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DEVELOPMENT OF CAPITAL MARKETS IN TURKEY AND ANALYSIS OF FINANCIAL STRUCTURE OF THE INTERMEDIARY INSTITUTIONS

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Abstract

Capital markets, where demand and supply for medium to long term finance meet, are more active and efficient in higher income countries. Capital markets are insufficiently developed in emerging countries such as Turkey that have the structural and institutional obstacles and lack of capital. The first market with securities was established in 19th century in the Ottoman Empire; the Turkish capital markets have gone through the reform programmes as a part of liberalization started in 1980; but the banking sector constitutes the biggest part of the financial sector. The paper presents the development of capital markets in Turkey and analyzes the intermediary institutions by using the financial statements and ratios for the period December 2007-December 2011.

Keywords: Turkish Capital Markets, Turkish Financial System, Brokerage Firms, Intermediary Institutions

1. Introduction

It is generally accepted that capital markets have a depth and prevalence in line with the development of the countries. The capital markets, which support development with their functions on transferring funds to the industries in need, have has reached a top-level depth, especially in the western world; the market instruments have started to be traded in different countries, with the driving force of globalization and capital movements; this drew attention to the issues such controlling the risks increased, which were realized since 2008, predicting the losses to be encountered and implementing the necessary monetary and fiscal policies in coordination by various centers. Although the depth and expansion of the capital markets is one of the mechanisms that increase the country's prosperity and development; in recent years, these markets has been pointed out as a factor in triggering the widespread global financial crisis.

In line with the liberal policies followed in Turkey since the 1980s and the open economic model, the capital market regulations have been created by a new understanding, and the relevant institutions and instruments have been formed accordingly. However, meeting the high public sector borrowing demands by the financial markets until the beginning of the 2000s, the frequent economic instabilities, the high interest rates and the low propensity to save has created pressure on the markets, and this situation has prevented or postponed the

development of capital markets. The markets that have no widespread private sector have not been able to reach a high volume and variety of products. On the other hand, the difficulty and confusion included in the legislation, the taxation procedures in particular, has affected the process.

In the stable environment of the economy, banks and other private sector organizations have increased the number and volume of the instruments traded in the financial markets through their debt instruments issued recently, and have increased the free float rates. As frequently expressed, however, the lack of savings, which is characterized with the high current account deficit figures, continue to be a key issue in the underdevelopment of the capital markets.

The specifications, types of activity and structure of the intermediary institutions, which are serving as a bridge between investors and account owners by performing the trading of the instruments in the capital market, have been described in the legislation in detail. According to the banks that dominate the financial markets, the intermediary institutions have important functions in the capital market with their smaller structures.

In this study, first the literature was cited by evaluating the relationship between the functions of capital market and economic growth; and the development of capital markets in Turkey, operating stock markets and the current size of the markets have been described. The year 2007 and up, in which the impact of the global financial crisis had been felt distinctly, has been assessed using data from Association of Capital Market Intermediary Institutions of Turkey (TSPAKB), the Capital Markets Board of Turkey (CMBT), the Istanbul Stock Exchange (ISE) and the Banking Regulation and Supervision Agency (BRSA); in the final section, the characteristics of the intermediary institutions, which are among the basic institutions in capital market, and the financial structure analysis of these institutions have been presented through consolidated financial statements for the period of 2007-2011.

2. Function and the Economic Contribution of Capital Markets

The funds to be allocated for the investment and savings may be insignificant in countries experiencing the initial steps of economic development, due to low income levels of individuals. As the economy recovers, the number of entrepreneurs, who need funds, and the volume of needed funds starts to increase; the short-term funds provided from equities and money markets become insufficient, and the volume of savings of the people with growing income expands. In developed countries, an effective and dynamic market is observed due to high income and savings.(Sarikamis, 1998, p.15-19)

The issue of lack of savings, which is the source of current account deficits, is one of the main problems of developing countries such as Turkey; in addition channeling the available resources into other areas to serve economic development is another challenge. Being unable to establish trust due to the uncertainties and economic fluctuations in an environment required for the culture of saving and investment, may result in the investing the resources in non-productive areas (e.g., gold, foreign exchange, foreign financial institutions of very low return). Financial markets have an important role in transferring the savings into the right areas and investments. (TSPAKB, 2004a:1-2)

Financial markets are divided into two, as the money market and the capital market. One of the main differences between the two markets is the maturities of instruments and products traded in these markets. In the money market of funds supply and demand, which is often described as short-term and not exceeding one year; the supply and demand of the medium and long term funds has been met in the capital market. Capital market is divided into two sub-groups as the primary and secondary market, in terms of functionality. These groups: the primary market, where the buyers, i.e. savers, and the companies issuing securities, such as stocks and bonds, meet directly, and where the securities issued and exchanged for the first time; and the secondary market, where the previously issued securities or the securities still in circulation are bought and sold.

On promoting economic performance by the stock market, which is one of the most important sub-areas of capital market, Rousseau and Watchel (2000, p.1955) stated that the

stock market fulfills its functions by: (i) Providing resources to entrepreneurs, (ii) Offering liquidity to investors for international diversification and portfolio flows, (iii) Providing a permanent and long-term capital for large and indivisible investments, (iv) Providing information on the nature of the potential investments.

There are studies indicating that the high-income economies have active stock markets, and in countries with low government intervention have their markets developed and reached to higher growth rates. Owners of the opposite thesis on the importance of the stock market on financing the economic growth, argue that the credit market may be able to replace the stock market. Boyd and Smith (1995, pp.40-42) explained that in the absence of the stock market, the cost of borrowing would increase, and highly efficient production might be hampered.

There are studies comparing money and capital markets in terms of contribution to the economy and efficiency. In a study carried out by Demirguc-Kunt and Levine (1999, pp.34-36), where data collected from 150 countries were used; it was reported that as countries became wealthier, the banks and other intermediaries and stock markets were grown, became more efficient; the developed economies were based on the capital market more, and the stock markets in these countries were more active and effective than the banks. In addition, it was emphasized in this study that the development of the capital markets depended on settled legal standards, protection of the rights of the share and right holders, presence of healthier accounting standards and a low level of corruption.

Levine (2002, p.23) has investigated the relationship between economic performance and financial structure, as well as the correlation on the financial systems of countries that was based on either capital markets or banking sector. And he stated that the banking-based markets was more efficient than the capital markets in terms of transferring the savings to the system, capital accumulation and implementation of institutional approach, in the early stages of economic development and in the presence of weak institutional structures.

In another study, which compared the banking sector and the capital markets, seeking a relationship between the markets and economic growth, Carlin and Mayer (2003, p.219) stated that while the banks finance more traditional investments needed, the capital market was able offer different options, and industrialization and economic development of the countries shaped the financial structure.

The financial market and the developments in the real sector, which are the complements and reflections in economy, is started to be determined gradually by the international capital and by the investments and decisions of multinational corporations. Although the foreign capital, which enters into the national economies through bank loans, direct investments and portfolio investments, meets the credit needs of the real sector through domestic banks, the sudden transfers in short-term funds comprise risks, on the other hand. Especially the developing countries having shallow structures can be negatively affected by the short-term transactions of institutional investors having large funds (Ozcam, 2004, p.2).

The latest development that the capital markets have been shaken on a global scale is the global crisis started to be felt since 2008 dramatically. The world economy has been recessed by approximately 1% in 2009 due to the impact of the global crisis on advanced economies, and the emerging economies have continued to grow. As a result of the restrictions on banks' credit facilities in early stages of the crisis in Europe, companies have chosen to borrow from the market. U.S. and European monetary authorities have supported the markets with low interest rates of for the revival of the economy, and stock markets, which had lost substantial value, have made substantial gains in 2009 particularly in developing countries. Stock exchanges around the world have gained 46.2% of value in 2009. Except for the directly damaged or financially weakened institutions, the investors having funds have turned to risky assets in the global crisis, with an earning motive and expectations. (CMBT, 2010)

There are certain views that the recent global economic crisis has the characteristics of post-securitization; and that the market-based banking system has jumped into this crisis in an environment that there was a tight bond between banking and capital markets.(Adrian and Shin, 2008)

3. Development of Capital Markets in Turkey

3.1. The Historical Development of Capital Markets

The presence of organized securities markets in Turkey dates back to the second half of the 19th century, to the period of Ottoman Empire. It is known that, the first stock exchange (Dersaadet Tahvilat Borsası [Dersaadet Debenture Stock Exchange]) was officially established between the years 1862-1873, though there are different views on its exact date. (Fertekligil, 1993, pp.9-22) Following the foundation of the Republic of Turkey, the financial market was organized under the new name of "Istanbul Securities and Foreign Exchange" by the Securities and Capital Markets Foreign Exchange Law, issued in 1929. However, the crisis in 1929 and the Second World War had a negative impact on the capital markets. In 1960s, the second-hand markets were formed in order to meet the need for conversion of compulsory savings bonds and semi-compulsory liberty bonds into cash, and this type of bonds and bills were withdrawn from the market in the 1980s. In the process of industrialization in the 1970s, the number of companies offering shares to the public has increased continuously. Some of the big conglomerates have established large companies of 2-3 thousand shareholders, by seeing the advantages of going public. The milestones in the development of capital markets in Turkey are as follows: savings bonds, investment holding companies, fellow workers and companies, Turkish Industrial Development Bank's operations. (ISE, 2012a, p.4)

The bankers-event that marked the years of 1979-1982 had hurt the capital market. The bankers period that shook the markets as a result of inexpedient investment of the problematic funds collected at once and forced the small banks --which were unable to collect large volumes of deposits-- under a load that cannot be bore by themselves, due to their sales of certificates through bankers, had been closed.(ISE, 2012a, p.5)

In the early 1980s, significant developments have occurred to support the capital market in terms of both the legal and institutional framework. In this context, the Capital Market Law was enacted in 1981. In the law, issuing the capital market instruments, the public offering and sale and the regulations for issuers and capital market institutions have been defined in detail, and the Capital Markets Board (CMBT) that has the public legal entity with administrative and financial autonomy with the capital market regulatory and supervisory authority was established.

3.2. Capital Markets in Recent Years

The banking sector in Turkish financial market has a dominant position, and the capital market has a structure that progresses were made with the potential for breakthroughs. The dominance of the banking sector, and therefore the dominance of the provision of bank loans in the financial markets and resources offering in Turkey may increase the financing problems of the real sector, especially in times of economic contraction. There are views stating that the current state of the capital markets is limiting the companies' supply of resources through the issuance of debt instruments; the variety of instruments, liquidity and trading volumes decrease, and the potential to create resources is harmed because of this. The reason for private sector's lack of finance based on issuance of debt securities in domestic markets is the popularity of alternative instruments such as credit usage and foreign financing, and structural barriers such as deficiencies in demands of institutional investors; as well as, the secondary obstacles such as transaction costs, pricing & valuation issues and financial products preferences.(Coskun, 2010, p.32)

For many years, the depth and breadth of the capital market has remained below its potential in line with the financial markets' high-return on a risk-free area by meeting the high borrowing needs of Treasury. Over the last decade, due to improved economic conditions and decreased need for public borrowing, other debt instruments had a chance to find a place in the capital market besides the public debt instruments; and a relatively diversification has been achieved in terms of both issuers and investors in the capital market. The positive developments such as overcoming the fundamental issues that was present Turkey's economy

until the beginning of the 2000s, like high inflation and real interest rates, and the European Union accession process had positive impacts on capital market clearly.(TSPAKB, 2005)

It can be stated that macroeconomic conditions have a direct impact on the development of capital markets, and economic stability has an impact on the capital market in two different channels. First, the private sector debt market comes to life and gains volume, and companies are able to provide long-term resources with more favorable conditions. Secondly, the derivative markets and the instruments based on the interest rate especially in these markets are developed.(TSPAKB, 2004b, p.27)

One of the developments closely related to the capital market is the regulations and changes in tax legislation. Capital market oriented regulations and frequently changing tax legislation are the driving factors for investors. On the other hand, some of the tax regulations enforced for the capital market had been intended to encourage foreign investors to invest.(Yasar, 2008, pp.72-73) In taxation; focus on the savings and investment trends, deepening of financial markets, promoting the public offering, development of institutional investments, and the investment instruments traded are of importance. It has been stated that the issue on taxation of capital and money market instruments should be given under a separate heading in the complex tax legislation, and that the taxation system should have a simple, understandable structure. (TSPAKB, 2004a, pp.1-2)

In the report prepared by TSPAKB (2005), there was a package of proposals with 22 articles covering the cost and taxation, transparency, rating and other issues in order to increase the transaction volume and number of private sector debt instruments. It has been expressed in this report that the European Union norms and regulations will reduce the transaction and capital costs, and will have a role in reducing unemployment by supporting growth.(TSPAKB, 2004c)

In a study that investigates the relationship between economic growth and to the development of the Turkish capital market by using data from the period 1986-2005, Aktas (2006, p.53) stated that there was a positive and linear correlation between market capitalization and the national income, however, it was not very clear as to whether the development of the capital market supports economic growth or the growth contributed to the development of the capital market, but also stated that after 2001 it has been observed that the economic growth has been followed by the development in the capital market.

In their study investigating the relationship between economic growth and the ISE 100 index, Kirankabes and Basarir (2012, p.144) showed that there was a long-term relationship between the growth and ISE 100 index.

3.3. Exchange Markets in Turkey

Activities of exchanges and other organized markets are subject to regulation and supervision of the CMBT. Among the exchanges in Turkey there are securities exchange, precious metals exchange, derivates exchange.

a) Istanbul Stock Exchange

In 1983, the Decree No. 91 had been issued for the establishment of securities exchanges, and a year later the "Regulation on the Establishment and Operations of Stock Exchanges" was published in the Official Gazette. At the end of 1985, the Istanbul Stock Exchange (ISE) was formally established, and trading activities have been initiated in January 3, 1986 (CMBT, 2012, pp.25-26). In ISE, which has been established to ensure securities to be traded in a trusted, orderly and stable fashion, the stock market, bond market, foreign securities market and emerging companies market is traded. In ISE markets, the stocks, bonds and bills, exchange-traded funds, real estate investment trusts, venture capital investment companies, investment funds, participation certificates and warrants are traded. Products to be traded on the ISE and the operating companies are subjected to permits and authorities to be given by CMBT.

Although stocks are significantly prominent for the private sector in Turkey's capital market instruments, it is seen that companies are facing towards the debt instruments, albeit in low volume yet, depending on the developments, fluctuations and interest rates in economy.

b) Turkish Derivates Exchange

Investors trade in derivates markets for risk management (hedge), investment, arbitrage and speculation purposes. In Turkey, the Derivates Exchange was established by the decision of Council of Ministers published in the Official Gazette, on September 10, 2001, pursuant to the CMBT's decision dated August 17, 2001, and became a legal entity by the year 2002, and was became active on February 4, 2005. The working principles and rules of the stock exchange must comply with the regulations and decisions made by the CMBT.

There are four different markets in the Turkish Derivates Exchange, as follows: (i) Common Stock (based on stock indices and equities), (ii) Foreign exchange, (iii) Interest rate (treasury bills, treasury bonds, or other short or long term interest rates), and (iv) Commodity markets.

c) Istanbul Gold Exchange

After the amendments made in 1993 towards the determination of the price of gold and the liberalization of imports and exports of gold, the Istanbul Gold Exchange was established on July 26, 1995, in order to ensure gold traded in an organized market. Approval of the CMBT is required for regulations on Istanbul Gold Exchange, and shaping its governing body.

3.4. Basic Indicators of Capital Markets

TSPAKB's annual reports and publications (TSPAKB, 2012a; 2012b; 2011; 2010; 2009; 2008), and BRSA (2012), CMBT (2011; 2012) and ISE (2012b) reports were used to compile data to summarize the view of the capital market below.

As of the end of 2011, there are 31 commercial banks, 4 participation banks, 13 development and investment banks, 31 financial leasing, 75 factoring, 11 consumer finance, 9 asset management companies, 3 financial holding companies operating under the supervision of the BRSA; 90 brokerage, 1 futures brokerage firm, 26 investment trusts, 23 real estate investment trusts, 4 venture capital investment trusts, 32 asset management companies operating under the control of CMBT; and 59 insurance companies operating under the supervision of the Treasury.

Looking at the distribution of the savings in the financial system in Turkey, it is seen that there were no any significant change in the share of total deposits over the years, more than two-thirds of domestic financial savings were utilized in deposits, the share of deposits was decreased to 58% in 2007 from the 79% in 1996 as a result of the rapid increase in the share of other investment instruments, however has started to rise again, especially because of the decreased share of public debt instruments in 2011 and reached 67%. In this process, the share of stocks in savings was 11% in 1996, 19% in 2007, 14% in 2011; the share of repos was 9% in 1996, 7% in 2004, and zero afterwards; the share of investment funds was 1% in 1998, 8% in 2003, 3% in 2011; the share of government securities was 17% in 2002, 23% in 2004, and 14% in 2011.

In ISE Bonds and Bills Market, government bonds, treasury bills, revenue sharing certificates, bonds issued by public administration and agencies, corporate bonds, asset-backed securities, commercial paper and other securities are traded. Looking at the development of the trading volumes in Outright Purchases and Sales Market and Repo-Reverse Repo Market, which constitute the large part of the Bonds and Bills Market; In 2005, USD 1.387 billion of the total trade volume of USD 1.747 billion was taking place in the Repo-Reverse Repo Market, whereas in 2011 USD 1.744 billion of the total trade volume of USD 2.035 billion was taking place in the Repo-Reverse Repo Market

Until 1991, the volume of the private sector securities were increasing faster than the public sector, and the share of the private sector in securities market has increased up to 43,9% in 1991. However, in the subsequent period, the share of public sector securities has increased with the increased borrowing requirement of the public sector and the 1994 crisis, and hence the process called "crowding out" has been experienced in 1990s, which is use of the funds in the market for financing the public sector. In 2000, the share of public sector securities in the total stock was 84,3%, and has increased to 92% with the impact of the economic crisis in 2001, and has begun do decline due to the business cycle since 2003, and this rate has become 86%, 81%, 80,3% and 78% in the years 2006, 2008, 2010, and 2011 respectively.

And a matter closely related to the capital market and the banking sector was the BRSA's decision of September 30, 2010, on the permission given for the deposit banks to issue notes and bonds denominated in TL. These debt instruments that can be issued after the supervision of CMBT by banks -as a borrower-, which have a capital adequacy ratio of 12% or greater, are different and longer-term alternative financing instruments for the banks that were dependent to up to three months of term deposits as a source. And for the investors, it is attractive due to the withholding tax advantage and the higher returns than offered by public debt instruments. According to the BRSA data; the issues started after the September 30, 2010 amendment, has reached TL 18,5 billion by the end of 2011, and of these securities, 51.1% was issued as bill, 46.7% as bonds, 2.2% as asset-backed securities. 62% of the issued securities were in TL, and 38% in foreign currency.

There were 80 stocks in 1986, when ISE was founded, and this figure was increased to 110, 205, 315 in 1990, 1995 and 2000 respectively; and by the end of 2011, 373 of the 628 board-registered companies were traded in ISE, of which 237 was in National Market, 61 in Secondary National Market, 64 in Corporate Products Market, 11 in Detention Market. Issuance of shares are affected by economic fluctuations as other debt and equity instruments, and the issuances stagnated in the 2001 crisis has started to increase since by 2004, and has exceeded the limit of TL 10 billion (approximately USD 7,7 billion) in 2006, 2008, and 2010 despite the global financial crisis, and in 2011 it has declined to TL 4,3 billion (USD 2,6 billion). Despite the dominance of the public sector in the financial markets, it has been announced that USD 62,1 billion of resources were transferred to the private sector between 1986 and 2011 through the issuance of shares. In 2011, 87% of the total trading volume on the ISE has been realized in the national market.

The stocks, that is the market capitalization that means the sum of the market value of shares of listed companies in ISE, have followed a trend of ups and downs in line with economic fluctuations and price movements; and has reached to USD 61 billion in 1997, from USD 18,7 billion in 1990. The total capitalization of USD 114 billion in 1999 have declined to USD 69 billion in 2000 due to the economic crisis, and USD 34 billion in 2002, and with a steady increase in the next period has reached USD 289 billion in 2007, declined again to USD 119 billion in 2008 with the heavy impact of the global financial crisis. The losses have been compensated in 2009 and the market capitalization has continued to rise and has reached USD 307 billion in 2010, and has become USD 201 billion by the end of 2011.

According to data on the members of World Federation of Exchanges (WFE), the total market capitalization of 51 stock markets in 2007 was USD 60 trillion, this has fell to USD 47 trillion in 2011; in the same period, the share of ISE in these values was declined from 0.5% to 0.4%, and its place rank has declined from 26 to 32.

Stock trading of foreigners had fallen significantly during the 2001 crisis, and has started to increase since 2003. According to the records on domestic-foreign saving accounts in the publicly traded portion of the traded companies in ISE; by the end of 2000, the share of foreign-owned shares was 40.9% by the end of 2000, and has reached to significant figures such as 66% by the 2005, 72% by the 2007; and then has started to decline due to the global financial crisis and has become 62% by the end of 2011.

The total value of investment funds, which first one was established in 1987, was TL 4,76 billion in 2001 (USD 3,3 billion), whereas the value had reached TL 29,3 billion (USD 21.9 billion) in 2005, and became TL 30,29 billion (USD 16 billion) in 2011. As of 2011, 55 of the foreign investment funds have a portfolio value of USD 28 million.

Within the scope of the private pension system launched in 2003, there were 165 publicly traded pension fund at the end of 2011, with a total value of amounted to TL 14 billion (USD 7,3 billion).

In the Derivates Exchange, in 2005 when it was founded, the trading volume was TL 3 billion, including position closures, and in 2011 USD 231,7 billion was traded, of which 84% were index contracts.

In Istanbul Gold Exchange, the trade volume in 2002 was TL 749 million in terms of TL/kg and 942 million USD in terms of USD/ounce after the 2001 crisis, whereas as the end of 2011 the trade volume was TL 2,5 billion and USD 10,4 billion.

According to CPI of the finance sector, the real growth rate for the period between December 2008 and December 2011 was 40.2% included in the stock markets, and 29% excluding the stock markets. When this calculation is made for the period of December 2010 to December 2011, there was a recession by 2,1% including the stock markets, and a 7,9% growth excluding the stock markets. Due to the extreme volatility of the stock exchanges, it is stated that investors, especially those who are resident abroad, can induce negative growth by sudden changes in their investment decisions, in periods of market volatility.

4. Development of the Intermediary Institutions in Turkey and Analysis of Financial Structure in 2007-2011 Period

According to the provisions of the Capital Market Law, the intermediary activities are the trades carried out by the competent authorities on their own behalf and account, on behalf and account of someone else, on their own behalf for someone else's account. The brokerage activities in the capital market are divided into three groups as brokerage in IPO (initial pulic offering), brokerage in securities trading and brokerage in the trade of derivative instruments.

In addition to the banks, intermediary institutions have started offering financial services in second-hand markets, which became organized with the establishment of ISE in 1986. The number of the intermediary institutions, which were 11 in 1986, increased to 110 in 1991, since the stock brokers turned into the intermediary institutions. The ease of conditions in penetrating into the market, the large share to be taken from the market of this new sectors, and gradually increasing trading volume on ISE has increased interest to the market. (Taskiran and Erkan, 1995, p.164)

According to TSPAKB data (2012b, pp.59-60); As of the end 2011, 86 brokerage firms, 1 derivates brokerage firm and 39 banks had capital market activities on stocks, fixed income securities, and derivates or leveraged transactions. The reflections of domination of Turkish banking sector in the financial markets is also seen in the intermediary institutions. TSPAKB (2012b :59-60) has defined the intermediary institutions that have 50% of their shares or up owned by a bank, either directly or indirectly as "Bank-Origin" and has stated that there were 25-bank-originated intermediary institutions as the end of 2011. In addition, 22 of the intermediary institutions were described as foreign-owned, and 3 were public-origin as of the end 2011. (TSPAKB, 2012b)

55% of the stock transactions were performed by bank-originated, 27% by foreign capital based, and 3% by public-origin intermediary institutions. 93% of the outright purchase and sale transactions of the fixed income securities have been held by banks. The share of banks in derivates exchange transactions was 15%, and the share of bank-originated intermediary institutions was 54%.

TSPAKB (2012c, pp.9-10) stated that one intermediary institution has the one-third of the size of the total assets and has the highest assets, the sum of assets of the first two intermediary institutions is equal to the sum of the assets of the other intermediaries, and the first 20 intermediary institutions have the 83% of the sector's assets. This indicates the weakness of the competitive environment and concentration in the sector.

The change experienced in the financial structures of the intermediary institutions at the time of global crisis can be followed in the financial statements for the years 2007-2011. Balance sheets, income statements and some other basic values, which comply with the International Financial Reporting Standards (IFRS), generated through the compilation and

classification of data provided by TSPAKP from the intermediary institutions are shown in the following tables. Since solo tables were used, consolidated asset management companies, insurance companies and investment trusts are not covered in assessments.

The asset structure of the intermediary institutions for the period of 2007-2011 is shown in Table 1.

Table 1. Asset structure of the intermediary institutions (2007-2011)

Million USD	2007	2008	2009	2010	2011	2007 - 2011 Change (%)
Current Assets						
Cash and Cash Equivalents	1.177	1.320	1.924	2.634	2.327	98
Financial Investments (Short-Term)	770	523	458	427	360	-53
Trade Receivables (Short-Term)	848	503	1.065	1.216	1.104	30
Other Current Assets	64	65	90	63	58	-9
Total Current Assets	2.859	2.411	3.537	4.340	3.849	35
Fixed Assets						
Financial Investments (Long-Term)	206	129	299	363	269	31
Tangible Fixed Assets	106	84	84	78	61	-42
Other Fixed Assets	98	97	75	55	62	-37
Total Fixed Assets	410	310	458	496	392	-4
Total Assets	**3.269**	**2.721**	**3.995**	**4.836**	**4.241**	**30**

Source: TSPAKB, Turkey Capital Markets, 2008, 2009, 2010 and 2011 Reports

In 2007, the size of assets of the intermediary institutions was USD 3,2 billion, and this has increased by 30% and exceeded USD 4,2 billion by 2011. The intermediary institutions have continued to grow during the global financial crisis, and have increased the weight of liquid assets in their total assets. Since the intermediary institutions trade in short-term, they have to have a high level of liquidity ratio. The share of current assets increased by 35% in that period, and had an 87% of share in assets in 2007, and this ratio reached 91% by the 2011. It is seen that, cash and cash equivalents that include bank deposits and reverse repos transactions in return assets and trade receivables became prominent.

During 2007-2011, the highest increase in assets was in cash and cash equivalents by 98%. In 2007, the share of the values in assets was 36%, whereas this figure became 55% in 2011. As of the 2011, 91% of the cash and cash equivalents were term deposits. And according to the portfolio distributions of the intermediary institutions; repos and deposits had about USD 1,7 billion, with a portfolio ratio of 61% at the end of 2007, and as of the end of 2011, they have USD 2,2 billion of portfolio with a ratio of 86%. The increase in the share of repos and deposits seen in the period of 2007-2011 has been provided by the funds created by both the public debt securities that their ratio in portfolio has decreased to 10% from 25%, and by the stocks that has decreased to 2% from 11%. And the share of short-term trade receivables in assets was 26% without a change. Therefore, it can be specified that the intermediary institutions act more cautiously during crisis periods, and tended to risk-free areas such as deposits, rather than the assets bearing various risks, such as stocks.

The current assets are very high than the short-term debts, and this supports the liquidity case. However, the ratio of current assets to short-term liabilities has exceeded 2 by the year 2007; this ratio decreased to 1.4 at the end of 2011.

There was a 4% decrease in fixed assets, which had their share in the total assets decreased from 13% to 9% in the period of 2007-2011, and the share of long-term financial assets, which consist of participation stocks mainly, increased to 68% from 50%.

Liability structure of the intermediary institutions is shown in Table 2.

Table 2. Liability structure of the intermediary institutions (2007-2011)

Million USD	2007	2008	2009	2010	2011	2007 - 2011 Change (%)
Short-Term Liabilities						
Financial Liabilities (Short-Term)	675	773	1.317	2.050	1.713	154
Trade Payables (Short-Term)	520	409	1.091	1.090	927	78
Other Short-Term Liabilities	187	111	114	98	114	-39
Total Short-Term Liabilities	1.382	1.293	2.522	3.238	2.754	99
Long-Term Liabilities						
Provisions for Employee Benefits	15	12	19	19	18	20
Deferred Tax Liabilities	9	5	7	6	4	-56
Other Long-Term Liabilities	15	5	6	3	5	-67
Total Long-Term Liabilities	39	22	32	28	27	-31
Shareholders' Equity						
Paid-in Capital	779	666	689	791	759	-3
Net Profit/Loss for the Period	270	118	211	237	218	-19
Other Shareholder's Equity	799	622	541	542	483	-40
Total Shareholders' Equity	1.848	1.406	1.441	1.570	1.460	-21
Total Liabilities	**3.269**	**2.721**	**3.995**	**4.836**	**4.241**	**30**

Source: TSPAKB, Turkey Capital Markets, 2008, 2009, 2010 and 2011 Reports

Looking at the liabilities of the intermediary institutions; it is seen that in the period of 2007-2011, the short-term liabilities increased by 99% while the long-term liabilities decreased by 31%. The most striking increase was in short-term financial liabilities by 154% and in short-term trade payables by 78%. In the said period, the share of short-term liabilities in the total liabilities increased from 42% to 65%, while the share of long-term liabilities was at an extremely low rate of 1%. Financial liabilities that make up a significant portion of the short-term liabilities mainly consist of Settlement and Custody Bank (Takasbank) Money Market debt. As of 2011, It was stated that 82% of these debts were of two intermediary institutions, and these intermediary institutions had also the two-thirds of assets time deposits, and have utilized the funds they had borrowed from Settlement and Custody Bank Money Market Money in deposits.(TSPAKB, 2012b, p.89, 92)

A remarkable change has been observed in equity of the intermediary institutions in the period of 2007-2011, and the share of equity in total assets decreased from 56% to 34%, and the share of the paid capital in equity increased from 42% to 52%.

The selected income statement items of the intermediary institutions for the 2007-2001 period are shown in Table 3.

Table 3. Selected income statement items of the intermediary institutions

Million USD	2007	2008	2009	2010	2011
Sales Income (Net)	130.947	80.621	66.055	98.733	75.336
Cost Of Sales	130.243	80.208	65.614	98.107	74.807
Commercial Act. Gross Profit/Loss					
Non-Core Business Financial Activity Gross P/L	232	150	145	83	82
Gross P/L	936	563	586	709	611
- Administrative Expenses	605	483	440	483	444
- Other Revenue Expenses	44	33	21	56	7
Activity P/L	487	48	126	170	160
Ongoing Activities Before Tax P/L	379	158	256	288	259
Period P/L (Parent Company Shares)	270	118	211	237	218

Source: TSPAKB. Turkey Capital Markets 2008, 2009, 2010 and 2011 Reports

While the annual profit of the intermediary institutions was USD 270 million in 2007 and decreased to USD 118 million in 2008 due to the impact of crisis, and thanks to the momentum in 2009 it reached USD 211 million in 2009, USD 237 million in 2010 and USD 218 million in 2011. The losses of the intermediary institutions caused by trading in their own portfolios were also effective in the decline in profitability in 2008, as well as the decline in service revenues as a result of the crisis. The difference between the sales income of the intermediary institutions obtained by trading securities and the cost of sales has exceeded the level before the global crisis, in 2010.

The distribution of income types and outstanding commission incomes of the intermediary institutions are shown in Table 4.

Table 4. Income Distribution of the Intermediary Institutions

Thousand USD	**2007**	**2008**	**2009**	**2010**	**2011**
Commission Revenues	506.052	306.713	386.275	614.372	459.011
Service Revenues	219.933	84.024	99.465	185.001	156.691
Purchase-Sale and Derivatives P/L	58.889	5.403	34.729	41.296	24.442
Leveraged Trading P/L	-	-	-	-	9.990
Other Revenues	147.910	88.515	75.827	98.814	108.943
Total	**932.784**	**484.655**	**596.296**	**939.483**	**759.077**
Commission Revenues					
Stock	433.084	234.649	309.084	505.086	371.128
Derivates	60.606	65.240	68.464	100.089	79.182
FIS	12.362	6.815	8.302	9.030	8.209
Foreign Securities	-	9	425	167	492
Total	**506.052**	**306.713**	**386.275**	**614.372**	**459.011**

Source: TSPAKB. Turkey Capital Markets 2008, 2009, 2010 and 2011 Reports

The most important income source of the intermediary institutions is the commissions due to the nature of for their actions. Commission income decreased by 39% in 2008 and then the share of commission income in total income has started to increase and reached 65% in 2009 from 54% in 2007, but decreased to 60% in 2011, and achieved a value of USD 459 million. In the same period, the share from the revenues of services such as asset management, corporate finance (mergers and acquisitions) and consultancy activities decreased from 23% to 20%; and the other revenues that mainly consists of interest received from customers has maintained their approximately share of 15%.

Looking at the distributions of the commission revenues; it is seen in the period of 2007-2011 that the equity transactions were in the first rank with a share of 80%. The share of derivates transactions increased from 12% to 17%, and the percentage of fixed income securities decreased by a half point to below 2%.

The leveraged transactions called as "forex" and performed on foreign currency, goods and precious metals which can only be traded by the intermediary institutions were included in the capital market legislation in 2011. USD 10 million of revenue was obtained by the leveraged transactions in 2011.

The distribution of expenses of the intermediary institutions is shown in Table 5.

Table 5. Expense Distribution of the Intermediary Institutions

Thousand USD	**2007**	**2008**	**2009**	**2010**	**2011**
Personnel Expenses	362.005	263.734	257.415	297.664	263.942
Marketing. Sales. R&D Expenses	62.495	52.200	54.765	65.080	54.589
Other Expenses	243.798	180.601	181.691	185.907	179.834
Total	**668.298**	**496.535**	**493.871**	**548.651**	**498.365**

Source: TSPAKB. Turkey Capital Markets. 2008, 2009, 2010 and 2011 Reports

Approximately 53% share of the personnel expenses were maintained and make up the largest portion of the operating expenses. The sales, R&D, marketing expenditures and trading deductions, have approximately 10% share in total expenditures.

It is understood that the intermediaries industry has been affected negatively by the global financial crisis in 2008 particularly, however, the industry has overcame the shock as soon as possible and maintained its growth and stayed liquid. It is useful to evaluate the impacts of November 2000 and February 2001 national crisis on financial intermediaries, in order to allow a comparison to be made. In a study that examines the impacts of November 2000 and February 2001 crises on intermediaries sector in the capital market, Gumus (2006, pp.43-44) has reported that there were a nominal decrease in the revenue and profit figures of the intermediary institutions in the post-crisis period due to long-lasting crisis and negative expectations, however, the crisis has caused the industry to start to operate with more liquidity, the share of loans dropped by half in the liability structure, and the portion of the equity capitals has been increased. Besides, the revenue and profit figures were well above the pre-crisis levels for the present global crisis, unlike the 2001 crisis, there were decrease in the share of equity, and increase in the financial liabilities.

5. Conclusion

After explaining the function and characteristics of capital market, its place in economic development, and its historical development in Turkey in the study, the figures presenting the current status and composition of the market was given particularly for the year 2007 and subsequent period, where the global crisis was widespread. And in the final section of the study, the analysis of the changes occurred in the period of 2007-2011 in the financial statements of the intermediary institutions that perform brokerage activities in the capital market was presented.

Since the intermediary institutions had continued to grow during the global crisis, their assets' volume has reached USD 4,2 billion in 2011 by a 30% increase than the USD 3,2 billion in 2007. In the same period, current assets of the intermediary institutions increased by 35%, and the share of these values reached 91% from 87% in the assets as well, since their liquid assets are prominent as a result of their operations' nature. The highest increase in assets was in cash and cash equivalents by 98%; the share of these values in assets increased to 55% from 36%; and 91% of the cash and cash equivalents were term deposits. It is seen that the intermediary institutions act more cautiously during crisis periods, and tended to risk-free areas such as deposits, rather than the assets bearing various risks, such as stocks.

In the period of 2007-2011, the short-term liabilities increased by 99%; and the most striking increase was in short-term financial liabilities by 154%. The deposits in the assets have been funded with the increase in short-term bank borrowings, and this area has been dominated by two intermediary institutions. The share of equity in total assets has been decreased from 56% to 34%; and although the annual profit was USD 270 million in 2007, it decreased to USD 118 million in 2008 due to the impact of crisis, then it reached pre-crisis levels in 2009, and has been realized as USD 218 million in 2011. The share of commission income in total income reached to 60% in 2011 from 54% in 2007; the stock transactions has been placed at the first rank with an 80% share in commission revenues; and the share of derivates increased to 17% from 12%.

It appears that the revenues of the intermediary institutions have continued to grow despite the decline in 2008 global crisis, their profits and total assets have reached magnitudes far above the pre-crisis levels, and their liquidity has been maintained. Obviously, the financial statements and key assets of the intermediary institutions will achieve better positions with the utilization of the inactive potential of the capital market.

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