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All aboard the Turkish train

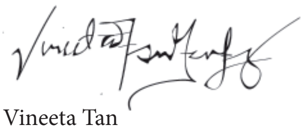
When we launched the IFN Country Report series in 2016, Turkey was one of the first markets we covered. The rising star of the global Islamic finance industry, Turkey continues to push the sector with forward-thinking policies and measures which attracted new players to the fold and facilitated new products.

The Eurasian nation, however, is operating in a decidedly more challenging environment as compared to two years ago. President Recep Erdogan has to deal with rising dissatisfaction against his administration which culminated in street protests, scramble to reassure investors and the financial markets following a collapse of the lira while maintaining bilateral ties with neighbors and allies as the tense political climate at home and with the US escalates.

Yet, industry participants remain cautiously optimistic looking for opportunities in volatility. In this report, we bring you a selection of market reports as well as key highlights from IFN Turkey Forum.

We hope you enjoy reading this edition of the IFN Turkey Report and we look forward to the next one.

Most sincerely,



Vineeta Tan
Editor
Islamic Finance *news*

Turkey: Uncertainties threaten development

Turkey's participatory banking landscape has witnessed considerable growth in the past few years, enough to be ahead of its geographical peers. But as political and economic problems brew in the horizon, will the Shariah banking industry suffer? DURGAHYENI MOHGANA SELVAM provides an overview of what has happened in Turkey's participatory banking industry in the past 12 months.

Regulatory landscape

In Turkey, Islamic banking is more widely known as participation banking and is regulated by the Banking Regulation and Supervision Agency under a single Banking Law and associated regulations. While there is no separate legislation for participation banking, the law, however, takes into account the uniqueness of Shariah compliant transactions.

Deputy Prime Minister Mehmet Simsek in 2016 did, however, say that the government is preparing a draft law to harmonize the taxation of Islamic financial contracts. Earlier this year, the possibility of establishing a central Islamic advisory board was discussed by the Turkish Treasury. But no news has materialized on both fronts.

With regards to Sukuk or trust certificates, the first regulation was introduced in 2010 by the Capital Markets Board of Turkey and tax neutrality was adopted in February. In June 2012, Public Finance Law No 4749 was amended to facilitate sovereign Sukuk issuances and at the end of 2012, a new Capital Markets Law (Law No 6362) was implemented, laying the groundwork for private lease certificates and asset-leasing companies. In April 2013, the government introduced changes to the legislation, allowing for new lease certificates to be structured on the Shariah principles of Istisnah, Murabahah, Mudarabah, Musharakah and Wakalah, with other structures permitted subject to regulatory approval.

In 2015, the country set up a dedicated Islamic finance coordination committee to propel the development of the industry.

Banking and finance

There are 51 banks in Turkey out of which five are participation banks: Bank Asya, once the biggest Islamic bank in the country, was shut down in July 2016 by the regulator as part of a post-coup purge due to its strong links to the Gulenist movement.

As of March 2018, the five existing participation banks (Ziraat, Vakifbank, AlBaraka Turk, Kuveyt Turk and Turkiye Finans) collectively registered a surge in assets to TRY112.02 billion (US$24.58 million) from TRY90.15 billion (US$19.78 billion) a year before, according to the Banking and Regulatory Supervision Agency. The industry took up 4.81% of the overall banking asset market share in May 2017 (latest data) — the Republic intends to triple the number to 15% by 2025.

Halkbank, a national bank, is expected to open a participation window soon. The country is also working with the IDB and Indonesia to establish an Islamic megabank, which is expected to be launched this year.

For the past two years, mergers and acquisitions activity has also increased in the local Islamic banking landscape. The Turkish Treasury announced that it would be taking over a 58.45% stake in Vakifbank, currently held by the General Directorate of Foundations, under the Prime Minister's Office, whereas UAE-based Emirates NBD's discussions with Russia's Sberbank to acquire the latter's stake in Turkey's DenizBank are currently at an advanced stage.

Sukuk

Sukuk or lease certificates were first introduced in Turkey in 2010 when Kuveyt Turk Katilim Bankasi raised US$100 million through the Islamic capital markets. The government in September 2012 made its US$1.5 billion sovereign Sukuk debut. In April this year, it raised raised TRY389.47 million (US$85.45 million) through an auction of gold-based Sukuk, the highest amount raised this year. Since 2017, the government has collected TRY2.43 billion (US$533.16 million)-worth of gold through this Sukuk so far.

This year, the Turkish Treasury issued lease certificates maturing in 2020 and has plans to auction a two-year lease certificate in June, September and November. Halk REIT issued an 87-day lease certificate, touted as the first Sukuk issuance in Turkey's real estate investment sector, whereas while Kuveyt Turk and Vakifbank have received regulatory approval to offer Sukuk facilities.

Asset management

The local Shariah asset management industry is nascent. It is challenging to ascertain the exact number of Islamic funds as Shariah terms are avoided in describing Shariah compliant financial products. Unlike the banking industry, conventional asset managers are allowed to offer Shariah compliant products on a window basis and need not apply for separate Shariah approvals; there are three fully-fledged Islamic asset managers.

Last year, Mufakat Portfoy, a Shariah compliant asset management company, launched two venture capital funds and one REIT fund. KT Portfoy and Green Power in May 2017 signed an MoU to set up the first Islamic private equity investment fund in Turkey. The vehicle, managed by KT Portfoy, will primarily invest in the energy industry with a focus on renewables.

Outlook

The Turkish participatory banking system is growing at a rapid pace to compete with its peers in the global landscape. The progress, if groomed well, could bring in more investors and in turn could help the nation fix its deteriorating inflation and the volatility of its exchange rate.

But internal problems, such as major political shifts and security threats, pose obstacles to the growth of the industry. The once-fastest developing economy in the world has been downgraded to junk this year to 'BB-/B' on the back of rising imbalances in its economy, widening debt-financed current account deficit and high inflation — factors which may impact the performance and development of its Islamic finance sector.

Turkish pensions: A turbulent journey

Turkey has one of the lowest pension penetration rates in the OECD, with pension fund assets accounting for just 2.2% of total GDP in 2017. But the auto-enrollment system introduced in 2017 has not only seen substantial growth in the sector, but has spurred an unprecedented preference for Islamic funds. LAUREN MCAUGHTRY explores the potential growth — and possible barriers — to a thriving participation pensions industry amid the current economic chaos.

Struggle to start

Turkey's pension industry is starting from a small base and is relatively underdeveloped compared to other markets. According to the OECD, Turkish pension funds' real net investment rate of return in 2016 was just 0.9% — ranking 22 out of 26 OECD countries measured and coming in well below the weighted average of 2.7%. In the same year, Turkey held just US$34.38 billion in pension funds, ranking 22nd out of 35 OECD economies, with pensions accounting for just 4.7% of total GDP. In comparison, the UK held US$2.27 trillion in pension funds, standing at 95.3% of GDP. In 2017, the figure declined yet further. Turkey's pension funds held just US$17.8 billion in assets, an even smaller 2.2% of GDP — compared to US$2.9 trillion for the UK or 105.5% of GDP.

Pushing ahead

But all that could be about to change, following the recent changes introduced to the country's pension system. In August 2016, the Amendment Act introduced into Turkish Law the auto-enrollment of all employees under the age of 45 into private pension plans. The system is intended to be complementary to the mandatory state social security system, which requires employers to pay a total of 22.5% of salary (of which 15% is tax deductible) while the employee contributes 15% to make a total of 37.5% covering social security, disability, old age, general health and unemployment insurance.

The new law is designed to boost participation in what was previously a voluntary private pension scheme, in order to increase individual retirement savings. The scheme is being rolled out on a staggered basis, starting from the 1st January 2017 and applying to all firms with over 50 employees. From the 1st July 2018, the scheme was extended to cover firms with 10-49 employees, and from the 1st January 2019 firms with between five and nine employees will also be included. Employees can choose to leave the auto-enrollment scheme after a two-month 'cooling-off' period, but those who choose to remain will receive a one-off TRY1,000 (US$144.38) state contribution.

Islamic influence

It's early days for the scheme, but despite its relative youth, one key trend already appears to be emerging — the overwhelming popularity of Shariah compliant pension funds — or, as they are known in Turkey, participation funds. According to the latest figures available, as of the 27th July 2018 Turkish pension funds had over TRY84 billion (US$12.13 billion) in assets under management, of which 96% are derived from voluntary enrollment — unsurprising, given the infancy of the auto-enrollment system.

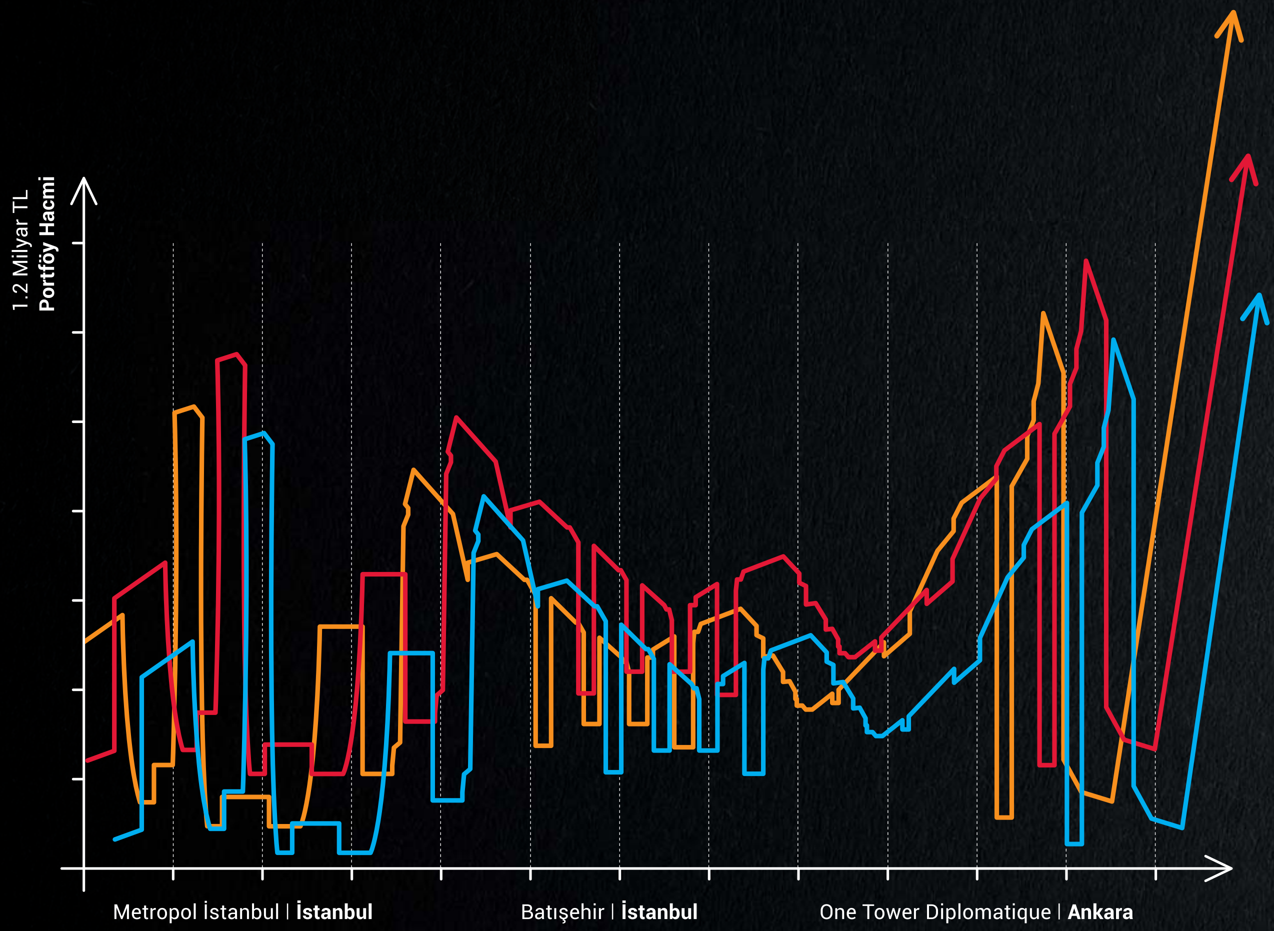
What is notable, however, is that of the TRY3.3 billion (US$476.45 million) gathered in auto-enrollment funds since the January 2017 launch, a substantial 63% are invested into participation funds. This is in sharp contrast to the voluntary segment, in which 93% of funds are conventional and just 7% are directed to participation funds. So what has made the difference — why the sudden swing?

> ***"The participation funds sector in Turkey will only grow if we can show these investors the benefits of joining, so that they remain in the system and continue to contribute"***

"The new figures show that the people who would choose a participation fund were not previously in the system. If you make it mandatory for everyone to join the system, then the majority will choose the participation management method. That is a very clear and very significant message. The investors are saying that they want Shariah compliance," said Tayfun Ozkan, CEO of KT Portfoy, the asset management arm of Kuveyt Turk, one of Turkey's five participation banks. "What we need to do now is to deliver [to] these people a sustainable and transparent return, all the way down to their retirement. The participation funds sector in Turkey will only grow if we can show these investors the benefits of joining, so that they remain in the system and continue to contribute."

Türkiye'nin lider gayrimenkul portföy yöneticisi: **Albaraka Portföy**

Fonlarımızı borsaya kote ederek istenildiği anda alınıp satılabilir hale getirdik.



Albaraka Portföy olarak: 2017 sonu itibarıyla 1.2 milyar TL'lik bir gayrimenkul yatırım fonu büyüklüğüne ulaştık. Gayrimenkul yatırımını, fon yönetimi bakışı katarak doğrudan yatırıma kıyasla çok daha likit hale getirdik.

Potential problems

This, however, is no certainty. According to the latest figures, by the end of February 9.6 million employees had been enrolled in the system — but 6.1 million employees decided to withdraw. In total, around 61% of employees exercised their right to withdraw at the end of the first two months of the cooling-off period — not very promising in terms of growth. Why? Primarily, because the scheme does not mandate any employer contribution, making it of limited interest to employees who resent having to contribute their own earnings with no matching donation.

To encourage participation, the Ministry of Finance recently prepared a draft law with updated provisions — including an extension of the cooling-off period from two months to six months, and a potential increase in the TRY1,000 state contribution.

Whether these incentives work or not, there are bigger problems at play — including systematic issues within Turkey's asset management sector that limit the scope of pension funds altogether.

One of these is a structural issue. In Turkey, unlike in most other markets, asset managers do not set up funds that the pension companies then select for investment. Instead, pension companies set up their own individual funds, usually of a relatively small size, and then hand these over to an asset manager to manage on their behalf. "We might have a Sukuk fund for normal investors," explained Tayfun. "And then we might have another Sukuk fund for a pension company. And another Sukuk fund for another pension company. And another and another. It is an unnecessary inflation of funds in the market, and it means that the asset managers cannot take advantage of any economies of scale."

Another challenge is conflicting regulation — the industry is managed by two regulators (the Undersecretariat of the Treasury for the pension funds and the Capital Markets Board of Turkey on the asset management side) and their approaches are not necessarily always aligned. "We need just one regulator to supervise the industry," urged Tayfun. "But frankly, the whole structure of pension funds in Turkey should be revisited."

Asset options

One of the biggest issues, however, is the limited appetite for effective instruments. The bulk of Turkish pension fund assets (47% as of 2016, according to the Capital Markets Board) are invested into domestic government bonds and treasury bills, while only around 14% are invested into equities and the remainder sit in corporate bonds, foreign securities, money market instruments and other vehicles. What does this mean? First, that pension funds are highly localized and extremely domestic, exposing them to the worst of the current economic crash in Turkey with limited diversification into overseas instruments. Second, their limited exposure to equities means that pension funds have lost out on one of the best-performing asset classes of recent years. Overall, stocks account for just 11.7% of total Turkish fund assets, according to fund manager Gedik Portfoy — too low for pension investments seeking long-term returns. Over the past three years, the average return of 239 Turkish pension fund portfolios was 37.5%, according to Bloomberg calculations based on Turkey's Electronic Fund Platform data. In comparison, the benchmark Borsa Istanbul Index gained 46% over the same period, while the Consumer Price Index increased by 32%.

The problem is exacerbated in the participation sector, where options are even more restricted.

"Do we have enough Shariah compliant instruments with which to address the growing demand? No we don't — and this is a big problem," warned Tayfun.

> ***"Shariah compliant investments are a hot topic in Turkey right now due to economic conditions, and there has been a huge demand for these funds"***

The main product for participation pension funds on the fixed income side is Sukuk, where a low volume of issuances — especially on the corporate side — is limiting market growth. In terms of equities, there is an even bigger issue.

"Borsa Istanbul has no separate market for Shariah compliant stocks, and that is a big blockage for investors," noted Tayfun. "We have requested Borsa Istanbul to create a new market for participation products only, which would help grow the whole ecosystem — we hope to have this new market within Borsa Istanbul in the near future."

However, several new developments over the past year have pumped renewed vigor into the market. Given Turkish investor preferences for short-term instruments, a number of asset management firms (including KT Portfoy) have launched new short-term participation Sukuk funds, with an average maturity of 25-90 days. "Shariah compliant investments are a hot topic in Turkey right now due to economic conditions, and there has been a huge demand for these funds," noted Tayfun.

Table 1: Pension funds (as of the 27th July 2018)

	Auto-enrollment	Voluntary enrollment	Total
Conventional	TRY1,207,734,900	TRY75,685,844,288	TRY76,893,579,188
Participation	TRY2,081,298,119	TRY5,857,951,093	TRY7,939,249,212
Total	TRY3,289,033,019	TRY81,543,795,381	TRY84,832,828,400
Conventional	37%	93%	91%
Participation	63%	7%	9%
Total	100%	100%	100%

Source: KT Portfoy

In addition, Borsa Istanbul recently opened up a new repo-like platform for trading Sukuk, which should assist participation banks to manage their liquidity and stimulate further growth in the capital market.

Growth prospects

So there is still plenty of room for optimism — and despite the current limitations, growth is on the cards. In 2017, PwC calculated that pension funds in Turkey should grow by a compound annual growth rate of 34% over the next decade — and new incentives look set to shake up the investment focus and bring new vehicles to the table, particularly in the field of alternative investments.

Starting in 2018, a minimum of 10% of pension fund assets must be invested in private equity investment funds (PEIFs), real estate investment funds, capital market instruments related to infrastructure projects and Turkish sovereign wealth funds, while 1% of a fund portfolio must be invested in PEIFs.

In addition, new rules also incentivize the diversification of asset management. Since the 1st January 2018, no asset manager is allowed to oversee more than 40% of a pension fund — down from 100% previously — meaning that pension funds must spread their assets between at least three asset managers going forward, which has already had an impact. Out of 50 asset managers in Turkey, only 22 managed pension funds in 2017. In 2018 however, this increased to 29 — of which at least one of the new joiners is a pure participation player.

Moving forward

What does the future hold for participation pensions in Turkey? Despite the setbacks and structural challenges, it looks as if the regulatory tweaks are having a positive impact — and given the current situation, the industry is proving surprisingly resilient. Turkey is undergoing an economic catastrophe, with the lira at its lowest point since 2001 and a massive sell-off in Turkish markets as foreign investors flee the scene following the raising of US tariffs on Turkish steel and aluminium and sanctions which flung the country's financial markets into turmoil. However, this has had a limited effect on the country's pension funds, which have been insulated from the worst of the currency crash due to their domestic focus, while employees fearing for their long-term future are in fact more likely to look toward the new savings scheme.

> ***"Pension funds in Turkey should grow by a compound annual growth rate of 34% over the next decade — and new incentives look set to shake up the investment focus and bring new vehicles to the table"***

Ayhan Sincek, the general manager of Katilim Emeklilik, a private pensions business launched by Albaraka Turk and Kuveyt Turk, confirmed that the auto-enrollment system was already taking effect.

"We have reached TRY1.3 billion (US$187.69 million) across 11 pension funds in the individual pensions market. We have a market share of 14% among non-interest funds," he said. "The benefits of [the new pension system] are increasingly understood … and the withdrawal rates are gradually falling."

"People are joining the system every day, and due to the current economic situation, there is a growing preference for Shariah compliant investment options," agreed Tayfun. "We are very optimistic as to the growth potential of the participation pensions sector going forward."

Borsa Istanbul introduces repo-like mechanism for Sukuk to aid Islamic banks in managing liquidity

Turkish participation banks are now able to manage their liquidity more efficiently using a newly-launched repo-like mechanism by the national stock exchange, an initiative to support the country's Islamic banks and stimulate growth in its nascent interest-free capital market. VINEETA TAN reports.

Borsa Istanbul has confirmed the launch of the Committed Transactions Market of Sukuk (CTM) and has begun the trading of Sukuk, or lease certificates as they are colloquially known. Based on the principles of Shariah, the CTM is open to all banks in the country and has received the greenlight from the Participation Banks Association of Turkey.

"[The] CTM functions similarly to the operational rules of [the] Repurchase (repo) and Reverse Repo Markets within [the] Borsa Istanbul Debt Securities Market and lease certificates are subject to trading," explained the bourse. "Committed transactions are realized by selling with a commitment to repurchase from a third party at a future date and buying with a commitment to resell to the third party at the same date. The third party has the right of withdrawal from the committed transactions."

With such a mechanism, participation banks would be able to better manage their liquidity in a more cost-effective manner and also potentially have access to a larger funding base, significant advantages in a highly competitive market of over 50 banks where conventional finance dominates.

The CTM is one of a number of initiatives by Turkish authorities to expand its Islamic finance sector, currently serviced by five participation banks, three fully-fledged Islamic asset management firms and a handful of other service providers. The government also maintains a regular Sukuk issuance calendar.

These supportive government measures and steady push by market players for interest-free products have yielded promising results.

Over a two-year period from 2015 to 2017, the number of debt securities and lease certificates offerings about doubled from 621 to 1,217, raising TRY130 billion (US$25.02 billion) for companies at the end of 2017, according to official data. In the first seven months of 2018, TRY99 billion (US$19.06 billion) was raised through 849 issuances, translating into an average of 5.8 listed debts daily this year. Islamic papers account for twice the market share as of July 2018 at 10% from 5% in 2017.

> ***"With such a mechanism, participation banks would be able to better manage their liquidity in a more cost-effective manner and also potentially have access to a larger funding base"***

Borsa Istanbul expects the share of lease certificates in the total number of offerings to increase in the upcoming period.

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How to offer gold as a Shariah compliant investment

Gold has always enjoyed a close connection with Islamic culture. Now, thanks to the Shariah compliant gold standard, the precious metal is playing a vital role in the future of Islamic finance.

To provide consistent guidance on gold as an investment, AAOIFI introduced the Shariah compliant gold standard in late 2016.

The then secretary-general of AAOIFI, Dr Hamed Hassan Merah, said the introduction of the standard was to ensure there were Shariah compliant investment solutions available for individuals and to help Islamic financial institutions manage liquidity. It is also assisting Islamic financial institutions attract more clients by enabling the creation of a broader range of products.

> *"The introduction of the standard was to ensure there were Shariah compliant investment solutions available for individuals and to help Islamic financial institutions manage liquidity"*

For institutions wishing to offer savings, hedging and diversification products, there are some compelling findings about holding gold within a Shariah compliant portfolio, as the World Gold Council concluded in its research paper 'Advancing Islamic Finance Through Gold'. These are summarized as follows:

1. **Gold is a highly effective diversification tool**

   Gold's correlation to major Islamic equity indices ranges from only 0.13 to -0.01, which means there is almost no linkage in performance.

   In relation to Sukuk and Islamic REITs, gold exhibits a correlation of 0.02 and 0.1 respectively.

   This lack of relationship can make gold a robust diversifier, helping investors minimize risk, reduce volatility and potentially enhance returns.

2. **Gold exhibits relatively low volatility**

   Gold is less volatile than major Islamic equity indices, REITs and the Takaful index.

   While gold can be more volatile than Sukuk, it is potentially a safer asset class because it carries no credit risk or third-party liability.

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1. Union of Turkish Bar Association
2. İstanbul Bar Association
3. Mutlu Law Firm is registered to Legal500

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8. Neova Sigorta Anonim Şirketi (insurance company- subsidiary of Turkapital Holding BSC)

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Mutlu Law Firm has been awarded by IFN News in the category of the Deal of the Year in 2011 (KT Sukuk Varlık Kiralama US$350 million Certificates) and 2015 (RM800 million (US$183.92 million) in RM2 billion (US$459.8 million) program) Sukuk issuances of Kuveyt Turkish Participation Banks. Mutlu Law Firm provides comprehensive legal services to our clients on any aspects of business and finance in Turkey since 2002. We have 8 partners, 14 lawyers and 21 support staffs for providing legal services in our main field of activity.

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3. **Gold offers strong risk management features**

   Gold's behavior as a risk management tool is particularly significant for Islamic investors given derivative-based risk management instruments such as credit default swaps and conventional futures or forwards are not Shariah compliant.

4. **Gold is Shariah compliant whereas many traditional safe haven assets are not**

   Gold is perhaps best known as a refuge during times of geopolitical and financial turmoil.

   US treasuries, conventional money market funds or other developed market sovereign bonds can also be favored during times of market turbulence. However these, like many risk management tools, are not Shariah compliant.

   Gold, on the other hand, now offers a larger and more liquid Shariah compliant asset pool than what has traditionally been available as a safe haven.

5. **Gold is a long-term preserver of wealth**

   Gold's widely recognized role as a preserver of wealth may be especially pertinent in Islamic finance.

   Gulf-based investors generally hold positions denominated in US dollars or a currency pegged to the dollar.

   However, Southeast Asia-based investors tend to denominate their positions in local currency, usually the Malaysian ringgit or Indonesian rupiah.

   These currencies have historically fluctuated against G10 currencies and have tended to underperform during periods of severe market instability.

   Adding gold to a ringgit or rupiah-denominated portfolio can greatly moderate exchange rate risk.

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- Has produced the highest purity gold bullion for almost 120 years.

> ***"Gold's behavior as a risk management tool is particularly significant for Islamic investors given derivative-based risk management instruments such as credit default swaps and conventional futures or forwards are not Shariah compliant"***

Shariah compliant products

The Perth Mint's allocated and pool-allocated products have been endorsed as Shariah compliant by highly respected Shariah advisory consultant Dar Al Sharia, in accordance with AAOIFI's Shariah Standard on Gold.

The products are offered via financial institutions and authorized distributors, which can share the benefits of The Perth Mint's expertise and unique offerings.

The Perth Mint's online platform at a glance

The Perth Mint's Depository Online platform is easily configurable as a white-labeled service and can be tailored to individual needs.

Enabling 24/7 live pricing, the mobile phone-friendly platform is underpinned by 128 SSL encryption which provides the highest level of security, with transactional confidentiality assured.

Through The Perth Mint's close relationship with the World Gold Council, it can facilitate the training of staff and product marketing among existing and new clients.

** The Shariah Compliance Pronouncement on Tradability of Gold and Silver Products, made by Dar Al Sharia with regards to The Perth Mint investment products, may be found at perthmint.com/ShariaCompliance.*

This article is contributed by The Perth Mint. Further details about The Perth Mint can be found at www.perthmint.com.

Record demand for Turkey's gold-based Sukuk

The Turkish government has raised TRY389.47 million (US$96.12 million) through its latest auction of gold-based Sukuk, the highest amount raised this year. VINEETA TAN writes.

Designed as a Muslim-friendly instrument to appeal to the public and encourage retail savings while optimizing idle gold in the economy, the proceeds raised in the March 2018 sale of six-month gold lease certificates were the highest since January, and second-highest since President Recep Erdogan's government introduced this new asset class in 2017. The government has collected TRY2.43 billion (US$599.7 million)-worth of gold through this Sukuk so far, out of which, TRY1.11 billion (US$273.94 million) has been raised this year.

The Shariah compliant instruments, which allow investors access to equivalent Sukuk using gold, are the first by a sovereign to utilize the precious yellow metal. So far, eight rounds of Sukuk offerings have been conducted — each paper carried a 1.2% term rate and 728-day tenor. Once matured, the underlying assets (plus profit) will be returned to Sukukholders using either one kilogram of gold bullion or quarter gold coins pressed by the General Directorate of Mint. The investments, meant to reduce the dependency of the domestic banking system on external factors, are also understood to be converted into savings guaranteed by the government.

These gold lease certificates are a demonstration of Turkey's ingenuity and commitment in raising funds through Shariah compliant structures as part of a national agenda to bolster Islamic finance as an alternative source of funding. The government has set a 15% Islamic banking market share by 2023; participation banking — as Islamic banking is colloquially known — currently commands approximately 5% of the total market share.

“These gold lease certificates are a demonstration of Turkey's ingenuity and commitment in raising funds through Shariah compliant structures as part of a national agenda to bolster Islamic finance as an alternative source of funding”

The conclusion of the latest offering comes at a time when gold prices are lackluster, dipping to a five-week low in late April to below US$1,318 per ounce.

صندوق التضامن الإسلامي للتنمية

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Repurchasing Sukuk at the nominal value in Turkish practice

There has been no provision so far in the legislation in Turkey concerning the repurchase of rights or assets subjected to Sukuk at the nominal value of these rights or assets. The repurchase option is regulated under Communique on Lease Certificates (III-61.1) as a general principle and in order to facilitate annotation to the title deed by the originator in the Land Registry. UMIT AKKAYA writes.

As is known, the title deed process in the Land Registry is triggered by a request from the owner of the related property with exceptions. According to this general principle, a request of annotation to the title deed would have been made by the asset lease company (ALC) having ownership on behalf of Sukukholders. However, Communique on Lease Certificates (III-61.1) stipulates that the assets and rights included in the portfolio of an ALC cannot be disposed of for any purpose other than collateralization.

Moreover, it is not possible to add a contract clause granting a right to annotate to the title deed because a contingent contract on a transfer of ownership of immovable property is invalid in accordance with Article 243 of the Turkish Code of Obligation. Due to it being impossible to obtain the consent of all investors for annotation to the title deed, the originator is granted by the legislator a right to unilaterally start the process related to the repurchase rights before the Land Registry.

The legal character of a repurchase right makes it a kind of purchase right granted to a seller of immovable property. The use of a repurchase right by a seller creates a sales contract between the buyer and the seller under the conditions of the repurchase right.

Repurchase rights in contracts related to Sukuk (lease certificates) are given by the originator to investors by way of an undertaking to repurchase in annexes of contracts. In the sale of immovable property, a repurchase right may be annotated to the title deed before the Land Registry based on the provision of Communique on Lease Certificates (III-61.1). The parties generally agree on a nominal value of the Sukuk certificates as the repurchase price.

In Standard Number 17, Article 5/2/2 of the AAOIFI 2003 standards, it is stated that in the case of negotiable Sukuk, it is permissible for the issuer to undertake, through the prospectus of the issue, to purchase at the market value after the completion of the process of issue, any certificate that may be offered to him; however, it is not permissible for the issuer to undertake to purchase the Sukuk at their nominal value. Subsequently, AAOIFI analyzed the same issue in detail by taking into consideration the type of Sukuk issuance and the qualifications of the parties in recommendations dated 2008. AAOIFI recommended the following:

- "It is not permissible for the Mudarib (investment manager), Sharik (partner) or Wakil (agent) to undertake {now} to repurchase the assets from Sukukholders or from one who holds them, for its nominal value, when the Sukuk are extinguished, at the end of its maturity. It is, however, permissible to undertake the purchase on the basis of the net value of assets, their market value, fair value or a price to be agreed, at the time of their actual purchase, in accordance with Article (3/1/6/2)4of AAOIFI Shariah Standard (12) on Sharikah (Musharakah) and Modern Corporations, and Articles (2/2/1)5 and (2/2/2)6 of the AAOIFI Shariah Standard (5) on Guarantees. It is known that a Sukuk manager is a guarantor of the capital, at its nominal value, in the case of his negligent acts or omissions or his non- compliance with the investor's conditions, whether the manager is a Mudarib (investment manager), Sharik (partner) or Wakil (agent) for investments. In case the assets of Sukuk Musharakah, Mudarabah or Wakalah for investment are of [a] lesser value than the leased assets of 'lease to own' contracts (Ijarah Muntahiya Bil Tamleek), then it is permissible for the Sukuk manager to undertake to purchase those assets — at the time the Sukuk are extinguished — for the remaining rental value of the remaining assets, since it actually represents its net value.", and
- "It is permissible for a lessee in a Sukuk Ijarah to undertake to purchase the leased assets when the Sukuk are extinguished for its nominal value, provided he {lessee} is not also a partner, Mudarib or investment agent."

> **"We strongly believe that the limitation mentioned in AAOIFI's decision No 5 should also be discussed in terms of the practices of our country, and that Sukuk agreements should be examined more carefully and drafted without causing interest risk"**

These new statements by the AAOIFI have been very much in place to explain a matter that is very general and vague in the 2003 standards. If the tenant, at the same time, is a proxy, Mudarib or copartner, the undertaking of a repurchase at the nominal value is not found appropriate by AAOIFI due to the possibility it may result in interest-bearing transactions. However, if the lessee is also not a Mudarib, Sharik or proxy, it is not a problem to undertake to withdraw the subject assets/rights from the nominal value. It is clear that the Sukuk process should be in this way with regards to the functionality. Otherwise, ambiguities and legal problems may lead to harm and conflicts for the parties. It should be kept in mind that Sukuk relations are ultimately a method of providing resources.

In addition, the Islamic legists who signed the Fatwa for transactions have found it permissible to repurchase at the nominal value, without giving any reservations, in Turkey. We strongly believe that the limitation mentioned in AAOIFI's decision No 5 should also be discussed in terms of the practices of our country, and that Sukuk agreements should be examined more carefully and drafted without causing interest risk. If necessary, it should be considered that a provision may be added to the Communique on Lease Certificates.

Umit Akkaya is a partner at Mutlu Law Firm. He can be contacted at umit.akkaya@mutlu.av.tr.

The Mejelle: The Ottoman code of transactions

The Mejelle Ahkame Adliye, to give it its full name, was the Ottoman Empire's attempt to codify the Muamalat (Islamic law of transactions) from the perspective of the Hanafi Fiqh (that is, the jurisprudence of the legal school of Abu Hanifa (died in 767), the prevalent religious affiliation of the Ottomans). It was introduced into the Ottoman Empire between 1869 and 1876 as part of the Tanzimat reforms initiated by the Sultan. Prior to this, the Penal Code of 1850 and Commercial Code of 1861 were also viewed as legislative reforms, but these were predominantly based on European secular laws. The Mejelle, however, attempted to codify Islamic law (the Shariah), that part of the Shariah that deals with commerce and transactions. ASHLEY FREEMAN delves further.

The Mejelle (the Code) was prepared by a commission of jurists headed by the then minister of justice, Ahmad Djevdet Pasha. The commission explained in their preliminary report of 1861 that the Code was necessary to provide guidance to the newly-instituted secular tribunals (Nizamiye). The judges in these tribunals were being asked to deal with routine civil law disputes but often lacked experience in matters of Fiqh. The Mejelle therefore acted as a useful one-volume reference covering all the main obligations in Islamic transactions.

> ***"The Mejelle was, however, never an obligatory code and the judges remained free to form their own opinions and reach their own decisions based on the Hanafi Fiqh"***

For the most part, the jurists on the commission followed the opinions of Hanafi scholars. The introduction (Muqaddimah) and first book were approved by the Shaikhul Islam and other prominent scholars and the Code was successively enacted in parts by the Sultan's decree or Khatt. The Mejelle was, however, never an obligatory code and the judges remained free to form their own opinions and reach their own decisions based on the Hanafi Fiqh.

The Muqaddimah contains 100 articles setting out general principles (Qawaid). There then follows 16 books beginning with Kitab Buyu (the book of sales). The last four books mostly deal with procedural matters. Altogether there are 1,851 articles based on actual examples drawn from collections of Fatwas. The last books of the Mejelle were enacted in 1876.

Here is a small extract from the Code taken from Book 5, Chapter 4, Section 4 about "sales of a thing pledged" (Rahn):

756. Neither the pledgor nor the pledgee, as long as the other has not consented, can sell the thing pledged.

757. When the time for paying the debt arrives, and the pledgor refuses to make payment, an order on the pledgor is made by the judge, to pay the debt by selling the thing pledged. If he refuses and is obstinate, the judge pays the debt by selling the thing pledged.

758. When the pledgor is absent, if it is not known whether he is alive or dead, the pledgee applies to the judge, for payment of his claim, by the sale of the pledge.

759 […]

760. If the pledgor appoints the pledgee, or the person with whom the pledge is deposited, or some other person, his attorney to sell the pledge, when the time for payment of the debt has come, it is lawful. And the pledgor can no more dismiss that attorney from his attorneyship. And he is not dismissed by the death either of the pledgor or pledgee.

761. A person, who is the attorney for the sale of a pledge, when the time has come for the payment of the debt, sells the pledge, and delivers the price to the pledgee. And if he refuses, constraint is put upon the pledgor to sell the pledge. And if he also refuses and is obstinate, the judge sells it […]

The aforementioned may help explain how the principle of 'self-help' so familiar in western common law systems of real security rarely finds reception in systems influenced by Islamic law. Article 756 makes clear that the sale of the thing pledged can only be done with consent. Neither party can sell upon their own volition and an order of the judge (Articles 757 and 758) is always needed. However, it is also clearly stated that the pledgor may lawfully appoint an attorney (which could be the pledgee) over the thing pledged and when the time for payment of the debt arises, the appointment of that attorney is irrevocable (Article 760). The attorney must sell the item pledged to repay the debt, or upon his failure, the pledgor must act, or upon his failure, the judge enforces the pledge himself.

Whereas the operation of the law is different to that of western common law systems, it has to be acknowledged that this extract of the law is well drafted, simple and concise, in a way that can be easily understood almost 150 years after its enactment.

Alas, the Mejelle stayed in force for only 50 years. On the 17th February 1926, the Grand National Assembly passed the new Civil Code (Kanun-i Medeni) based on the Swiss Code and the Mejelle passed into obscurity in Turkey. Remnants of the Code survive today in various countries such as Iraq, Syria and Jordan. It remains a source of considerable importance to Islamic scholars, and curiosity to legal historians everywhere.

Ashley Freeman is CEO and a partner of Gateway Islamic Advisory. He can be contacted at Ashley.Freeman@GatewayLLP.com.

Sukuk as central bank deposit

Payment agencies in Turkey will now be able to hold the required TRY1 million (US$170,056) deposit at the central bank in the form of Sukuk as well as in the form of cash or government securities, according to a statement. It was also mentioned that the Turkish banking watchdog will be able to impose a requirement of additional equity on payment agencies, which are only allowed to work in operating payment systems, to allow them to operate.

Borsa Istanbul

IFN was informed by Borsa Istanbul that Professor Erisah Arican has been appointed as its new chairperson, replacing Himmet Karadag who resigned in August 2018.

Iran and Turkey plan to establish a bank

Iran and Turkey are planning to establish a bank with the aim of easing trade processes between both countries, Agah Group reported. An export guaranty fund is expected to be formed to assure any sales and purchases.

The creation of the bank will take at least six months and the central banks of the two countries will be responsible for keeping its shareholding structure intact.

IPY hires Shariyah Review Bureau

Investrade Portfoy Yonetimi (IPY) has appointed Shariyah Review Bureau (SRB) to ensure Shariah compliance for its investments funds, portfolio management and distribution services business. According to a statement, the agreement between both parties will see SRB providing IPY with fund structuring support, documentation certification, Shariah audit maintenance, consulting and Shariah advice on portfolio management services for its Turkey office.

The agreement is intended to help IPY decrease the Shariah compliance costs of its transactions, with the savings used to help the company boost its sourcing resources and distribution capabilities as well as deliver tangible business value.

AlBaraka Turk launches Insha in Germany

Turkey's Shariah compliant AlBaraka Turk Participation Bank has officially launched its digital-only Islamic banking service, Insha, in Germany on the 27th September 2018.

Insha is a partnership between AlBaraka Turk and solarisBank, a Berlin-based fintech company that offers banking-as-a-platform services with its German banking license.

Separately, AlBaraka Turk has also set up its own venture capital arm which will invest funding ranging from US$100,000-500,000 in three start-ups from its AlBaraka Garaj accelerator: Techsign, Inooster and Kartoon 3D, an augmented reality-based children's education and development platform.

Turkey issues fixed rent rate Sukuk

Turkey's Undersecretariat of Treasury has issued a TRY1.7 billion (US$275.67 million) fixed rent rate lease certificate on the 26th September, according to a press release. The Sukuk, which will mature on the 23rd September 2020, received TRY1.89 billion (US$306.48 million) in bids. The ISIN code of the certificate is TRD230920T24.

Separately, the Undersecretariat of Treasury also announced that it will be floating a two-year lease certificate worth TRY1.3 billion (US$214.29 million) on the 20th November 2018. The paper, which will mature on the 18th November 2020, will be auctioned via a direct sale.

IRTI collaborates with UNDP

The Islamic Research and Training Institute (IRTI) and the United Nations Development Program (UNDP) have partnered to conduct a workshop aimed at building the capacity of development practitioners in exploring opportunities provided by Islamic finance toward meeting the targets of the UN Sustainable Development Goals.

According to a statement, the workshop was held in Turkey and included participants from Central Asia, Africa and the Middle East.

QFB announces offloading of Turkish stakes

Shariah compliant Qatar First Bank (QFB) has announced in a bourse filing that one of its subsidiaries has signed a conditional sale agreement to sell its full stake of 40% in Turkey's EHM Magazacilik to a company wholly owned by the Aydin family. In a separate bourse statement, QFB said that one of its subsidiaries also signed a conditional sale agreement to sell its full stake of 20% in Istanbul Memorial Saglik Yatirimlari to a company wholly owned by the Aydin family.

As Halk Invest, we try to combine the past values with future opportunities.

Halk Invest was established in 1997 as the investment banking arm of Halkbank Group in Istanbul. Halk Invest provides a wide range of financial services to local and foreign investors, including Corporate Finance, Investment Advisory, Asset Management, Institutional Sales, Market Making and Liquidity Providing.

Halk Invest's mission is to contribute to the distribution of capital to the societal base by offering capital markets services swiftly, safely and at high-quality.

Halk Invest delivers a wide range of services via its nine-branch network, alternative distribution channels and about 1,000 Halkbank branches, where it provides brokerage activities. The Company ranks among the top brokerage firms in terms of key indicators such as equity capital, transaction volume and asset size.

Halk Invest was the coordinator and the lead book runner or the co-lead book runner of domestic consortiums involved in three of the five largest public offerings undertaken in Turkey's capital markets. The Company is especially well positioned in corporate finance and provides wide range of corporate finance services including equity public offerings, debt capital market products, Islamic capital market products, M&A advisory, Private Sector Advisory, Project Finance Advisory and Private Equity Advisory.

As Halk Invest, we are carrying a rightful honour by being a pioneer in both sukuk issuances of a real investment trust company as well as sukuk issuances that comprised agricultural commodity as an underlying asset in Turkey.

For more information please visit: http://www.halkyatirim.com.tr/

«IFN Deal of the Year 2017-Turkey»
Toprak Mahsulleri Office
Wakalah Bil Istithmar

«The Most Innovative Capital Markets Project 2017»
Toprak Mahsulleri Office
Sukuk Issuance Based on Agricultural Commodity

«Local Bond Deal of the Year 2017»
Halkbank
10-Year Subordinated Bond

Turkey's CPI-indexed Sukuk: Diversifying the domestic market

The global Sukuk market has a great deal of innovation and diversification and Turkey has not been left behind. The latest tranche of the Undersecretariat of Treasury's Consumer Price Index (CPI)-indexed Sukuk papers was issued on the 13th June 2018 for TRY437 million (US$95.16 million). DURGAHYENI MOHGANA SELVAM speaks to the Domestic Debt Management Office (DMO) under the Undersecretariat of Treasury to find out more about the issuance.

The privately placed paper, with a tenor of five years, was floated to broaden the investor base and to diversify borrowing instruments. The CPI is used as a reference for all payments of the certificate. "The reference index for the first day of any calendar month is the CPI of three months earlier. The reference index for the other days of the month is calculated by interpolation," the DMO said.

The CPI-indexed Sukuk, issued via Hazine Mustesarligi Varlik Kiralama Anonim Sirketi, an SPV of the Undersecretariat of the Treasury, showcases the Treasury's attempt to diversify its Sukuk landscape. From 2012 to 2015, Turkey only saw two-year fixed-rate local Islamic papers. After 2016, the market expanded to include five-year fixed-rate facilities. Months later, both fixed-rate and CPI-indexed Sukuk Ijarah instruments were sold in the domestic market.

The latest five-year paper had an issuance target of TRY500 million (US$108.87 million), but was floated for TRY437 million. Despite this, response was healthy. "A decent number of conventional and participation banks participated in the direct sale," the DMO explained.

The latest paper recorded the lowest issuance amount for the CPI-indexed Sukuk series. In October 2016, a paper was floated for TRY1.07 billion (US$232.99 million) and in October 2017, another Sukuk facility was issued for TRY550 million (US$119.76 million). On the corporate side, Kuveyt Turk also jumped onto the bandwagon in 2016 with a TRY10 million (US$2.18 million) CPI-indexed paper via its subsidiary KT Kira Sertifikalari Varlik Kiralama.

But the setback in terms of issuance size did not deter the Undersecretariat of Treasury from floating more CPI-indexed Sukuk instruments. "CPI-indexed Sukuk will be regularly issued in the future, depending on market conditions and market demand," the DMO added.

Turkey's CPI-indexed Sukuk

TRY437 million

13th June 2018

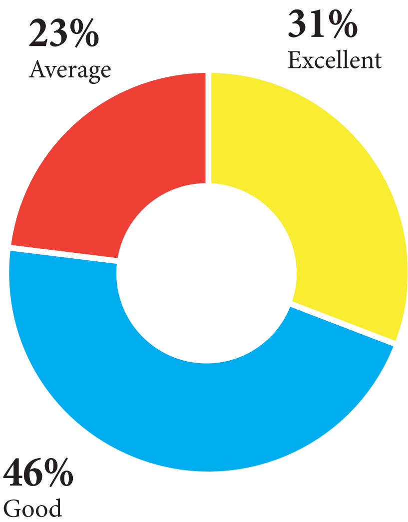
Obligor	The Republic of Turkey
Size of issue	TRY437 million (US$95.16 million)
Mode of issue	Direct sale (private placement)
Purpose	To broaden the investor base and to diversify the borrowing instruments.
Tenor	Five years
Issuance price	TRY100 (US$21.84)
Rent payment	Semiannual: 1.58%
Annual: 3.16%	Seasonal
Payment	• Lease certificate payment: Lease certificate amount will be paid at maturity with the last rental payment. • Rental payment: The semiannual fixed real rent rate over the life of the lease certificate.
Currency	Turkish lira
Maturity date	6th July 2023
Governing law	Turkish Law (Article 7/A of Law Number 4749 on Regulating Public Finance and Debt Management)
Listing	Istanbul Stock Exchange
Underlying assets	Public real estates located in Turkey
Structure	Ijarah
	Market making and secondary market
Tradability	Borsa Istanbul Debt Securities Market
Investor breakdown	Participation banks and other conventional banks

Welcome Address

MURAT CETINKAYA — *CEO and Board Member, Borsa Istanbul*

Mega Trends: Domestic and Global Influencers for Turkey

We discuss key issues relevant to the 2023 Vision, the economic development of the Republic of Turkey and the growth of participation banking. We examine the Turkish financial markets, with a particular focus on geopolitical and financial risks and financial regulation. We also discuss the growth and evolution of the participation banking sector in the Republic and analyze competition and consolidation within the industry as well as the role of foreign investors.



Moderator:

SHIBEER AHMED — *Partner, Winston & Strawn*

Panelists:

ASHRAF MOHAMMED — *Deputy Director-General, Procurement, Portfolio and Financial Management Department, Asian Development Bank*

DR BELLO DANBATTA — *Secretary-General, IFSB*

HARUN CELIK — *Regional Head, International Islamic Trade Finance Corporation*

IJLAL ALVI — *CEO, International Islamic Financial Market (IIFM)*

PROF DR OBIYATHULLA ISMATH BACHA — *International Centre for Education in Islamic Finance (INCEIF)*

Mega Trends: Domestic and Global Influencers for Turkey

Key takeaways

The main mega trends in the Islamic finance market in Turkey were discussed during the session. The panel considered how the development of Islamic banking and Sukuk trends in Asia could be considered as models for (i) the growth of Islamic finance in Turkey and (ii) the role that policymakers could play. It was highlighted that the Banking Regulation and Supervision Agency is working on a law to set up a national Shariah board which will take into account best international practices, as well as IFSB and AAOIFI standards. Consistent with this approach, in May 2016 the UAE cabinet approved the Higher Shariah Authority, a national regulator and standard-setting body (overseen by the Central Bank of the UAE) for Islamic finance, which issued a resolution in July 2018 requiring UAE Islamic financial institutions to apply AAOIFI standards.

According to the Participation Banks Association of Turkey, the market share of participation banking has risen from 2.5% in 2005 to 5% in 2015, and is expected to reach 15% by 2025. The panel discussed how the growth trends in the Turkish participation banking sector could be sustained to meet the 2023 Vision amidst current regulatory challenges.

The panel then discussed the Islamic banking sector growth performance in Turkey, the 2025 targets, the challenges and the growth potential of the sector with the introduction of new players and products. Consumer, commercial/corporate, infrastructure and trade finance were identified as the main growth sectors. The perception of Islamic finance was identified as the main challenge to the growth of the sector in Turkey (particularly in respect of the heavy reliance on commodity Murabahah financings and the need to diversify the Islamic finance product range).

The importance and benefit to the Turkish financial sector of Islamic standardized documentation and Shariah standards were considered. The active and successful role of the International Islamic Financial Market in achieving standardization was noted and the need for a single global body of standards was emphasized.

The discussions culminated by noting the paradox between the obvious infrastructure needs of most Muslim countries and the inability of Islamic finance to fill the financing gap.

Shibeer Ahmed is a partner at Winston & Strawn. He can be contacted at sahmed@winston.com.

There is enormous potential for growth of the participation banking sector in Turkey. However, it is important for regulators and market players to undertake more efforts to strengthen the sector. Key considerations in this regard include the development of the necessary market infrastructure and legislation to facilitate the development of the participation banking sector by addressing existing gaps and providing a comprehensive regulatory framework, to provide a level-playing field for participation banks and to enable more diversity in product offerings, other than Murabahah-based products.

There should also be a critical focus on the adoption and implementation of global standards and the development of specific regulations that take into account the specificities of the participation banking sector, including Shariah governance and capital adequacy, among others, to create a facilitative environment that will support and foster the resilience and growth of the sector. To reach the 2023 target of 15% growth in the participation banking sector, in addition to strengthening the regulatory framework, it is also equally important to enhance capacity-building through education and awareness programs.

Dr Bello Danbatta is the secretary-general of the IFSB. He can be contacted at bello@ifsb.org.

There is a disconnection between the Islamic finance practice and the needs of the economies in the Muslim world. Islamic finance has been concentrated in trade financing through widely used Murabahah instruments but what is really needed is to support production, investments and job creation through profit and loss-sharing modes such as Musharakah. Similarly, despite the government's strong support and remarkable growth of the Islamic finance sector in Turkey during the last decade, the current level of market penetration which is around 5% is still considered way below the potential level and the main reason would be summarized as the lack of proper financing mechanisms which could be used as an alternative to conventional instruments.

Harun Celik is the regional head at the International Islamic Trade Finance Corporation. He can be contacted at hcelik@isdb.org.

Capital Markets Innovation, Sukuk Issuance and Infrastructure Finance in Turkey

We look at innovation in the Turkish capital markets and identify where Shariah compliant products can add value and what role they can play. We discuss recent regulatory developments for Sukuk and assess the latest situation regarding corporate Sukuk and Tier 1 financial institution issuance. We also examine the role of infrastructure finance in Turkey and ask what models could feasibly be imported from other countries and what lessons could be learned? Do Public-Private Partnerships offer a viable model?

Moderator:
MUFIT ARAPOGLU — *Partner, Balcioglu Selcuk Akman Keki Attorney Partnership*

Panelists:
ATILA YANPAR — *Head of Corporate Finance Department, Capital Markets Board of Turkey*
BASHAR AL-NATOOR — *Global Head of Islamic Finance, Fitch Ratings*
FATIH KAZAN — *Acting Supervisor/Financial Sector Specialist, World Bank*
DR MENEVSE OZDEMIR DILIDUZGUN — *Vice-President, Debt Capital Markets Advisory, Halk Invest*
SERA SOMAY — *Partner, Paksoy*

Key takeaways

The Capital Markets Board of Turkey expressed its continuing support to market players and will collaborate with them in order to satisfy market needs to promote Turkish Islamic finance. In addition, Borsa Istanbul performed an important role by introducing a new Sukuk market with the aim of developing interest-free financial instruments for undertaken transactions (Taahhutlu Islemler Pazari). Given the natural potential of Turkey as a Muslim country, public awareness supported with regulatory changes would ensure notable growth in the market.

Sera Somay is a partner at Paksoy.
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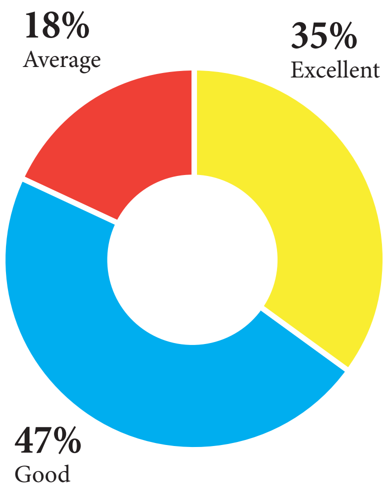


Capital Markets Innovation, Sukuk Issuance and Infrastructure Finance in Turkey

Key takeaways

In 2013, a communique regarding Sukuk issuances was published, paving the way for Sukuk issuances in the private market. The Sukuk market, still in its infancy, has yet to grow and attract more investors. Currently, issuers face competition from conventional instruments regarding the rate of return. Nevertheless, the asset-based/backed structure of Sukuk is expected to gain more market share. The market is growing day by day; the size of the Turkish domestic Sukuk market was TRY4 billion (US$653.63 million) at the end of 2013, and reached TRY11.6 billion (US$1.9 billion) by 2017 at a compound annual growth rate of 30.4% between 2013 and 2017. As of the end of August, the local Sukuk market size was TRY13.2 billion (US$2.16 billion) (including the treasury and the private sector.)

Due to duration limitations of Sukuk funds, institutional investors prefer short terms. This prevents the issuance of longer-term Sukuk, creating a mismatch between investors and fund seekers.

On the other hand, while the market has been growing and deepening, innovative products popped up as well. We at Halk Invest have the ability to create new and tailor-made products by merging conventional and Islamic at the same time. This is our difference from participation banks. We have contributed to the market by resolving some issues regarding taxation as well. As an example, Halk Invest first started to work with the Turkish Grain Board in 2014 but the first issue only took place in 2017 since we need to deal with some tax issues regarding the Sukuk agreements which were not regulated until then.

In the Sukuk Wakalah structure, the Turkish Grain Board was the Wakeel (agent) and the asset portfolio were warehouse receipts representing wheat. This issue was an innovative product both in Turkey and in the world because it was the first utilization of an agricultural commodity as an underlying asset of Sukuk. Last year, that issuance won the IFN Deal of the Year for Turkey award.

Basically, we can say that there is no problem on the supply side; however, new products will be shaped via investor appetite, especially for infrastructure finance where long-term funding is needed. As of today, the Turkish Sukuk market has a limited size and the terms are generally short. However, as the market deepens and product variety increases, the funding of infrastructure projects will be possible.

Dr Menevse Ozdemir is the vice-president of corporate finance and advisory at Halk Yatirim Menkul Degerler.
She can be contacted at mozdemir@halkyatirim.com.tr.

Notwithstanding its largely Muslim population, Turkey's participation banking sector only represents around 5% of the banking system and its Sukuk market is still small compared to its potential. This is mainly due to the relatively recent introduction of the regulatory framework for Sukuk (first regulation was introduced in 2010) and a still developing capital market segment in general.

Recently, a lot of steps have been taken by the government and regulatory bodies to accelerate Sukuk market development and improve its ecosystem. However, a lot still needs to be done on both sides of the equation — ie the investors and issuers — through enhancing market efficiency, transparency and improving the issuer and investor value proposition for the Sukuk market and debt instruments in general. After addressing these key gaps, time and establishing a track record will be essential to build confidence in the segment.

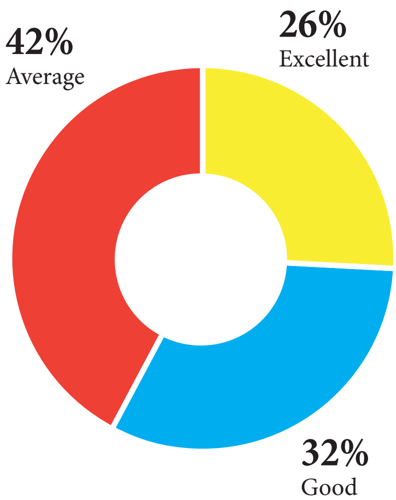
Bashar Al Natoor is the global head of Islamic finance at Fitch Ratings. He can be contacted at bashar.alnatoor@fitchratings.com.

Co-Interview: Islamic Asset Management in Turkey

Interviewer:
DERIN ALTAN — *Partner, Head of Capital Markets, GKC Partners*

Interviewees:
AVSAR SUNGURLU — *Assistant General Manager, Albaraka Asset Management*
TAYFUN OZKAN — *General Manager, KT Portfoy*

We ask what is next for the Turkish asset management industry and take a look at recent product innovations. We also examine the latest developments in the Turkish pension industry and consider the growth of demand and supply of Shariah compliant retirement options for savers.

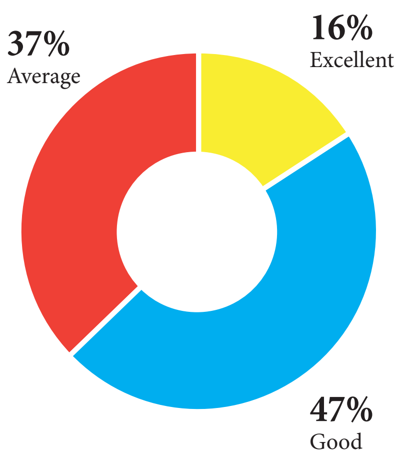


Fintech Huddle

Moderator:
VINEETA TAN — *Editor, Islamic Finance news*

Panelists:
DR CIGDEM AYOZGER ONGUN — *Founder – Managing Director, SRP Legal*
LEILYA SHAMEL — *Associate Director, Business Development, DDCAP*
RACHID OUAICH — *Co-Founder, ConexCap*
ROBIN LEE – *CEO, HelloGold*

We discuss the role of fintech, digital platforms and tokenization in today's financial industry in Turkey. What do the development of smart contracts and blockchains mean for Islamic banking in the region? We assess the latest developments in fintech and analyze likely industry shifts, regulation and developments in product and delivery channels.



SPEAKERS' LIST

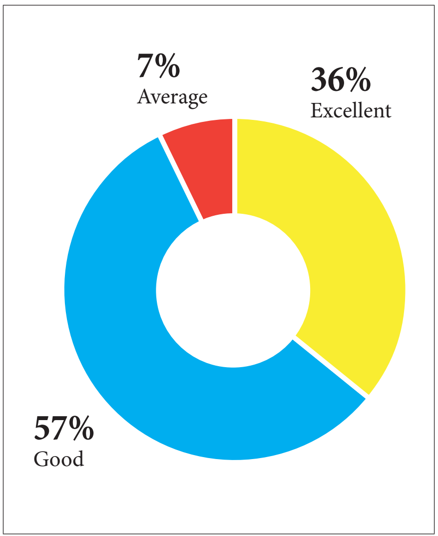
Name	Job Title	Company Name
ASHRAF MOHAMMED	Deputy Director-General, Procurement, Portfolio and Financial Management Department	Asian Development Bank
ATILA YANPAR	Head of Corporate Finance Department	Capital Markets Board of Turkey
AVSAR SUNGURLU	Assistant General Manager	Albaraka Asset Management
BASHAR AL-NATOOR	Global Head of Islamic Finance	Fitch Ratings
DERIN ALTAN	Partner, Head of Capital Markets	GKC Partners
DR BELLO DANBATTA	Secretary-General	IFSB
DR CIGDEM AYOZGER ONGUN	Founder — Managing Director	SRP Legal
DR MENEVSE OZDEMIR DILIDUZGUN	Vice-President, Debt Capital Markets Advisory	Halk Invest
FATIH KAZAN	Acting Supervisor/Financial Sector Specialist	World Bank
HARUN CELIK	Regional Head	International Islamic Trade Finance Corporation
IJLAL ALVI	CEO	International Islamic Financial Market (IIFM)
LEILYA SHAMEL	Associate Director, Business Development	DDCAP
MUFIT ARAPOGLU	Partner	Balcioglu Selcuk Akman Keki Attorney Partnership
MURAT CETINKAYA	CEO and Board Member	Borsa Istanbul
PROF DR OBIYATHULLA ISMATH BACHA	International Centre for Education in Islamic Finance	INCEIF
RACHID OUAICH	Co-Founder	ConexCap
ROBIN LEE	CEO	HelloGold
SERA SOMAY	Partner	Paksoy
SHIBEER AHMED	Partner	Winston & Strawn
TAYFUN OZKAN	General Manager	KT Portfoy
VINEETA TAN	Editor	Islamic Finance *news*

ATTENDEE COMPANIES

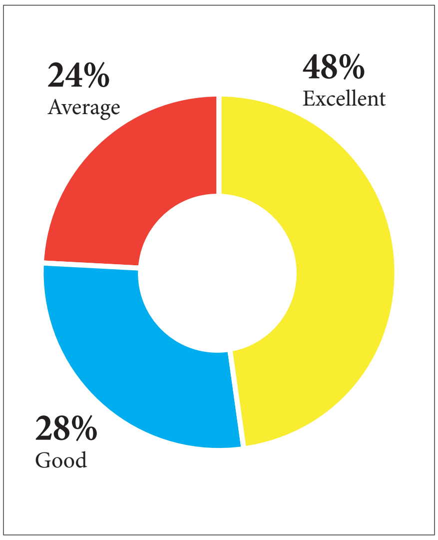
AK Law Firm
Al - Hashmi Law
Albaraka Asset Management
Albaraka Portföy
Albaraka Turk
Algerie Clearing
Al-Taqwa Finance
Ambank Islamic
Arz Portfoy
Asian Development Bank
Azimut Portföy
Bahcesehir University
Balcioglu Selcuk Akman Keki Attorney Partnership
Bali Makina Sanayi Ve Ticaret
Banco Sabadell
Bank Al Habib
Bank Sepah International
Bezen & Partners
Borsa Istanbul
Capital Markets Board of Turkey
Citigroup
Conexcap
DDCAP
Debt Management Office
Deloitte
Deniz Invest
Deniz Yatirim
Dept for Int Development UK
Diler Holding
Diler Yatirim
Doctors Worldwide
DVA
Ergün Law Office
Fitch Ratings
FLP Group Co
Garanti Yatirim
Gateway
GKC Partners
GM Ambassadors
Halal Italia
Halk Asset Management
Halk Gyo
Halk Hayat Ve Emeklilik
Halk Invest
HelloGold
House of Zakat & Waqf Uganda
HSBC Portföy
IFRC
IFSB
IIFC
IIRA
Indonesia Stock Exchange
Industrial Development Bank of Turkey
Inhouse Global
INCEIF
IIFM
ICD
Iran Fara Bourse
IDB
Islamic Reporting Initiative
Istanbul Zaim University
Katilim Emeklilik Ve Hayat
Kenyan Red Cross
Ketenci & Keteni Law Firm
Khalij Islamic
Kompanion Invest
Koru Sigorta
KT Portfoy
Kuveyt Türk
Mercy Corps
Merkez Advisory
Metlife Emeklilik Ve Hayat
Mukafat Asset Management
Muscat Clearing & Depository Company
Muscat Securities Market
Mutlu Avukatlik Ortakliği
Mutlu Law Firm
Nigerian Stock Exchange
Nurol Bank
Ogre Energy
Open Roads Media
Oyak Yatirim
Paksoy Ortak Avukat Bürosu
Path Solutions
Peker Holding
PTT Genel Müdürlüğü
Rays Microfinance Institution
Re-pie Asset Management
Rosette Merchant Bank
Sabahattin Zaim University
Sakarya University
Sariibrahimoglu Law Office
Solak & Partners
SRP Legal
Tethys Investments
The Business Year
The Olive Studio
The Perth Mint
The University of Jordan
Turkish Capital Markets Associaton
Turkish Foundation for Waste Reduction
Turkish Maarif Foundation
Turkish Volunteer Doctors Association
UNICEF
Urban Stay
Vakif Emeklilik
Winston & Strawn
World Bank GIFDC
Yeşil Holding
Yoa Law Office
Ziraat Asset Management
Ziraat Yatirim
Zurina Law

OVERALL EVALUATION

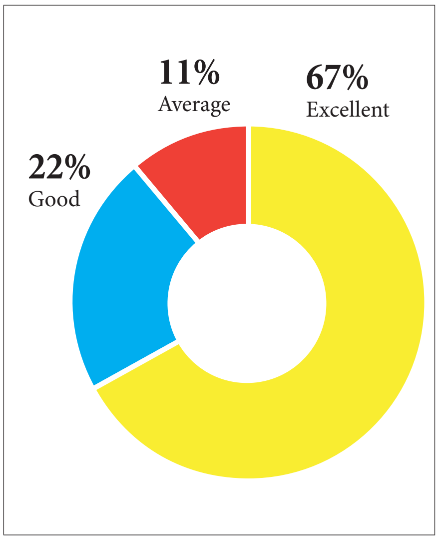
Pre-event Contact



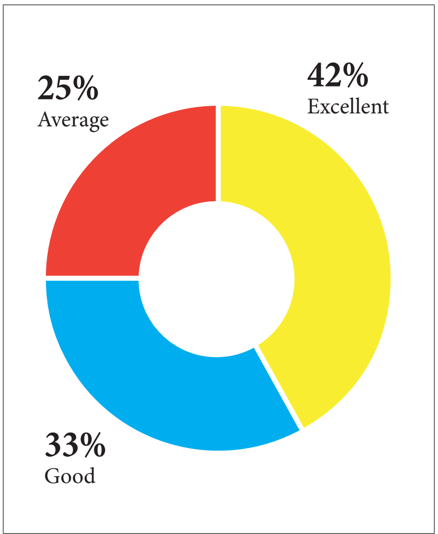
Venue & Facilities



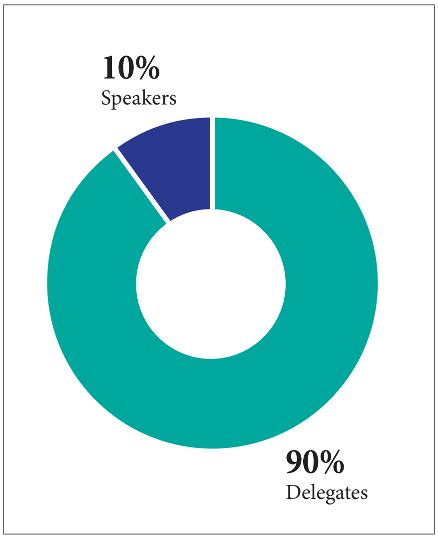
Overall Evaluation of the Event



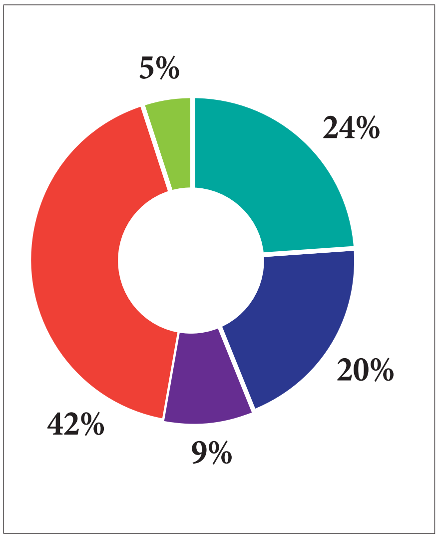
Overall Evaluation of the Speakers



Delegate Breakdown

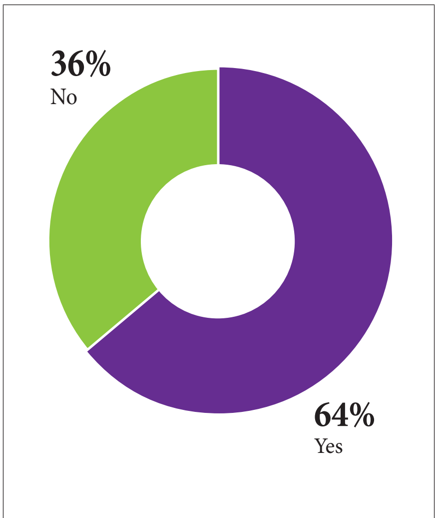


Delegate Job Title Breakdown

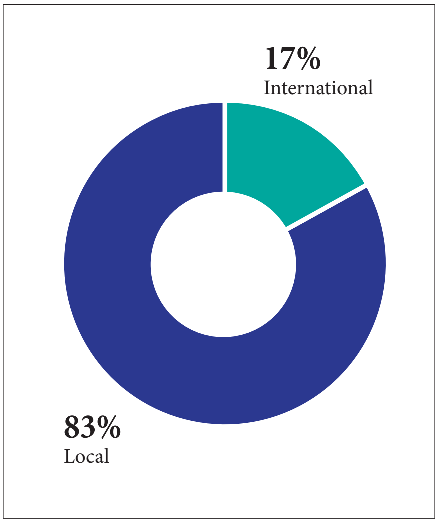


Delegate Job Title	No
Board Level Management	89
Senior Management	19
Management	50
Executive	43
Others	11
Total	**212**

Would Delegates Like to Attend Turkey Forum 2019?



Delegate Breakdown (International & Local)



Having attended the IFN conference every year for the last five years, I was very pleased to see the interest from various market players both from Turkey and the rest of the world. As discussed in the panel session that I participated in, there are various opportunities in the market to use Sukuk as an alternative financing tool. Yes, we also have some difficulties along the way but we will get there. This year's event was another strong testimony of it!

MUFIT ARAPOGLU
Partner, Balcioglu Selcuk Akman Keki Attorney Partnership

A great event, packed with so much knowledge and great speakers, I am honored once again to be part of the event as a speaker. I had the chance to discuss all the aspects of the fintech industry from regulation to technology.

DR CIGDEM AYOZGER ONGUN
Founder — Managing Director, SRP Legal

I did enjoy the event and networking during the breaks. Thank you for your kind invitation and support. I found the event very timely given the developments in Turkey and the forum has managed to address those issues not only in the country but also in the geopolitical context.

LEILYA SHAMEL
Associate Director, Business Development, DDCAP

It was a great experience for me. In addition, I had the chance to meet very experienced business partners at the event. Thank you for your great effort and congratulations on your success. I will be glad to participate in the event as a speaker next year and looking forward to hear about your progress.

DR MENEVSE OZDEMIR DILIDUZGUN
Vice-President, Debt Capital Markets Advisory, Halk Invest

BORSA İSTANBUL

REVENUES

1,047 million TL

↑ **19%**

Increased 19% from 2016

NET PROFIT

420 million TL

↑ **52%**

Increased 52% from 2016

NET PROFIT MARGIN

40%

EBITDA

573 million TL

↑ **22%**

Increased 22% from 2016

EBITDA MARGIN

55%

TOTAL RESOURCES PROVIDED THROUGH CAPITAL MARKETS IN 2017

131.7 billion TL

↑ **45%**

Increased 45% from 2016

411	399 Listed Companies 9 Exchange Traded Funds 3 Real Estate Investment Funds
880 billion TL	Market Capitalization
28%	Market Capitalization/GDP
66%	Foreign share in free float market capitalization

6,967 billion TL	Total traded value
201	Total number of members trading in different markets
182	Total number of local and foreign data vendors

385	Number of Private Market members
44	Number of Companies in BIST Sustainability Index
51	Number of companies in BIST Corporate Governance Index

1.5 billion TL	Total support for National Education Physical Contribution Project (EFİKAP)
800 thousand students	Number of students reached with National Education Physical Contribution Project (EFİKAP)

Equity Market ranks 1st in Europe and 3rd in the world in terms of turnover velocity*

7th in terms of equity traded value in Europe

5th in terms of bond traded value in Europe

* World Federation of Exchanges (WFE)