BORSALİSTANBUL-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 İstanbul 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)?

It is of great importance for Borsa İstanbul to earn trust of the markets through transparent and fair governance due to its central role in the finance sector. We are building fundamental principles of corporate governance that regulate all stakeholder relations on the principles of equality, transparency, accountability and responsibility. There are six committees affiliated to the Board of Directors or the CEO, namely the Arbitration, Disciplinary, Early Risk Assessment, Audit, Corporate Governance and Sustainability Committees. The Sustainability Committee reporting directly to the CEO is responsible for sustainability issues in Borsa İstanbul. Borsa İstanbul Sustainability Committee was founded in 2015 in order to implement integrated and efficient sustainability practices in Borsa İstanbul. To create long-term value for financial markets where Borsa İstanbul is active together with all stakeholders, the primary objective of the Committee is establishment of strategies, policies and goals required for management of ESG risks and ensuring the integration of these strategies and policies with the company’s decision making, management, operation,
and audit processes. Borsa İstanbul publishes its Code of Ethics, Information Policy, Environmental Policy, Corporate Social Responsibility Policy, Workplace Health and Safety Policy, Human Resources Policy and Remuneration Policy on its website. Borsa İstanbul Sustainability Report produced pursuant to the GRI G4 standards, transparently shares Borsa İstanbul’s Environmental, Social, and Corporate Governance (ESG) performance, as well as its contribution to the sustainability of the capital markets, with the stakeholders.

In addition to these efforts, supplementary to the Sustainability Committee, a “sustainability team” 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 İstanbul 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 İstanbul’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 İstanbul puts forth capacity development efforts intended for companies, whose capital market instruments are traded on Borsa İstanbul, the investment firms, the investors and other market actors for the purpose of enhancing the corporate performance and transparency, as well as raising the awareness of investors on ESG matters while encouraging them to share their know-how on ESG. The capacity development endeavors are carried out by organizing conferences, seminars and training courses. To set a good sample of exceptional best practice and as an encouragement, Borsa İstanbul publishes corporate social responsibility and sustainability-related activities of its members and listed companies on its website.

Borsa İstanbul also 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 İstanbul believes that by taking into account the characteristics that make them unique, companies should develop their own solutions.

Another initiative of Borsa İstanbul to create awareness in sustainability issues is the Sustainability Platform. Inaugurated by the initiative of Borsa İstanbul and by the participation of relevant organizations, Sustainability Platform aims to create a sharing network which enables result-oriented and effective realization of the sustainability activities and powerful discussions on future joint steps in the field of sustainability. Together with Borsa İstanbul, NGOs including sectoral unions,
associations and foundations, international associations and regulatory authorities may be accepted as members to the Platform. Underlining its intention to develop a robust and long-term relationship between its members, Sustainability Platform works on increasing the awareness and knowledge regarding sustainability, providing its support to enable sustainability issues to take part in the relevant legislation and regulations, promoting sustainability practices and collaborating with related international agencies. Borsa İstanbul’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 İstanbul has been contributing to is the “National Education Project”, which started back in 1997. With this initiative, Borsa İstanbul 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 also an active member of Sustainability Working Group of World
Federation of Exchanges. Borsa Istanbul is 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.

Borsa İstanbul also started calculating the BIST Sustainability Index, which incorporates the companies traded on Borsa İstanbul with high sustainability performances in ESG, as of November 4, 2014. Borsa Istanbul aims to improve sharing of knowledge and good practices on sustainability among the companies established in Turkey and traded on Borsa İstanbul in particular, through the BIST Sustainability Index. The companies are evaluated based on the environmental performance, biodiversity, climate change, human rights, fight against bribery, occupational health and safety criteria, and the companies over certain threshold values as indicated in the “Index Selection Criteria” are included in the BIST Sustainability Index.

**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 İstanbul 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 İstanbul 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.