

# BORSA İSTANBUL-COMMUNICATION WITH STAKEHOLDERS

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## **BUSINESS STRATEGY**

### **1. How does your exchange define and view the rationale for corporate sustainability and the exchange's role in promoting it?**

There are several stakeholders that play a key role in shaping the sustainable investment climate: legislators, policy-makers, multilateral agencies, professional bodies that set accounting and auditing standards and of course securities exchanges. Exchanges traditionally act as a center of liquidity to enable companies to access sources of much needed capital and offer investors opportunities to diversify their portfolios. Due to their involvement with an extensive variety of market participants, they increasingly play the role of protagonists in defining the rules and best practices that reflect the aspiration of these participants and of society as a whole. In this respect, the main role of an exchange is to raise ESG awareness and standards among listed companies to encourage companies to become more sustainable and eventually help create a better future for next generations. In accordance with this commitment, Borsa Istanbul accomplishes its mission through diversified means which includes the provision of specially designed focused products and services, and engagement in initiatives that aim to enhance the awareness and knowledge.

### **2. How does your exchange's senior leadership and organizational structure support the promotion of corporate sustainability in its market(s)?**

Borsa Istanbul puts the compliance with the principles of UN Global Compact at the core of its sustainable business and growth. At the Board level, the Corporate Governance Committee is responsible from the monitoring of the Exchange's business practices in accordance with regulations in terms of environment and public health. In addition, the Early Risk Detection Committee assists the Board of Directors in better assessment and management of the risks the Exchange is exposed to. Borsa Istanbul publishes its Corporate Social Responsibility Policy, Human Resources Policy and Ethical Rules on its website. Additionally, a Sustainability Bulletin, which serves as a blueprint of ESG issues addressed by the Exchange to its stakeholders, was prepared for the year 2014. Borsa Istanbul will also release a new corporate sustainability report that complies with GRI Reporting Standards and details essential and precise information on its priorities and performance in sustainability practices from this year onwards.

In addition to these efforts, a “sustainability team” including members from Borsa Istanbul’s Listing, Business Development and Index departments works to deepen the Exchange’s understanding of its contribution to the society and to invest in initiatives designed to ensure that sustainability is an integral part of its management, products, services and relationships.

### **3. What goals/objectives does your exchange have in regards to advancing sustainability in your market?**

As a pioneer in developing capital markets in Turkey, Borsa Istanbul not only integrates the principles into its own code of conduct and business practices but also gives the lead for listed companies to affirm responsible conduct of the business. Borsa Istanbul’s responsibility to companies therefore extends farthest of all because the exchange and the companies it works with form a network driven by constant interchanges, close relationships and mutual influence, in one word, by partnership.

Borsa Istanbul recognizes its role to create awareness in investors and listed companies on environment, social responsibility, and corporate governance issues and to provide them with the expertise and advice. To set a good sample of exceptional best practice and as an encouragement, Borsa Istanbul publishes corporate social responsibility and sustainability-related activities of its members and listed companies on its website. To further serve to the goal of raising awareness on ESG issues, Borsa Istanbul plans to expand the scope of the website with new functionalities such as creating a platform with a continuous networking opportunity where our members’ socio-environmental projects, benchmark presentations will be published and sustainability related publications will be included.

Recently, Borsa Istanbul published “Handbook for Sustainability Guidance” to promote awareness in listed companies. With this guidance, the point is not to lay down rules or offer recipes, but to share and disseminate knowledge, ideas, general facts and best practices that in the view of the capital markets should be adopted by companies of all sizes who would like to stand out from the crowd. After all, there can no longer be any doubt that all organizations require a sustainability agenda as part of their strategic vision. Most important of all, Borsa Istanbul believes that by taking into account the characteristics that make them unique, companies should develop their own solutions.

Another initiative of Borsa Istanbul to create awareness in sustainability issues is the launch of a Sustainability Platform with the participation of non-governmental organizations (NGO) on sustainability issues in Turkey. The Platform is an efficient communication platform and all the stakeholders around the table become aware of sustainability related events, some of which are GRI events, taking place in Turkey through e-mails and meetings bringing together leading financial and non-financial agencies and NGOs in Turkey towards sustainable development targets in 2013. The Platform aims to create synergy, streamline efforts and projects, improve sustainability awareness, and create a better understanding of sustainability risks. Borsa Istanbul’s such efforts are solely focused on improving Turkey’s position in sustainable growth by supporting listed companies and businesses toward efficient implementation of global standards.

A unique project Borsa Istanbul has been contributing to is the “National Education Project”, which started back in 1997. With this initiative, Borsa Istanbul has allocated funds of approximately \$US 1 billion to the Ministry of National Education for the construction of schools throughout Turkey. Since the beginning of the project, 415 fully functional and equipped educational institutions have been constructed including, but not limited to, university faculty buildings, social facility centers, public training centers, apprenticeship schools, boarding schools, vocational high schools, dormitories, sports and cultural centers.

## TRANSPARENCY AND ISSUER REPORTING

### **4. Describe your exchange’s approach to promoting sustainability disclosure by companies.**

Capital Markets Board of Turkey is the regulatory and supervisory authority in charge of the securities markets in Turkey. Currently, there are neither sustainability related listing rules nor mandatory disclosure requirements.

### **5. What is your exchange’s process for reviewing listing standards in general? Are there opportunities for stakeholders to comment during this process?**

Listing standards are approved by the supervisory authority which is the Capital Market Board (CMB) of Turkey. Although there is no formal consultation process that includes any stakeholder involvement, views of the brokerage industry about listing rules and market segmentation are taken into consideration informally.

### **6. How do you track sustainability reporting of your listed companies?**

Borsa İstanbul does not require listed companies to issue sustainability reports yet.

### **7. What incentives (i.e., public recognition/awards) and sanctions do you have in place to encourage disclosure and discourage non-compliance/lower levels of transparency?**

As an incentive, for companies included in the BIST Corporate Governance Index, the annual listing/registration fee is applied as 50% of the tariff for the first two years, 75% of the tariff for the following two years and then continues as 90% of the tariff.

### **8. What connections have you made between national sustainable development frameworks and goals, and your exchange’s existing standards and norms?**

Driven by the increasing awareness on sustainability initiatives among market participants, Capital Markets Board of Turkey (CMB) issued Corporate Governance Principles back in 2003. When the principles were first brought into force, companies reported on their compliance with the principles on a “comply or explain” basis. In the most recent situation, some of the principles have become mandatory for listed companies, and these companies prepare Corporate Governance Compliance Reports and publish them alongside their annual reports. In case of non-compliance

to the regulations, Borsa Istanbul has the authority to issue a warning, delist and change the market of the company, and may inform the CMB about the case.

## ISSUER CAPACITY BUILDING

**9. If your exchange offers sustainability guidance for companies, please provide a description of the process for its creation.**

In November 2014, Borsa Istanbul published a “Handbook for Sustainability Guidance” to provide guidance for companies to integrate ESG factors in their decision making and business processes and to increase their awareness in sustainability issues.

In the guide, basic concepts that may be encountered on sustainability, the explanation of the competitive advantages of responsible investment, suggestions on how to be able to include business processes and best practices from Turkish companies, the importance of sustainability reporting, information on different reporting frameworks, role of exchanges in promoting sustainability, general facts about the BIST Sustainability Index and historical development of sustainability are all provided to the readers.

**10. Do you and/or your regulator provide guidance on externally assuring ESG disclosures? In your market, how common is external assurance of ESG disclosures?**

No.

## COLLABORATION AND ENGAGEMENT

**11. How do you engage and collaborate (or plan to do so) with: regulators, peer exchanges, investors, companies, global organizations and other stakeholders?**

Stock exchanges are a vital actor in bringing companies, investors, regulators and other key stakeholders such as international institutions and NGOs together to help make corporate sustainability a refraining agent in acquiring a shared, confident and sustainable future. In this respect, Borsa Istanbul has always been actively involved in sustainability initiatives and events. Borsa Istanbul has been a signatory to UN Global Compact since 2005 and to UN Principles of Responsible Investment since 2010. It is a member of Sustainability Working Group of World Federation of Exchanges, the Eurasia Group on Corporate Governance for Capital Market Development and Task Force of MENA Stock Exchanges for Corporate Governance in OECD. Borsa Istanbul is also one of the five founder exchanges, who committed to Sustainable Stock Exchanges Initiative, is represented on the Board of UN Global Compact’s Turkey Network and also a member of the UN Global Compact Sustainable Banking and Finance Working Group. These dialogues are ongoing and designed to analyze, promote and foster communication on stock exchanges’ sustainability-related activities. They are designed to demonstrate stock exchanges’ progress, while highlighting challenges and opportunities ahead. A core purpose is to facilitate the sharing of experiences that encourage exchanges and their regulators to

enhance listing rules and/or regulatory initiatives to include the disclosure of sustainability strategies by listed companies. Through such involvements and commitments, Borsa Istanbul has taken active roles in organizing and hosting many sustainability related events.

## SUSTAINABLE PRODUCTS

### 12. How has your exchange supported the development of financial products that address sustainability-related issues (e.g., ESG Indices, carbon markets, social/environmental bonds, sustainable development funds, etc)?

Supporting the creation of new markets, and building a social agenda, Borsa Istanbul has been calculating and disseminating the Corporate Governance Index since 2007. The Index aims to measure the price and return performances of companies traded on Borsa Istanbul markets with corporate governance rating of minimum 7 over 10 as a whole and minimum of 6.5 for each main section. The corporate governance rating is given by the rating agencies which are within the list of Capital Markets Board and are determined as a result of their assessment of the company's compliance with the corporate governance principles set by the CMB. Rating grades ranging between 1 and 10 are assigned on the compliance with corporate governance principles as a whole and individually with respect to the topics such as shareholders, public disclosure and transparency, stakeholders, board of directors. As a result, we have experienced that the listed companies in the Corporate Governance Index have made impressive progress on corporate governance, the "G" part of the ESG which is proven to be the first level of engagement for investors and issuers alike.

Along with BIST Corporate Governance Index, in October 2013, we started a project with Ethical Investment Research Services Limited (EIRIS) to create BIST Sustainability Index. The Index, providing a benchmark for Borsa Istanbul companies with high performance on corporate sustainability, was launched in November 2014. With the Index, Borsa Istanbul provides companies with an instrument for evaluating their performance and consequently adopting new targets or furthering their performance while allowing them to develop their risk management abilities for corporate transparency, accountability and sustainability.

## EXCHANGE NEEDS

### 13. Are there specific resources (meetings, commissioned research, webinars etc) that you would like from the SSE or other relevant groups to help you in your sustainability work?

Borsa Istanbul appreciates SSE's assistance on providing communication and cooperation channels with stakeholders (i.e. the government, civil society, academia, consumers alike) on regular basis, raising awareness and capacity building. We believe that surveys of best practices, commissioned research on the effects of integrated sustainability would be helpful to build awareness on ESG issues.

### 14. Are there any specific requests you have of investors, issuers and regulators in terms of their role in advancing sustainability in the market?

Borsa Istanbul is well aware that its ability to take the next step along the journey to integrated sustainability depends on partnerships, teamwork and joint efforts with investors, issuers and regulators. To create a clearer and more constructive regulatory environment for sustainability, to avoid unintended consequences of the regulation, to build trust and to provide a more up-to-date basis for policymaking, regulators should adopt a more proactive and collaborative approach with companies to seek out genuine opportunities for commercial and social benefit. Moreover, to create an efficient market for sustainable products and services, along with exchanges, companies should also be active in shaping the consumer and customer awareness, attitudes and needs.