

Briefing Note
Capital Markets
14 May 2026

Tailored Solutions: What Structured Notes Offer

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Structured notes are investment instruments comprising a combination of fixed-income debt securities and derivatives with underliers such as equities, indices, commodities. Given their customised design tailored for investors' risk-return expectations, their risk-return profile may vary, enabling them to generate fixed income and returns based on the performance of derivatives linked to underlying assets or indicators.

This briefing note explores the key features and regulatory framework applicable to structured notes, which have exhibited a mature and steady growth trajectory in line with the increasing global demand for structured products, and are designed and issued by major financial institutions in Türkiye.

1. Background

Structured notes, which can be defined as hybrid securities, serve the purpose of meeting specific investment objectives considering their unique nature based on customization. Examples of these investment objectives include principal protection, enhancing income and participation in the market growth. In this context, principal protected notes, return enhancement notes, market-linked notes, buffered return enhancement notes and convertible notes are the types of notes raising interest among investors in line with specific investment purposes. However, structured notes are not limited with certain types and may contain diverse characteristics of different types based on the design and custom combination of different instruments.

The unique and complex nature of structured notes, which offer benefits such as customization, diversification and return enhancement, also brings liquidity risk, market risk and opportunity cost.

In Türkiye, structured notes are issued by obtaining issuance authorization from the Capital Markets Board (“CMB”) in Türkiye, in accordance with the Article 34 of the CMB’s Communiqué on Debt Securities numbered VII-128.8 (“Communiqué”) and are within the scope of the Communiqué.

In this regard, structured notes may be issued and sold either (a) through a public offering or (b) without a public offering by way of (i) private placement, or (ii) offering to qualified investors. In the case of private placement, a maximum of 150 investors and a minimum nominal unit value in the amount of TRY 100,000 conditions apply pursuant to the Art. 4 of the Communiqué and such instruments are not traded on a secondary market at Borsa İstanbul A.Ş.. In the case of an offering to qualified investors, structured notes may be traded among qualified investors on the Debt Securities Market – Qualified Investor Issuance Market of Borsa İstanbul A.Ş..

It should also be noted that structured notes without principal protection may not be issued and sold in Türkiye through a public offering or private placement pursuant to the Article 34/2 of the Communiqué. However, this restriction does not apply for offerings to qualified investors. In addition, structured notes issued out of Türkiye without principal protection may be purchased by investors in Türkiye regardless of the offering method on a reverse enquiry (non-solicitation) basis, provided that the contact is initiated by the Turkish investor.

Structured notes may also be issued on a collateralised basis, whereby the obligations of the issuer are secured by assets deemed appropriate by CMB, pursuant to the Article 31/B of the Capital Markets Law No.6362 and the Communiqué on Procedures and Principles of Collateralised Issuance of Capital Market Instruments numbered II-31/B.1.

Furthermore, holders of structured notes are entitled to participate in the noteholders’ board and to take part in decisions concerning amendments to the essential terms of the notes that may adversely affect investor interests, as well as in restructuring processes in the event of a default.

| 2. Components of Structured Notes

2.1. Principal Protection

It is the guarantee of all or a part of the investor's initial investment at the maturity date of the note, regardless of the performance of the underlying asset or index.

2.2. Return Components

- a) **Participation Rate:** It indicates the investor's share of the underlier's return.
- b) **Leverage Factor:** The multiplier that increases the return of the underlier.
- c) **Upper Limit or Maximum Return:** It demonstrates the upper limit of the investor's possible gain from the underlier's returns, regardless of the performance of the underlier.

2.3. Underlier

It defines the underlying assets or indicators that the structured notes are based upon.

2.4. Maturity Date

The maturity date is the date on which the note expires and the investor receives the final payment. This payment may include the principal payment and the income based on the performance of the underlying asset or indicator.

| 3. Types of Structured Notes

Although unique, personalized structured notes which are issued and offered to investors may contain various features of different types, the most common and two main types of structured notes are as follows:

3.1. Principal Protection Notes

These structured notes retain the aspect of returning the principal at maturity that fixed income securities contain, but also offer the possibility of derivative earnings from a variety of securities. In addition to the protection of principal against losses on the maturity date, through structured notes, investors may also participate to the earnings of volatile investment instruments. On the other hand, structured notes which are designed and issued according to specific investment expectations/demands, can include growth participation with principal protection or a maximum return ceiling. In such cases, the investor shall forgo a portion of potential capital appreciation in exchange for principal protection.

Principal protected notes are preferable for investors who have medium and long-term investment goals, aim to maintain their assets, avoid the risks of equity investment, and do not expect a continuous upward trend on the market.

3.2. Return Enhancement Notes

Return enhancement notes, which do not protect the initial investment against market declines, provide participation in windfall gains when markets do not offer high returns, as well as leveraged returns when markets offer limited returns.

This type of notes, which are created to serve the purpose of participation in market growth, are designed to provide additional protection when the underlying market falls and to generate additional gains when it rises. Within the scope of this purpose, certain structured notes may provide a buffer, thereby mitigating the risks of investing in volatile assets against partial downward movements. Moreover, in light of the debt security component of the product, structured notes may provide coupon payments which will increase or decrease depending on the performance of the underlier.

It is also possible to issue structured notes with a participation rate exceeding 100 per cent in the rise of the underlier. However higher participation rates require longer maturities and waivers of partial risk protection. In addition, maximum return of the product may differ from the underlier's actual return.

| 4. Advantages of Structured Notes

- **Customization and Flexibility:** Structured notes which are tailored in line with investor's expectations, have the feature of being a flexible investment based on the risk-return profile of the investor.
- **Complexity:** It will be possible to hold a complex portfolio consisting of various investments such as equities, options, derivatives, fixed income instruments, which will require time and a high level of investment expertise, with only one product.
- **Diversification:** Structured notes which consist of multiple types of investments, help to diversify investor's portfolio and reduce risk.
- **Enhanced Returns:** Investing in structured notes offers potential higher return than traditional debt securities.
- **Risk Management:** Through principal protection and buffered return systems, structured notes help investors to ensure their position against market volatility.

| 5. Risks of Structured Notes

- **Liquidity Risk:** Structured notes, in principle, are issued on a hold-to-maturity basis and not suitable for trading in the secondary market, and also for high liquidity expectations. As an investment instrument without secondary market guarantee and lack of liquidity, the common practice in the sales of Structured Notes before the maturity date, is that the issuing financial institution repurchases the note upon the investor's request.
- **Market Risk:** Structured notes include market risk due to the volatility of underliers and the pricing of the notes in cases where the notes are traded on the secondary market.
- **Issuer's Credit Risk:** Structured notes include much higher default risk than debt instruments and derivatives. Periodic interest payments to be paid by the investor according to the nature of the note and redemption payments on the maturity date are dependent on the issuer's ability to pay and the market's estimation on the

issuer's ability to pay its debts. In cases where the issuer is not able to pay its debts, the investor may lose all or some parts of the initial investment.

- **Opportunity Cost:** Underperformance of the underlying assets or indicators leads to opportunity cost risk.
- **Costs and Fees:** Structured notes are more costly products compared to their components, traditional fixed income debt securities and derivatives.
- **Principal Risk:** Unlike traditional debt instruments, structured notes may not always guarantee to pay the full principal amount on the maturity date, as at times, payments are linked to the performance of certain underliers on the maturity date due to the nature of the product. This may result in a payment that is significantly less than the principal or, in some cases, no payment at all. As noted above, structured notes without principal protection may not be issued and sold in Türkiye through a public offering or private placement pursuant to the Article 34/2 of the Communiqué.
- **Pricing Complexity:** Considering the complexity of structured notes and the lack of liquidity of these products, pricing of structured notes is not easy. In order to accurately evaluate complex investments such as structured notes, advanced financial valuation models are needed. For this reason, bids to be offered in the secondary market for a structured note may also differ according to the model shown in the investor declaration.

6. Conclusion

Structured notes have become widespread, especially in the United States of America and Europe, as advantageous investment options by offering diversified investment opportunities and establishing principal protective or return enhancing structures in line with the expectations of the investor. In addition, with the development of structured notes and the growth of the market, products are diversified in unique forms and new investment strategies have been developing ever since.

In parallel, in Türkiye, the private sector debt instruments market reached an issuance volume of TRY 956 billion with 1,862 issuances in 2025¹. Within this framework,

¹ Turkish Capital Markets Association, "Turkish Capital Markets Report", April 2026, https://tspb.org.tr/wp-content/uploads/2026/04/Turkish_Capital_Markets-202604-TR.pdf

structured notes have formed part of these issuances, driven by the growing preference of major financial institutions in Türkiye to offer such instruments, as well as investor demand for products providing diversified investment strategies in volatile market conditions.

The risks inherent in structured notes should be taken into consideration and an investment expert should be consulted before investing.

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

Yours faithfully,

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