

Briefing Note
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Exchange-Traded Funds in Turkish Capital Markets

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This briefing note provides a comprehensive analysis of exchange-traded funds (“ETF”) within the Turkish capital markets, the regulatory landscape, and their growing significance in recent times. Governed primarily by the Communiqué on Exchange-Traded Funds No. III-52.2, ETFs offer a unique hybrid structure that combines the diversification benefits of traditional mutual funds with the intraday liquidity of listed equities. By exploring the roles of participants and operational mechanisms, this briefing note illustrates how these instruments maintain price efficiency and transparency. Below, you may find our explanations on ETFs in Turkish markets, their advantages which result in the rising attention trend as well as operational and regulatory considerations; ultimately, this briefing note serves as a guide to understanding how the Turkish ETF market, currently hosting 30 ETFs, aligns with global financial standards and addresses the evolving needs of both institutional and retail investors.

1. Introduction

1.1. Definition of ETFs

An exchange-traded fund (“ETF”) is a type of fund whose participation shares are traded on Borsa İstanbul A.Ş. (“BİST”), the sole securities exchange in Türkiye. Similar to mutual funds and hedge funds, ETFs are a type of collective investment scheme that are unincorporated asset pools established by portfolio management companies to manage portfolios on behalf of investors based on the principles of fiduciary ownership. However, in addition to being traded on BİST and having a secondary market, ETFs also differ in their narrower

investment goal; they are established to track an index deemed suitable by the Capital Markets Board of Türkiye.

1.2. Global ETF Market: Reasons Behind the Rising Popularity of ETFs

In the global market, ETFs have undergone a significant transformation, evolving from a niche investment vehicle to a cornerstone of modern financial markets. Compared to other funds, they offer various practical advantages, making them increasingly preferred by investors:

- Intraday liquidity and the flexibility to trade at market prices throughout the day;
- Improved cost efficiency through lower management fees;
- Broader market reach by democratizing access to a wide range of global asset classes and specialized sectors with a single trade;
- Greater transparency via daily disclosure of portfolio holdings;
- Real-time clarity and enhanced risk management.

1.3. ETF Market in Türkiye

This global momentum is clearly reflected in the Turkish ETF market with a growing number of local ETFs, the local market continues to align with international standards, offering investors transparent and cost-effective tools to achieve their financial goals. There are currently 30 active ETFs listed on BIST.

| 2. Legislation and Regulatory Framework

Primary Legislation: The fundamental legal ground for ETFs is set forth under Article 52 of the Capital Markets Law No. 6362, which establishes the overarching legal framework for fund structures.

Core Regulation: Detailed operational rules, portfolio management principles, and disclosure requirements are governed by the Communiqué on Exchange-Traded Funds No. III-52.2. This serves as the core regulatory document for the establishment and daily functioning of ETFs.

Listing and Trading Rules: The technical requirements for listing participation shares and their trading on the BIST are subject to the provisions of the BIST Listing Directive and Equity Market Directive and Procedure.

3. How Do ETFs Work?

ETFs are index-tracking funds listed and traded on the Structured Products and Fund Submarket under the Equity Market of BIST (or on the Venture Capital Submarket if sold only to qualified investors); where the liquidity in the secondary market is strengthened by the presence of mandatory market makers. The founders of these funds are portfolio management companies, and in practice, the same portfolio management company often acts as the fund manager. The following sections explore major concepts and mechanisms applicable to ETFs.

3.1. Index Tracking

ETFs' primary strategy is to reflect the performance of the tracked index, which is measured by calculating the tracking difference and tracking error. An ETF may track the index by continuously investing at least 80% of its total fund value solely in assets within the tracked index, or in the shares of foreign-listed ETFs that track the respective index. Additionally, the index may be tracked by investing in assets that are not mandatory components of the index. ETFs that continuously invest at least 80% of their total value exclusively in assets within the tracked index may construct their portfolios either through full replication of all assets in the index or through sampling of a selected portion.

Tracked indices of the 30 ETFs present in the Turkish market are distributed across various asset classes including equities, TLREF, foreign exchange, and thematic or sectoral themes.

3.2. Tracking Difference and Tracking Error

Tracking difference refers to the difference between the annual returns of the ETF and the tracked index, representing the overall performance gap between the ETF and the benchmark index. Tracking error on the other hand refers to the volatility of the difference between the returns of the ETF and the tracked index, representing the consistency of the ETF in tracking its benchmark index.

Transaction costs, total expenses, illiquid assets, and similar factors are elements that impact the ETF’s ability to replicate the performance of the tracked index and may influence the magnitude of tracking difference and tracking error.

Transparency in tracking difference and tracking error, as well as future projections, are ensured by certain periodic disclosures:

Disclosure	Subject	Date
Monthly performance disclosure	Tracking difference and tracking error calculated for the last one-year period and in the event of a significant increase, the reasons for such difference	First business day of month
Annual performance disclosure	Estimated tracking error projected for the previous year, the realized tracking difference and tracking error, and in the event of a significant divergence, the reasons for such difference	Last business day of January at the latest
Annual future projection disclosure	Estimated value of the tracking error for the following year that may occur under normal market conditions	Last business day of year

3.3. Construction and Maintenance of the Fund Portfolio

ETFs’ portfolios are constructed through either full replication or sampling of the assets in the tracked index; both by advances by the founder and/or public offering of participation shares in exchange for cash, either within or outside of BIST.

The minimum amount for the advance to be provided or the initial public offering amount is required to be at least TRY 70,000,000 for 2026. In the event that both methods are utilized simultaneously, this minimum requirement shall apply to their aggregate total.

During the operational period of the fund, the average total fund value over the last three months, as assessed on the last business day of each month, shall not fall below TRY 35,000,000 for 2026.

3.4. Primary Market Transactions

The primary market transactions of ETFs consist of the creation of new participation shares and the redemption of existing participation shares between the authorized participant and the portfolio custodian.

Participation shares are created in amounts corresponding to the minimum transaction unit or its multiples, by assembling the assets or cash representing the composition of the fund portfolio and delivering them to the portfolio custodian through the authorized participant; while redemption of the participation shares follows the same mechanism in reverse.

The principles regarding creation and redemption processes of participation shares are determined in the agreement signed between the authorized participant, the founder, and the portfolio custodian.

The creation and redemption mechanisms of participation shares contribute to ensuring the alignment of the fund portfolio with the tracked index.

4. How Do They Differ?

Several key factors distinguish ETFs from other investment funds and drive their preference among investors:

- **Lower Expense Ratios:** ETFs generally follow a passive management strategy (indexing), which significantly reduces operational costs and management fees compared to actively managed mutual funds.
- **Instant Diversification & Accessibility:** With the purchase of a single share, investors gain immediate exposure to an entire index, sector, or commodity, allowing them a portfolio construction with minimal capital.

- **No Forward Pricing:** Unlike traditional funds, ETFs can be bought and sold instantly during market hours just like stocks. This eliminates forward pricing delays, providing investors with immediate execution and price certainty.

In addition, ETFs bear significant similarities to index certificates. However, while index certificates represent a payment or delivery liability based on the underlying index; ETFs offer direct ownership in its asset pool, resulting in a difference in protection mechanisms against insolvency.

5. Conclusion

According to the World Gold Council's latest report¹, global gold demand reached a historic record in 2025 where the primary driver of this surge being gold ETFs. Notably, Morningstar data² indicates that European-domiciled ETFs have attracted over EUR 2 billion in new capital since the beginning of 2026. Similarly, with an increasing number of ETFs, Turkish ETF market expands into commodities, equities of public companies and thematic baskets and demonstrates substantial growth potential for the future.

In addition to this transformation in traditional commodities, the U.S. Securities and Exchange Commission's (SEC) approval of spot Bitcoin ETFs in early 2024 marks a pivotal shift in financial innovation, integrating digital assets into a regulated framework that enhances liquidity, legitimacy, and investor protection. Following these developments in the U.S., Japan's goal to implement a legal framework for the approval of spot crypto ETFs by 2028³ is expected to further increase the interest in ETFs and set an example to other markets globally.

¹ World Gold Council Research, "Gold Demand Trends: Q4 and Full Year 2025", 29 January 2026, www.gold.org/goldhub/research/gold-demand-trends/gold-demand-trends-full-year-2025

² Valerio Baselli, "Gold Price Surges above \$5500: Here's Why", 29 January 2026, <https://global.morningstar.com/en-nd/markets/gold-price-surges-above-5500-heres-why>

³ Nikkei Asia Article, "Japan to greenlight crypto ETFs as soon as 2028", 26 January 2026, <https://asia.nikkei.com/spotlight/cryptocurrencies/japan-to-greenlight-crypto-etfs-as-soon-as-2028>

Should you have any queries on the matters above, please do not hesitate to contact us.

Yours faithfully,

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