



Association of Capital Market
Intermediary Institutions of Turkey

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CIRCULAR

No: 12

Subject : About the Risk Notification Form on Warrants and of Similar Nature Capital Market Instruments
Reference : Our Circular dated 30 September 2009 and numbered 9

DEAR MEMBER,

“Risk Notification Form on Warrants” that has been prepared in accordance with the 16th article of the Series: III, No: 37 “Communiqué on Principles Regarding Board Registration and Trading of Intermediary Institution Warrants” (Communiqué) of the Capital Markets Board of Turkey has been announced to all our members through our Circular mentioned above.

20th article of the Communiqué regulates that the provisions of the Communiqué will be comparatively implemented to the capital market instruments of similar nature with warrants approved by the Board. Issue of capital market instruments of similar nature with warrants has started to be allowed by the Board. For this reason, additions have been made to the risk notification form on warrants by means of including the said instruments (indicated in bold and underlined in the annex).

“Risk Notification Form on Warrants and of Similar Nature Capital Market Instruments” that has been prepared by our Association and of which text is enclosed shall be used by our members.

I kindly submit for your information.

Sincerely Yours,

İlkay ARIKAN
SECRETARY GENERAL

Annex: Risk Notification Form on Warrants and of Similar Nature Capital Market Instruments

**RISK NOTIFICATION FORM
ON WARRANTS
and
OF SIMILAR NATURE CAPITAL MARKET INSTRUMENTS**

Important Explanation

While you can earn profit as a result of warrant trading transactions **and/or of similar nature capital market instruments** in the capital market, you also have a risk of loss. Therefore, before deciding on performing transactions, it is necessary for you to comprehend the risks that you may come across in the market and make a decision by considering your financial conditions and limits.

For this purpose, as it's foreseen in the 16th article of the Series: III, No: 37 "Communiqué on Principles Regarding Board Registration and Trading of Intermediary Institution Warrants" (Communiqué), you have to understand the below-mentioned issues included in the "Risk Notification Form on Warrants".

Warning

Before making transactions, please check whether the intermediary institution you are planning to work with has an "intermediation license". You can find the banks and capital market intermediary institutions having this license from the web sites www.spk.gov.tr or www.tspakb.org.tr.

General Information on Warrants

Intermediary Institution Warrant (Warrant) is a capital market instrument in the form of a security that gives the holder the right to buy or sell the underlying asset or benchmark at a specified price or until a specified date such that the aforesaid right is exercised with book-entry delivery or cash settlement.

The underlying asset of the warrant constitutes of equities within the scope of ISE 30 index and/or a basket of more than one equity within ISE 30 index. The underlying benchmarks are the equity indexes established by Istanbul Stock Exchange (ISE).

If deemed appropriate by the Capital Markets Board (Board), warrant can be backed by other assets and benchmarks, other than the above-mentioned underlying asset and benchmarks, such as convertible foreign currency, precious metal, commodities and internationally recognized indexes.

Explanations included in this form are also valid for the capital market instruments of similar nature with warrants (similar to warrant) deemed appropriate by the Board in accordance with the 20th article of the Communiqué. The intermediary institution carrying out trading transactions of capital market instruments (similar to warrant) is obliged to inform its customers about the features of the said capital market instrument. It is important for you to obtain this information before beginning to perform the transaction. Please definitely request this information from your intermediary institution.

Principles, Rights and Obligations

1. Warrant trading transactions are carried out upon the approval of the Board within the scope of the transaction principles to be specified within the framework of ISE legislation and in the

market to be defined as appropriate by ISE and based on market making principles. Within the scope of the market making principles; the market maker intermediary institution is obliged to give buying and selling quotations continuously within the framework of the relevant market regulations in order to provide liquidity. Principles of market making are determined by ISE upon the approval of the Board.

2. Warrant selling transactions are obliged to be carried out through the intermediary institutions and be traded at ISE. Principles related to transaction closure of warrants traded at ISE are determined by ISE.
3. The maturities of warrants cannot be less than two months and cannot be more than five years.
4. In case of warrants whose underlying asset or benchmarks are equities in ISE 30 index or a basket of more than one equity within ISE 30 index, the settlement can be determined as book-entry delivery or cash settlement. It is obligatory to implement the cash settlement principles for warrants whose underlying assets or benchmarks other than these.
5. The issuer is responsible of fulfilling the settlement obligation arising from warrant issue. If there is a guarantor, the issuer and the guarantor are jointly responsible.
6. Warrant issues are made on book-entry basis and the issuer has to be a member of the Central Registry Agency (CRA).

Risk Notification

In addition to the issues specified in the framework contract to be signed with the intermediary institution you will transact with, it is very important for you to understand the following issues.

- 1- All kinds of relevant legislation and all similar administrative regulation provisions enacted by the Capital Markets Board, stock exchanges, settlement and custody centers shall be implemented for the account that you will open with the intermediary institution and for all the transactions that you will carry out from this account.
- 2- Warrant transactions are subject to risks at various rates. As a result of the price movements in the market, you may lose all the money that you invested in the intermediary institution as well as you can lose even more money than you have invested depending on the type of transaction you perform.
- 3- Due to leverage effect, it must be considered that warrant trading can be in favor within the market and leverage effect may make you earn high revenues but it can also result in losses.
- 4- If you purchase a warrant and decide not to use the right to buy or sell the underlying asset or the benchmark (that the warrant provides) at a specified price or until a specified date, it is possible to limit your risk with the warrant buying fee and the commissions and other transaction fees you will pay in addition.
- 5- It must be always taken into account that the information and recommendation given by the intermediary institutions to you regarding the warrants you shall trade in the market may be inadequate and should be verified.

- 6- It must be always taken into account that the technical and fundamental analysis to be made by the authorized personnel of the intermediary institutions on warrant trading can differ from person to person and there is the possibility of their estimations not fulfilling themselves on a certain basis.
- 7- It is an obligation to include the risk management policy in the circular regarding the risks that the issuer is exposed due to warrant issues. The circular is published on the web site of the issuer and the market maker in accordance with the Communiqué. The risk management policy of the issuer shall be read carefully before making investment decisions.
- 8- It must be known that warrants and/or underlying assets of warrants issued in foreign currency, there is also currency risk in addition to the above mentioned risks, and there may be loss in value on Turkish Lira bases due to rate fluctuations and governments may restrict foreign capital and foreign currency movements and may place additional and/or new taxes, trading transactions may not be carried out in due time.
- 9- Before starting your transactions, you must receive confirmation from your intermediary institutions regarding all the commissions and other transaction fees that you will be liable for. If the fees have not been stated in monetary basis, you must request a written explanation from them including understandable examples regarding how the fees will reflect on.

This risk notification form on warrants aims to inform investors about the current risks in general and may not include all the risks that may arise from the warrant trading and the practices. Therefore, you should make a comprehensive research before you direct your savings to these types of investments.