

Briefing Note

Capital Markets

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Investment Institution Certificates

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Investment institution certificates are capital market instruments that entitle their holders to a claim against the issuer upon the occurrence of predetermined conditions linked to the price of an underlying asset or indicator. An investment institution certificate is a structured financial product that enables its holder to benefit from the performance of a specified asset or basket of assets.

This briefing note examines the legal nature and key features of investment institution certificates, their principal types, the advantages they offer and the risks they entail for investors. It also outlines the issuance, offering and trading framework applicable in Türkiye and reviews the development and current state of the Turkish capital markets with respect to certificates.

1. Introduction

The term “certificate” is an umbrella term encompassing a wide range of products in capital markets. As of the date of this briefing note, various types of investment institution certificates, real estate certificates, lease certificates, and Mint Gold Certificates, which constitute a specific type of investment institution certificate classified as a “commodity certificate”, are regulated under Turkish legislation and traded in Turkish capital markets.

The investment institution certificates (“**Certificate(s)**”) addressed in this briefing note are capital market instruments that offer investors the opportunity to invest in a specific underlying asset or indicator with different risk/return profiles, have a fixed maturity, and are redeemed through book-entry delivery or cash settlement.

As Certificates are financial instruments that impose a financial obligation on the issuer towards investors, the funds raised through their issuance remain under the financial responsibility of the issuer. Accordingly, in addition to the performance of the underlying asset, the issuer's financial condition, delivery or payment capacity, and creditworthiness constitute important factors that investors should take into consideration when making an investment decision.

| 2. Legal Framework

In Türkiye, Certificates are primarily regulated by the Capital Markets Board's ("CMB") Communiqué on Warrants and Investment Institution Certificates No. VII-128.3, Borsa İstanbul A.Ş.'s ("Borsa İstanbul") Equity Market Procedure and its annex, the Procedures and Principles Regarding the Trading of Certificates on the Exchange.

2.1. Underlying Assets and Indicators

Shares included in the BIST-30 index and/or a basket of shares comprising more than one share included in the BIST-30 index, share indexes compiled by Borsa İstanbul, and subject to the approval of the CMB, government domestic debt securities, convertible foreign currency, precious metals, commodities, and internationally recognised indexes may serve as the underlying assets or indicators for Certificates.

2.2. Issuers

Certificates may be issued by banks or intermediary institutions incorporated in Türkiye or abroad that hold a long-term credit rating corresponding to one of the three highest investment-grade rating categories under the relevant rating scale. Banks or intermediary institutions incorporated in Türkiye that do not hold such a credit rating may also issue Certificates, provided that the obligations arising from the issuance are guaranteed.

Certificates may also be issued by entities, including special purpose vehicles, that are part of the same corporate group with a bank or intermediary institution, but which do not themselves qualify as a bank or intermediary institution. In such case, the obligations arising from the issuance must be guaranteed by the relevant bank or intermediary institution holding such long-term credit rating.

2.3. Issuance and Trading Principles

a) Prospectus and CMB Approval

Certificates may be issued for sale through a public offering or without a public offering; however, they may not be offered through a private placement in Türkiye.

The prospectus to be used for the public offering of Certificates consists of the issuer information document, the capital market instrument note and the summary. For public offerings conducted during the validity period of the prospectus relating to the Certificates, issuers shall, provided that they remain within the approved issuance limit, apply to the CMB for approval of a tranche issuance and the relevant public offering at least five business days prior to the planned offering date.

In the case of domestic offerings to qualified investors or issuances to be made abroad, following the delivery of the issuance document approved by CMB, issuers shall, provided that they remain within the approved issuance limit, apply to the CMB for the approval of the tranche issuance document in respect of each tranche.

b) Offering and Trading

Certificates, including those offered to qualified investors, are required to be traded on the exchange on a market-making basis. Accordingly, following the CMB's approval of the issuance of each tranche, Certificates are traded on the Structured Products and Funds Sub-Market within Borsa Istanbul's Equity Market in accordance with Borsa Istanbul regulations. However, commodity Certificates are traded on the Commodities Sub-Market within the Equity Market.

c) Settlement Methods

Settlement of Certificates may be effected by way of book-entry delivery or cash settlement. However, cash settlement is mandatory for Certificates whose underlying asset or indicator consists of assets or

indexes other than shares included in the BIST-30 Index or a basket composed of more than one share included in the BIST-30 Index.

| 3. Types of Certificates

Although Certificates may be issued in a wide variety of structures and may incorporate the characteristics of multiple types of Certificates, the types of Certificates set out in the regulations of the CMB and Borsa Istanbul are as follows:

3.1. Discount Certificates

Discount Certificates enable investors to participate in the performance of a specified underlying asset or indicator at a predetermined discount to its market price.

The maximum return that the investor can achieve in return for the discount is determined at the start of the term, thereby placing an upper limit on the potential return. This upper limit remains fixed throughout the term; if the price of the underlying asset or indicator reaches or exceeds this upper limit at maturity, the investor receives the predetermined maximum return.

The investor foregoes any additional return generated by the underlying asset or indicator in excess of the upper limit, in return for the discount.

3.2. Turbo Certificates

Turbo Certificates are Certificates with knock-out feature, that entitle the investor, at maturity, to receive a return based on the difference between the price of the underlying asset or indicator and the exercise price. However, if, during the term of the Certificate, the value of the underlying asset or indicator reaches or exceeds the predetermined barrier level, the relevant Turbo Certificate will be knocked out, lose its value and become void, and the issuer will either make no payment to the investor or pay only a residual amount close to zero.

3.3. Index Certificates

Index Certificates are investment institution certificates that are priced so as to track the price of the underlying asset or the value of the underlying indicator on a one-to-one basis and entitle the investor to receive a payment in an amount calculated by applying a predetermined conversion ratio and/or exchange rate.

3.4. Bonus Certificates

Bonus Certificates are capital market instruments that entitle the investor to receive a predetermined redemption amount at maturity, provided that the price of the underlying asset or indicator does not fall below the predetermined barrier level.

3.5. Commodity Certificates

Commodity Certificates are issued to represent commodities designated by the CMB, providing investors with the opportunity to invest in precious metals and other commodities in the spot market.

| 4. Advantages of Certificates

Certificates enable investors to implement a variety of investment strategies in line with their market expectations and risk preferences. Their principal advantages may be summarized as follows:

- **Portfolio Diversification:** Certificates provide investors with the opportunity to diversify their portfolios by enabling them to invest in different asset classes. Accordingly, investors may spread their risks through products linked to different underlying assets or indicators.
- **Investment Flexibility:** Depending on the characteristics of the underlying asset or indicator and the type of certificate, Certificates enable investors to develop investment strategies that align with their market expectations and risk appetite.

- **Accessibility:** Certificates allow investors, particularly retail investors, to invest indirectly in certain markets or assets where direct investment may be difficult or costly.
- **Different Risk/Return Profiles:** Through various types of Certificates, such as discount certificates, turbo certificates, bonus certificates and index certificates, investors are able to choose investment products that correspond to their preferred risk/return profiles.

| 5. Principal Risks of Certificates

Although Certificates offer various advantages, they also involve certain risks inherent in their structure, including, but not limited to, those set out below.

- **Underlying Asset/Indicator Risk:** The return on a Certificate is directly linked to the performance of the underlying asset or indicator. If the underlying asset or indicator does not perform as expected, the investor may incur a loss.
- **Issuer Risk:** Certificates entitle investors to a claim against the issuer. Accordingly, if the issuer's financial condition deteriorates or the issuer fails to meet its payment obligations, investors may be exposed to the risk of not receiving the amounts payable under the Certificates.
- **Liquidity Risk:** Due to the limited trading volume of certain Certificates in the secondary market, investors may not be able to sell their Certificates at the desired time or at their preferred price.
- **Complexity:** As structured financial products, Certificates involve pricing and redemption mechanisms that require a certain level of technical knowledge. Accordingly, it is important for investors to fully understand the underlying asset or indicator, the operating mechanism of the product, and the risks associated with it before making an investment decision.

| 6. Conclusion

With the rapid expansion of the derivatives market, particularly during the 1980s and 1990s, Certificates emerged as one of the principal categories of structured products in international capital markets. In Türkiye, the issuance of Certificates began in the 2010s

following the development of the capital markets regulatory framework and the establishment of the necessary market infrastructure. Today, Certificates are preferred investment products in the Turkish capital markets, supported by an evolving legal framework, the operational infrastructure provided by Borsa Istanbul and other market institutions, and increasing investor familiarity with these products.

Currently, Index Certificates and Certificates based on commodities are traded on Borsa Istanbul, while Discount Certificates and Turbo Certificates have also been issued and traded in the past.

Another noteworthy product is the Mint Gold Certificate, issued by the General Directorate of Mint and Stamp Printing under the Ministry of Treasury and Finance of the Republic of Türkiye, which is currently traded on Borsa Istanbul.

From a legal perspective, the Mint Gold Certificate constitutes a commodity certificate. It is traded on the Borsa Istanbul Equity Market – Commodities Sub-Market, is backed by gold as its underlying asset, may be converted into physical gold at the investor's request, has no fixed maturity, although it may be redeemed early or repurchased in certain circumstances by the issuer, and is subject, to the extent applicable, to the provisions governing investment institution certificates; and represents a distinctive product traded in the market with similar features.

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

Yours faithfully,

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