices (%)	4,3	3,1	2
GDP per capita (\$)	51.888	65.442	85.594
Inflation Rate (%)	0,6	0,5	-0.3
Direct Foreign Investment (Billion \$)	53,76	17,67	22,74
Unemployment Rate (%)	3	3,1	3, 4
Population	6.351.000	7.164.000	7.850.000

Source: Arranged by obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>. (Accessed: 17.04.2016)

2.2.6.2. Swiss Exchange

Financial Sector is one of the most important sectors of the Swiss economy. Geneva, Basel and Zurich exchanges formed the Swiss Exchange (SWX Swiss-Exchange) by merger in the field of capital market in 1995.⁶⁸

Swiss Exchange (SWX group) embodies the virt-x and STOXX EXFEED companies and it is an institution founded under the status of union in 2001. Stocks, fixed income securities, derivative products could be traded in SWX. Zurich is a financial center which has specialized in private banking.

SWX created a new trading platform named Virt-x in 2001. Thus, listed companies were enabled to access international markets easily in SWX and international investors were accessed through lower costs.⁶⁹

High market valued companies are traded in Virt-x platform. EU harmonized market shares are preferred by companies required to be traded in accordance with EU directives. In this market, there are companies which have been included in the Swiss

⁶⁸Fıkrkoca, E., (2006), "Switzerland Capital Markets", **Agenda of the Capital Market** , Volume: 49, p.6 https://www.tspb.org.tr/wpcontent/uploads/2015/08/aim_Yayin_ve_Raporlar_Aylik_Yayinlar_2006_gun_dem_200609.pdf (Accessed: May 19, 2016).

⁶⁹Fıkrkoca, E., Ibid., 2006, p.8.

Market Index (SWI). This index consists of 30 most important companies of Swiss Exchange which are determined based on the market value of public sections and liquidity criteria. The companies which are listed here are entitled to be traded in the EU-compatible market. Derivative products are traded on two different platforms in Switzerland. While the warrant and structured products are traded in SWX, the derivatives such as option and futures are traded in Eurex. Switzerland is among the world's largest economy and the most important financial centers. Federal Banking Commission has the power to regulate in the Swiss capital market. The powers of commission which was only responsible for the supervision of banks at the beginning, expanded to other parts of the financial sector as well. The Federal Banking Commission and authorized auditing firms are responsible for the supervision of the financial sector. Examining the structure of SWX which is among the stock exchanges with the highest market value, a structure integrated with the sector is observed. Both spot and derivative markets are operated in SWX. Although reconciliation, clearing and payment services are not carried out under the roof of SWX, they are working in partnership with SWX system.⁷⁰

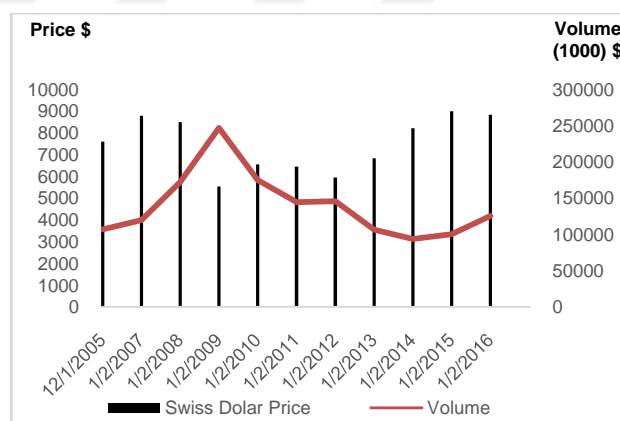


Chart11: Trading Volume and Price of Swiss Exchange (US Dollars)

Source: Bloomberg data service provider

Because franc was a stable and powerful currency against euro under the rate of 1.2 for many years, the Swiss Exchange was not able to increase between 2010 and 2015. Later, the decision to release the franc against other currencies at the beginning of

⁷⁰Fıkrkoca, E., (2006), Ibid.,p.9.

2015 was taken by the Swiss National Bank and firstly franc was appreciated then it lost value. This situation gave confidence to the markets, increased the value of the Swiss exchanges and enhanced the trading volume.

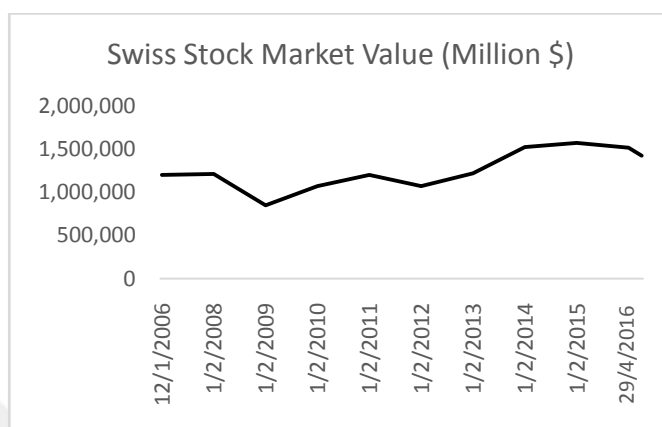


Chart 12: Market Value of Swiss Exchange(Million \$)

Source: Bloomberg data service provider

Because this country was regarded as safe port and was the center of banking financial center the market value of shares of Swiss companies showed a steady increase over the years.

2.2.8. Turkey's Path to Become a Financial Center

2.2.8.1. Turkish Economy with Macro Economic Data

The performance and high growth figures of Turkish economy for the last decade can be attached to consistent financial policies supported with the reforms that have been maintained since 2002. Structural reforms harmonized with global economy in macroeconomic sense, paved the way for revolutionary innovations in economics and financial sectors as well as enabling Turkey to be the leader of in direct foreign investment figures in the region.

Table 7: Turkish Economy with Macro Economic Data

COUNTRY DATA (END OF YEAR)	2006	2010	2014
GDP at Current Prices (Billion \$)	0,53	0,73	0,79
GDP Change at current prices (%)	16,3	13,5	12,1
GDP per capita (\$)	7.586	10.022	10.515
Inflation Rate (%)	9,65	6,4	8,17
Direct Foreign Investment (Billion \$)	20,19	9,10	12,77
Unemployment Rate (%)	9,5	10,6	10,9
Population	71.400.000	73.723.000	78.786.000

Source: Arranged by obtaining from web site of the World Bank; <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>. (Accessed: 17.04.2016)

These reforms quickly carried out with the contribution of EU process focused on such areas including liberalization of Turkish economy, concentrating on private sector, efficiency in financial sector, increasing the resistance and basing the social security system on a solid foundation. The reforms strengthened macroeconomic fundamentals and financial indicators of the country; the economy grew by 4.7% growth rate of annual average real GDP in 2002 and 2014. Turkey's national income was ranked 62nd with the number of 10515\$ in the world according to data in 2014 (see Annex-2). The country's population is 78.786.000 by the end of 2014 (see Table-7) Turkey, thanks to superior performance exhibited in such a short time, became an extraordinary "emerging economy" on a global scale and was the 6th largest economy compared to EU member states in GDP ranking based on purchasing power parity in 2013 and reached to ranking of 18th in the world.⁷¹ Turkey made significant progress compared to previous years by scoring 63.2 in economic freedom ranking performed by Heritage Foundation by the end of 2015 (see Annex-4). In the Human Development Index prepared by the United Nations, Turkey was ranked 72th. (See Fig. Annex-3).

Turkey also made progress in public finance with stable economic growth. The debt stock declined to 33,5% from 67,7% between 2003-2014 and Turkey became compatible with the principle of "maximum 60% of public debt" included in EU-

⁷¹**Prime Ministry Investment Support and Promotion Agency of Turkey.** Economic Outlook <http://www.invest.gov.tr/tr-TR/turkey/factsandfigures/Pages/Economy.aspx> (May 19, 2016), p.1.

Maastricht criteria. Similarly, the budget deficit began to adapt the principle stipulated by EU-Maastricht criteria for budget balance by declining below 3% from %10 in 2003-2014. Turkey implemented fiscal discipline and consistent economic policies thus its score was raised to investable country by Fitch and Moody's rating agencies.⁷²

2.2.8.2. Istanbul Stock Exchange

Capital Markets Board was established by Capital Markets Law numbered 2499 enacted in 1981 with the aim of ensuring an effective development by investing the savings in securities. Duties, powers and responsibilities of the Board was rearranged by Capital Markets Law numbered 6362 and dated 6.12.2012 repealing the said Law.⁷³

After the foundation of republic the name of the stock exchange became Istanbul Stock and Foreign Exchange. The place of this stock exchange was in IV. Vakıf Han located in Eminönü, Istanbul. Here, the shares were traded behind closed doors. Istanbul Stock Exchange (ISE) reached its present status in 1980s. The economic policies in those years focused on bringing the market economy into prominence. In 1985, Turgut Özal requested that ISE should be reformed and Muharrem Karşlı who carried out studies on financial markets at that time was assigned. Muharram Karşlı was the founding president of ISE for 5 years. The opening ceremony of ISE was performed on 20 December 1985 and it became operational on 3 January 1986.

Since the computer technology was not in question depending on the conditions of that time, the transactions were carried out by means of writing to the papers. The persons giving orders writing their orders to the papers and all order were collected in a box. Later, the orders began to be sorted in alphabetical order for the first time in the world. After a certain time, board system- continuous auction- method was developed. Here, the persons who wish to give order used to write their on the board.

That year, remote access was applied for the first time in 1996, after former undersecretary of the Treasury Osman Birsen became president. This removed physical

⁷²Prime Ministry Investment Support and Promotion Agency of Turkey, p.1.

⁷³<http://www.spk.gov.tr/indexcont.aspx?action=showpage&showmenu=yes&menuid=0&pid=1&subid=1&submenuheader=1> (Accessed Date: May 5, 2016).

barriers. When we come to 2007, the projects carried out within the scope of Public Disclosure Platform (PDP) regarding the transparency were finalized under the presidency of Hüseyin Erkan. Emerging Companies Market (ECM) was founded so that Small and Medium Enterprises (SMEs) benefit from the capital market. New markets were opened. Finally "public offering mobilization" was created within the framework of stock exchange in Turkey. The studies regarding this are continuing at full speed.⁷⁴

Global capital markets have moved away from cooperative-like structures and have turned into profit-oriented companies. In this context, it was envisaged to gather the stock exchanges in Turkey under a single roof with Istanbul Financial Center Strategy and Action Plan dated 29/09/2009 and Istanbul Financial Center (IFC) Project published in the Official Gazette dated 01/05/2010.

The most important stage of IFC Project is the establishment of Istanbul Stock Exchange. ISTANBUL STOCK EXCHANGE INC. (ISEI) was established in order to carry out stock exchange operations pursuant to Article 138 of the Capital Market Law entering into force after being published in the Official Gazette dated 30 December 2012 and numbered 6362. ISEI received official authorization by being registered and announced on 03.04.2013 after the relevant minister signed the article of association regarding ISEI gathering the capital markets under a single roof. The main objective of ISEI; is to ensure that the capital market instruments along with exchange and precious metals are traded in a transparent, efficient, competitive, fair and steady environment in an easy and safe manner, to create, establish and develop markets, platforms and other market places organized with the system under free competition conditions of contracts deemed appropriate by Capital Market Board under the provisions of law and relevant legislation.⁷⁵

Gold and futures with precious metals will be included in the new structure as well as securities and debt securities. In this respect, it was ensured that Istanbul Stock Exchange merged with Derivatives Exchange and Istanbul Gold Exchange and it was

⁷⁴Durdağı, A., **ISE's History and IPO**, <http://aykutdurdagi.com/imkbnin-tarihi-ve-halka-arz/> (Accessed on: May 20, 2016).

⁷⁵**Corporate Presentation of Istanbul Stock Exchange**, <http://www.borsaistanbul.com/> (Accessed on: May 20, 2016).

further aimed to establish commodity, carbon and energy exchanges under this roof in the future. Thus, it will be possible to access all securities in the country through the only transaction platform in the single national stock exchange accordingly the operation burden will be diminished for both intermediaries and investors; the market will deepen and grow.⁷⁶ The security structure of Istanbul Stock Exchange changing over the years is as shown in Table 8.

Table 8: The Security Structure of Istanbul Stock Exchange (%)

	Security Type	2014	2015
Treasure	A	0.1	0.1
Treasure	B	48.9	73.59
EBRD (European Bank for Reconstruction and Development)	B	0	10
Istanbul Stock Exchange	B	36.6	0
OMX Tech. EU (Aktiebolaget Optionsmäklarn / Helsinki Stock Exchange)	B	5	7
TCMA (Turkish Capital Market Association)	C	1.3	1.3
Intermediaries	C	4.56	4.34
31 Banks	C	1.44	1.44
Other (Precious Metal Intermediaries, Manufacturers)	C	2.1	2.23
Total (%)		100	100

Source: Taken from Intermediaries Association of Turkey report.

This new structure completely turned the Istanbul Stock Exchange into a state stock exchange. Expropriation was carried out with the aim of privatization. Now, ISE has the intention to establish cooperation and partnership with foreigners. Stock exchanges are the places where the most intense globalization occurs. Therefore, the integration of ISE with the rest of the world has now become a necessity rather than being a motivation. Either it will create a group of stock exchange by merger and acquisition or it will partake in this kind of group. In the future, a stock exchange that could survive by remaining as single and in small scale is not envisaged.⁷⁷

⁷⁶Yıldırım, A., "Never Without Property Rights Protection", **Habertürk**, 05/04/2013

⁷⁷Korcan U., "Public Offering of Istanbul Stock Exchange Boosted the Corporate Prices", **GazeteVatan**, 04/02/2013

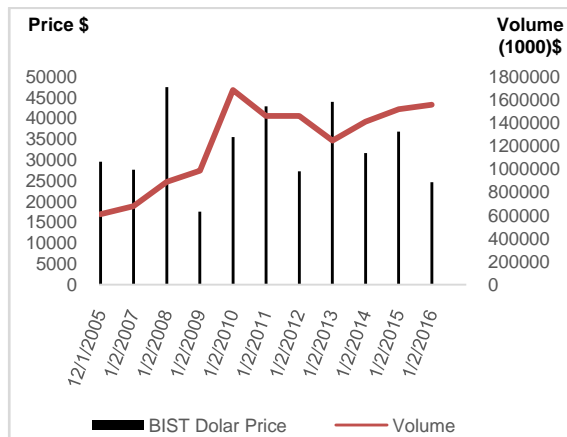


Chart 13: Volume and Price of ISE (US Dollar)

Source: Bloomberg data service provider

Volume and Price of Istanbul Stock Exchange showed increase in mid-2013, later it began to decline as in all developing countries since monetary expansion policies of FED was finalized. Presidential election in 2014 and general elections in 2015 which were held twice, created significant fluctuations in the market. The political uncertainty in 2015 caused a high rate of capital loss in Turkish lira.

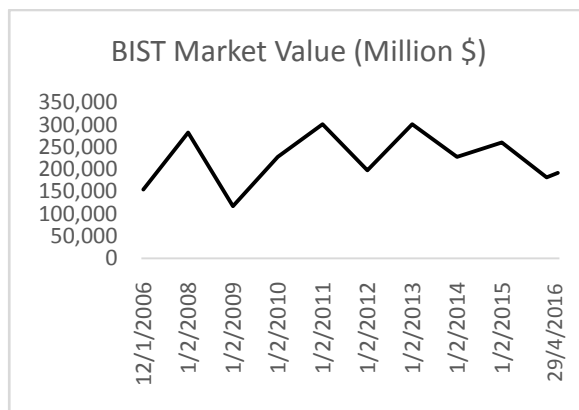


Chart 14: Market Value of ISE (Million \$)

Source: Bloomberg data service provider

Market value of securities reached its historical peak on dollar basis in May, 2013 however it showed decrease on dollar basis until February, 2016 due to politic uncertainty and capital loss in Turkish Lira.

Market value of the securities owned by foreigners on December 31, 2015 in Istanbul Stock Exchange was at the %62 level of the total market value. Table 9 shows the distribution of foreign investors in Istanbul Stock Exchange based on countries. USA and UK have the highest investment in ISE.

Table 9: Portfolio Shares of Foreign Investors in ISE Based on Country (2015)

Address Country	Portfolio Value (Million TL)	Share (%)
United States of America	42.962	30
United Kingdom	24.749	18
Luxembourg	11.598	8
Netherlands	6.884	5
Greece	6.112	4
Ireland	4604	3
Singapore	4.542	3
Cayman Islands	3.977	3
Norway	3.737	3
Canada	2.494	2
Other	29.547	21

Source: CRA (Central Registry Agency) Stock Market Trends Report, Volume XIV January 15, 2016

ISE will be reshaped with the aim of becoming a financial center. In this regard, admitting strategic partners is expected for the 25-30% part of ISE situated in the heart of regional financial center first and also International Financial Center until 2023. The remaining 25 percent will be transferred to the treasury within 3 years. So, Treasury's share ownership will be increased to 79%.⁷⁸

Strategic partners will be admitted in Istanbul Stock Exchange under three categories. These are; technology infrastructure provider, liquidity provider and opinion leaders of the capital markets. A partnership with the Information Technology (IT) departments of German Stock Exchange, Nasdaq, London Stock Exchange (FTSE) is envisaged for technological infrastructure. On the other hand, the companies committing to meet the 8-10% of the market liquidity will ensure the deepening of

⁷⁸Dünya Gazetesi, "The Shortest Way for 2023 Goals is Software", April 14, 2013

market. Finally, the leaders of the capital market will be admitted as strategic partners. These leaders are the funds managing their own money. Funds mentioned are followed by many investors. For example these are; Harvard, Oxford, Singapore funds. Everybody invests in the places where these funds make investment without questioning.

Also, Islamic Financial Research Center was established in the Ğtinye campus of ISE by World Bank. It is aimed that Settlement and Custody Bank and Central Registry Agency (CRA) will move to Ğtinye campus and clearing operations will be included in Euroclear that is the largest clearing system in Europe.

Agreements were signed with capital markets of 14 countries for ISE in the last period of ISE (Istanbul Stock Exchange Market). The countries to which agreements in terms of partnership, cooperation or product development were made in 2012 are as follows; Macedonia, Bosnia and Herzegovina and Albania in the west; Kazakhstan, Singapore, South Korea, Japan and Uzbekistan in the east; United Arab Emirates, Oman, Saudi Arabia, Palestine in the south; Egypt and Morocco in North Africa. In addition, an agreement with Vienna Stock Exchange was signed. Thus, the shares of foreign companies will have a significant place in the markets of all surrounding regions as well as reaching to investor groups in Turkey when these shares are offered to public in the stock exchange. Following the strategic partnership and regional cooperation ISE will be ready for public offering from the end of 2016.

Also, Listing Istanbul program was launched so that the foreign companies prefer the public offering in ISE. A memorandum of understanding was signed between ISE and 7 intermediary organizations to carry out promotion and marketing activities in foreign countries under the program. These intermediaries are; Philip Capital, Ğ Investment, Neta Securities, Invest AZ, Integral Endex Invest, FinanInvest and Ünlü Securities. There will be at least one program partnership in forty five countries by means of memorandum of understanding to be signed under Listing Istanbul and the number of companies to be listed in ISE from various countries will increase. Currently, there is only one foreign company listed in ISE. ISE is 45th in international GFCI financial indices as of March, 2016 (See Annex-5). Great importance has been attached

to training in ISE in recent years, therefore the ones becoming successful in the licensing tests applied based on the branches have been employed in capital and financial markets. Table 11 shows the number of people who have various postgraduate qualifications. It is seen the number of licensed personnel has increased 50% in one year (Table 10).

Table 10:Number of Total Active License

License Name	2014	2015	Change (%)
Level 2 License of Capital Market Activities	12,807	13,926	9
Level 3 License of Capital Market Activities	6,931	10,093	46
Derivatives License	3,077	6,580	114
Level 1 License of Capital Market Activities	2,024	6,194	206
Property Evaluation License	3,351	4,993	49
Credit Rating License	1,264	2,233	77
Corporate Governance Rating License	1,358	2,161	59
Residential Evaluation License	78	176	126
Total	30,890	46,356	50

Source: Capital Markets Licensing Activity Report 2015

Table 11:Active Distribution of Education According to Institutions Types of Persons with Active License (2015)

Institution Type	Doctoral Degree	Post Graduate	University	Associate Degree	High School	General Total
Bank	6	1,379	18,584	537	414	20,920
Inactive Registry	43	1,343	13,715	342	421	15,864
Intermediaries	2	391	4,602	68	228	5,291
Other Capital Market Institutions	25	126	775			926
Property Assessment Corporation		54	833			887
Type of Portfolio Management	4	143	727		8	882
Participation Bank	0	70	563	9	2	644
Public Companies	2	52	515		2	571
General Investment Trust		36	89		1	126
Securities Investment Trust		14	70		1	85
Pension Company		5	60	1		66
Venture Capital Investment Trust		2	47		1	50
Credit Rating Company		7	26			33
Corporate Governance Rating Company		2	8			10
Property Management Company			1			1
General Total	82	3,624	40,615	957	1078	46,356

Source: Capital Markets Licensing Activity Report 2015

Table 11 shows the education status of personnel employed in various institution of ISE. Today the number personnel with Chartered Financial Analyst (CFA) certificate which is regarded as the license qualification in the financial markets of whole world is 140 in turkey (see Annex-6).



CHAPTER III

COMPLIANCE OF ISTANBUL TO EU NORMS IN BECOMING A GLOBAL FINANCIAL CENTER

3.1. The Position of Istanbul Financial Center in International Regulations

Istanbul which is Turkey's most important commercial, industrial and financial center also has a very important and strategic position in the international arena in terms of its location in the world, its share in commerce and industrial production. Istanbul an important financial center because of its location aims to achieve the capital accumulation needed by our country in the process of growth and development by increasing this characteristic to the global level.

However, there are some international level criteria to which Istanbul advancing to become an international financial center needs to adapt. In particular, two matters in the service industry is of direct relevance. These are;

- 1) "General Agreement on Trade in Services" to which turkey is also a party
- 2) The EU's regulations on services industry.⁷⁹

3.1.1. GATTs Agreement

General Agreement on Trade in Services (GATTs) which is under the scope of the Uruguay Round Final Declaration (Final Act) is the first multilateral treaty which sets the basic concepts, rules and principles regarding international services trade. The Final Act which was also signed by Turkey as a founding member and entered into force on January 01, 1995 was approved in Turkish Grand National Assembly (TGNA) on January 25, 1995 and the membership of Turkey in World Trade Organization (WTO) was officially announced as of 26 March 1995.⁸⁰

⁷⁹Uzunoğlu, S., (2000), **Bölgesel Finans ve Hizmet Merkezi İstanbul**, ÇTO Yayınları, -2000-34, p.10.

⁸⁰Revenue Administration, **GATTs Information Guide**, Publication No. 95, 2009, p.14.

The fact that a country is a member of GATTs does not mean that the country makes broad commitment about opening its markets for all sectors and/or about the measures affecting the supply of services. The excess of commitments may vary among WTO members. Member States made a commitment not to amend in negative way in terms of their liberalization levels. GATTs is mainly established on the basis of liberalization principle.⁸¹ Two criteria stand out regarding service delivery under GATTs:

a. Principle of Free Movement of Capital and National Treatment

Any capital movement related to service delivery is allowed in GATTs. When cross-border supply of service is in question, capital movements within or outside the borders of member state is allowed provided that the movement is a part of provided service.

National Treatment Principle of GATTs agreement involves the principle of non-discrimination between foreigners and locals in the market.

b. Status of Most Favored Nation

While GATTs members implement the similar services of any country with regard to a measure under this agreement, they have to apply the no less favoring treatment than the one applied to service providers. This responsibility applies to all measures affecting the service trade in the sectors.

GATTs offers many important opportunities for Istanbul to become a regional financial and service center first then to become an international center. The fact that the countries which are party to GATTs agreement open their local markets to foreign services industry will ensure that Istanbul will encounter with the least restrictions in terms of service export for countries in the region.

⁸¹Gürlelel, C.F. and Demir, M. F., (2002), **Multi-Sided balance in the world and Near Future for Turkey**, ÇTO Publication, Publication No. 2002-20, p.91.

3.1.2. EU Regulations for Tertiary Sector

Istanbul's aim to become a regional and global financial center is directly affected by Turkey-EU relations. Turkey which is under full member candidacy process will also enter into full compliance with EU regulations as in all areas and seek integration with services after the adoption of the full membership.

In accordance with the "European Single Act" set out in 1987, EU also created a single market with regard to tertiary sector as in all areas. The main characteristics of the single market in tertiary sector are as follows; each sub-sector is regulated under common norms with EU directives and the institutions of member states are able to offer their services without constraint in the market of each country constituting the single market.

The position of financial services and financial market in the process of full membership in EU is of particular importance within the framework of Istanbul's objective to become a regional financial center. Investor protection, integration and predictability of financial markets are the most important factors determining the rules of the financial markets. The compliance in financial markets increases the protection and confidence of investor. Furthermore, it makes major contribution to economic development. This situation is supported in the Articles 49 and 56 of Treaty of Rome constituting the core of EU.⁸² Two of the four articles which determine the free circulation within the community are the articles determining circulation of service and capital. In addition, the economic benefits of harmonized financial markets were also explained and providing a framework in order to create more efficient policies for the union were underlined in Lisbon Strategy of EU.

The European Commission's 1985 White Paper in 1985 and Single European Act in 1987 of the European Commission the commitment to free circulation of goods, service, capital and labor force for financial integration and liberalization were stipulated in European Community Treaty.

⁸²Gündüz, S.S., (2008), **MIFID the Era for Powerful Investor Protection in a Better Integrated EU Financial Services Market**, Thesis, CityUniversity London, p.8.

The harmonization process with the capital markets was regulated by Investment Services Directive which entered into force as of 01 January 1995. In EU, all financial institutions intermediating in the Capital markets were entitled to freedom of operating and providing product and services in the capital markets and stock exchanges of other member states. Legal persons wishing to obtain funds from the capital markets with the issuance of securities will be able to issue securities in any country's capital markets.

In 1999, the fact that Euro became operative minimalized the costs of capital and financial intermediation services in the divided financial markets. European Commission prepared Financial Services Action Plan (1999) depending on the demands in Cardiff European (1998) Council. The purpose of this plan is to reduce costs in the financial markets with the introduction of the euro and to prepare a legal framework.⁸³

Turkey regarding the financial sector, which is a sub-sector of the tertiary sector; has been reorganizing its legal framework regulating the banking sector, capital markets and insurance sector for EU harmonization over the past decade. The financial sector will be integrated with the European Single Financial Market along with the full membership. There will be some advantages and disadvantages for Istanbul as a financial and service center by having full membership to EU. The fact that Turkey implements EU regulations and becomes a full member to EU will increase the confidence of the regional countries in Turkey.

However the limited nature of EU regulations especially with regard to financial markets, contradicts the element of flexible arrangements which is the competitive advantage of a financial center. The fact that Turkey, still not a full member of EU, has an efficient financial system may be considered that Turkey could be a center for European institutions which are uncomfortable with the regulations in EU. Turkey fully harmonized with tertiary sector in EU, could be preferred by European service providers in terms of serving to regional markets.

Also, seeking to tax homogenous with regard to financial markets and other tertiary services with the union during the process of full membership to EU could

⁸³Gündüz, S.S., (2008), *Ibid.*, p.10.

prevent the implementation of tax concessions which is an important competitive advantage of becoming a regional financial center.

Here, the directives regarding EU capital market will be explained before proceeding to detailed examination of IFC Project. Later, what was asked from Turkey in Screening Report of 2007, what was included in the Progress Report of 2012 and that kind of progresses Turkey made in contra progress report of December, 2012 with regard to Turkey-EU relations will be discussed. As an example, Screening Report of Croatia (EU's new member) in 2006 and the commission approval report in financial services section of Chapter 9 in 2009 will be examined. In addition, it will be further analyzed to what extent there was a harmonization in financial services in Chapter 9 by examining the Progress Report in 2014.

3.1.2.1. Financial Services Action Plan and the Applicable Directives in Capital Markets of EU

EU's Financial Services Action Plan dated 1999 envisages the creation of an integrated EU financial services industry by carrying out the necessary arrangements until the end of 2005. EU bodies initiated a separate study in 2000 in order to ensure that regulations related to capital markets⁸⁴ of members states in EU would be carried out more efficiently and timely with the idea of creating an integrated capital market would be beneficial to strengthening of economy and increasing the long-term productivity. Committee of Wise Men chaired by Alexandre Lamfalussy presented the things that need to be done for an integrated and efficient EU capital market by means of the report published in early 2001.

EU brought new regulations in relation to the organization of capital markets in member states within the framework of common rules in line with the recommendations of the Lamfalussy report. The standards to be applied in EU member states regarding transparency were determined in directive proposal prepared by EU commission and approved by the Parliament. Regulatory authorities in each member state are responsible for the supervision of implementation of this directive in the member states.

⁸⁴Fıkrkoca, E. and Özkan, A., (2004), "Turkish Capital Market under EU Path- The Effects of Adopting Union Acquis on Capital Markets", **Association of Capital Market Intermediary Institutions in Turkey**, p.46.

According to this, regulatory authorities of the member states are obliged to control that the information disclosed to public is accurate and understandable. In addition, the authorities were also assigned with ensuring that the duty of public disclosure were carried out timely and everybody was equally able to reach the information in all of the member states where securities were traded.⁸⁵

3.1.2.1.1. MIFID Financial Instruments Directive

European capital markets began to be subjected to new regulations with Markets in Financial Instruments Directive (MIFID) entering into force in EU on November 1, 2007. MIFID brought changes in many aspects ranging from the application of "single passport" allowing operating across the EU depending on the authority received by investment companies in the countries where they are established to capital adequacy of market institutions. One of these changes is Multilateral Trading Facility (MTF) as defined in MIFID which is identification of alternative trading systems as a new investment service. MIFID featured the investment interest by taking into account the market transparency and competition.⁸⁶

As a result of this regulation adopted on April 30, 2004 investment companies will be able to serve under minimum bureaucratic conditions in EU countries with the permission of the competent authorities in their country. Thus, "single passport" was created for the investment companies. Directive improves the protection of investors and allows the investment companies to perform their customer orders in unorganized markets as well.

3.1.2.1.2. UCITS Directive and Investment Fund Markets

EU defined the structures established by collective investment vehicles such as investment trusts and regulated their functioning principles with a directive issued in 1985. The funds with the conditions stipulated in the Directive, are known as UCITS (Undertaking for Collective Instrument in Transferable Securities) on behalf of the Directive.

⁸⁵ISE Research Department, Public Disclosure Systems, **ISE magazine**, Year 9, No. 33, p.78.

⁸⁶Çikot, Ö., (2008), "Alternative Trading Systems in Europe", **Gündem Magazine**, Issue 76, p.76.

The advantage of the UCITS is that they can be marketed in EU. The funds not bearing the conditions stipulated by the directive are expressed as "non-UCITS".⁸⁷ These funds vary according to countries' own terms and regulations however, they cannot be marketed throughout the EU. Capital Markets Board prepared a draft decree for the establishment of funds consistent with UCITS Directive of EU in August, 2006.

UCITS Directive has three main objectives.

- i. To facilitate the presentation of investment funds to individual investors in other countries.
- ii. To prepare a harmonized EU-wide legal framework for investment funds.
- iii. To ensure investor protection.

Ensuring the free movement of capital and free provision of services across the Union countries is among the main objectives of the EU. With regard to the investment fund, it is aimed that an investment fund established in a country could be easily purchased by the investors in other countries. In addition, provision of management service in other countries by an institution managing fund in a country is also facilitated. There are two important tools for the movement capital and freedom to provide service in EU. First, the investment fund namely the product has "EU passport" . The authority to provide services in other countries is named as "EU passport". These authorities are entitled by the central regulatory of the country where the fund or management company is established. Second, informing the central regulatory of relevant country would be enough for the marketing of fund or operation of management country in an another country.

3.1.2.2. EU's De Larosière Report

It was decided to establish an EU-wide regulatory authority named the European Systemic Risk Council with the De Larosière report published in February, 2009. This council chaired by the governor of European Central Bank consists of central banks and representatives of financial regulatory authorities. The causes of the financial crisis

⁸⁷Budak, A., (2006), "UCITS Directive and Markets Investment Fund", **Gündem Magazine**, Issue 51, p.7.

were investigated in the report in order to detect the defects that occur in the regulatory and supervisory system and the European Systemic Risk Council and the European Financial Supervisory System were created. European Securities Authority (ESA) created transparent crisis management for the companies. This report also focuses on what needs to be done to avoid a repetition of the crisis at international level.⁸⁸

After briefly summarizing the structures in the capital markets and directives in EU, and the things that were requested from Croatia accepted for membership in the screening report dated 28 November 2006 and the things that were remarked in the approval report of Financial Service Chapter 9 in European Union Common Position dated 26 November 2009 will be examined here as an example. Simultaneous applications are chosen as the primary example.

a. Croatia Screening Report

Banking Regulation in the first section and Insurance Regulation in the second section of the Croatia screening report are compatible with the Union acquis in a satisfactory level. The extent that financial services of Croatia are compatible with regard to capital markets are analyzed under the title of Capital Markets and Investment Services in the third section. In this report, it is stated to be partially compliant with the acquis in relation to investment services and capital markets. In particular, monitoring the rules of capital markets and investment companies, prospectus^{*}, market abuse and exerting more regarding the investment funds are required.

Croatia was required to prepare an official "investor protection draft". Capital Market Law must be revised within the framework of definitions. In addition, the progress should be made with regard to operations of investment companies and market transparency and compliance of investor protection rules. Croatia's investor protection plan is not compatible with the acquis. The role of Croatia Capital Market Authority (HANFA) in the recognition of certain stocks should be strengthened. The compliance with the Prospectus Directive is extremely weak. The market abuse issue is partially

⁸⁸Fıkrkoca, E., et al, (2009), "Reforms in Financial Markets", **Gündem Magazine**, Issue 85, p.10.

^{*}The information to be disclosed to investors in the public offering of shares is included in the prospectus.

aligned with the *acquis*. Croatian Capital Market Law UCITS is significantly compatible with the EU on mutual funds⁸⁹ as it was indicated in the screening report.

b. Croatia Chapter 9 Financial Services Closing Report

The EU Commission stating that new Capital Markets Law entered into force in Croatia for financial product markets in 2009 approved that monitoring requirements of relevant descriptions and operations and transparency criteria of public companies were harmonized by means of this law.⁹⁰

EU approved that Croatia became fully compatible with Union *acquis* in relation to monitoring of investment firms, establishment of investor protection fund, publication of prospectus and prohibition of market abuse. Croatia becoming a member of EU will make the necessary amendments in relation to harmonization depending on the future developments and HANFA will assume important roles in this sense.

3.2. Harmonization of Turkish and European Capital Markets

Turkey started EU accession negotiations *de facto* as of 3 October 2005. After the scanning process which was completed in 2006, the negotiation of "Science and Research" chapter was opened and provisionally closed. Depending on the condition of full implementation of the additional protocol, the negotiation of 8 chapters including "Financial Services" were suspended with the proposal of European Commission. Turkey announced the program on harmonization with Union *acquis* to public on April, 2007 regardless of potential developments that could occur during the negotiation process. In this context, Turkey concluded the matching project with German Capital Markets Board in order to harmonize the EU member states' capital markets in December 13, 2007.

EU-compliant capital market legislation was developed through the matching project. The harmonized topics could be summarized as follows:

- Prospectus obligations and transparency practices

⁸⁹EU Commission, (2009). **Screening Report Croatia Chapter 9**. Financial Services, p.12.

⁹⁰EU Croatia 2009 Progress Report, (2009). **Chapter 9: Financial Services**. p.37.

- Market manipulation and insider trading
- Institutional investors,
- Brokerage operations and capital adequacy of intermediary institutions
- Stock exchanges and
- Investor compensation⁹¹

a. IFC Action Plan within the Scope of EU Acquis Harmonization

Priorities which are sought to harmonize with Union acquis are included within the scope of "Istanbul International Financial Center Strategy and Action Plan"⁹² released by the Resolution of Supreme Planning Council. These priorities directly referring to EU harmonization perspective and the actions determined under them are listed below.

These actions are shown as Annex 7 and Annex 8 in tabular form in the section of annexes.

In addition, the Capital Markets Law⁹³ and Payment and Securities Settlement Systems, the Law on Payment Services and Electronic Money Institutions⁹⁴ stipulate regulations on the Strategic Action Plan.

b. Turkey's Screening Report: Chapter 9 Financial Services

It was stated that financial services⁹⁵ and the provisions relating to capital markets were generally harmonized with the union acquis in a satisfactory manner by the impact of the matching project carried out with Germany. It was expressed that there should be more effort for the regulations related to prospectus, market abuse and investment funds UCITS in particular and Turkey was more advanced than the acquis

⁹¹ The Speech of Turhan Erol, 2nd President of Capital Markets Board, on EU Twinning Project in Hilton Hotel Istanbul, 06/06/2007.

⁹² **Official Gazette dated 02/10/2009**. Istanbul International Financial Center Strategy and Action Plan, <http://www.resmigazete.gov.tr/eskiler/2009/10/20091002-9.htm>, (Accessed: March 19, 2015).

⁹³ **Official Gazette dated 12/30/2012**. 6362 Capital Market Law, www.resmigazete.gov.tr/eskiler/2012/12/20121230.htm (Accessed: March 14, 2015).

⁹⁴ **Official Gazette dated 27/06/2013**. Payment and Securities Settlement Systems, the Law on Payment Services and Electronic Money Institutions, www.resmigazete.gov.tr/eskiler/2013/06/20130627-14.htm (Accessed: March 12, 2015).

⁹⁵ EU Commission Screening Report Turkey, (2007). **Chapter 9 Financial Services**. p.42.

regarding the investor compensation fund. The amount of fund in Turkish capital market law is higher than the fund in the acquis.

Turkey is also harmonized with the acquis in relation to transparency directive in a satisfactory manner. The harmonization with regard to the matter of prospectus is extremely high and electronic publication of the prospectus is required. The harmonization regarding market manipulation is limited. Turkish legislation investment funds show a satisfactory harmonization regarding UCITS. Furthermore, supervisory authority of Capital Markets Board increased as well.⁹⁶

Following assessments related to the capital markets were made in the progress report on financial services published on October 10, 2012 under the leadership of Greek Cypriot administration that was the term president in EU. In the report specifying there limited progress was made on securities markets and investment services, it was underlined that there should be more effort on UCITS market abuse and investor compensation systems.

Financial service is one of the 8 chapters within the scope of resolutions regarding Turkey which were adopted by General Affairs and External Relations Council on December 11, 2006 and approved in EU summit dated 14-15 December 2006. As long as the restrictions on the free circulation of goods carried by the vessels and planes which are registered in Greek Cypriot Administration or lastly touch at ports of Greek Cypriot Administration are effective, Turkey will not be able to fully implement the Union acquis relating to this chapter. It is said that there should be more effort in relation to Securities Markets in particular and investment services.⁹⁷ Turkey considered this report extremely biased and stated followings under the title of chapter 9 financial services by publishing its own progress report on December 31, 2012.

The new Capital Markets Law entered into force on December 30, 2012 after being published in official gazette by considering the IFC Project and market needs and receiving the opinions and contributions of all stakeholders within the perspective of full compliance with Union acquis. The Law raises the Turkey's compliance order with

⁹⁶ EU Commission Screening Report Turkey, (2007). Ibid., p.43.

⁹⁷ EU Commission Screening Report Turkey, (2012). **Chapter 9 Financial Services**. p.53.

Union acquis in capital markets to a higher level. In particular, the inconsistencies between Union acquis and Turkish legislation regarding collective investment institutions, market abuse, investment services, investor compensation schemes and prospectus requirements were eliminated with the legal framework put forth by the law.⁹⁸

The Law abolished the system of registering the capital market instruments to board record alternatively the system involving the approval of prospectus by the board was introduced with the EU acquis. The Law adopted the activity-based regulation principle instead of institution-based regulation principle partaking in the previous law in the field of capital market activities in parallel with EU practices. Central clearing, central custody and data storage institutions and central counterparty structures included in the Union acquis were transferred to Turkish legislation by means of the law. However, in the event that institutions carrying out capital markets activities in line with Union acquis have financial difficulties "Investor Compensation Center" was established for the compensation of investors. Investment fund and investment partnership sectors become more competitive and some amendments were made regarding market crimes and sanctions and some new crimes were arranged in the framework of EU regulations with the law. The improvement of the investment environment through the new legal framework provided by the law contributed to the strengthening of capital markets' infrastructure and competitiveness potential.⁹⁹

Application regulations regarding the fields of Capital Markets Board, organization and operating principles of investment enterprises, registered capital system, mergers and divisions, principles regarding public disclosure of special events, share buy-back, corporate governance, insider trading, market fraud and distribution of dividends in securities markets and investment services were adopted with EU-Turkey progress report announced in October, 2014. CMB enacted numerous secondary regulations in the fields of securities markets and investment services. As a result,

⁹⁸Republic of Turkey Ministry of the European Union, (2012). **2012 Progress Report Prepared by Turkey**. Chapter 9 Financial Services, p.95.

⁹⁹ Republic of Turkey Ministry of the European Union, Ibid., p.96.

preparations in the field of financial services continue at an advanced level as is seen in Table 12.¹⁰⁰



¹⁰⁰Republic of Turkey, Ministry of the European Union, Ibid., p.97.

Table 12:The Status of Turkey's Harmonization with Union Acquis as of Negotiation Chapters in Progress Report, 2014

Limited Harmonization	Partial Harmonization	Intermediate Harmonization	Harmonization at Advanced Level
Free Movement of Workers	Judiciary and Fundamental Rights	Free Movement of Capital	Free Movement of Goods
Right of Establishment and Freedom to Provide Services	Justice, Freedom and Security	Government Procurement	Company Law
Financial and Budgetary Provisions	Competition Policy	Social Policy and Employment	Intellectual Property Law
	Information Society and Media	Education and Culture	Financial Services
	Transport Policy	Regional Policy and Coordination of Structural Instruments	Energy
	Taxation	Protection of Consumer and Its Health	Economic and Monetary Policy
		External Security and Defense Policy	Statistics
		Financial Control	Enterprise and Industrial Policy
			The Trans-European Networks
			Science and Research
			Customs Unions
			External Affairs
7 CHAPTERS	2 CHAPTERS	12 CHAPTERS	12 CHAPTERS

Source: Economic Policy Research Foundation of Turkey, October 2014 Evaluation Note, p.11

3.3. Studies carried out with the aim of making Istanbul a Global Financial Center

"Istanbul International Financial Center Strategy and Action Plan within the scope of works that are carried out in order to achieve the objective of making Istanbul a financial center included in Ninth Development Plan approved by the High Planning resolution dated 29.09.2009 and numbered 2009/31 and entered into force after being published in Official Gazette dated 02.10.2009 and dated 27364." In accordance with the Medium Term Program covering the period of 2010 and 2012, the IFC project was implemented in line with the created Strategy and Action Plan.

The administrative structure of IFC was defined by the Prime Ministry Circular of Republic of Turkey published in the official Gazette dated 01.05.2010. "Istanbul International Financial Center Strategy and Action Plan" within the scope of works that are carried out in order to achieve the objective of making Istanbul a financial center included in Ninth Development Plan approved by the High Planning resolution and entered into force.¹⁰¹

Priorities and actions for creating a legal infrastructure operating at international standards, increasing the diversity of financial products and services, simplifying and enabling tax system, developing the regulatory and supervisory framework, strengthening the physical and technological infrastructure, establishing a training infrastructure that will meet the needs of qualified human resource and an organizational structure that will make promotion and monitoring on a global scale were determined in the Istanbul International Financial Center Strategy and Action Plan and working committees were formed for this purpose.

3.3.1. Organizational Structure

Considering the Istanbul International Financial Center Strategy and Action Plan IFC High Council, IFC National Advisory Board, IFC Coordinatorship, Working Committees were established in order to coordinate, support and carry out IFC studies

¹⁰¹Official Gazette dated 02/10/2009. Istanbul International Financial Center Strategy and Action Plan, <http://www.resmigazete.gov.tr/eskiler/2009/10/20091002-9.htm>, (Accessed: March 19, 2015).

and also IFC International Advisory Council was established to advise the Supreme Council.¹⁰²

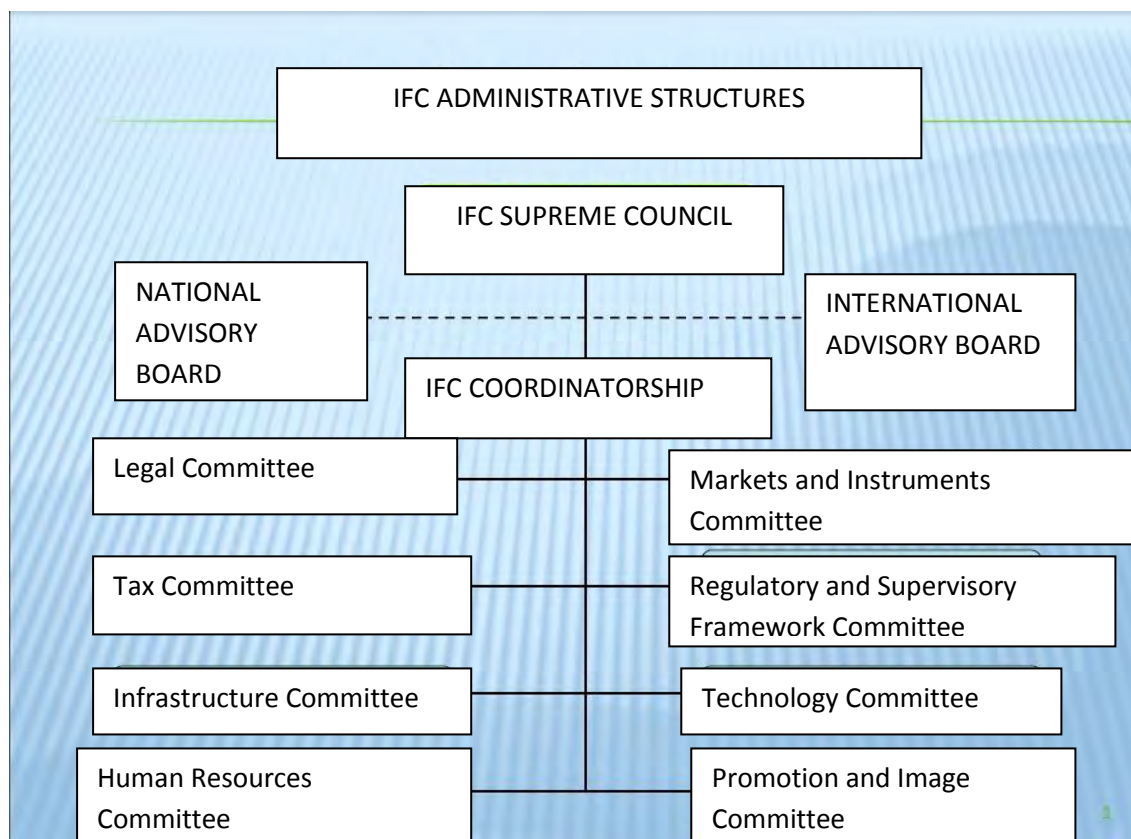


Figure 1: IFC Administrative Structures

Source: Official Gazette dated 01/05/2010 Number: 27568

a. High Council;

This council resolves the problems of relevant institutions and organizations, takes the necessary measures, evaluate their proposals, directs their activities and creates strategies in order to achieve the objective of making Istanbul an International Financial Center.

¹⁰²Official Gazette Circular dated 01/05/2010. Subject: Istanbul International Financial Center Administrative Structure; the Administrative structures of IFC, No. 27568, table www.ifm.gov.tr (Accessed: April 4, 2015).

b. National Advisory Board;

This board is responsible for assessing the reports sent from the Coordinatorship and working committees and for approving the annual work plans submitted by the Coordinatorship. National Advisory Board will help with the formation of consensus between private sector organizations operating in the financial system, professional organizations and the public sector. In addition, the evaluation of legislative changes with regard to compliance with the Strategy and Action Plan, monitoring the works done by the working committees, delivering an opinion to High Council regarding the reports are within task scope of National Advisory Board as well.

c. International Advisory Council;

This council holds meetings with state institutions and organizations, universities, private sector and non-governmental organizations so that Istanbul could create a vision of both regional and global financial center. The representatives of international organizations are also invited to the meetings of the council consisting of fifteen members at least.

d. IFC Coordinatorship;

The technical works regarding IFC Project are determined by coordinatorship depending on the projects to be carried out by eight working committees.

The general information about working committees working under IFC Coordinatorship is given below.

- **Legal Committee**

Working area of the legal committee chaired by deputy undersecretary of Ministry of Justice includes: Establishing structure and mechanisms that will prevent locals and / or foreigners carrying out financial operations in our country from the disputes to which they are party depending on the prolongation of judicial process and resolving these type of disputes within Turkish judicial system in accordance with the legal norms and procedures accepted at international levels.

- **Markets and Instruments Committee**

Working area of this committee chaired by Vice President of Capital Markets Board include; increasing the diversity of financial products in our country, the development of financial markets, increasing the financial deepening and liquidity and monitoring the financial products, services and applications traded in organized and over-the-counter markets of global financial centers.

- **Tax Committee**

The committee is chaired by deputy undersecretary of ministry of Finance. Working areas can be summarized as follows. This committee works on; monitoring of current financial market tax regulations and receiving opinion on the conformity of these regulations to our country, establishing a competitive, applicable, fair and steady tax system in financial products and transactions, simplifying the tax legislation, examining the tax incentives based on financial product or service or for foreign intermediary or investors and supporting the approved incentives to enter into application.

- **Regulatory and Supervisory Framework Committee**

Working area of the committee chaired by deputy undersecretary of the treasury includes; complying with the international financial market regulations and standard, strengthening the coordination between regulators, preventing the regulatory arbitrage and improving the regulation and supervision quality of financial markets in our country.

- **Infrastructure Committee**

Infrastructure committee is chaired by the Secretary General of Istanbul Metropolitan Municipality. The working area of this committee covers; increasing the transport facilities including mainly infrastructure services to be needed in the regions where domestic/foreign financial institutions are concentrated /to be concentrated and the matters of airlines and supports services in these fields and fulfilling infrastructure

needs in these regions by identifying the areas where financial regions will be concentrated with the local governments.

- **Technology Committee**

Technology committee is chaired by Directorate General of Takasbank. Adapting the international standards and innovation relating to information technologies to our country, offering solutions for problems resulting from financial market and technological and electronical infrastructure of actors, creating infrastructures that will ensure to provide services at levels that could compete on international scale in the financial markets and developing techno parks are within the working areas of the committee.

- **Promotion and Image Committee**

Working area of the committee chaired by Investment, Support and Promotion Agency of Turkey includes; preparing the websites that will provide information and make promotion in foreign languages for IFC works, arranging messages to be conveyed to the targeted markets, determining the main slogans and creating the promotional strategies.

- **Human Resources Committee**

Deputy Undersecretary of SPO (State Planning Organization) is the chairman of Human Resources Committee. Working areas of the human resources committee may be specified as; carrying our studies for the provision of skilled labor force in the fields required by the financial sector, for increasing the qualification and professional experience of human resource that will be employed, for attracting the domestic and foreign labor force in the financial area to Istanbul.¹⁰³

Considering the conditions of our country, the country practices and organizational models of global financial centers, the entities could be added to

¹⁰³IFC Working Committees adopted in the joint meetings of IFC Supreme Council and IFC National Advisory Board held on 09.06.2010 (in accordance with the Working Procedures and Principles).

administrative structure along with the new action plans or task fields of these entities could be changed in order to conduct and perform the activities in Strategy Action Plan.

3.3.2. Legal Infrastructure

The legal system in Turkey has changed significantly under EU membership studies in the last five years. Turkey is also a member of the European Court of Human Rights. The legal infrastructure of the financial sector largely complies with international standards. In all areas of the financial sector (banking, capital market, insurance and so on.) harmonization efforts with EU legislation have been proceeding. On the other hand, the subject relating to attitude of regulators is seen as an area in which more progress will be made. At this point, first of all, the independence of the supreme boards stands out. The independence includes administrative and financial independence.¹⁰⁴

Turkey adopted the legislation creating an internal legal system with regard to late or partial implementation or abeyance of excessively long proceeding and court decisions in January, 2013.¹⁰⁵

Supreme boards must also be able to act as quickly in order to adapt to the rapidly changing dynamics of the financial sector. On the other hand, there is a need for qualified personnel which comprehends the problems of the sector, follows the international developments, could apply these developments to our country in these institutions.

There should be rapid and efficient improvements for our judicial system in relation to disputes so that Istanbul could become a financial center. In this context, specialization will be ensured by means of appointing one of the existing courts since it is easier and more affordable compared to establishing a separate specialized court. The specialization will be ensured in prosecution and enforcement organizations in order to effectively fight against crimes in the financial and information fields. Expert main

¹⁰⁴Budak, A. (2007), "Global Financial Centers and Istanbul", **Gündem Magazine**, Issue No. 32, p.34.

¹⁰⁵The European Commission, (2013). **2013 Progress Report on Turkey**. p.51.

staffs will be created so that the work load present in courts decreases and provisions could carry out works and investigations for the basis.¹⁰⁶

The problems arising from the application thus emerging as the prolongation of the process as the courts make examination in recognition and exequatur of the decisions taken by foreign courts, will be eliminated. It will be ensured that an institutional arbitration center with an independent and autonomous structure which could compete on international level will be established in Istanbul and the mediation system will be used effectively.¹⁰⁷

In the strategy action plan, the third priority in relation to strengthening of the legal infrastructure which is "carrying out studies for accelerating the legalization processes of the drafts envisaged to be make contribution to IFC Project"¹⁰⁸ in addition to this; action number 13 one of the priorities for developing the regulatory and supervisory framework which is "the completion of the legal works performed in Ministry of Justice and other relevant institutions and also supporting the IFC project" were determined¹⁰⁹ and in this context, Capital Markets Law which is of great importance in terms of financial markets was enacted as the Law numbered 6362 on 06.12.2012 after being discussed in General Assembly of TGNA. Investment services, ancillary services and authorization procedures were defined in accordance with the principles of Markets in Financial Instruments Directive (MIFID) in the fields of securities markets and investment services in the new capital market law.

The scope of investor compensation schemes was extended to all types of investments from the property of securities however the total limit remained lower than the amount determined as 20.000 Euro in the relevant UE directive. The new law stipulates the establishment of investment trusts with variable capitals in line with adaptation to directive regarding the collective investment institutions UCITS. Dismissal of board members before they complete their service periods is allowed in the

¹⁰⁶The Banks Association of Turkey, (2009). **Deloitte Strategy Report for International Financial Impact Zones**. p.5.

¹⁰⁷IFC, (2009). **Istanbul International Financial Center Strategy and Action Plan**. p.14.

¹⁰⁸**Official Gazette dated 02/10/2009**. Istanbul International Financial Center Strategy and Action Plan, <http://www.resmigazete.gov.tr/eskiler/2009/10/20091002-9.htm>, (Accessed: March 19, 2015).

¹⁰⁹**Official Gazette dated 02/10/2009**. Istanbul International Financial Center Strategy and Action Plan, <http://www.resmigazete.gov.tr/eskiler/2009/10/20091002-9.htm>, (Accessed: March 19, 2015).

law thus the government is enabled to reshape its decision-making mechanism. This situation is one of the weak aspects of the law in terms of the market.¹¹⁰

3.3.3. Variety of Financial Products and Services

The variety of products and services offered in the financial center and offering therein under attractive conditions are the most important factors influencing the preference of that financial center. Developing products and services according to the demands of investors and providing a favorable environment are important. So it could be ensured that Istanbul will be a center of attraction for regional and global capital.¹¹¹ It is necessary not to prevent the diversification of financial products in regulatory sense however the risks to which financial institutions are exposed and are arising from instruments and markets should be followed strictly through prudent regulations.¹¹² Public disclosure is a very important factor in order to determine the risk regarding financial markets in advance. Making stricter regulations protecting the rights of investors, following the application by means of correct market rules are essential for establishing a successful financial center.

In addition, it will be ensured to increase the variety of services by considering the issuance costs of private sector and local sector, forming the necessary infrastructure for over the counter derivatives, establishing the product specialization exchanges and energy and carbon emission exchanges as well as diamond and gemstone markets. The development of interest-free financial products is also important in order to attract Islamic investors.

Markets and Instruments Committee, one of the eight committees established under IFC, carry out studies for increasing the variety of financial products, development of the markets and increasing financial depth and liquidity in our country. In this context, the actions numbered 14 and 35 under IFC Strategy and Action Plan are associated with markets and instruments committee.*

¹¹⁰The European Commission, (2013). **2013 Progress Report on Turkey**. p.32.

¹¹¹The Banks Association of Turkey, (2007). **Evaluation of Istanbul's Potential to Become International Financial Center**, p.225.

¹¹²IFC, (2009). **Istanbul International Financial Center Strategy and Action Plan**. p.16.

* The answer of Deputy Prime Minister Ali Babacan to Manisa deputy Erkan Akçay numbered 7/6021 and dated 16 / 04/2012 (written motion TGNA).

These associated actions include; developing the collective investment instruments, the international clearing and payment systems, the government securities market, the financial leasing and factoring services, securities lending instruments, private sector debt instruments, local sector debt instruments, financial bonds, derivatives markets, interest-free financing instruments, securitization and housing finance market, insurance products. Major financial products are traded in stock transactions, developing business market, bonds and bills markets, foreign securities market within ISE. Takasbank provides clearing and custody services to the entire financial sector under ISE.

ISE was established as a joint stock company in accordance with capital markets law within the scope of studies carried out regarding capital markets infrastructure; the merger process of ISE Derivatives Market (ISEDMD) and Derivatives Exchange (Also known as TurkDex Inc.) (FOE) was completed.¹¹³ The contracts traded on ISEDMD are; stock index contracts and interest rate contracts, commodity contracts and foreign exchange contracts. TL /Dollar options contracts also began to be traded as of in May 2014.¹¹⁴ AS a result of merger, ISE maintains its improvement and continues to increase its variety of product and service as well.

3.3.4. Simple and Efficient Taxation

In Turkey, twenty percent of corporate tax is applied which could be considered as a reasonable level compared to other countries.¹¹⁵ The predictability in tax should be increased and a broad-based tax system should be created for a simplified and effectively implemented tax system. Decreasing the tax burden on the transaction and having a tax burden on intermediation costs under a competitive structure are the basic principles. It should be encouraged that the financial works are carried out within Turkey so as not to cause any informality in tax sense. It is expected that legislative regulations peremptorily enter into force in order to provide legal security to foreign

¹¹³Ministry of EU, (2013). **The works and progresses made in 2013 progress report prepared by Turkey.** p.62.

¹¹⁴Istanbul International Financial Center, (2010). **Strategic action plan proposals regarding promotion and communication activities of IFC Image and Promotion committee.** p.7.

¹¹⁵The Banks Association of Turkey, (2009). **Evaluation of Istanbul's Potential to Become International Financial Center, Deloitte Report.** Part I Annexes, p.61.

investors in terms of tax. The status of Islamic financial products against taxation should be turned into a more competitive structure and regulated according to financial products and transactions with similar features in order to encourage Arab countries in particular to make investment in our country with the aim of ensuring that international funds are traded based on Turkey.¹¹⁶

One of the most important features that increase the attractiveness of the international financial center is that the taxation systematic does not aim to take any decision in favor or against any investment instrument. Essentially, the investor should be able to prefer its decisions among alternative investment instruments according to own features of investment instrument rather than tax-related advantages. The taxation legislation should be simple and permanent; dispersed provisions should be brought together. In terms of tax practices, a unit specialized in the financial sector and financial products should be established; the sector should be able to communicate with this unit easily and tax-related practices should be coordinated by this unit. Public offering of companies and spreading the capital to base society should be encouraged in terms of tax purposes. Tax practices that lead to unfair competition between different financial institutions should be abolished.¹¹⁷

IFC tax issues are conducted by tax committee which chaired by deputy undersecretary of ministry of finance as previously expressed. Working area of tax committee includes; establishment of a competitive, fair and stable tax system, simplification of the tax legislation, removal of transaction tax, examination of tax-related incentives aimed at foreign intermediaries and investors based on financial product or service and applying the approved incentives.¹¹⁸

3.3.5. Regulatory and Supervisory Framework

In Turkey, there is a need for the establishment of financial regulatory framework with flexible structure that could rapidly respond to changing rules and

¹¹⁶IFC, (2010). Ibid., p.12.

¹¹⁷IFC, (2014). **Istanbul International Financial Center Program Action Plan 10th Development Plan (2014-2018)**. p.11.

¹¹⁸Regulatory and Supervisory Committee, (2010). **General Information on Working Committees of Istanbul International Financial Center (IFC), Working methods and principles of IFC Supreme Council and IFC Working Committees**. p.2.

approaches regarding the regulation and supervision of financial systems in the international arena with the aim of becoming a financial center. The institution that will prepare this framework is the regulatory and supervisory framework committee chaired by the deputy undersecretary of treasury. Working area of the committee includes; ensuring compliance with international financial regulations and standard, strengthening the coordination and increasing the regulation and supervision quality of financial markets in our country.¹¹⁹

In Turkey, there is a systematic risk committee appointed by SDIF, Treasury and Central Bank of Turkey under the coordination of BRSA within the scope of banking law provisions to minimize the contagiousness effects of financial crises that may occur in the world, to identify the systematic risks and create the measures to be taken. These institutions are significantly important with regard to consolidated supervision in particular, prevention of the regulatory arbitrage, research and strategy development activities aimed at the entire financial system in the field of the measurement of systemic risk along with the signed protocols.¹²⁰

The legal and organization structures that could fulfill the systemic risk as well as horizontal coordination needs among the institutions will be established in the medium and long term and a financial stability committee including Capital Markets Board will be created in this framework. Another important task of the committee is the matter of compliance with international standards regarding financial system. It is seen that regulatory and supervisory institutions in our country are aiming full compliance in strategic plan works of their own programs in other noncompliant matters in which a high level of compliance is in question with regard to harmonization with both EU and other international norms.¹²¹

In the Turkish financial system which was dominated by the approach of being administered by Capital Markets Board (CMB) before financial crisis in 2009, teleological approach to USA and EU in particular came to the fore as a result of reform efforts made after the crisis. It is also believed that the political authority would be

¹¹⁹Regulatory and Supervisory Committee, (2010). Ibid. p.3.

¹²⁰IFC, (2010). Ibid. p.14.

¹²¹Regulatory and Supervisory Committee , (2010). Ibid. p.1.

determinative in this regard, our country considered to be determinative of the political authority, the implementations for the adoption of teleological approach to international norms as well as the consensus between regulatory and supervisory institutions in terms of reshaping the existing structure will be based.

3.3.6. Physical Infrastructure

One of the committees established within IFC action plan is infrastructure committee chaired by the Secretary General of the Istanbul Metropolitan Municipality as mentioned earlier. The tasks of the Infrastructure Committee has been stated as follows under the title of improving physical infrastructure; "quality of life, security and transportation facilities will be increased Istanbul, physical conditions to meet the infrastructure needs of financial institutions will be provided."¹²²

IFC infrastructure committee was held responsible for identifying the existing infrastructure problems of Istanbul and developing recommendations and action plan for problem areas and has been continuing its studies in the fields of transport, information technologies, housing, office, hospitality and conferences, education and health, security and natural disasters with five working groups. Survey, search conference and workshops were planned and implemented with the aim of analyzing in a correct manner and quickly achieving the objectives.¹²³

There will not a certain region to be focused on within the scope of IFC project. Construction technologies reducing the risks of earthquake in the regions where financial institutions will be established and the employees inhabit, will be used for required office and residential stock and environment-friendly property investments emitting low carbon emissions will improve the quality of life in the city. A master plan on transportation for five years at least will be created, both domestic and external connections of Istanbul will be fast and efficient, airport and city centers will be connected by completing the urban transport (air, sea, road, rail system) projects. Istanbul will become an important transit point between Europe and Asia by mega projects such as the third airport, third bridge, tube tunnel and Channel Istanbul. In

¹²²IFC, (2010). Ibid. p.9.

¹²³Istanbul Metropolitan Municipality, (2011). **Search Conference Evaluation Report**. p.3.

addition health, education, entertainment, hospitality, housing services will be offered at higher quality levels in a manner to serve local and foreign staff to work in the financial center.¹²⁴

3.3.7. Technological Infrastructure

Having a reliable technology and communication infrastructure; fast, reliable, uninterrupted and low cost data transfer are some of the most important conditions to become a financial center.¹²⁵ For this purpose, Technology Committee chaired by director general of Takasbank as previously expressed, was established. Working area of the committee includes; adapting the innovation in information technologies to our country, proposing solutions for problems arising from electronic communication, founding the backup and parallel operation centers, establishing technological infrastructures and techno parks.¹²⁶

Technology committee will determine the principles of a management system which will offer the joint software, hardware and communication service and form an integrated system providing the collateral management from a single center. Turkey Electronic Fund Trading Platform (TEFTP) was established and became operational on 01.09.2015. Thus, the technical infrastructure prepared for the trading of investment funds participation certificates stored by the Central Registry Agency (CRA) as a record enabled the member institutions of the platform to make transactions by means of either Takasbank screens or web service technology. Turkey Electronic Fund Trading Platform established by Takasbank with the aim of basically ensuring the development of Turkish fund sector, aims to expand national distribution channels, become a fully automated and central fund distribution system.

The publication of secondary legislation to regulate the procedures and principles regarding participation to general assembly meeting in electronic environment was performed by Ministry of Customs and Trade on 28.08.2012. The software of Electronic General Assembly System to ensure the use of partnership rights in electronic environment was completed by CRA and the system began to be used on

¹²⁴IFC, (2010). Ibid. p.17.

¹²⁵IFC, (2010). Ibid. p.17.

¹²⁶Regulatory and Supervisory Committee, (2010). Ibid. p.3.

19.10.2012 for the first time.¹²⁷ Also, subjecting the financial system to risk assessment as a whole, preparing the necessary regulations by institutions owning the system and regulatory authorities by means of identifying major threats and clearances including cyber threats and taking measures were ensured by Ministry of Development.

3.3.8. Promotion and Image

The target audience of financial centers should be determined to create the right promotional strategy. Trends for Istanbul should be analyzed correctly with a professional work and the most effective promotion strategy should be implemented.¹²⁸ For this purpose, promotion and image committee chaired by Investment Support and Promotion Agency of Turkey was established. Working area of the committee mainly involves the disclosure and preparing a web site to make promotion, determining the target regions and markets and preparing the future messages, creating the promotional strategies. The promotion strategy was designed based on the fiction that Istanbul was a financial center over the history and would make the required arrangements to become both regional and international financial center for all public and private financial environments.¹²⁹

The product group to be used in the promotion strategy of IFC project is comprised by financial services in our country.¹³⁰ The promotion strategy should be based on the facts that financial services are marketable at international levels including the region countries and the competitiveness of financial intermediaries and financial products are high in Turkey. It would be more beneficial to implement different strategies for different regions when creating the promotion strategies. For example; supply side of capital markets, public offerings, merger and acquisitions could become prominent for Eastern European countries experiencing capital deficit while "Islamic Finance" that is interest-free financing instruments stands out in the activities for the Gulf capital. Similarly organized market, establishment of depository trust systems, technology marketing, and know-how transfer could become prominent for the Middle

¹²⁷Technology Committee, (2012). **Progress Report**. p.3.

¹²⁸IFC, (2010). Ibid. p.21.

¹²⁹Regulatory and Supervisory Committee, (2010). Ibid. p.3.

¹³⁰Promotion and Image Committee, (2010). **Istanbul International Financial Center Project, IFC Presentation Contact Activities Strategic Action Plan Recommendations**. p.8.

East and Central Asian countries. Apart from these, the activities of parties supplying or demanding funds in capital and financial markets only and the institutions to mediate these operations are also important in our country.

The companies achieved certain size and involving the institutional competency in countries including Eastern Europe, Central Asia, North Africa and Middle East would be able to provide resources through the markets in our country by means of both partnership share and issuance of debt. To this end, the promotion strategy should emphasize that the financial intermediaries in our country could also mediate these operations in developed markets as well as the financial markets in Turkey.

Another area that should be given importance in the promotion strategy is the assurance given by depository trust infrastructures providing the trading systems and subsequent operations in the market. The practices such as customer based transaction, customer based custody, record systems implemented in clearing are the elements assuring significantly to international market participations. A significant portion of the stock market is owned by foreign investors. Turkish financial sector offers services both within the country and to region countries with the growing structure aimed at the promotion of product/service of banking. The matters including solutions and applications to minimize the currency and interest rate risks could be brought to the fore.

Our country has serious technology in the banking field. Banking related software, country's growth trend and development potential of banking attracted the attention of foreign banks to our country and they increased their activities. It is believed that today in which our communication and transport facilities significantly increased in line with our goal of becoming a financial center under the IFC, our country has geographically comparative advantage in terms of financial markets compared to countries in North Africa, Middle East and Central Asia. It would be beneficial to carry out promotion and informational activities in centers such as London, New York, Tokyo, Paris and Frankfurt where financial institutions, consulting companies, financial law offices and fund managers operating at international levels are heavily concentrated.

Our country's developing and growing economy, skilled labor, regulatory and supervisory framework, legal infrastructure and relevantly lowers costs of financial transactions are incentive elements to carry out these financial transactions in our country. One of the matters that foreign investors, international fund managers attach the most importance is that they request to be keeping updated about financial products, services, market applications and tax arrangements. Therefore, a portal with different foreign languages to which financial institutions and professional organizations could access with the aim of informing will be created. The promotion strategies will be implemented through the advertisements on foreign television channels, financial newspapers, web pages to be opened on web pages and links.¹³¹

3.3.9. Human Resources

Financial centers are places where persons with foreign language qualification and high skills in financial issues generally work. In our country, although different financial institutions have training activities regarding matters falling within their remits there is not a common national policy in terms of human resources. In order to improve the quality of human resources in the financial sector, it was aimed to increase the number of persons having internationally valid certificates and advanced levels of foreign languages.¹³² Foreign language training should be focused on while constructing the training policies in the financial sector and the curriculum should be improved with the aim of increasing financial literacy.¹³³

It is observed that the relationship with the universities is weak in the financial sector. It is seen that the universities are not able to meet the expectations of the sector and fail to offer the efficient information and innovation to the sector as well.¹³⁴ Therefore, advanced math skills should be increased in the programs by updating the undergraduate and graduate curricula in accordance with the needs of the financial

¹³¹IFC, (2010). Ibid. p.22.

¹³²IFC,(2014). **Istanbul International Financial Center Program Action Plan 10th Development Plan (2014-2018)**. p.21.

¹³³IFC, (2010). Ibid. p.19.

¹³⁴IFC, (2014). **10th Development Plan (2014-2018)**. p.21.

sector. It is aimed to make Istanbul the national and international postgraduate training center in the financial area.¹³⁵ The number of financial experts with international certificates and the number of personnel with valid license in capital market will be increased. It will be strived to maximize the collaboration between university and financial sector with the platform of university-sector to be created. It is also aimed that IFC would become a center where Islamic financial products are implemented in the medium and long term. Therefore, human resources regarding interest free financial system will be developed and literature will be enhanced. The need for licensed personnel in the interest free financial center will be identified and the institutes that will carry out research studies on interest free financial sector will be able to be established by making the necessary arrangements accordingly.¹³⁶

3.3.10 Financial Consumer Protection

Financial consumer protection supports the participation of the ones benefiting from financial products and services and has a positive effect on the overall economic development. High level principles were published on October, 2011 for the protection of financial consumers under the guidance of G20 leaders bringing the awareness regarding financial consumer protection to the agenda along with the global crisis that intensified in 2008. The action plans regarding the protection, training of financial consumer and increasing its access to financial service were drafted by financial stability committee along with the positive effect of IFC project enacted in 2009 despite the ongoing global economic crisis. Members of the committee consisted of Treasury, BRSA and CMB representatives. The Action Plans were put into effect by the Prime Ministry Circular numbered 2014/10 published in the Official Gazette dated 05.06.2014.¹³⁷

¹³⁵IFC, (2014). **10th Development Plan (2014-2018)**. p.21.

¹³⁶IFC, (2014). **10th Development Plan (2014-2018)**. p.29.

¹³⁷Prime Ministry Circular Dated 05.06.2014 and Numbered 2014/10, (2014). **Financial Access, Financial Training, Financial Consumer Protection Strategy**. p.4.

3.3.11 Action Plan for Istanbul International Financial Center

In the Prime Ministry Circular themed Administrative Structuring of Istanbul International Financial Centre numbered 2010/11 was envisaged to renew the IFC Strategy and Action Plan published in the Official Gazette dated 01.10.2010 at the end of third year. In this context, Action Plan for IFC Priority Transformation Program was created.¹³⁸

The objectives of the second program (Action Plan for IFC Priority Transformation Program) includes; ensuring that Istanbul ranks in the first 25 among the financial centers in the world, ranks within the first 30 in financial development index and increasing share of financial services sector on GDP to 6% (Table 13).

¹³⁸IFC, (2014). **Tenth Development Plan (2014-2018) Istanbul International Financial Center Program Action Plan**, p.1.

Table 13: Performance Indicators of Tenth Development Plan (2014-2018)

Name of Indicator	Current Situation (1)	Objectives					
		2014	2015	2016	2017	2018	
Global Financial Centers Index (Z / Yen) * (Istanbul's Ranking)	45	42	35	30	27	25	
Banking Size of Assets / GDP (%)	110,9	111	115	119	123	125	
Non-Banking Financial Institutions Size of Assets / GDP (%)	12,6	13	14	15	17	19	
Debt Instruments Market Stock / GDP (%)	28,2	30	33	37	42	47	
Istanbul Stock Exchange Share Market Capitalization / GDP (%)	32,4	38	44	51	58	66	
Change in Financial Services Exports	Insurance Services (Million Dollars)	995	1.098	1.248	1.423	1.599	1.794
	Financial Services (Million \$)	779	876	954	1.040	1.134	1.236
	Insurance Services (Percentage Change)	14,9	10,3	13,7	14,0	12,4	12,2
	Financial Services (Percentage Change)	45,9	12,5	8,9	9,0	9,0	9,0
Number of Total Companies Traded in Istanbul Stock Exchange	424	426	450	496	547	606	
Number of Promotion for IFC in the International Platform	-	-	-	6	6	10	
Number of Domestic Individual and Corporate Investors	Total Investors (Thousands)	4.011	4.105	-317	4.554	4.692	4.830
	Number of Individual Investors (Thousands)	3.916	4.000	4.206	4.438	4.571	4.704
	Number of Corporate Investors (Thousands)	95	105	111	116	121	126
Number of National Occupational Standards Defined in Finance	8	8	11	15	21	29	
Number of Meetings Held Towards the Promotion of Internationally Valid Certificates in Capital Markets	-	-	3	4	5	6	
Number of Students To Be Sent Abroad for Postgraduate Education in Finance	-	59	100	100	100	100	

(1) The current situation is as of the end of 2013.

* Z/Yen is the City of London's leading commercial think-tank.

Source: Ministry of Development Tenth Development Plan (2014-2018), Istanbul International Financial Center Program Action Plan, December 2014, p.1

There were especially some changes in the world after the financial crisis began in the US during the period of 2007-2009. The necessary arrangements are made in Turkey and a reliable financial system in the international arena is built in order to

become the attraction center for regional and global capitals with the aim of becoming IFC in this period brought a decrease in international investments.¹³⁹

3.3.12 Establishment of Istanbul Stock Exchange and Its Objectives

The trend in global capital markets is towards transformation to profit companies moving away from structures similar to cooperatives. It was envisaged to gather the stock exchanges in Turkey under a single roof by IFC Project structuring published in the Official Gazette dated 01.05.2010 and IFC Strategy and Action Plan dated 29.09.2009.

The most important stage of IFC Project is the establishment of Istanbul Stock Exchange. Capital Market Law numbered 6362 entered into force after being published in the Official Gazette on 20 December 2012. Pursuant to Article 38 of the Law Pursuant to Article ISTANBUL STOCK EXCHANGE INC (ISE) was established with the aim of carrying out stock exchange related activities on the date when the law became operational. o ISE gathering the capital markets under a single roof received official authorization by being registered and announced on 03.04.2013 after the relevant minister signed the article of association. The main objective of ISE; is to ensure that the capital market instruments along with exchange and precious metals are traded in a transparent, efficient, competitive, fair and steady environment in an easy and safe manner, to create, establish and develop markets, platforms and other market places organized with the system under free competition conditions of contracts deemed appropriate by Capital Market Board under the provisions of law and relevant legislation.¹⁴⁰

Besides equity and debt securities, gold and precious metals and futures will also take place in the new structure of the stock market. In this respect, merger with Derivatives Exchange and Istanbul Gold Exchange was ensured, energy exchange was established and commodity, carbon market to be established in the future would be gathered under this roof. Thus, it will be possible to access all securities in the country through the only transaction platform in the single national stock exchange accordingly

¹³⁹IFC, (2010). Ibid. p.12.

¹⁴⁰ Istanbul Stock Exchange Corporate Web Site Promotion, www.borsaistanbul.com (Accessed: June 19, 2015).

the operation burden will be diminished for both intermediaries and investors; the market will deepen and grow.¹⁴¹

This recently created structure has entirely nature of state stock exchange. Nationalization was carried out with the aim of privatization and the intention to form collaboration and partnership with foreigners was reflected with the name of Istanbul Stock Exchange. Stock exchanges are the areas where globalization generally becomes the most effective. Therefore, the integration of Istanbul Stock Exchange with the world has now become a necessity rather than a desire. Either it will create a group of stock exchange by merger or acquisition or it will partake in this kind of group. To be able to exist and compete in the future by being single and small seems quite difficult.¹⁴² Admitting strategic partners is expected for the 25-30% part of ISE situated in the heart of regional financial center first and also International Financial Center until 2023.¹⁴³ Three categories of strategic partners are planned to be admitted in the Istanbul Stock Exchange. These are; technology infrastructure providers, liquidity providers and opinion leaders of the capital markets. These opinion leaders are the funds who manage their own money. Funds mentioned are followed by many investors. For example these are; Harvard, Oxford, Singapore funds. Many of these investors make investment in the stock markets which are supported by these funds without questioning.¹⁴⁴ In addition, Islamic Financial Research Center was established in Ğtinye campus of Istanbul Stock Exchange with the aim of attracting Islamic capital. It is planned that Takasbank and (CRA) would move to Ğtinye campus. The clearing works were included in Euroclear which is Europe's largest clearing system.

In 2012, agreements were signed with capital markets of 14 countries for Istanbul Stock Exchange during Istanbul Stock Exchange Market period. The agreements on joint collaboration or product development were made with these markets. These markets are; Macedonia, Bosnia and Herzegovina and Albania in the west; Kazakhstan, Singapore, South Korea, Japan and Uzbekistan in the east; United

¹⁴¹Yıldırım, A., "Never Without Property Rights Protection", **Habertürk**, 05/04/2013

¹⁴²Korcan, U., "Public Offering of Istanbul Stock Exchange Boosted the Intermediary Price", **GazeteVatan**, 04/02/2013

¹⁴³**DünyaGazetesi**, 14/04/2013

¹⁴⁴**Zaman Gazetesi**, 12/04/2013

Arab Emirates, Oman, Saudi Arabia, Palestine in the south; Egypt and Morocco in North Africa. In addition, an agreement with Vienna Stock Exchange was signed. Thus, the shares of foreign companies will have a significant place in the markets of all surrounding regions as well as reaching to investor groups in Turkey when these shares are offered to public in the stock exchange. Following the strategic partnership and regional cooperation ISE will be ready for public offering from the end of 2016.

Also, Listing Istanbul program was launched so that the foreign companies prefer the public offering in ISE. A memorandum of understanding was signed between ISE and 7 intermediary organizations to carry out promotion and marketing activities in foreign countries under the program. These intermediary organizations are; Philip Capital, ÇYatırım, Neta Menkul Değer, Invest AZ, Integral Index Invest, Finans Invest and Ünlü Menkul değerler. There will be at least one program partnership in the forty five countries by the memorandum of understanding to be signed under Listing Istanbul and the number of companies to be listed in Istanbul Stock Exchange from various countries could increase.

3.4. SWOT Analysis on Istanbul Financial Center

Many legal, institutional, organizational and structural regulations and amendments were made in Turkey with the aim of making Istanbul a global financial center. When Istanbul becomes a global financial center, it is expected that there would be a significant capital flow into Turkish financial markets in our country which has inadequate accumulation of capital thus it is believed that country development and economic growth would be met with lower cost and it could be continuous and sustainable with a well-functioning of transfer mechanism to real sector from financial sector.

However, the project has some strengths (S) and weaknesses (W), opportunities (O) and threats (T) even though there is an idea of actualizing the IFC Project with the said objectives. Deloitte SWOT analysis prepared by Deloitte for the IFC in 2007 is shown in Table 14. In the report prepared for the said year, it is seen that the weaknesses and threats are quite high. However, there have been significant innovations and arrangements regarding the issues such as lack of infrastructure,

Informal Economy, Financial Literacy Rate, legal framework, deepening of financial markets, Unplanned Urbanization. The transport projects increased in Istanbul and traffic problem was decreased by mega projects such as Subway systems, the Third Bridge, Eurasia Tunnel, and the Third Airport so Istanbul became a more livable city. The informal economy was significantly decreased by the inclusion of more banks to payment systems. Financial Literacy Rate was significantly increased with the new projects and notices. An Arbitration Center was established in Istanbul in order to solve the problems rapidly within the legal framework. It was attempted to prevent unplanned urbanization by constructing more earthquake-resistant buildings with the projects such as Urban Transformation. Domestic disturbances experienced in the neighbouring countries have brought a significant immigration problem in recent years and nearly three million immigrants were hosted in Turkish lands. Turkey sought to diversify its energy supply sources after the aircraft crisis with Russia. In this framework, it is envisaged that the weaknesses would decrease and the strengths would increase and the threats would turn into an opportunity over the time as the arrangements continue in the country.

Table 14: SWOT Analysis on Istanbul Financial Center

SWOT ANALYSIS	
<p style="text-align: center;">STRENGTHS</p> <ul style="list-style-type: none"> • Strategic Location • Demographic Structure • Strict Regulations on Financial System • Macroeconomic Stability • Investable Country Rating 	<p style="text-align: center;">WEAKNESSES</p> <ul style="list-style-type: none"> • Basic Macro Issues Such as Current Account Deficit and Low Savings Rate • Lack of Infrastructure • Informal Economy • Challenges of Doing Business and Cumbersome Bureaucratic Structure • Lower Level of Education and Financial Literacy Rate • Lack of Qualified Staff • Unsystematic Incentive System • Complex and Unfair Tax Legislation • Legal Framework Noncompliant with International Standards • Shallowness of Financial Markets • Unplanned Urbanization • Single Center Physical Location of Financial Center • Image and Promotion Issue
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • High Domestic Demand and Live Market Structure • Growth Potential of Financial Market • Attractive Conditions for Life • Historical and Cultural Heritage 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • Country Risk • High Competitiveness • Regional Political Instabilities • Locating in Earthquake Zone • Macroeconomic Instability • Energy Problem • Unavoidable Immigration Problem

Source: BAT (Banks Association of Turkey), Deloitte International Competitiveness Strategy for Financial Impact Zones, 2007, p.4

CHAPTER IV

COMPLIANCE OF ISE WITH DEVELOPED FINANCIAL CENTRES

4.1. Purpose of the Application

It is expected that the compliance of IFC with world's leading financial markets would increase along with the GATTs agreement concluded in 1995 and EU process beginning in 2005. In this sense, adaptation of the stock indices which are one of the most important economic indicators is also envisaged. In this part of the study, the harmonization between ISE and stock exchanges of world's leading economies is analyzed for the period after 2005. The fact that said stock exchanges have given similar reactions to financial developments on global scale shows that they are consistent and economies of the developed countries have similar risk perceptions. In the study, it is examined if the stock exchanges of the developed countries act jointly with ISE30 and ISE100 by means of cointegration analysis and the extent of the harmonization ensured after 2005 is tested. BIST 30 index mainly consists of banking, holding and telecommunication companies. ISE 100 index is the benchmark index for BIST and is composed of 100 companies.

4.2. Literature Review on the Application Method

Kanas (1998) investigated the bilateral cointegration relationship between the stock markets of USA and Europe's six largest countries (England, Germany, France, Switzerland, Italy and the Netherlands) with data on daily frequency in the study covering the period of 193 and 1996. The results show that the stock markets of USA and Europe do not have cointegrated relationship.¹⁴⁵

¹⁴⁵ Kanas, A., (1998), "Linkages between the US and European Equity Markets: Further Evidence from Cointegration Tests", **Applied Financial Economics**, Vol.8, pp. 607-614.

Ghosh et al. (1999) tested the relationship of Asia-Pacific stock markets with USA and Japanese stock markets with error correction method. The obtained findings indicate that results vary by country.¹⁴⁶

Fernandez-Serrano and Sosvilla-Rivero (2001) examined the connections in the Asian stock markets for the period of 1977-1999 with Gregory and Hansen (1996) one of the cointegration techniques allowing structural change period. While the traditional cointegration test denied the existence of long term links, the results showing the existence of long term connections were identified in bilateral country analysis when the cointegration test which was relevantly a recent technique allowing structural change was used.¹⁴⁷

According to Narayan and Smyth (2004), it is tested if the Australian stock market is integrated with G7 countries' stock markets with Johansen (1988) and Gregory and Hansen (1996) cointegration analysis. Tests indicate the long term connection of Australia with Canada, Italy and Japan. Cointegration was not observed with France, Germany and USA.¹⁴⁸

Narayan and Smyth (2005) test the integration of New Zealand stock markets with Australia and G7 countries' markets by using Johansen (1988) and Gregory and Hansen (1996) cointegration analysis. According to Johansen (1988) cointegration analysis New Zealand has no long term connection with any stock market. But, New Zealand had cointegration relation with US stock markets only according to Gregory and Hansen (1996) test.¹⁴⁹

Özdemir and Çakan (2007) examined the dynamic relationship between the stock markets of USA, Japan, France and England with the nonlinear Granger causality analysis by referring to daily closing stock price for the period of 1990-2006. Empirical findings suggest the presence of a strong non-linear bilateral relationship between USA

¹⁴⁶ Ghosh, A. R. et al., (1999), "Who Moves the Asia-Pacific Stock Market- US or Japan? Empirical Evidence Based on The Theory of Cointegration", **The Financial Review**, Vol.34, pp.159-170.

¹⁴⁷ Fernandez-Serrano, J.L. and Sosvilla-Rivero, S., (2001), "Modelling evolving long-run relationships: the linkages between stock markets in Asia", **Japan and the Worlds Economy**, Vol. 13, pp. 145-160.

¹⁴⁸ Narayan, P.K. and Smyth, R. (2004), "Modelling the Linkages between the Australian and G7 Stock Markets: Common Stochastic Trends and Regime Shifts", **Applied Financial Economics**, vol. 14, pp. 991-1004.

¹⁴⁹ Narayan, P. K. and Smyth, R., (2005), "Cointegration of Stock Markets between New Zealand, Australia and the G7 Economies: Searching for Co-Movement Under Structural Change", **Australian Economic Papers**, Vol. 44 (3), pp. 231-247.

and other countries. Granger causality is observed from US stock market to the other markets. It was identified that England caused the US stock market while no causality was observed from Japanese and French stock markets to USA.¹⁵⁰

Korkmaz and Agile (2008) examine the cointegration relation between the stock markets of Turkey and 12 developed and 22 developing countries by using monthly data set in 1995 and 2007 under Johansen technique. Empirical findings indicate that Turkish stock exchange has cointegration relation with the stock exchange of seven developed and five developing countries.¹⁵¹

Subramanian (2008) examines the long term connections of capital markets in 5 largest Eastern Asia stock markets including China (Shanghai Stock Exchange), Japan (Tokyo, Osaka Stock Exchanges), Hong Kong and Korea stock markets among themselves using daily data in the period of 2000-2008 under Johansen and Juselius (1990) cointegration test. As a result of analysis, the existence of cointegration in the stock markets was detected.¹⁵²

Wälti (2009), examines the dissociation hypothesis expressed as the independency of developed economies in the emerging markets from business cycles with structural break analysis by using an innovative measurement based on Euclidean distance. The study covers 30 emerging markets and 26 developed economies for the period of 1980-2008. The findings obtained by means of applied structural break and standard econometric analysis regarding the recent period do not support the existence of dissociation.¹⁵³

Chittedi (2009) discussing the contribution of stock markets to economic growth, examined the integration between the economies of BRIC (Brazil, Russia, India and China) and the stock markets of developed economies such as USA, England and Japan by using the daily data in the period of 1998-2009 with Granger causality

¹⁵⁰Ozdemir, Z. A. and Çakan, E., (2007), "Non-linear dynamic linkages in the international stock markets", **Physica A**, Vol. 377, pp.173–180.

* Stock markets cause the market participants to be more inclined to invest in along with the increase in the liquidity and segregation in the risks; and the institutional management to develop as the information flows towards company activities increase.

¹⁵¹Korkmaz, T. and Çevik, E.Ç. (2008), "Cointegration Relations Between Turkey and International Stock Markets and Portfolio Choices", **BRSA Banking and Financial Markets**, Vol. 2, No.1.

¹⁵²Subramanian, U., (2008), "Cointegration of Stock Markets in East Asia", **European Journal of Economics, Finance and Administrative Sciences**, Vol. 14, p. 84-92.

¹⁵³Wälti, S., (2010), "No Decoupling, More Interdependence: Business Cycle Comovements between Advanced and Emerging Economies", **MPRA Papers**, No. 20869.

analysis, Johansen cointegration analysis and error correction method. As a result of analysis, the existence of short term corrections regarding the cointegration and short term balance was observed.¹⁵⁴

Gupta and Guidi (2012) used the cointegration test with the aim of testing the connection between India and 3 developed Asian economies (Hong Kong, Japan and Singapore). The authors observed the empirical findings denying the presence of long term connection however indicating the existence of long term connection between the markets by applying the correlation tests suggested by Engle and Granger (1987), Johansen (1988), Gregory and Hansen (1996), Granger (1969) causality and Engle (2002).¹⁵⁵

Dimpfl (2014) showed that co-integration tests were frequently used with the aim of testing connections in the financial markets however cointegration could not be seen in the market if a stock had a structure indicating the feature of random walk*. Dimpfl tested this argument using the data of 28 countries' stock markets. According to the author, econometric problem referred as heteroscedasticity in financial data is often encountered. This creates a bias in the test results. In addition to this, Dimpfl also addressed that short data set would create a problem in econometric terms. Dimpfl stated that increasing the frequency of data to overcome the problem caused by the short number of observations would be a possible measure. When the heteroscedasticity problem is ignored in a standard cointegration test, the possibility of test to reject the hypothesis of there is no cointegration, increases. In this respect, the use of cointegration in order to test acting together in data indicating the feature of random walk is criticized.¹⁵⁶

Guidi and Ugur (2014) examines the existence of integration between the stock markets of Southeastern Europe (Bulgaria, Croatia, Romania, Slovenia, Turkey) and developed countries including Germany, England and USA. For the period of 2000-

¹⁵⁴Chittedi, K. R, (2009), "Global Stock Markets Development and Integration: with Special Reference to BRIC Countries", **MPRA Papers**, No. 18602. http://mpra.ub.uni-muenchen.de/18602/1/MPRA_paper_18602.pdf (Accessed: May 18, 2016).

* Random walk refers that the relevant data set moves, cannot be estimated and it is not static.

¹⁵⁵Gupta, R. And Guidi, F. (2012), "Cointegration relationship and time varying co-movements among Indian and Asian developed stock markets", **International Review of Financial Analysis**, Vol. 21, pp. 10–22.

¹⁵⁶Dimpfl, T., (2014), "A note on cointegration of international stock market indices", **International Review of Financial Analysis**, Vol. 33, pp. 10–16.

2013, the presence of static cointegration with Germany and England was detected however there was no evidence regarding the cointegration with USA. The presence of cointegration with all developed economies was identified with dynamic cointegration analysis.¹⁵⁷

4.3. Econometric Method

Cointegration analysis suggested by Engle and Granger (1987)¹⁵⁸ is interpreted as acting together of variables and it tests the presence of long term connection between variables in econometric terms. A new test procedure was suggested by Johansen (1988)¹⁵⁹ and Johansen and Juselius (1990)¹⁶⁰ since it was assumed that there was a single cointegration vector in this test and it was inadequate in terms of meeting the possibility of involving more vectors among the variables.

Johansen, suggested two different Likelihood Ratio Test Method as Trace Test and Maximum Eigenvalue Test. Johansen-Juselius tests yielding results if there is any long term connection or not, allows the presence of multiple co-integration vectors unlike the Engel-Granger (1987)¹⁶¹ cointegration analysis revealing the cointegration literature. Johansen-Juselius tests frequently have coverage in the literature since they are comprehensive. Number of the lowest vector could be 1 and number of highest vector could be one minus from the total variable amount in order to discuss the presence of cointegration in this test. The situation where the cointegration vector is 0, refers that there is no cointegration in other words there is not a long term connection between the relevant variables.

¹⁵⁷Guidi, Francesco and Ugur, Mehmet, (2014), "An analysis of South-Eastern European stock markets: evidence on cointegration and portfolio diversification benefits", **Journal of International Financial Markets, Institutions & Money**, Vol. 30. pp. 119-136.

¹⁵⁸Engle, R.F. and Granger, C.W.J. (1987), "Cointegration and Error Correction Representation: Estimation and Testing", **Econometrica**, vol. 55, pp. 251–76.

* The Trace Test is applied in the thesis since it has higher local power.

¹⁵⁹Johansen, S. (1988), "Statistical Analysis of Cointegrating Vectors", **Journal of Economic Dynamics and Control**, vol. 12, pp. 231–54.

¹⁶⁰Johansen, S., and K. Juselius, (1990), "Maximum Likelihood Estimation and Inference on Cointegration with Application to the Demand for Money", **Oxford Bulletin of Economics and Statistics**, 52, pp. 169-210.

¹⁶¹Engle, R.F. and Granger, C.W.J. (1987), "Cointegration and Error Correction Representation: Estimation and Testing", **Econometrica**, vol. 55, pp. 251–76.

In order to determine the conditions to be used such as fixed and fixed-trend in Johansen-Juselius test, Pantula (1989)¹⁶² principle is used. Akaike Information Criteria yielding the more reliable results in cases where number of samples are relevantly longer is used for optimal number of the delay. The prerequisite for the implementation of the cointegration analysis is that all the variables have unit roots in other words they become stable after receiving difference of the first order. In this respect, the variables were subjected to Augmented Dickey Fuller (ADF) test (Dickey and Fuller, 1981)¹⁶³ shown in the equation no 1 prior to cointegration analysis. In the test, zero hypothesis there is the argument of unit root ($\gamma = 0$) presence. The presence of the unit root is examined by ADF analysis which also has a test below. In all tests the level of significance was chosen as 5%.

$$\Delta y_t = \alpha + \beta t + \gamma y_{t-1} + \sum_{i=1}^p \delta_i \Delta y_{t-i} + \varepsilon_t(1) \quad H_0: \gamma = 0$$

4.4. The Data Set Used in Application

Cointegration analysis applied to the study, BIST30, BIST100, DUBAG EUROSTOXX50, FTSE, HANG SENG, DOW JONES, SMI are used for the cointegration analysis applied in the study and weekly data set from October 2005 to December 2015* are used for SMI. The number of sample (observation) is 532. The start date of data was chosen as the date in which EU negotiations started. Since the data set is used at high frequency (daily, weekly) it relieves the study from the problem of small sample bias causing the Johansen cointegration test to give false results as mentioned by Dimpfl (2014). On the other hand, having a high level of frequency (typically log data set) reveals the problem of heteroscedasticity**. In this sense, the use of weekly data set was deemed appropriate so as not to create the problem of heteroscedasticity and encounter with the problem of small sample bias.

¹⁶²Pantula, S.G., (1989), "Testing for unit roots in time series data", **Econometric Theory**, Vol. 5, pp.256–271.

¹⁶³Dickey, D. A. and Fuller, W.A. (1981), "Likelihood Ratio Statistics for Autoregressive Time Series with a Unit Root", **Econometrica**, Vol. 49, pp. 1057-1072.

*Week closing (Friday) price of weekly stock prices

**Heteroscedasticity is one of the problems in econometric models. The fact that data variance (the square of standard variation) changes under different periods refers to absence of constant variance in this sense. Heteroscedasticity does not cause problems regarding the bias however it leads to inefficiency.

Index abbreviations regarding the Financial Centers are as follows:

HONG KONG-HANG SENG INDEX

DUBAI - DFMG INDEX

USA - DOW JONES INDEX

EURO AREA - EUROSTOXX50 INDEX

SWITZERLAND - SWISS MARKET INDEX (SMI)

TURKEY - BIST30 and BIST100

ENGLAND-FTSE

Data set was obtained from Matrix and Yahoo Finance. All indices are based on the dollar. Series are used with logarithmic forms.

4.5. Empirical Results

In cointegration analysis, two different tests including and not including a dummy variable* including the information regarding global crisis between September, 2008 and March, 2009 were applied. The relevant dates start with the financial crisis breaking out with the bankruptcy of Lehman Brothers and ends with the finalization of stock market crisis by the monetary expansion decision taken by EU leaders in London summit of G20**.

In the ADF tests specified in Table 15 and 16, the presence of unit root at 5% significance level cannot be rejected in fixed and fixed trend situations and it is shown that the presence of unit root is rejected when difference at the first level is acquired is rejected. In this case, necessary prerequisite was ensured for cointegration analysis by detecting the presence of a unit root for all indices.

*If there is a period involving any of structural break, difference (such as crisis, earthquake, war etc.), dummy variable is an application internalizing these differences that is resolving the effects of these breaks

**G20 countries representing developed the first 20 economies are: EU, USA, Germany, United Kingdom, Brazil, China, Indonesia, France, South Africa, South Korea, India, Italy, Japan, Mexico, Russia, Saudi Arabia, Turkey

Table 15: ADF Unit Root Tests in Levels

Stock Market	Constant	Constant and Trend
HONG KONG	-2.602 (0.093)	-2.628 (0.267)
DFMGI	-1.882 (0.3406)	-1.452 (0.844)
DOW JONES	-1.040 (0.739)	-1.780 (0.713)
EUROSTOXX50	-1.999 (0.287)	-2.398 (0.380)
SMI	-1.489 (0.538)	-2.016 (0.590)
FTSE	-1.836 (0.362)	-1.855 (0.675)
BIST30	-2.564 (0.101)	-2.467 (0.344)
BIST100	-2.449 (0.128)	-2.328 (0.417)

Note: The figures in Table give the statistics of t. Numbers in parenthesis indicate the p-values. The level of significance of 5% means that the null hypothesis is rejected. (*)

Table 16: ADF Unit Root Test in First Difference

Stock Market	Constant	Constant and Trend
HONG KONG	-22.993 * (0.000)	-22.994 * (0.000)
DFMGI	-20.079 * (0.000)	-20.192 * (0.000)
DOW JONES	-25.145 * (0.000)	-25.128 * (0.000)
EUROSTOXX50	-24.612 * (0.000)	-24.591 * (0.000)
SMI	-27.862 * (0.000)	-27.836 * (0.000)
FTSE	-25.903 * (0.000)	-25.881 * (0.000)
BIST30	-23.610 * (0.000)	-23.619 * (0.000)
BIST100	-23.312 * (0.000)	-23.324 * (0.000)

Note: The figures in Table give the statistics of t. Numbers in parenthesis indicate the p-values. The level of significance of 5% means that the null hypothesis is rejected.

Table 17: Johansen Cointegration Test Results of Stock Markets with BIST30

Stock Market	AIC	$H_0 : r = 0$	$H_0 : r \leq 1$
HONG KONG without dummy	3	12.515 (0.403)	4.620 (0.327)
HONG KONG with dummy	3	12.062 (0.443)	4.544 (0.337)
DFMGI without dummy	11	17.495 (0.115)	3.473 (0.496)
DFMGI with dummy	11	14.183 (0.277)	3.715 (0.456)
DOW JONES without dummy	5	11.658 (0.479)	1.198 (0.923)
DOW JONES with dummy	5	10.382 (0.602)	0.471 (0.995)
EUROSTOXX50 without dummy	1	9.856 (0.653)	3.011 (0.578)
EUROSTOXX50 with dummy	1	9.327 (0.705)	3.125 (0.557)
SMI without dummy	3	11.615 (0.176)	1.541 (0.214)
SMI with dummy	3	10.769 (0.564)	0.740 (0.979)
FTSE without dummy	17	17.463 (0.116)	5.671 (0.217)
FTSE with dummy	17	15.458 (0.201)	5.878 (0.200)

Note: The figures in Table give statistics of trace. Numbers in parenthesis indicate the p-values. The level of significance of 5% means that the null hypothesis is rejected.

Table 18: Johansen Cointegration Test Results of Stock Markets with BIST100

Stock Market	AIC	$H_0 : r = 0$	$H_0 : r \leq 1$
HONG KONG without dummy	3	12.088 (0.440)	4.260 (0.374)
HONG KONG with dummy	3	11.531 (0.491)	4.016 (0.409)
DFMGI without dummy	11	18.592 (0.083)	3.459 (0.498)
DFMGI with dummy	11	14.818 (0.236)	3.641 (0.468)
DOW JONES without dummy	5	11.644 (0.481)	1.182 (0.926)
DOW JONES with dummy	5	10.377 (0.602)	0.451 (0.996)
EUROSTOXX50 without dummy	1	9.452 (0.693)	3.023 (0.576)
EUROSTOXX50 with dummy	1	8.790 (0.755)	3.133 (0.556)
SMI without dummy	3	11.105 (0.205)	1.513 (0.218)
SMI with dummy	3	10.250 (0.615)	0.752 (0.978)
FTSE without dummy	17	17.766 (0.106)	5.495 (0.233)
FTSE with dummy	17	15.923 (0.178)	5.613 (0.222)

Note: The figures in Table give statistics of trace. Numbers in parenthesis indicate the p-values. The level of significance of 5% means that the null hypothesis is rejected.

The numbers of examined cointegration vector are 0 and 1 since the long term connections between two indices are considered in cointegration analysis. Cointegration vector number is symbolized by r . The rejection of the $r = 0$ case, means the rejection of non-cointegration hypothesis, and $r = 1$ refers that cointegration hypothesis could not be rejected. The number of delay for the cointegration test is determined by Akaike Information Criterion.

Tables 17 and 18 show the Trace statistics and p-values in parenthesis regarding Johansen-Juselius cointegration analysis examining the information whether

the stock exchanges of BIST30 and BIST100 and world's leading financial centers act together or not in the long term. The used data set is October 2005- December 2015. The dummy variable is used for the period of September 2008 - March 2009. Analyses are examined as the situations which involve or do not involve the dummy variable expressing the crisis period.

Empirical findings indicate that BIST30 and BIST100 are not cointegrated with any global index. The findings do not differ from the tests involving and not involving the dummy variable. In other words, neither BIST30 nor BIST100 acts together with the said indices in the long term.

Table 19: Correlation between Stock Market Indices

	BIST30	BIST100	FTSE	HONGKONG	DUBAI	DJ	EUROSTOXX	SMI
BIST30	1.00							
BIST100	1.00	1.00						
FTSE	0:39	0:39	1.00					
HONGKONG	0.67	0.69	0:53	1.00				
DUBAI	-0.09	-0.11	0.62	0.03	1.00			
DJ	0.29	0.33	0.54	0.67	0.23	1.00		
EUROSTOXX	0.24	0.21	0.84	0.35	0.66	0.11	1.00	
SMI	0.35	0.38	0.60	0.72	0.24	0.97	0.21	1.00

As can be seen from Table 19 among BIST 100 BIST30 or other indices, there is not a strong correlation.

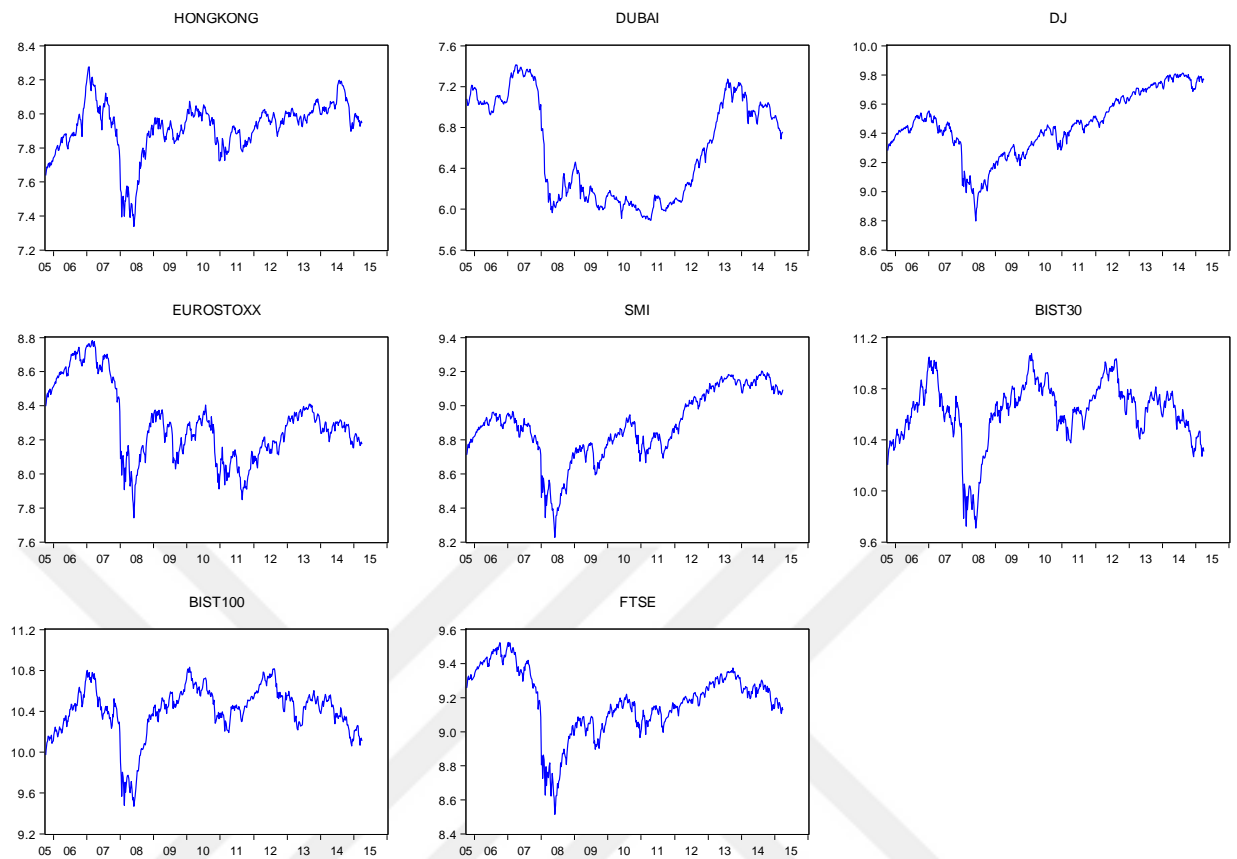


Chart 15: Stock Indices of Selected Economies

Although there was generally a correlation between the stock exchanges in the period of 2009 - 2013, stock exchanges of developing countries experienced cash outflows with the announcement of FED regarding the finalization of expansionary policies dated December, 2013 and consequently a decline was observed in their stock exchange indices. The Dow Jones index was recognized as a safe harbor for market players and has continued to rise in the aftermath of 2013.

As a result, it is seen that BIST 30 and BIST 100 are not co-integrated with the indices of other financial centers in other words their indices do not act together in the long term. It is known that there have been many structural and legal arrangements and changes especially within the framework of EU norms in Istanbul's process to turn into a global financial center from a regional center. However, it is understood from the analysis conducted with BIST sample that the actions carried out under the harmonization process with global financial centers have not given the expected results

yet that is long term connection could not be established with the stock exchange indices of financial center. It is envisaged that Istanbul will become a global financial center and ISE will comply with the stock exchange indices of other financial centers in the long term if restructuring of Turkish financial sector and regulations for EU norms continue and the said regulations are applied successfully and provided that both domestic and global economic and political stability are maintained.



CONCLUSION AND OVERVIEW

Although financial centers do not have a generally accepted definition in the world there are some common characteristics determining these centers. These centers are shaped according to features of market volume, number of qualified professionals, legal infrastructure, political and economic stability, ease and cost of establishing a business, technology, competition, communications, transportation, geographical location and tax regulations. Financial centers have become global financial centers within the framework of these features.

A global financial center may bring some disadvantages to the economy of country it is located in as well as providing a number of advantages. These advantages are as follows; the increase of economic growth, employment and skilled labor force, international fund flows, rapid set-up facilities, increased efficiency in the financial sector, less environmental pollution, investor protection, creation of higher value added while the disadvantages are; reduction of international fund flows, contagiousness of corporate financial problems, money laundering risks, title slip and investor protection, increased fragility against the intervention of political authorities. While the flows towards financial centers make a positive contribution to economy in the contrary case they may cause crisis and disruption.

The theoretical fundamentals which are decisive in the formation of financial centers can be listed as; selected section and place theory, economy of scale, finance geography and global city theory. Theory of selected section and place is the version of selected industrial location theory applied to financial field. The choice of the location of the financial center is based on profit maximization. In economy of scale, clustering of institutions that provide financial service reduce business and transaction costs by benefiting from information economy and increasing the productivity gains. In geography of finance theory, the regional center is defined as the best access point for the profitable use of valuable information. In global city theory, the cities with financial centers have many common features regarding the global cities.

The emergence of financial centers in the world is not incidental but rather it results from historical background and geographical location of the places they are located in, clustering of banks and financial institutions in a specific area and actualization of financial activities. The world's major financial centers can be listed as London, New York, Euro Zone, Hong Kong, Dubai, Switzerland and Istanbul Stock Exchange. In the study, the said period of 2006-2015 was examined by a set of macro-economic data and stock exchange data as well as the said financial centers. Furthermore, the effects caused by the Global Crisis in the discussed period were considered as well. These centers, which are mentioned in GFCI index, are at the forefront of the world ranking. New York is regarded as the world's largest national stock exchange on the other hand London is regarded as the world's largest international stock exchange. Hong Kong and Dubai are the centers supplying funds to the neighboring countries by their regional financial center properties. In Switzerland, Zurich becomes prominent with Private Banking services in particular. Turkey made a positive improvement in macro-economic indicators with the start of membership negotiations with EU in 2005 and was ranked among the largest 20 economies in the world in 2009. In 2009, the Strategy Action Plan was adopted and Istanbul Stock Exchange Inc. was established with the aim of making Istanbul a financial center. Istanbul began to take place in the front rows compared to previous periods in GFCI index rating.

Given the location of IFC in international regulations, GATTs of which Turkey is also a party, and EU accession negotiations could be addressed. GATTs is one of the most important agreements signed by Turkey towards opening its markets to international investors. As a result of this, Turkey adopted the principle of not being discriminatory against domestic and foreign investors. In the process of EU negotiations, the twinning project was implemented with Germany Capital Markets in relation to capital markets and the two countries became significantly harmonized in this sense. In the study, MIFID and UCITS the applicable capital market directives in EU were explained in detail and De Larosière Report prepared following the financial crisis in 2009 was also extensively included. According to this report, broad research was made on the effects of 2009 crisis in EU stock exchanges and European Systemic

Risk Council and European System of Financial Supervision were founded in order to detect the defects occurring in the supervision system. Financial Services chapter of Croatia which began negotiations at the same period with Turkey was compared to Turkey's screening, closing and progress reports. It was observed that the capital markets of Turkey were more harmonized with EU norms compared to Croatia which is a member of EU today. In the Turkey's progress report prepared by EU in 2014, it was stated that Turkey's capital markets were significantly harmonized with regard to central clearing, central storage, data storage institutions, Investor Compensation Center, market crimes and sanctions. The European Securities and Markets Authority (ESMA) adopted the public offering of Turkish Securities in the European Markets by accepting the prospectus approved by CMB (Center Markets Board of Turkey) in May 2016. Istanbul International Financial Center Strategy and Action Plan entered into force after being published in Official Gazette in 2009 in order to materialize the goal of making Istanbul an international financial center which was included in the Ninth Development Plan. IFC coordinatorship and eight committees operating under this were established. These committees include; Law, Markets and Instruments, Tax, Regulatory and Supervisory Framework, Infrastructure, Technology, Promotion and Image and Human Resources. These committees carry out the most appropriate infrastructure studies of IFC in terms of international norms by considering the applications in the developed financial centers.

Istanbul Stock Exchange is projected to be offered to public after 2017. As a result, Istanbul Stock Exchange will enter the process of integration with other exchanges and develop broader spectrum of financial products. Today, many financial centers and stock exchanges seek mergers to ensure productivity growth by taking the advantage of economies of scale in the world as well. Therefore, Istanbul Stock Exchange may also seek to merger with the stock exchanges of developed countries or a more powerful share structure by means of acquisitions in the forthcoming period.

The SWOT analysis conducted on Istanbul Stock Exchange was updated and it was strived to present the current situation of ISE. In recent years, significant progress has been achieved on issues such as lack of infrastructure, the fight against the informal economy, financial literacy and unplanned urbanization regarding ISE. However, the

disturbances experienced in neighboring countries which could be considered as a threat, have brought the significant issue of immigration and nearly three million immigrants have been hosted in Turkey. This has led to security issues in Turkey and tourism sector has been adversely affected after the increase in terrorism incidents.

In an econometric analysis conducted in the study, it was tested if the BIST30 and BIST100 following the negotiations with EU in 2005 were cointegrated with EUROSTOX50, FTSE, HANGSENG, DUBAI, DOW JONES and SMI until the end of 2015 by using 532 observations in Johansen Juselius econometric test method. According to results of the said test, BIST30 and BIST 100 did not act together in the examined stock exchanges and there were still deficiencies regarding tax applications and legal issues of the stock exchange despite the significant progresses resulting from the carried out works. Tax rates to be applied for foreign investors are still uncertain. As for Law, International Arbitration Center was established in Istanbul; however financial specialization courts were not formed. ISE chairs the union of stock exchanges belonging to 33 members formed by Federation of Euro-Asian Stock Exchanges (FEAS). In addition, ISE will have a leading role in terms of technology and exporting know-how to other stock exchanges with a status of know how supplier when NASDAQ QMX becomes a shareholder of ISE. Although having a leadership position in Euroasia area provides significant advantages towards becoming regional, the financial market in which ISE specializes has not been defined yet. In addition to developments in Islamic Finance Istanbul has the nature of becoming regional centers of Euroasia stock exchanges in matters such as entrepreneurial finance, initial public offering and hedge funds. It is possible that Istanbul Stock Exchange will become an important regional financial center in the coming years. In the strategic action plan it was aimed to make Istanbul a regional financial center first and then make it a global financial center as well.

This thesis is one of the few studies conducted on IFC. The subject of financial engineering will gain importance in the coming years, more academic studies on this subject, attraction of funds to IFC with higher amounts and broader range of products will be required. Thereby, the need for qualified personnel in relation to financial product development will increase. Istanbul with the position of financial center will

also attract the global companies. This situation will affect the domestic companies and they will proceed to professional management understanding by adopting the principles of corporate governance. The project of financial center is one of the most important projects in Istanbul Master Plan. The projects which are under ongoing construction process in the region such as the Third Airport, Marmaray and the Third Bosphorus Bridge will also be decisive in making Istanbul a global financial center. In this framework, it could be projected that all arrangements which are carried out and also planned to be actualized in ISE's transition process from regional financial center to a global financial center will enable cheap fund flows into country and this situation will positively affect the development process and employment increase in the country.

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ANNEXES

ANNEX 1: World Ranking by GDP at Current Prices

RANK	COUNTRY	\$ BILLION	SHARE OF WORLD GDP (%)
1	USA	17.416	22,4
5	ENGLAND	2.847	3,7
18	TURKEY	813	1,1
20	SWITZERLAND	679	0,9
29	UAE	416	0,5
40	HONG KONG	292	0,4
	EURO ZONE	13.241	17,1

Source: Prepared by taking from Ministry of Development's International Economic Indicators 2014 Report.

ANNEX 2: Rank of Gross Domestic Product Per Capita, 2014 Data

RANK	COUNTRY	\$ BILLION
5	SWITZERLAND	80.477
10	USA	53.142
19	UAE	43.049
21	ENGLAND	39.336
24	HONG KONG	38.123
62	TURKEY	10.945
	EURO ZONE	38.167

Source: Prepared by taking from Ministry of Development's International Economic Indicators 2014 Report.

ANNEX- 3: Humanitarian Development Index

Country	Human Development Index (HDI)			HDI rank		Average annual HDI growth (%)	
	2000	2010	2014	2014	2009-2014 Change (%)	2000-2010	2010-2014
Switzerland	0,888	0,924	0,930	3	0	0,40	0,14
United States	0,883	0,909	0,915	8	-3	0,28	0,18
Hong Kong, China (SAR)	0,825	0,898	0,910	12	2	0,85	0,32
United Kingdom	0,865	0,906	0,907	14	-2	0,46	0,02
United Arab Emirates	0,797	0,828	0,835	41	-6	0,39	0,21
Turkey	0,653	0,738	0,761	72	16	1,23	0,79

Source: Arranged by us after obtaining from United Nations, UNDP website: <http://hdr.undp.org/sites/default/files/ranking.pdf> (Accessed: 17.04.2016)

ANNEX 4: Economic Freedom Score Ranking *

Name	Index Year	Overall Score	Property Rights	Freedom From Corruption	Fiscal Freedom	Government Spending	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
China	2005	53.7	30	34	67.9	86.0	55.0	65.0	84.8	54.4	30	30
	2010	51.0	20	36	70.2	88.1	49.7	53.2	70.6	72.2	20	30
	2015	52.7	20	40	69.7	81.5	52.1	63.0	74.2	71.8	25	30
Switzerland	2005	79.3	90	88	73.0	61.1	70.0	77.2	90.0	83.4	70	90
	2010	81.1	90	90	68.2	68.9	81.2	81.8	81.3	90.0	80	80
	2015	80.5	90	85	70.3	65.1	78.1	75.3	86.3	90.0	85	80
Turkey	2005	50.6	50	31	65.3	54.4	55.0	40.7	53.8	76.0	50	30
	2010	63.8	50	46	78.1	82.9	68.9	41.1	70.0	86.4	65	50
	2015	63.2	45	50	76.1	57.6	61.0	50.2	72.4	84.6	75	60
United Arab Emirates	2005	65.2	50	52	99.9	70.2	70.0	74.3	79.0	77.0	50	30
	2010	67.3	50	59	99.9	80.9	67.4	79.3	68.8	82.8	35	50
	2015	72.4	55	69	99.5	85.8	74.7	83.8	83.8	82.4	40	50
United Kingdom	2005	79.2	90	87	62.3	43.5	85.0	79.0	85.0	80.2	90	90
	2010	76.5	85	77	61.8	41.9	94.9	72.8	73.7	87.5	90	80
	2015	75.8	90	76	62.9	30.3	91.1	75.6	74.4	88.0	90	80
United States	2005	79.9	90	75	68.6	60.0	85.0	95.4	85.7	79.8	70	90
	2010	78.0	85	73	67.5	58.0	91.3	94.8	78.1	86.9	75	70
	2015	76.2	80	73	66.2	51.8	88.8	98.5	76.6	87.0	70	70

Source: Arranged by us after obtaining from the Heritage Foundation website <http://www.heritage.org/index/ranking>. (Accessed: 17.04.2016)

* The score was evaluated over 100 points.

** Since Hong Kong is the Special Administrative Region of China, the data regarding Hong Kong in above table are within People's Republic of China.

ANNEX 5: GFCI World Index Ranking, March 2016

City	GFCI 19 rank	GFCI 19 Rating	GFCI 18 Rank	GFCI 18 Rating	Change in Rank	Change in Rating
London	1	800	1	796	-	▲ 4
New York:	2	792	2	788	-	▲ 4
Hong Kong	4	753	3	755	▼ 1	▼ 2
Zurich	6	714	7	715	▲ 1	▼ 1
Dubai	13	699	16	704	▲ 3	▼ 5
Paris	32	667	37	664	▲ 5	▲ 3
Amsterdam	34	664	36	665	▲ 2	▼ 1
Istanbul	45	636	47	653	▲ 2	▼ 17
Lisbon	75	599	66	619	▼ 9	▼ 20

Source: Arranged by us after obtaining from <http://www.longfinance.net/global-financial-centre-index-19/976-gfci-19-the-overall-rankings.html> (Accessed: 17.04.2016)

ANNEX 6: Employees With CFA Certificate on Country Basis

The Ones with CFA Certificate on Country Basis (2016)	
Countries	Number
England	8570
New York, USA	7066
Hong Kong	5.970
Switzerland	2.591
Euronext	2.145
United Arab Emirates	657
Turkey	140
Total	30.193

Source: CFA, <https://www.cfainstitute.org/programs/cfaprogram/charter/map/pages/index.aspx>, Accessed: 04/02/2016

ANNEX 7: Action Plan for the Harmonization of Turkey with Union Acquis (2010-2012)

Action No	Action Name	Responsible Institution (S) and Collaborative Institutions (I)	Start and End Dates	Actions and Remarks
14	Development of collective investment instruments	CMB (S) Treasury (I) CBT (I) TBA (I) TSPAKB (association of capital market intermediary institutions) (f) Takasbank(i) TKYD (Turkish institutional investment managers' association) (i)	2010-2012	i) The necessary amendments will be made in Capital Markets Law in order to establish a structure compatible with EU directives ii) The limitations and obstacles in the capital market and foreign exchange regulations regarding collective investment institutions will be reviewed. iii) Arrangement will be made regarding new products such as real estate investment fund and venture fund.
15	Reviewing the legislation on the transactions in which securities are subjects of collateral Establishment of Central Clearing Party System	CMB (S) Takasbank (S) Ministry of Justice (I) CBT (t) TBA (C) TSPAKB (I) ISE (I) IGE (I) CRA (I) \ "OB (t)	2010-2012	i) The legal basis of the transactions in which securities are subject to collateral will be harmonized with UNIDROIT and UE regulations. ii) Followings will be ensured; determination of bait collateral calculation methods for ISE markets, the identification of types of collateral and valuation methods, collecting the collaterals in clearinghouse and assuming the position of Central Clearing Party by Takasbank for the approved markets.

Action No	Action Name	Responsible Institution (S) and Collaborative Institution (T)	Start and End Dates	Actions and Remarks
16	The classification of financial services within the framework of Union Acquis and allowing the creation of service packages that could meet the needs of customers by providing flexibility to financial intermediaries	CMB (S) Treasury (i) CBT (d) BRSA (C) TBA (C) TSPAKBO) Takasbank (i)	2010-2012	i) Custody activities and institutions to carry out these activities will be defined clearly. ii) Intermediary institutions will be allowed to provide this service and carry out activities such as project financing, management of nonperforming loans pool
17	Improving integration with international payment and settlement systems	CBT (S) Takasbank (S) CMB (i) TBA (i) TSPAKB (i) ISE (f) LAB (i) CRA (i)	2010-2012	i) Studies will be carried out for easier integration of payment and transfer systems with international systems and use of standards in this area. ii) The provision of legal infrastructure in line with international practices, creation of mechanisms and organizational structure to ensure the effective operation and supervision of payment systems, publication of Payment Systems Act with the aim of effective and transparent regulations regarding payment systems,
18	Facilitating the checkout from board registry and stock exchange listing	CMB (S) ISE (S) CRA (i) Takasbank (i) Listed Companies in the Stock Exchange (I)	2010-2012	The conditions related to checkout from board registry and ISE listing will be revised and relevant legislation amendments will be made.
19	Foreign securities are traded in domestic markets	ISE (S) Ministry of Finance CMB (f) TSPAKB (i) CRA (i) :-	2010-2012	The permit of Ministry of Finance required for the listing of foreign companies will be abolished, relevant regulations will be revised and the necessary infrastructure will be established.

Source: Arranged by us after obtaining the data of European Union General Secretariat (EUSG) of Turkey via e-mail.

ANNEX 8: Turkey's Action Plan for Systemic Risk Board

Action No	Action Name	Responsible Institution (s) and Collaborative Institutions(1)	Start and End Dates	Actions and Remarks
44	Reviewing in detail the organizational structure of regulatory and supervisory authorities	Systemic Risk Board (S)	2010 and beyond	Considering the compliance with EU acquis initially, institutional structuring of regulatory and supervisory authorities will be revised in detail and necessary measures will be taken in the medium and long term in line with the international developments.

Source: Arranged by us after obtaining the data of European Union General Secretariat (EUSG) of Turkey via e-mail.