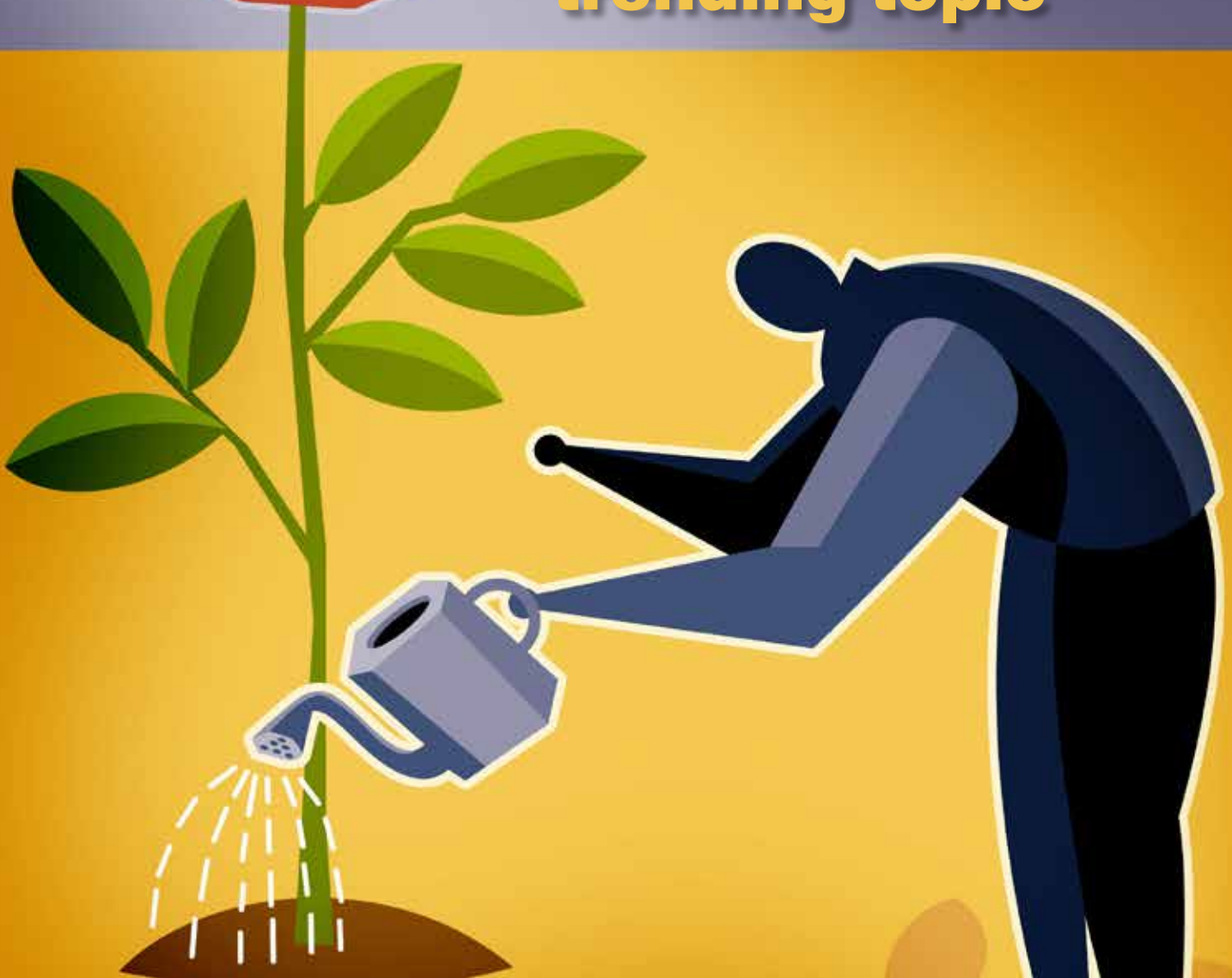




SMEs market is a trending topic



Bridging the gap in SME financing through the capital market

SMEs: Running power of future growth – How to enable them to finance operations via Stock Exchanges?

Inspiring SME IPO's at Borsa Istanbul, reducing IPO Cost

Country Focus: Oman

Role of capital markets in the provision of long-term financing for SMEs

Can a banana piano help exchanges to establish a successful SME market?

Strengthening trust and transparency in corporate disclosures – the dawn of Integrated Reporting

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FEDERATION OF EURO-ASIAN STOCK EXCHANGES (FEAS)

Borsa Istanbul Building, Emirgan 34467 Istanbul, Turkey
Tel: (90 212) 298 2160
Mobile: (90) 530 035 6905
Fax: (90 212) 298 2209
E-mail: secretariat@feas.org
Web address: www.feas.org

Contacts

Mr. Mustafa Baltacı, Secretary General
Ms. Ege Adalioglu, Deputy Secretary General
Ms. Aydan Bal, Coordinator

Your gateway to the markets of tomorrow...

The Federation of Euro-Asian Stock Exchanges (FEAS) was established with its headquarters in Istanbul on 16 May 1995 with 12 founding members, and it has grown to 32 members 16 affiliates in 30 countries as a not-for-profit organization. Membership in the Federation is open to exchanges in Europe and Asia as affiliate membership is available for post trade institutions and dealer associations in the same region. FEAS Organizational Structure is formed by General Assembly, Executive Committee, Working Committee and the FEAS Secretariat.

The mission of FEAS is to help create fair, efficient and transparent market environments among FEAS members and in their operating regions. FEAS aims to minimize barriers to trade through the adoption of best practices for listing, trading and settlement. Federation also supports promoting linkages among members for cross-border trading.

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- The South Asian Federation of Exchanges (SAFE)

FEAS Perspective



Mustafa Baltacı
FEAS Secretary General

Dear Friends,

We would like to present the winter issue of InterFEAS magazine with a topic, everyone keen on creating solutions, "SME Finance".

SMEs play a solid but often unrecognized role in private sector growth and they are a fundamental part of the economic structure in developing countries, playing a crucial role in continuity of growth, innovation and prosperity. They are strongly restricted in accessing the capital that they require to grow and expand and as Dalberg Report suggests "with

The need for well organized and innovative exchange solutions for SMEs in Europe and the developed world is becoming more apparent than ever.

nearly half of SMEs in developing countries rating access to finance as a major constraint".

According to an OECD report, "SMEs play a key role in transition and developing countries. These firms typically account for more than 90% of all firms outside the agricultural sector, constitute a major source of employment and generate significant domestic and export earnings. As such, SME development emerges as a key instrument in poverty reduction efforts."

In today's developing globe, there are new opportunities as well as challenges for SMEs where not all of them are able to identify these opportunities and deal with the challenges. Especially the majority of SMEs in developing and transition countries has been less able or unable to benefit from globalization and they are facing the competition of cheaper imports from the local or domestic markets.

The need for well organized and innovative exchange solutions for small and medium size companies (SMEs) in Europe and the developed world is becoming more apparent than ever. The global financial crisis has badly affected financial institutions' funding that has severe effects on the SME sector. Banks, holding out on traditional loans and the investor community is trying to reduce risks by moving towards interest-bearing financial instruments, such as large cap corporate bonds.

Europe's leading stock exchanges like the London Stock Exchange Group, NASDAQ OMX and NYSE Euronext

are among number of markets that have launched new segments or initiatives to help small and medium-sized companies raise finance in the past year.

In search of a possible solution for the SME financing, we have asked the opinions of various partners again on how SME financing should be implemented and further financed. In this magazine, you will find articles, exploring SME financing from different perspectives and different parts of the world.

Boyan Ivantchev from Advance Equity Holding Bulgaria and Hristo Valev from Karoll Finance wrote an article on Bulgarian SME market from investors' point of view.

Ivana Gazic from Zagreb Stock Exchange provided input on capital markets for SMEs and wrote a very useful piece.

Korhan Eryilmaz of Borsa İstanbul has shared views and experiences on an incentivized SME market.

Muscat Securities Market has reflected views on long term financing.

Hannes A. Takacs from Capital Market Experts (CAPMEX) contributed with an article on SME financing, crowd funding and next-generation SME exchanges.

Henning Drager from IIRC talked about how Integrated Reporting will be applied across different sectors, national jurisdictions and organizational forms including listed companies, private entities and SMEs.

And finally, Adam Kostyal from NASDAQ OMX conducted an article on First North as NASDAQ OMX's European marketplace designed for growth companies.

Allow us to thank again for your support and interest as we hope you will find the Winter 2013 issue of the InterFEAS Magazine enjoyable.

Sincerely,

Mustafa Baltacı
Secretary General

Bridging the gap in SME financing through the capital market



Boyan Ivantchev, Ph.D.
Member of the Board of Directors of
Advance Equity Holding



Hristo Valev
Investment Manager, Karoll Finance

advance equity 
KAROLL FINANCE

It is a common wisdom that any budding business or growing but short of assets enterprise can hardly get a loan from bank on favorable terms and of adequate size. Then the set of possible sources for financing quite naturally reduces to the 'usual suspects' like loan from friends or family members, as well as sale of valuable personal property (if any).

Some efficient forms of support to starting businesses – not only financial but also risk-sharing – are the so called Angel financing and the Venture Capital (VC). The first one being rarely institutionalized needs a critical mass of wealthy, experienced, and willing to diversify their investments private individuals – something still missing

(at least distinctly) in the younger market economies of Eastern Europe.

The second one needs a special domestic legislation if aimed at becoming a real and functional financing alternative for the small and medium-sized enterprises (SMEs). Truly, some international players in the VC field often recognize the Eastern Europe's growth potential and act as financiers of promising locally founded start-ups. These funds, however, are not very easy to reach by the domestic entrepreneurs, or sometimes the communication between the parties is simply impossible. The deal size also plays a major role as it can be a barrier difficult to overcome.

Bulgaria's SME sector is faced with the same sort of problems as its peers throughout the rest of Eastern Europe. For instance, in 2010 from a total of 353,588 non-financial

enterprises 352,844 were SMEs, and for more than 69% of them the access to financing was severely limited*. The access to bank loans at rates and terms allowing growth and development is almost shut, the classic project (non-recourse) financing is a taboo, while a special legislation on VC investing is yet not available, though timid efforts have been made to this some ten years ago.

Bulgaria's financial non-banking group Karoll have managed to structure an innovative investment vehicle in a determined attempt for overcoming the legislative immaturity. In early 2006 a VC-like investment company with local (Bulgarian) registration, primarily domestic sources of funding, and most importantly – a pure country-specific investment focus was successfully launched under the name of Advance Equity Holding. The Company was subsequently listed on the Bulgarian Stock Exchange – Sofia, [BSE:6A8].

With a primary aim of investing in privately held young and developing businesses with high growth potential and devoted management teams, the Company raised via an IPO EUR 5.1 million to the original EUR 1 million contributed by Karoll Group at the inception. A successful consequent capital increase was made in the mid-2007 through issuance of new shares adding some EUR 13.8 million to the capital under management and bringing it to a total of EUR 19.9 million.

Bulgaria	2007	2008	2009	2010	2011
VC investments as % of GDP	0.01%	0.02%	0.01%	0.00%	0.00%
VC investments in EUR '000	3,322.18	8,318.82	4,037.34	1,328.00	424.00

Source: European Commission, based on EVCA data

To obtain a better understanding of the dire necessity for more efforts in start-up financing in Bulgaria we offer the following data for the investments of internationally active VC funds in Bulgaria in the period 2007-2011:

Acting as a typical VC fund, Advance Equity Holding takes shares of ownership in the investee companies and provides financing as equity contribution as well as subordinated loans. But again – characteristically for a VC fund – the financing is not the only important thing provided: such is the shared responsibility for growing the business. The stay of the Fund (i.e. the holding company) as a shareholder in the investee companies usually takes more than 5 years as the young businesses need their time to mature.

- There is clearly a niche market for venture capital financing in Bulgaria: Nearly 200 business plans reviewed in the initial 5 years of the Fund's existence.
- The entrepreneurial culture is still emerging in Bulgaria but its potential for development is great and could be catalyzed through the collaboration with professional investment managers. Still there is a huge potential for improving the knowledge among the local entrepreneurs on the advantages of working with financial partner.

On the other side, this innovative form of venture capital provision through publicly traded vehicle (investment fund) comes with a number of issues such as:

- As any traded company on the stock exchange you are prone to the twists and turns of the market sentiment which often lead to deviations from the fair value of your net assets. Those are often very difficult to properly communicate and add some extra investor relations cost.

Weighting the pros and cons of this not very typical way of being a VC investor, there is clearly a positive balance. It is namely the SMEs that need more than anyone else not just a pile of money but also a partner's helping hand and a good understanding of the business. And that is what the VC funds can generously deliver should a conducive environment for their activity is legislatively designed.

Despite the hardships facing any innovative initiative, discovering a model for bridging the gap in the SME financing through the use of the capital market is worth experiencing, as it offers both tremendous intellectual challenges and outstanding business rewards.

Having more than 7 years of hands-on experience with SME financing through capital market funded innovative structures we can draw some conclusions on the different aspects of this approach. On the one side:

- The legal obligation, binding every listed company, to report every major business fact from the activity of its investee companies not only to its shareholders (investors) but also to the wide variety of potential stock market investors, could turn harmful sometimes, especially in innovative start-ups.

Despite the hardships facing any innovative initiative, discovering a model for bridging the gap in the SME financing through the use of the capital market is worth experiencing, as it offers both tremendous intellectual challenges and outstanding business rewards.

SMEs: running power of future growth

How to enable them to finance operations via Stock Exchanges?



Ivana Gazic

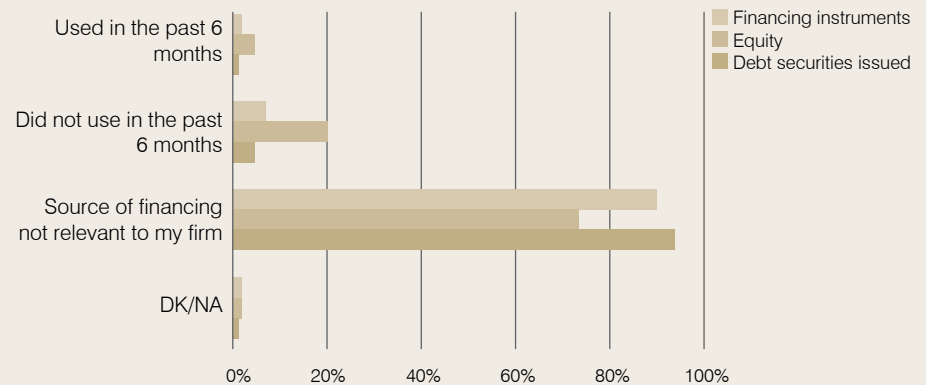
President of the Management Board

SMEs in the EU

SME – small and medium sized enterprises are defined in EU law (EU recommendation 2003/361). This definition is adopted by EU member states, European Investment bank and European Investment Fund. The main criteria for determining whether a company is a SME are number of employees and either a turnover of balance sheet total.

More than 99% of all European businesses are SMEs, and they provide two out of three (67.5%) of the private sector jobs and contribute to more than half of the total value-added (67% of GDP) created by businesses in the EU. They account as strong driver of the economy growth. However, it is important to mention that nine out of 10 SMEs are

ECB SURVEY ON THE ACCESS TO FINANCE ON SMALL AND MEDIUM SIZED ENTERPRISES IN THE EURO AREA, APRIL 2013



micro enterprises with less than 10 employees. Majority of this companies that could raise capital needed via stock exchange that are still not doing so.

In the research conducted by European Central Bank in April 2013, SMEs have disclosed their most significant problems for running business and access to finance is second biggest problem (after finding customers) they have to address each day. In the age of financial crisis and credit crunch in EU in last couple of years, traditional source of financing: bank loans have become less accessible, while needs of the companies for fresh capital have actually increased. Indeed, in the same research, SMEs report deterioration of bank's financing capacity.

What is most interesting, when analyzing where companies are looking for money: in form of financing instruments, equity or debt securities issued, it is obvious that SMEs need strong guidance when considering their sources of financing. Obviously, lack of knowledge from their side, perception that debt instruments and equity are very expensive and lack of guidance from different financial intermediaries, are the greatest problem.

How can stock exchanges help to encourage SMEs' participation in capital markets?

Since this situation is not changing for quite some time already, it is necessary that stock exchanges take active role in this process. Number of the exchanges in EU has started to use their MTF platforms as a first step for SMEs to access the market. One of the most exposed examples is New Connect MTF platform operated by Warsaw Stock Exchange. It is however to be noted that no matter high number of IPO's in last couple of years, there is certain lack of liquidity

The main factors determining whether a company is an SME

Company category	Employees	Turnover	Balance sheet total
Medium-sized	<250	≤ EUR 50 m	≤ EUR 43 m
Small	<50	≤ EUR 10 m	≤ EUR 10 m
Micro	<10	≤ EUR 2 m	≤ EUR 2 m

Source: EC website: <http://ec.europa.eu>

in this market. So, stock exchanges do not need only to bring the companies to the market, but require wider support by the Government and other institutions in order to provide liquidity.

What is also to be noted is that even these MTF's have started to increase reporting requirements for companies admitted to trading, as investors are constantly looking for high information standards of their prospective investments. Here, we see, once you educate the company they can use the capital market for financing, you have to also provide constant support in terms of improving company's willingness to service information requirements of the market.

Changes in legislation show interest of the EU in developing SME presence on stock markets.

One more important trend in the EU is attempt of EU legislator to tackle further question of transparency. The Transparency will be covered in particular by Proposal of Directive amending directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and Commission Directive 2007/14/EC – which is still not in force, but is very important for foreseeing trends which European companies will have to comply in the future, therefor will be discussed in more detail in this paper. This proposal for an amendment of the Transparency Directive is consistent with the objective of maintaining and, where necessary, enhancing the level of investor protection envisaged in the Directive and ensuring that the information disclosed is sufficient and useful for investment purposes at acceptable costs. The objective of the Transparency Directive is to ensure a high level of investor confidence through equivalent transparency for securities issuers and investors throughout the EU."¹

Stock exchanges also need to take active role in educating SMEs on capabilities and advantages of capital market financing, but also on their obligations towards investors after listing.

Main impacts are expected to be:

1. More flexibility regarding frequency and timing of publication of periodical financial information² – in practice this is very important for the companies, as current regime of reporting is hard to maintain, especially for small and medium-sized issuers. This measure will reduce administrative burden for companies as no interim management statements and/or quarterly reports will be required;
2. Simplification of narrative parts of financial reports for small and medium-sized issuers;
3. Elimination of the gaps in requirement for notification concerning major holdings of voting rights;
4. Elimination of divergences in notification requirements for major holdings³.

There are several main changes in concept of information requirements for listed companies:

- a. Loosening of requirements in terms of amount of information to be provided – it is now more about the quality, not the quantity of the data;
- b. There is less focus on financial fines, and more on public warnings, mostly due to the fact that such warnings have not only impact on the issuer that has omitted to do something (like report on time), but only on other listed companies and general public, about the importance of transparency;
- c. Loosening of reporting requirements and decrease of costs connected to it are aimed at encouraging more companies (especially mid-sized) to collect required financing via capital market vehicle, instead of relying on banking sector.

Conclusion

As SMEs are very important part of EU economy, and have increased need for financing their business at the time of credit crunch it is important that stock exchanges take active role in attracting them to seek funds on capital markets. Using these two main pillars of financing: both banks and capital markets will make them more flexible and competitive in terms of managing their balance sheets. In order to do this, legislative has already started to change, and stock exchanges are following this trend, in order to find sound balance between transparency and ability to participate in capital markets. Stock exchanges also need to take active role in educating SMEs on capabilities and advantages of capital market financing, but also on their obligations towards investors after listing. It is also in the interest of governments to make this very important segment of economy less dependent on banks, therefor governmental bodies should be included into this process. And finally, exchanges need to think about total costs of listing this companies as this accounts for majority of their concerns when listing on stock exchange is in question. Regarding transparency, we can expect that trend of increased requests on MTF's and decreased requests on regulated market, will at the end result in very similar information requirements on regulated market and MTF, which is something that should be taken account by stock exchanges as well, as only liquidity on these two markets will make substantial difference for the companies when making a decision where to list its shares.

¹ Proposal of Directive amending directive 2004/109/EC on the harmonization of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and Commission Directive 2007/14/EC

² Ibidem.

³ Ibidem.

Inspiring SME IPO's at Borsa İstanbul, reducing IPO Cost



Korhan Eryılmaz

Director of Emerging Companies Market Department

IPO costs are negatively correlated with the market value of IPOs. Typically SME IPOs have very low market values, resulting in prohibitively high IPO cost/value ratios. Accordingly, reducing IPO costs is one of the most significant factors for facilitating SME IPOs.

Primary cost components of an IPO at Borsa İstanbul's SME market, Emerging Companies Market (ECM), are Intermediation Fee, Underwriting Fee, Independent Audit Fee, Market Advisor Fee, Legal Counsel Fee, Capital Market Board (CMB) Registration Fee, Exchange Fee and Central Registry Agency (CRA) Fee.

In order to provide cost advantage for SMEs and encourage ECM IPO's, Borsa İstanbul and the CRA cut their fees to 1/10th and the CMB to 1/20th of the fees applied in Equities Market. On the other hand, while companies listed on the Equities Market are charged on the basis of their total capital by Borsa İstanbul, ECM companies are charged only on the basis of the amount of shares listed.

The main factors determining whether a company is an SME

Component	Upper Limit of Support (TRY)	Support Ratio (%)
Market Advisor Consultancy Fee (maximum 2 years)	60,000	75
Independent Auditing Fees	20,000	75
CMB Registration Fee, Fee for Admission to ECM Directory & Central Registry Agency Fees	10,000	100
Intermediation Fees	10,000	75

The new fee scheme is given above.

CMB Registration Fee: A 0.01% registration fee is paid to the CMB over the sales value of the shares registered.

Exchange Fee: Companies pay 0.01% fee on admission to the ECM Directory, and 1/4 of 0.01% in the following years over the nominal value of their shares listed in the ECM Directory.

CRA Fees: The CRA charges a 0.01% membership fee (shall be in TRY 200 - 5,000 range) over the capital and 0.005% process fee for registered capital increases over the nominal value for ECM companies.

Although the new scheme decreased the IPO cost, more support was necessary to stimulate SME IPO's.

KOSGEB Support Program

Within the framework of cooperation memorandum which was signed on February 4, 2011 among Capital Market Board, Small and Medium Sized Enterprises Development and Support Administration of the Ministry of Science, Industry and Technology (KOSGEB), Borsa İstanbul and

The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB); KOSGEB formed an "Emerging Companies Market SME Support Program" in order to provide financial assistance to SMEs for costs they would encounter in the process of going public on ECM.

According to the program, KOSGEB pledges non-refundable support for SMEs up to TRY 100,000 per case with some limits for some particular components as stated in the below table.

It is compulsory to be registered at KOSGEB database in order to be able to apply for Emerging Companies Market SME Support Program. KOSGEB makes reimbursement payments to affirmed SMEs' upon submission of relevant expenditure documents.

Of the 17 companies that went public at ECM, 6 have applied to KOSGEB for Emerging Companies Market SME Support Program.

With the contribution of the KOSGEB Support Program SME IPO's have nearly the same cost/market value ratio with an average sized IPO.

Of the 17 companies that went public at ECM, 6 have applied to KOSGEB for Emerging Companies Market SME Support Program.

Country Focus: Oman

History of Oman

Oman's history tells stories of heroism, courage, wisdom, patriotism, love and devotion to homeland. This brings us closer to understanding the richness of the Omani cultural experience which has contributed to the building of modern Oman.

Oman's strategic location has played a major role in many campaigns and regional conflicts in this region. Oman overlooks the Arabian Sea, the Sea of Oman and the Arabian Gulf. It also controls the Strait of Hormuz, which is one of the most important facilities in the region, linking the Sea of Oman with the Arabian Gulf. The Strait of Hormuz is a gateway to all ships coming from the Indian Ocean and Arabian Sea.

The Babylonians and the Assyrians settled in Oman because they wanted to control the trade route that linked Asia to the shores of the Mediterranean Sea.

In 1698, the Omani Empire then expanded to include the cities of the African east coast, stretching from Mombasa to Kila, Zanzibar, Pemba and Bata. Mozambique remained under Portuguese rule until the twentieth century.

Oman had been the target of a number of attempts by the Persians to invade its territory, but the steadfastness and heroism of the Omanis were successfully combined to defeat the occupier. The invaders were defeated, underscoring the exploits of Omani heroes in defending their lands. This great victory was achieved at the hands of Imam Ahmed bin Saeed Al Busaidi, who defeated the Persians and was elected imam.



Oman's history tells stories of heroism, courage, wisdom, patriotism, love and devotion to homeland.

With the advent of 1970 came the dawn of a modern renaissance in the Sultanate, with the beginning of the prosperous era of His Majesty Sultan Qaboos bin Said, may God protect him.

Since the accession of Sultan Qaboos bin Said Al Said in 1970, Oman has undergone significant political, economic and industrial reform, particularly in industry, communications, transport and education. Schooling to secondary level is free for everyone and the adult literacy rate stands at 86.7%. Higher education is still relatively young (the first university, Sultan Qaboos, opened in 1986) and with 55% of the population under 20 years old, demand for tertiary education is growing.

The sultan is the head of state and head of government and is advised by the Council of Ministers which acts as a Cabinet. All Omanis over the age of 21 are eligible to vote, the last elections in 2007 attracting 390,000 voters – 100,000 more than the previous elections in 2003.

Oman continues to play a fundamental role in promoting regional stability. In 1981, it was a founder member of the Gulf Cooperation Council and has played a leading role in regional security issues. Throughout the last three decades, the country has been of strategic importance to the West as a staging post for Anglo-American military, naval and air operations during the assaults on Afghanistan and Iraq.

Country Focus: Oman

Close ties have been maintained with the UK since 1798, when a treaty of friendship was concluded, and British influence remains strong. Prior to this the sultans of Muscat often came into conflict with the colonial powers in the region, particularly the Portuguese, who first settled in the 16th century, in an attempt to protect their eastern trade routes. However, Oman's rich history goes back much further than that, with archaeological excavations showing that much of the civilization in Oman predates the Arab period. The region embraced Islam during the lifetime of the Prophet.

National Name: Sultanate of Oman

Sultan: Qaboos bin Said al Said (1970-till Date)

Total Area: 309,501 km² (70th)
119,498 sq mi

Population: 3.2 million (2013 est.) -
2,773,479 (2010 census)

Monetary Unit: Omani Rial

Languages: Arabic is the official language. English is widely spoken. Swahili is also spoken by Omani descendants from East Africa. German and French are spoken by some hotel staff while Urdu, Farsi, Balushi, Hindi and Tagalog are widely spoken by Oman's large expatriate workforce.

National Holidays: Renaissance Day (HM Sultan Qaboos bin Said al Said's accession to the throne) on 23rd of July & National Day (Birthday of HM Sultan Qaboos bin Said al Said) on 18th of November.

Climate: Oman has a hot climate and very little rainfall. Annual rainfall in Muscat averages 100 mm (3.9 in), falling mostly in January. The Dhofar Mountains area receives seasonal rainfall (from late June to



late September) as a result of the monsoon winds from the Indian Ocean saturated with cool moisture and heavy fog. The mountain areas receive more plentiful rainfall, and annual rainfall on the higher parts of the Jabal Akhdar probably exceeds 400 mm (15.7 in). Some parts of the coast, particularly near the island of Masirah, sometimes receive no rain at all within the course of a year. The climate generally is very hot, with temperatures reaching around 50 °C (122.0 °F) (peak) in the hot season, from May to September.

Economic Summary

Oman is a middle-income economy that is heavily dependent on dwindling oil resources. Because of declining reserves and a rapidly growing labor force, Muscat has actively pursued a development plan that focuses on diversification, industrialization, and privatization, with the objective of reducing the oil sector's contribution to GDP to 9% by 2020 and creating more jobs to employ the rising numbers of Omanis entering the workforce. Tourism

and gas-based industries are key components of the government's diversification strategy. However, increases in social welfare benefits, particularly since the Arab Spring, will challenge the government's ability to effectively balance its budget if oil revenues decline. By using enhanced oil recovery techniques, Oman succeeded in increasing oil production, giving the country more time to diversify, and the increase in global oil prices through 2011 provided the government greater financial resources to invest in non-oil sectors.

Economy Facts & Figures

- GDP US\$ 68.8 billion (2012 est.)
- GDP - real growth rate 3.6% (2012 est.)
- GDP - per capita (PPP) US\$ 21.7 thousand (2012 est.)
- Investment (gross fixed) 25.5% of GDP (2012 est.)
- Budget revenues: US\$ 35.55 billion
- Expenditures: US\$ 30.49 billion (2012 est.)
- Budget surplus (+) or deficit (-) 6.3% of GDP (2012 est.)

Country Focus: Oman



The government of Oman is committed to adopting policies and implementing strategies to encourage local and foreign investment.

- Public debt 3.2% of GDP (2012 est.)
- Inflation rate (consumer prices) 3.3% (2012 est.)
- Central bank discount rate 2% (31 December 2010 est.)
- Stock of domestic credit US\$ 26.2 billion (31 December 2012 est.)
- Agriculture – products: dates, limes, bananas, alfalfa, vegetables; camels, cattle; fish
- Industries: crude oil production and refining, natural and liquefied natural gas (LNG) production; construction, cement, copper, steel, chemicals, optic fiber
- Industrial production growth rate 3.5% (2011 est.)
- Current Account Balance US\$ 10.22 billion (2012 est.)
- Exports US\$ 48.43 billion (2012 est.)
- Exports - commodities petroleum, reexports, fish, metals, textiles
- Imports US\$ 23.37 billion (2012 est.)
- Imports - commodities machinery and transport equipment,

- manufactured goods, food, livestock, lubricants
- Reserves of foreign exchange and gold US\$ 15.87 billion (31 December 2012 est.)
- Debt - external US\$ 9.768 billion (31 December 2012 est.)
- Exchange rates Omani rials (OMR) per US dollar - 0.3845 (2012 est.)
- Fiscal year = calendar year

Why to Invest in Oman?

The government of Oman is committed to adopting policies and implementing strategies to encourage local and foreign investment. Through these measures the investment climate continues to improve in 2011. In the meanwhile, the Sultanate has promulgated the long-term development strategy (1996-2020), best known as vision 2020, with the objective to accomplish its development strategy for diversifying

the sources of national income and reducing dependence on oil; it is also capable of helping to meet Oman's social development needs and generate greater added value for national resources by processing them into manufactured products. However industry as a whole continues to expand and has almost doubled its contribution to the GDP since 1974.

General Muscat Securities Market Statistics (2012)

- Number of listed companies: 115
- Annual percentage change in the index: 15.38%
- Market capitalization: US\$ 34,950 million
- Total share trading turnover: US\$ 4,237 million
- Total bonds trading turnover: US\$ 64 million
- MSM 30 Index (comprising 30 companies): 6,646.85
- MSM Shariah Index (comprising 31 companies): 1,048.83
- No. of shares traded: 6,224,492,881
- No. of bonds traded: 203,261,091
- No. of trades (shares): 351,447
- No. of trades (bonds): 1,580

Sequence by the Growth of Muscat Securities Market Performance Indicators (2013)

- Number of listed companies: 117
- Annual percentage change in the index: 10.02%
- Market capitalization: US\$ 33,358 million
- Annual turnover: US\$ 2,900 million
- MSM 30 Index (Comprising 30 companies): 6,338.35
- MSM Shariah Index (Comprising 31 companies): 1,053.2
- Trading volume: 97,676,187

Role of capital markets in the provision of long-term financing for SMEs



Encouraging the establishment of small and medium enterprises (SMEs) and developing the existing ones have been amongst the most important pillars of socio-economic development process in all countries in general and in developing world in particular. SMEs constitute a key element in increasing production capacity on the one hand and in alleviating poverty and solving the unemployment problem on the other. Therefore, many countries including the Sultanate of Oman pay growing attention to these enterprises and provided them with every possible assistance based on the available resources.

In view of the importance of these enterprises, most developing countries focus their efforts thereon. They encourage the establishment of small and medium industries, especially after they have proven to be more able and efficient than large industries in solving the main problems facing different economies. This growing interest, at the government and national levels, in small and medium enterprises is not only because they absorb large number of workforce but also because they require less investments than large enterprises. They also constitute a fertile ground for the development of

administrative, technical, productive and marketing skills. They also open the door for entrepreneurship and self employment, thus, reducing the pressure on the public sector in the provision of job opportunities.

These enterprises received utmost care and support from the public and private sectors because they play an important role in the industrial sector. For example, small and medium enterprises constitute around 90% of all enterprises in the entire world. They also employ from 50%-60% of the workforce in the world. Therefore, all kinds of support should be given to this vital sector. However, the toughest obstacle facing SMEs is their inability to obtain the necessary funds that sustain their activity. Moreover, they cannot provide the sufficient traditional

SMEs constitute a key element in increasing production capacity on the one hand and in alleviating poverty and solving the unemployment problem on the other.

The toughest obstacle facing SMEs is their inability to obtain the necessary funds that sustain their activity.

guarantees required by commercial banks to offer them loans. It is worth noting that commercial banks usually participate in large projects and prefer to lend them because such projects involve low risks on the one hand and it is easy to deal with them on the other and finally they are able to provide the necessary guarantees.

Loan or credit risk guarantee programmes aim at facilitating financing to the targeted small and medium enterprises, and enabling them to obtain credit facilities through guaranteeing the risks of such loans with banks and financial institutions. By so doing, banks would be more willing to grant credit facilities to a larger segment of investors and owners of economically feasible projects who do not have the required guarantees. This will ensure the growth, development and sustainability of these projects.

Definition of SMEs

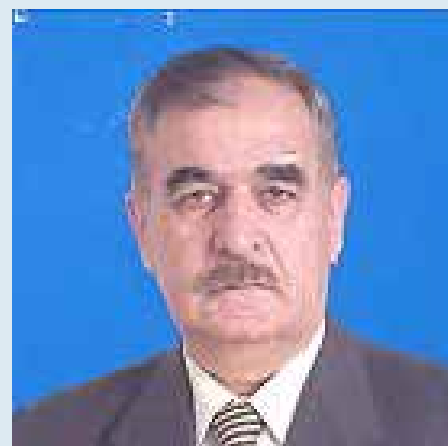
It should be noted that there is no universally accepted definition of small and medium enterprises besides the fact that the words "small" and "medium" have relative connotations that differ from one country to another and from one sector to another even in the same country. A study conducted by Georgia State Institute indicated that there are more than 55 definitions for small and medium enterprises in 75 countries. Small and medium establishments are defined based on certain criteria including the number of employees, the capital, or a combination of both. There are other definitions that are based on the size of sales, turnover or other criteria.

For instance, the World Bank defines SMEs based on the size of workforce as a preliminary benchmark. An enterprise is considered to be small if it employs less than 50 workers. Several countries, including the Sultanate of Oman use this criterion to define SMEs. In the United States, Italy and France, an establishment is considered small or medium if it employs up to 500 workers. In Sweden, it is small or medium if it employs up to 200 workers, in Canada and Australia it is up to 99 workers, while in Denmark an SME is that which employs up to 50 workers.

Other countries use the size of capital to define SME, which makes it difficult to compare between these countries because of different exchange rates.

The objective of this interest in the establishments of this sector differs based on the level of economic development. Developed countries support SMEs in order to develop them to become large economic entities in the long run. However, developing countries, as we mentioned earlier, support SMEs in order to deal with the problem of the rising numbers of job seekers as the government fails to provide the necessary job opportunities.

Long term financing is a problem facing SME sector especially in the developing countries because commercial banks refuse to take up this task. Therefore, the state faces the difficult option that it should interfere to finance the establishments of this sector. Such support takes the following forms:



Dr. Salah Talib
MSM Economist

1- To establish specialized lending agencies to provide long term loans for the establishments of this sector. Lending sources should be supported by the state. These specialized agencies shall have the right to issue bonds that are guaranteed by the government and sell the same in the capital markets and use the proceeds in financing the establishments of this sector.

2- To establish a specialized agency to guarantee the loans provided by commercial banks to SMEs. Such an agency shall have the right to issue bonds that are guaranteed by the state and sell the same in the financial markets.

3- To establish venture capital funds supported by government authorities. These funds will support ideas and inventions, address financial and administrative problems of the faltering projects and finance small enterprises, develop them and turn them into joint stock companies that can be listed in capital markets.

4- In developed countries such as France and others, such enterprises shall be financed through financial markets.

Examples of small loans risk guarantees

There are over 70 credit risk guarantee schemes in industrial and developing countries. Some of these schemes date back to more than 50 years. Others started work very recently. Following is a brief account of some international experiences in this respect:

1- US experience

The US credit risk guarantee scheme works through the Small Business Administration (SBA), which was established in 1953. This means that the US experience is 60 years old. The credit guarantee scheme covers loans granted to small and medium enterprises based on the following three criteria:

a- Size of establishment

This criterion focuses on a number of aspects most important of which is the size of workforce and the annual income of the establishment, which can be defined as follows:

- Establishments that employ less than 500 workers.
- Establishments whose annual retail turnover is less than US\$ 5 million.
- Establishments that provide services at less than US\$ 5 million annually.
- Whole sale establishments whose workforce is less than 100 workers.
- Construction establishments whose annual income is less than 17 million.
- Special trade establishment whose annual turnover is less than US\$ 7 million.
- Farms and other agricultural establishments whose annual turnover is less than US\$ 500 million.

There are over 70 credit risk guarantee schemes in industrial and developing countries.

b- Nature of Establishment

The US Small Business Administration (SBA) targets all establishments, excluding nonprofit organizations, establishments that lack the legal capacity in practicing any type of activity, speculators in stock exchanges and capital markets and other financial institutions.

c- Use of financing

Normally, SBA guaranteed loans are used to establish various businesses. However, loans given to existing businesses are used for the following purposes:

- Purchasing raw materials or assets.
- Purchasing furniture or equipment.
- Purchasing land plots for building purposes.
- Making improvements and developments.
- Funding capital requirements and debt refinancing.

The guarantees provided by this programme normally cover 90% of the loan amount, which should not exceed five hundred thousand dollars. The guarantee fees differ as per the stages of the repayment of the loan. SBA imposes fees amounting to 1% upon the withdrawal of the loan (it is part of the loan). Then, if the loan period is less than seven years, the fees amount to 0.5%-2.25% of the loan. This percentage increases to 2.75% if the loan period is more than 7 years. SBA funding sources come from operating processes and investments. It allows commercial banks to deduct part of guaranteed loans in the secondary financial

market. Therefore, banks can sell loan applications in secondary markets like government guaranteed treasury bonds. Accordingly, SBA manages to provide extra sources for more loans.

2- The Indonesian experience

Public Credit Guarantee Corporation was established in Indonesia in 1971 by virtue of a government decree in order to cover the risks that may lead to the default of loans that target small and large enterprises alike. A unit for the provision of financing and credit for small and medium enterprises for the purpose of funding the working capital only was established in the Bank of Indonesia. The percentage of the guarantee is 75% of any loan amounting to about 15000 US dollars. The loan guarantee fees reach 3% and are paid in full for loans whose period ranges from 3-5 years and it is 1% for loans whose period is less than one year.

3- The Egyptian Experience

In Egypt, the Credit Guarantee Company for Small and Medium Enterprises was established in 1991 as a joint stock company as per the Egyptian Companies Law No. 159/1981. Nine Egyptian banks and one insurance company contributed to the establishment of the company as a joint ownership. It aims at encouraging and developing small businesses in various production and services fields. It helps to the necessary credit from banks for the establishment of the business or the improvement of its performance through the provision of guarantee for the loans provided by banks. The



company practices its activity through an agreement it has signed with 32 banks in Egypt.

The Credit Guarantee Company covers around 50% of the required credit, provided that the minimum amount of the guarantee for an establishment should be 10000 Egyptian pounds and the maximum should be 700000 pounds. Therefore, an establishment can obtain financing ranging from 20000 to 1.4 million Egyptian pounds. The guarantee period ranges from six months to five years extendable. The company may grant a grace period, and it imposes 1% of the loan amount or the credit facility annually as administrative

fees. The company offers various types of guarantees for doctors, pharmacists, medical centers and laboratories. It also offers social fund loans etc. The CGC has managed to achieve great results over the first five years of the start of its operations. It provided credits amounting to 697 million pounds and guaranteed 335 million pounds. The average loan is 143000 pounds for small and medium enterprises. Meanwhile, the current policy of the company is not to guarantee any project unless it is self financed by about 30%-50% of the total investment.

In summary, capital markets do not provide direct financing for SMEs because such enterprises cannot offer their shares for public subscription or issue bonds. Capital markets can act as a long term source of financing for such projects through enabling specialized lending agencies and credit guarantee corporations and venture capital to issue bonds in financial markets and use the proceeds to finance the projects of this sector.

Can a banana piano help exchanges to establish a successful SME market?



Hannes A. Takacs
Managing Partner of CAPMEX

Exchanges, in particular the smaller ones, are currently focusing their business development efforts on mid- to large-cap companies and examining the options for increasing the number of transactions in order to secure revenues. But many of them overlook the fact that especially in emerging economies, small and medium-sized enterprises (SMEs) are the driving force behind economic growth, employment, poverty alleviation and wealth creation. Despite their strategic importance for economic development, SMEs around the world have difficulty gaining adequate access to long-term financing.

Can SME markets solve the financing problem?

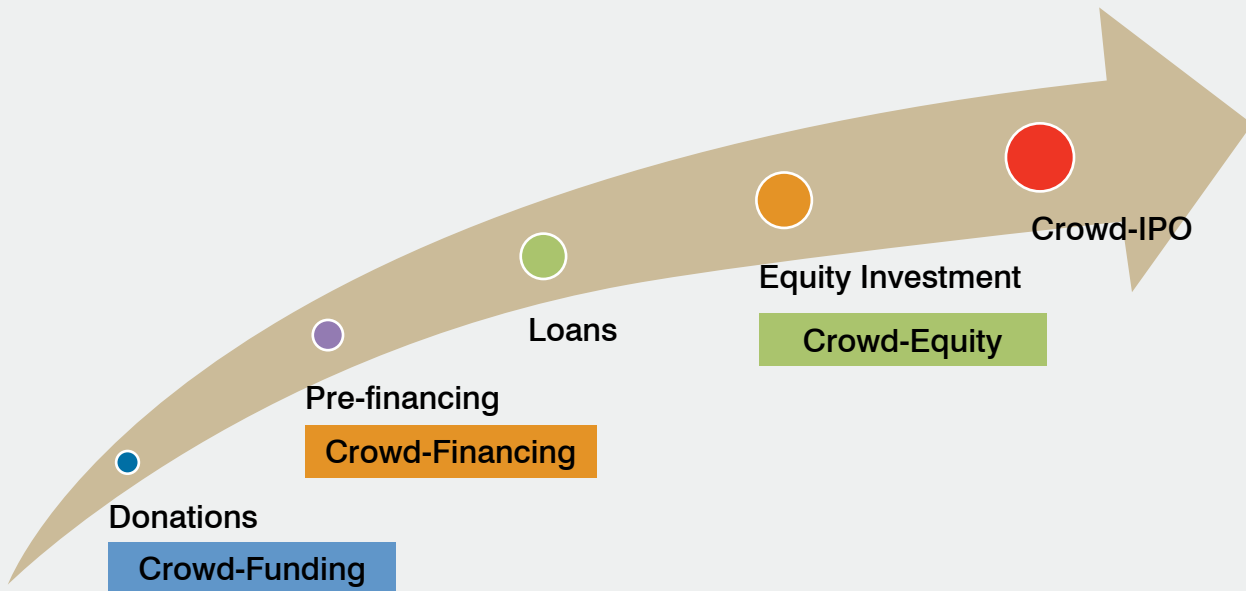
Exchange-operated SME market segments, often labelled growth markets or alternative markets, are normally based on trading rules and regimes designed for larger companies, with minor deviations which in reality do not meet the specific needs of smaller and mid-sized companies. This rings even more true when we consider that in most developing countries SMEs are only micro-enterprises in comparison to those in larger, well-developed economies. Even well-known markets like the AIM in London or Warsaw-based NewConnect do not really target the majority of smaller companies and concentrate more on technical listings than real IPOs. For many companies, listing costs and the additional regulatory burden are convincing reasons not to consider raising capital through an exchange-operated SME market. In addition, it is quite hard for smaller companies to find an investment bank or broker willing to assist them in their efforts to go public if their capital requirements are below a specific threshold which provides a clear business case for the financial intermediary's involvement.

Case study: SME financing – would you invest in a banana piano manufacturer?

Imagine you are the loan manager of a bank and you are approached by two young entrepreneurs who have set up a high-tech company. They have developed an invention kit which allows users to build creative gadgets like a banana piano and need US\$ 25,000 in capital to start production. Would you approve their application? Probably not. So the company's owners will have to look elsewhere for financing. As their funding requirements are quite low, exchange-operated SME markets are not an alternative and investment banks might not even give them the time of day. But in fact there is an alternative solution: crowdfunding.

Those two entrepreneurs actually founded a company called MaKey MaKey and listed their idea on a crowdfunding platform along with a request for US\$ 25,000. Ultimately they received US\$ 568,106 from 11,124 investors. Another example is Pebble, the maker of the ePaper Watch, which needed US\$ 100,000 to develop its business and ended up raising more than US\$ 10 million. Welcome to the wonderful world of crowdfunding!



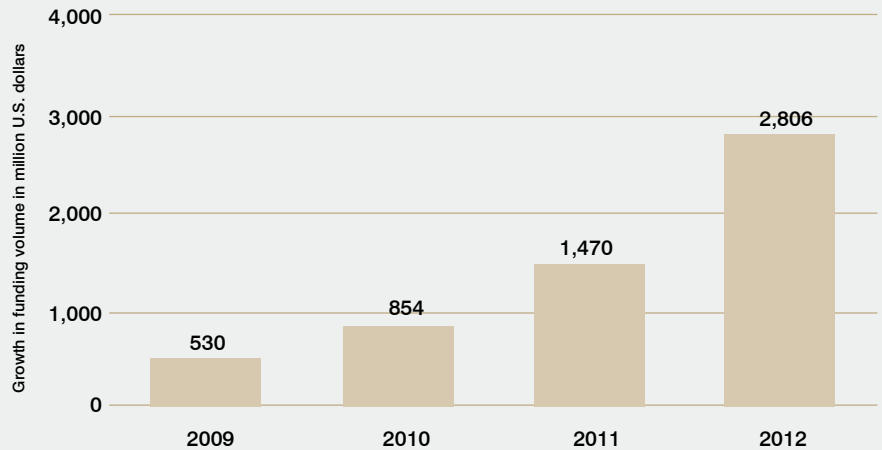


What is crowdfunding?

Crowdfunding is an open call, usually made via the internet and aimed at a large number of people, for project or business financing. SMEs and start-ups can reach a huge audience of potential investors by posting their ideas on crowdfunding websites, which then help them to collect money from anyone keen on investing in their business.

Crowdfunding can take many forms, ranging from simple donations with no financial return for the investor, to loans and equity investments.

As an alternative source of financing, crowdfunding and a host of other initiatives can play a significant part in helping SMEs to finance inclusive, long-term growth. Equity crowdfunding is widely regarded as a form of democratic participatory capitalism.



Source: Crowdsourcing.org

Crowdfunding websites have already proved to be a vital source of finance for many companies in the US and Europe. Around US\$ 2.8 billion was raised in 2012 – and that figure is forecast to rise sharply in 2013, to an impressive US\$ 5.1 billion.

Nesta, a UK independent charity that aims to support innovation, believes that “within five years, crowdfunding could provide around £15 billion of finance per year in the UK. With the right frameworks and standards, this could grow even further, and a day could come where crowdfunding replaces a large proportion of the £115 billion financial services industry”.¹

¹ "Nesta Report: "Crowding In – How the UK's businesses, charities, government, and financial system can make the most of crowdfunding", page 3, Nesta, UK's Innovation Foundation, London, December 2012.

A number of well-known multinationals have acquired stakes in crowdfunding and private company trading platforms – a clear sign that crowdfunding is gaining in importance internationally.

International companies drawn to crowdfunding platforms

A number of well-known multinationals have acquired stakes in crowdfunding and private company trading platforms – a clear sign that crowdfunding is gaining in importance internationally. For example, Google has invested US\$ 125 million in the peer-to-peer lending platform Lending Club and it is expected that loans totalling around US\$ 2 billion will be granted in 2013. Donald Trump is a co-founder of FundAnything.com, a crowdfunding website. In the exchange sector, the Nasdaq OMX Group and small business trading platform SharesPost formed a joint venture earlier this year to set up Nasdaq Private Market (NPM). This marketplace for trading in shares of unlisted companies aims to tap into increasing investor interest in private firms. The new venture is intended to help Nasdaq rebuild its reputation as the exchange of choice for unlisted companies. This is a sound strategic move, as private company exchanges like SharesPost and SecondMarket have shaken up the IPO game in the past few years.

Changing legal environment benefits equity crowdfunding platforms and SME markets

Until now, most countries' regulatory regimes have restricted direct equity investments through crowdfunding. But the legal environment is changing, and a number of legislative initiatives have either started to introduce or have already implemented regulations, such as America's Jump Start Our Business Startups (JOBS) Act, which came into force in 2012. The focus here is on emerging growth companies (EGCs), a newly created category of businesses which intend to issue stocks and have annual revenues of less than US\$ 1 billion. The JOBS Act permits private companies with audited financial statements to raise capital of US\$ 1 million annually, or US\$ 500,000 in the case of enterprises with unaudited financials. This exemption applies only if the shares are issued through a crowdfunding portal or broker. Special investment restrictions for retail investors are also in place: if their net income or net worth is less than US\$ 100,000, they may invest the greater of US\$ 2,000 or 5% of that amount in a 12-month period; if net income or net worth exceeds

US\$ 100,000, the permitted level of investment rises to up to the lesser of 10% of income or US\$ 10,000. The JOBS Act has also reformed the disclosure regime for SMEs, cutting registration and reporting requirements and lifting the ban on general solicitation. This represents a significant shift in the capital formation process, as companies and investment funds are now permitted to publicly announce private offerings of unregistered securities (pursuant to Rule 506c of Regulation D), expanding the pool of potential accredited investors.

Europe's first equity crowdfunding platforms, Crowdcube and Seedrs, were approved by the UK Financial Services Authority, and the Italian parliament passed a decree legalising crowdfunding in October 2012. The European Union is also expected to take action on this front. On 3 October 2013 the European Commission launched a public consultation process designed to explore how EU action, including a range of soft laws, could promote crowdfunding on the continent.

Asia and Africa have not witnessed any major regulatory initiatives that could support the development of crowdfunding as an alternative means of SME financing. However, it is expected that similar regulatory changes to those introduced in the US and Europe will be considered in the near future, especially by major market places.

Can exchanges seize the opportunity?

The level playing field is in place, but one question remains: can exchanges which still focus primarily on traditional trading models grasp the opportunity that equity crowdfunding presents as a new exchange-operated market segment? Of course, this would represent a paradigm shift, as investors would have the chance to invest directly in IPOs offered on exchange markets without the involvement of a financial intermediary. Exchanges are very well placed to implement equity crowdfunding portals, as their core function is to provide a platform for raising capital and trading securities in a regulated environment. But equity crowdfunding will need a different set of rules and regulations, a new trading model as well as a tailor-made web-based trading system which companies and investors can access directly.

Although social media and direct investor access to a web-based trading environment will diminish the role of financial intermediaries, they will also create an IPO pipeline for the standard market segments of

the exchanges, benefiting financial intermediaries, at least in the medium term. Clearly, an exchange-operated equity crowdfunding portal could significantly increase SMEs' access to finance as well as boosting participation levels among retail investors.

In addition, crowdfunding might be a revenue driver for exchanges. Equity crowdfunding will be a profitable business for exchanges if it set up and operated effectively. Most of the crowdfunding platforms charge a fee of 5-7.5% of the capital raised. Kickstarter, the largest US-based crowdfunding site, raised US\$ 319.8 million in 2012 and charged a fee of 5%.

Currently, none of the crowdfunding platforms offers a secondary market for company shares in addition to their capital-raising function. Such a secondary market will provide a platform for trading stakes in privately held, small or medium-sized enterprises, as well as in private equity-backed companies. If exchange-level trading of private company shares becomes a reality – which depends on the respective

country's regulatory framework – this will generate additional income from transaction fees. Market data and index licensing fees may push up revenue further down the line, once the new market segment has become firmly established. The high level of retail investor involvement is also expected to have positive liquidity spill-over effects for exchanges' standard market segments.

Finally, it is worth remembering that exchanges have wide-ranging experience of managing regulated primary and secondary markets, and expertise in market surveillance and investor protection. That means they are best placed to operate next-generation SME exchanges.

Exchanges are very well placed to implement equity crowdfunding portals, as their core function is to provide a platform for raising capital and trading securities in a regulated environment.

Strengthening trust and transparency in corporate disclosures – the dawn of Integrated Reporting

Every year seems to start with a much publicised global survey seemingly demonstrating that the public trust in business leaders and corporate activities is eroding fast. 2013 is no different with the Edelman Trust Barometer¹ declaring that only 18 per cent of respondents trusted business leaders in contrast to e.g. Non-Governmental Organisations who secured a public trust premium of 63 per cent.

The survey's main message is as hard hitting as it is relevant. "We are experiencing a crisis in leadership... business leaders must change their management approach and become more inclusive by seeking the input of employees, consumers, activists and experts such as academics, and adapting to their feedback. They must also pass the test of radical transparency."²

G20 leaders in Saint Petersburg declared "Growth through trust and transparency"³ as a central pillar to future prosperity. Unfortunately politicians fell short presenting a roadmap translating intentions into meaningful guidance for stakeholders

including the global business community. Trust and transparency are clearly complex issues with many moving and evolving parts. However in this age of increasing scepticism towards the role of the corporation in creating and/or destroying value workable solutions are needed more than ever.

One promising development is the evolution in corporate reporting practices which The International Integrated Reporting Council (IIRC) is calling for. The IIRC is a global stakeholder coalition including corporate reporting regulators, stock exchanges, accounting firms, asset managers, NGOs and academic institutions. Over 100 multinational businesses including Garanti Bank, Unilever, Coca Cola, Rosneft and SAP are committed to produce an Integrated Report (IR) displaying a much deeper insight into their future financial, social and environmental value creation activities. Integrated Reporting is also an innovative attempt to create a language linking non-financial risk factors like climate change impacts on corporate supply chains with traditional financial



Henning Dräger

Relationship Director for Turkey,
International Integrated Reporting Council (IIRC)

reporting metrics found within the International Financial Reporting Standards (IFRS).

At the heart of Integrated Reporting is the growing realisation that a wide range of factors determine the value of an organisation - some of these are financial or tangible in nature and are easy to account for in financial statements (e.g. property, cash), while many are not (e.g. people, natural resources, intellectual capital, market and regulatory context, competition, energy security). Integrated Reporting tries to reflect the broad and longer-term consequences of the decisions companies make, based on a wide range of factors, in order to create value over time. It enables

Over 100 multinational businesses including Garanti Bank, Unilever, Coca Cola, Rosneft and SAP are committed to produce an Integrated Report (IR) displaying a much deeper insight into their future financial, social and environmental value creation activities.

¹ 2013 Edelman Trust Barometer Finds a Crisis in Leadership; <http://www.edelman.com/trust-downloads/press-release/>; accessed 9 September 2013

² IBID

³ Priorities of Russia's G20 presidency in 2013; http://www.g20.org/docs/g20_russia/priorities.html; accessed 10 September 2013

organisation to communicate in a clear, articulate way how it is drawing on all the resources and relationships it utilises to create value in the short, medium and long term, helping investors to manage risks and allocate resources most efficiently.⁴ It is also important to remember that the current focus on an organisation's financial statements is insufficient to answer the question: what is the value of the organisation? The IIRC challenges current corporate reporting requirements, stating that policymakers should "question capital market orthodoxy and challenge traditional accounting practices, business models and value creation methods."⁵

In a scenario where the majority of the information available to investors is historic, they are required to navigate a course around the next corner with reference only to a rear view mirror as if there were no road ahead. An IR, in short, is the route map that supports investment decision-making, reflective of more integrated thinking and decision-making within organisations.

The recent global consultation on which material metrics and meaningful principles the Integrated Reporting Framework should be based on triggered 359 stakeholder responses including from a number of Turkish constituents. The majority of responses were very supportive

Integrated Reporting is a serious contribution towards meeting our global sustainability changes as the global community can't manage risks that have not been measured and properly reported.

of the need for Integrated Reporting while also listing prominent challenges to further implementation. Questions include:

How will Integrated Reporting be applied across different sectors, national jurisdictions and organisational forms including listed companies, private entities and SMEs? How will Integrated Reporting reduce a seemingly ever increasing reporting burden? How can assurance of Integrated Reporting be reliable if the focus shifts from past performance to future statements of financial/non-financial activities, aims and risks? What is the starting point for creating meaningful investor metrics to help evaluate an Integrated Report?

All feedback will be analysed and synthesised in the first version of the IR Framework which is due to be published in December this year. The next step is to get G20 approval in 2014 or 2015 to proceed with the next stage of Integrated Reporting standardisation based on the submitted framework.

It is also worth noting that, in addition to IIRC efforts, there is real global momentum for more meaningful, concise reporting as a way to restore corporate trust and enable stakeholders to scrutinise companies' activities. Initiatives including the World Business Council for Sustainable Development (WBCSD), UN Global Compact and UNEP-Finance Initiative all call for more inclusive and smarter corporate reporting on the road to genuine sustainability in financial, social and environmental terms.

Finally Integrated Reporting is a serious contribution towards meeting our global sustainability changes as the global community can't manage risks that have not been measured and properly reported. We hope many more stakeholders will adopt the IIRC's proactive "dig where you stand" approach and not be seduced by the comfort of the reporting status quo let alone be overwhelmed by the challenges towards a better corporate report. For more information and updates please visit the IIRC website: <http://www.theiirc.org>

⁴ The IIRC; <http://www.theiirc.org/about/aboutwhy-do-we-need-the-iirc/>; accessed 7 September 2013

⁵ IBID

First North – a marketplace for growth

Founded in 2006, First North is NASDAQ OMX's European marketplace designed for growth companies. The listing platform was developed primarily as a market targeted at smaller companies, in order to facilitate both financial and organic growth. Today First North is one of the most liquid and successful SME listing venues in Europe.

The basic concept of First North is to give companies that are at an early stage of their growth cycle access to all the benefits of being public, while offering a simple and less cumbersome listing process. In that vein, one of the key differentiators between First North and NASDAQ OMX's regulated main market is that it uses a less extensive rulebook. There are for example lower listing requirements on First North when it comes to financial history, accounting standard, frequency of earnings reporting and number of shareholders. This concept of a lighter administrative listing burden allows the companies more time and resources to focus on their core business development. Nevertheless, the companies at First North are still able to take advantage of all the positive aspects of being a publically listed company, such as investor exposure, media and analyst visibility and of course the quality stamp of being a publically traded company.

A stepping stone for expansion

Many of the companies that join First North do so with the intention to eventually make the move to one of the regulated markets at NASDAQ OMX Nordic. On average around five First North companies per year move up to the main market. This proves that the Nordic listing model, with a natural home for growth companies, truly works. To further encourage and prepare First North companies for the main market we have introduced a separate 'Premier' segment within First North for companies that make a conscious decision to comply with the main market rulebook. Qualifying for the First North Premier segment imposes higher demands on transparency which brings benefits to both listed companies and investors. Hence, in addition to using the public market for its fundamental functionality of raising capital, First North becomes a means to prepare for what it is like to operate in a regulated listing environment.

Attracting listings and creating jobs

Today around 130 companies are listed on First North, and since the launch seven years ago close to 30 companies have taken the leap up to the main market. Some companies have even climbed all the way to the prestigious Large Cap segment limited to enterprises with a market cap of over EUR 1 billion. In spite of the current European listing slump, First North continues to attract new companies and in fact represent a majority of the new companies listed at NASDAQ OMX Nordic markets in recent years. Since 2010 around 50 companies have listed on First North. It also stands for the lion share of the capital raised. In addition First North has been a significant success in terms of job creation, with an annual increase of 36.5 percent in number of employees, compared to a mere 1.5 percent for privately held companies.

The basic concept of First North is to give companies that are at an early stage of their growth cycle access to all the benefits of being public, while offering a simple and less cumbersome listing process.



Adam Kostyál
Senior Vice President
NASDAQ OMX

Strong investor reach and liquidity

As a part of NASDAQ OMX, the world's largest exchange company with more than 3,000 listed companies worldwide, First North is highly visible to investors, both large and small. The companies listed on First North represent a broad variety of industries, operating both in the Nordics and globally. For investors, it offers an opportunity to invest early in companies that are in an interesting stage of their growth cycle. First North runs parallel to the Nordic main market, where the shares are traded

Liquidity remains relatively high and in 2012 the trading velocity at First North was 126 percent.

in one single trading system, thus offering the very same exposure to all of our trading members, including banks, institutional investors, and online brokerage firms. Today approximately 200 European trading members are able to access First North shares through a single point of entry.

The Nordic market is unique in the sense that a relatively large amount of retail investors have a long tradition in trading growth companies, therefore contributing to a highly liquid market. Although a majority of the trading flow at First North comes from Nordic retail clients, First North is getting international attention as well, with close to 20 percent of the trading coming from non-Nordic trading firms. This creates a nice blend of local and international investor flows that would have been difficult to attain in a privately held environment. Liquidity remains relatively high and in 2012 the trading velocity at First North was 126 percent.

Regulatory guidance

Every company on First North is required to have a Certified Adviser (CA) to ensure that it complies with the applicable listing requirements and rules. Hence, all companies listing on First North must engage a CA in connection with the listing process. The Certified Adviser's main obligation is to ensure that the company continuously lives up to the rules and regulations on First North. This involves, among other things, compliance with requirements of the company's organizational structure, financial reporting, and information sharing to the market. The CA plays a critical role for companies listed on First North and therefore the selection of a qualified CA is essential. The CA, which needs to be approved by NASDAQ OMX, could be a corporate finance firm, an accounting firm, or an investment bank.

FEAS Region Statistics

Domestic Market Capitalization (US\$)

Exchange	2013								
	January	February	March	April	May	June	July	August	September
Abu Dhabi Securities Exchange	83,594	78,207	88,378	95,112	104,483	81,510	99,966	97,333	99,509
Amman Stock Exchange	27,908	27,676	27,832	26,814	26,934	26,039	25,697	24,323	23,258
Bahrain Bourse B.S.C	15,837	15,924	15,921	16,104	17,448	17,366	17,516	17,462	17,545
Baku Interbank Currency Exchange	-	-	24,680	-	-	110	-	-	17,995
Banja Luka Stock Exchange	2,318	2,346	2,279	2,316	2,260	2,301	2,274	2,334	2,324
Belarusian Currency and Stock Exchange	2,516	3,808	3,779	3,787	3,774	3,727	3,728	-	-
Belgrade Stock Exchange	2,343	2,339	2,325	2,407	2,331	2,016	2,107	2,175	2,187
Borsa Istanbul	311,847	307,510	328,412	332,566	318,013	279,469	270,681	230,677	257,082
Bucharest Stock Exchange	17,365	17,408	16,728	17,081	16,065	15,551	16,347	16,901	17,995
Bulgarian Stock Exchange	7,246	6,803	6,536	6,930	6,850	7,035	7,264	7,253	7,576
Damascus Securities Exchange	943	900	875	884	1,121	1,064	1,088	878	868
Egyptian Exchange	56,448	55,388	52,050	51,344	-	-	-	-	-
Georgian Stock Exchange	636	674	637	702	709	734	733	726	853
Iraq Stock Exchange	4,829	9,632	960	9,741	9,765	10,065	9,458	9,584	9,486
Karachi Stock Exchange	44,321	46,070	45,330	47,519	43,698	52,279	56,273	53,021	49,240
Kazakhstan Stock Exchange	27,546	27,656	27,506	26,094	25,984	24,680	24,416	24,339	24,293
Kyrgyz Stock Exchange	9,577	9,836	9,595	9,503	8,241	5,384	7,413	7,459	-
Lahore Stock Exchange	42,613	44,078	43,171	45,818	52,298	48,674	54,408	50,954	46,574
Macedonian Stock Exchange	631	595	567	-	444	1,708	2,306	2,457	2,331
Montenegro Stock Exchange	-	-	2,301	2,345	2,276	2,365	2	2	2
Muscat Securities Market	30,882	31,606	31,662	32,567	33,669	33,316	34,722	34,756	34,950
NASDAQ OMX Armenia	50	50	47	48	48	48	48	48	50
Palestine Exchange	2,827	2,816	2,821	2,738	2,738	2,755	2,871	2,862	2,863
Tehran Stock Exchange	-	-	-	-	177,391	199,142	110,525	116,052	129,113
Tirana Stock Exchange	-	-	-	-	-	-	-	-	-
Toshkent Republican Stock Exchange	-	-	-	4,654	4,624	-	-	-	-
Total	692,280	691,320	734,391	737,077	861,164	817,340	749,842	701,595	746,093

FEAS Historical Stats

Other							
Fixed Income-Bonds							
Turnover (US\$ million)		Average Daily Turnover (US\$ million)		Trade (in thousands)		Average Daily Traded Volume (in thousands)	
2012	YTD 2013	2012	YTD 2013	2012	YTD 2013	2012	YTD 2013
299,174.89	181,025.91	65.98	66.48	6,720.00	4,606.00	4,039.10	1,622.40

Shares-EOB							
Turnover (US\$ million)		Average Daily Turnover (US\$ million)		Volume (in thousands)		Average Daily Traded Volume (in thousands)	
2012	YTD 2013	2012	YTD 2013	2012	YTD 2013	2012	YTD 2013
426,930.07	396,062.76	635.31	773.89	746,869,193.02	308,557,351.00	1,111,412.49	605,537

Value of share trading (US\$ millions)

2013	January				February				March				April			
	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading
Abu Dhabi Securities Exchange	1,219	0	1,219	21	1,361	1	1,360	20	871	1	870	21	976	2	975	22
Amman Stock Exchange	283	0	283	19	288	0	288	20	400	0	400	21	496	0	496	22
Bahrain Bourse B.S.C	41	0	41	21	73	0	73	20	3	0	3	21	82	0	82	22
Baku Interbank Currency Exchange	0	0	0	0	0	0	0	0	31	4	27	20	0	0	0	0
Baku Stock Exchange	2	0	2	20	0	0	0	0	0	0	0	0	0	0	0	0
Banja Luka Stock Exchange	1	0	1	16	1	0	1	20	2	0	2	21	2	0	2	22
Belarusian Currency and Stock Exchange	1	0	1	21	2	0	2	20	4	0	4	20	7	0	7	22
Belgrade Stock Exchange	14	0	14	20	18	0	18	19	14	0	14	21	10	0	10	22
Borsa Istanbul	46,476	9	46,467	22	34,868	9	34,859	20	33,068	9	33,059	21	33,390	7	33,382	21
Bucharest Stock Exchange	114	1	113	21	84	1	83	20	120	2	118	21	99	13	86	22
Bulgarian Stock Exchange	37	0	37	22	59	0	59	20	59	0	59	20	115	0	115	21
Damascus Securities Exchange	1	0	1	13	1	0	1	12	1	0	1	12	2	0	2	13
Egyptian Exchange	1,408	1	1,407	20	1,044	1	1,043	20	868	1	867	21	822	1	822	21
Georgian Stock Exchange	10	0	10	11	0	0	0	12	5	0	5	11	3	0	3	13
Iraq Stock Exchange	83	0	83	18	14	0	14	20	14	0	14	20	57	0	57	19
Karachi Stock Exchange	917	0	917	22	1,409	0	1,409	19	1,294	0	1,294	22	1,339	0	1,339	22
Kazakhstan Stock Exchange	51	1	51	20	21	1	20	20	16	1	16	17	118	1	117	22
Kyrgyz Stock Exchange	0	0	0	20	0	0	0	19	0	0	0	19	0	0	0	22
Lahore Stock Exchange	9	0	9	22	12	0	12	19	8	0	8	21	10	0	10	22
Macedonian Stock Exchange	2	0	2	21	3	0	3	20	3	0	3	21	0	0	0	0
Moldovan Stock Exchange	1	0	1	21	0	0	0	20	4	0	4	20	6	0	6	22
Montenegro Stock Exchange	1	0	1	0	1	0	1	0	1	0	1	21	5	0	5	22
Muscat Securities Market	298	0	298	22	487	0	487	20	523	0	523	21	567	0	567	22
NASDAQ OMX Armenia	2	0	2	17	0	0	0	19	0	0	0	20	1	0	1	21
Palestine Exchange	16	0	16	18	15	0	15	20	20	0	20	21	48	0	48	22
Sarajevo Stock Exchange	8	0	8	21	4	0	4	20	7	0	7	20	3	0	3	21
Tehran Stock Exchange	1,612	0	1,612	19	1,912	0	1,912	19	2,009	0	2,009	18	1,886	0	1,886	19
Tirana Stock Exchange	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0
Toshkent Republican Stock Exchange	0	0	0	16	0	0	0	20	0	0	0	18	0	0	0	22
TOTAL	52,609	12	52,597	506	41,677	12	41,665	478	39,347	17	39,330	530	40,042	23	40,019	521

Source: FEAS

May				June				July				August				September				Total			
Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading	Total	Foreign	Domestic	Trading
2,521	2	2,519	0	2,462	4	2,458	20	1,899	4	1,895	23	976	2	975	22	2,428	1	2,427	22	15,326	16	15,310	168
256	0	256	21	329	0	329	21	210	0	210	23	496	0	496	22	204	0	204	22	2,622	0	2,622	187
130	0	130	21	45	0	45	21	18	0	18	23	82	0	82	22	42	0	42	22	448	0	448	189
0	0	0	0	263	132	131	137	0	0	0	0	0	0	0	0	0	0	0	0	294	136	158	157
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	2	20
2	0	2	17	3	0	3	20	3	0	3	23	2	0	2	22	1	0	1	21	17	0	17	182
2	0	2	20	3	0	3	20	3	0	3	22	7	0	7	22	0	0	0	0	23	0	23	145
7	0	7	19	5	0	5	20	11	0	11	23	10	0	10	22	38	0	38	21	126	0	126	187
42,237	8	42,229	22	40,223	11	40,211	20	36,702	6	36,696	23	33,390	7	33,382	21	35,975	21	35,954	0	329,070	84	328,986	149
142	22	121	21	100	15	84	19	87	12	75	23	99	13	86	22	97	3	94	21	975	90	884	189
190	0	190	18	23	0	23	20	26	0	26	23	115	0	115	21	45	0	45	20	566	0	566	186
2	0	2	11	1	0	1	12	4	0	4	15	2	0	2	13	2	0	2	13	15	0	15	113
0	0	0	0	0	0	0	0	0	0	0	0	822	1	822	21	0	0	0	0	4,142	4	4,139	82
1	0	1	12	1	0	1	12	1	0	1	14	3	0	3	13	1	0	1	13	23	0	23	110
165	0	165	0	130	0	130	20	80	0	80	20	57	0	57	19	25	0	25	22	641	0	641	157
2,268	0	2,268	22	2,061	0	2,061	20	2,417	0	2,417	23	1,339	0	1,339	22	1,531	0	1,531	21	14,746	0	14,746	189
158	0	157	20	31	4	27	20	201	0	200	22	118	1	117	22	221	0	220	21	937	9	929	183
0	0	0	0	0	0	0	20	22	0	22	23	0	0	0	22	0	0	0	0	40	0	40	143
21	0	21	0	20	0	20	20	17	0	17	23	10	0	10	22	10	0	10	21	115	0	115	166
1	0	1	0	6	0	6	19	2	0	2	23	0	0	0	0	2	0	2	20	20	0	20	143
8	0	8	19	15	0	15	20	1	0	1	23	6	0	6	22	0	0	0	21	39	0	39	187
1	0	1	16	3	0	3	20	2	0	2	22	5	0	5	22	5	0	5	21	26	0	26	144
568	0	568	21	453	0	453	20	426	0	426	22	567	0	567	22	469	0	469	22	4,237	0	4,237	187
0	0	0	19	0	0	0	21	0	0	0	22	1	0	1	21	0	0	0	21	4	0	4	182
21	0	21	21	12	0	12	20	22	0	22	23	48	0	48	22	14	0	14	22	197	0	197	185
8	0	8	19	5	0	5	20	4	0	4	23	3	0	3	21	3	0	3	21	48	0	48	185
2,584	0	2,584	21	2,916	0	2,916	19	2,241	0	2,241	22	1,886	0	1,886	19	1,680	0	1,680	21	18,498	0	18,498	178
0	0	0	0	0	0	0	2	0	0	0	2	0	0	0	0	0	0	0	2	0	0	0	10
0	0	0	20	0	0	0	0	0	0	0	0	0	0	0	22	0	0	0	0	0	0	0	96
51,291	31	51,260	380	49,110	167	48,943	603	44,397	23	44,374	528	40,042	23	40,019	521	42,791	26	42,765	431	393,198	338	392,860	4,399

Number of listed companies

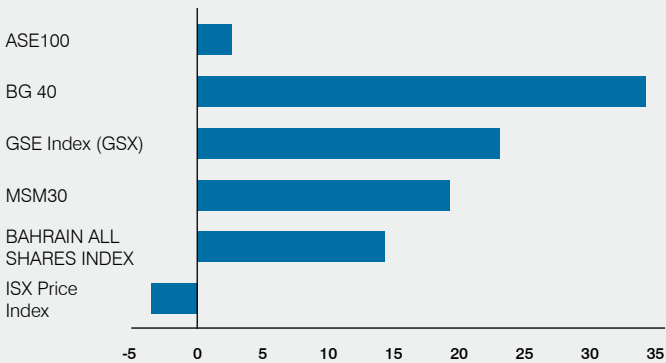
2013	January			February			March			April		
	Total	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic
Abu Dhabi Securities Exchange	66	0	66	66	3	63	66	3	63	66	3	63
Amman Stock Exchange	243	0	243	243	0	243	243	0	243	243	0	243
Bahrain Bourse B.S.C	47	4	43	47	4	43	47	4	43	47	4	43
Baku Interbank Currency Exchange	0	0	0	0	0	0	78	5	73	0	0	0
Baku Stock Exchange	1	0	1	0	0	0	0	0	0	0	0	0
Banja Luka Stock Exchange	734	0	734	732	0	732	723	0	723	719	0	719
Belarusian Currency and Stock Exchange	68	0	68	67	0	67	67	0	67	67	0	67
Belgrade Stock Exchange	8	0	8	8	0	8	8	0	8	8	0	8
Borsa Istanbul	272	1	271	266	1	265	265	1	264	269	1	268
Bucharest Stock Exchange	79	2	77	80	2	78	80	2	78	80	2	78
Bulgarian Stock Exchange	385	0	385	386	0	386	385	0	385	385	0	385
Damascus Securities Exchange	22	0	22	22	0	22	22	0	22	22	0	22
Egyptian Exchange	234	1	233	233	1	232	232	1	231	233	1	232
Georgian Stock Exchange	3	0	3	3	0	3	3	0	3	3	0	3
Iraq Stock Exchange	61	0	61	66	0	66	67	0	67	65	0	65
Karachi Stock Exchange	572	0	572	572	0	572	571	0	571	570	0	570
Kazakhstan Stock Exchange	78	4	74	78	4	74	79	5	74	79	5	74
Kyrgyz Stock Exchange	18	0	18	18	0	18	19	0	19	19	0	19
Lahore Stock Exchange	441	0	441	441	0	441	441	0	441	440	0	440
Macedonian Stock Exchange	32	0	32	32	0	32	32	0	32	0	0	0
Moldovan Stock Exchange	11	0	11	11	0	11	11	0	11	11	0	11
Montenegro Stock Exchange	62	0	62	62	0	62	62	0	62	62	0	62
Muscat Securities Market	115	0	115	115	0	115	115	0	115	114	0	114
NASDAQ OMX Armenia	15	0	15	15	0	15	15	0	15	15	0	15
Palestine Exchange	48	0	48	48	0	48	48	0	48	48	0	48
Sarajevo Stock Exchange	0	0	0	0	0	0	0	0	0	0	0	0
Tehran Stock Exchange	322	0	322	322	0	322	322	0	322	323	0	323
Tirana Stock Exchange	0	0	0	0	0	0	0	0	0	0	0	0
Toshkent Republican Stock Exchange	113	0	113	113	0	113	124	0	124	141	0	141
TOTAL	4,050	12	4,038	4,046	15	4,031	4,125	21	4,104	4,029	16	4,013

Source: FEAS

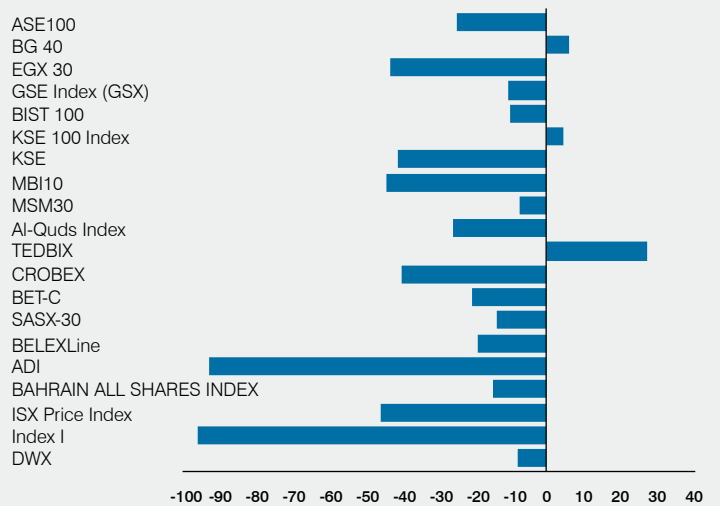
May			June			July			August			September			Total		
Total	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic	Total	Foreign	Domestic
66	3	63	66	3	63	66	3	63	66	3	63	66	3	63	594	24	570
243	0	243	243	0	243	0	0	0	241	0	241	241	0	241	1,940	0	1,940
47	4	43	47	4	43	47	4	43	47	4	43	47	4	43	423	36	387
2,403	1,202	1,201	2,446	1,234	1,212	0	0	0	0	0	0	0	0	0	4,927	2,441	2,486
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1
715	0	715	710	0	710	708	0	708	700	0	700	694	0	694	6,435	0	6,435
67	0	67	67	0	67	67	0	67	0	0	0	0	0	0	470	0	470
8	0	8	8	0	8	8	0	8	8	0	8	7	0	7	71	0	71
269	1	268	270	1	269	270	1	269	264	1	263	263	1	262	2,408	9	2,399
80	2	78	80	2	78	80	2	78	80	2	78	81	2	79	720	18	702
383	0	383	382	0	382	382	0	382	381	0	381	382	0	382	3,451	0	3,451
22	0	22	22	0	22	22	0	22	22	0	22	22	0	22	198	0	198
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	932	4	928
3	0	3	3	0	3	3	0	3	3	0	3	3	0	3	27	0	27
65	0	65	63	0	63	65	0	65	54	0	54	60	0	60	566	0	566
569	0	569	569	0	569	569	0	569	570	0	570	564	0	564	5,126	0	5,126
79	5	74	78	5	73	79	6	73	77	6	71	77	7	70	704	47	657
19	0	19	19	0	19	19	0	19	20	0	20	0	0	0	151	0	151
440	0	440	440	0	440	438	0	438	439	0	439	437	0	437	3,957	0	3,957
0	0	0	88	0	88	115	0	115	115	0	115	115	0	115	529	0	529
11	0	11	11	0	11	10	0	10	10	0	10	10	0	10	96	0	96
61	0	61	61	0	61	61	0	61	61	0	61	61	0	61	553	0	553
114	0	114	115	0	115	115	0	115	115	0	115	115	0	115	1,033	0	1,033
15	0	15	14	0	14	14	0	14	14	0	14	14	0	14	131	0	131
49	0	49	49	0	49	49	0	49	49	0	49	49	0	49	437	0	437
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
316	0	316	316	0	316	317	0	317	313	0	313	314	0	314	2,865	0	2,865
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
143	0	143	0	0	0	0	0	0	0	0	0	0	0	0	634	0	634
6,187	1,217	4,970	6,167	1,249	4,918	3,504	16	3,488	3,649	16	3,633	3,622	17	3,605	39,379	2,579	36,800

Return on Index

% Monthly Return on Index (October)

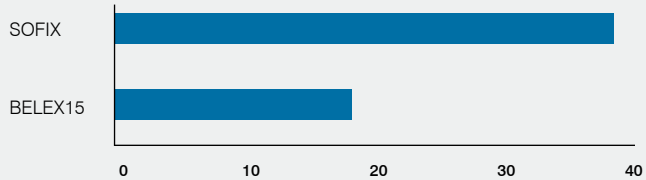


% Annualized Return on Index (2013)

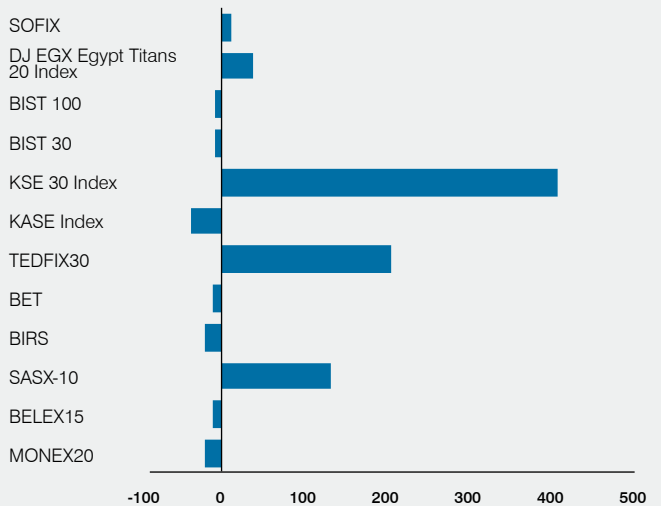


Return on Blue Chip Index

% Monthly Return on Blue Chip Index (October)

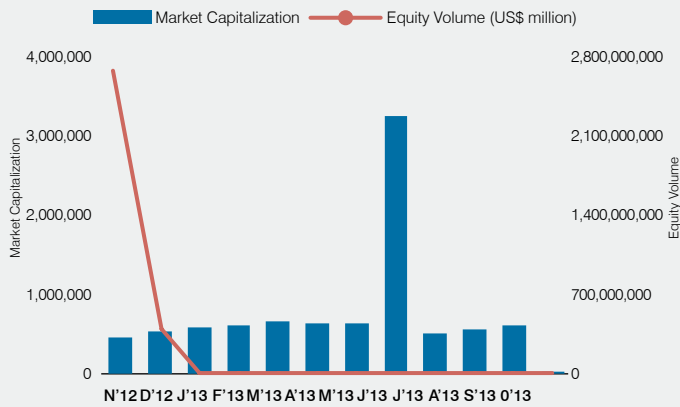


% Annualized Return on Index (2013)



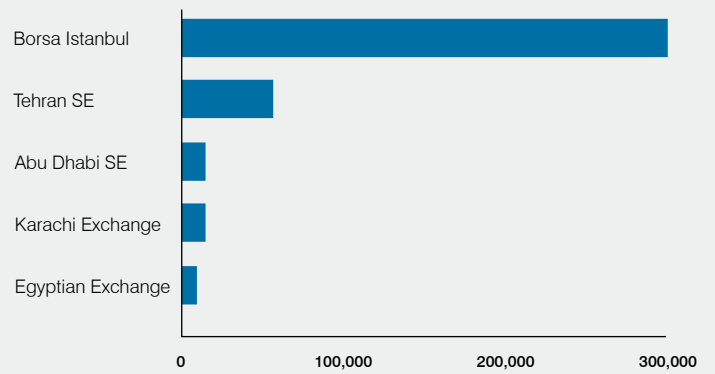
Return on Index

Monthly Stock Volume vs Market Capitalization



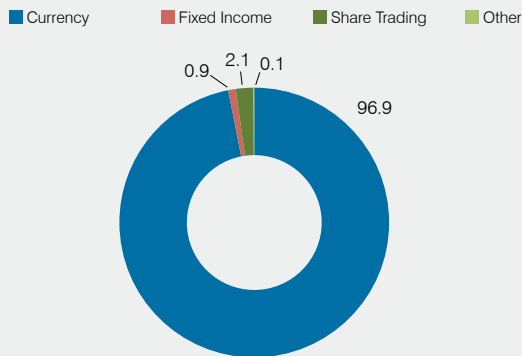
Top 5 Equity Trading (US\$ million)

2013 YTD



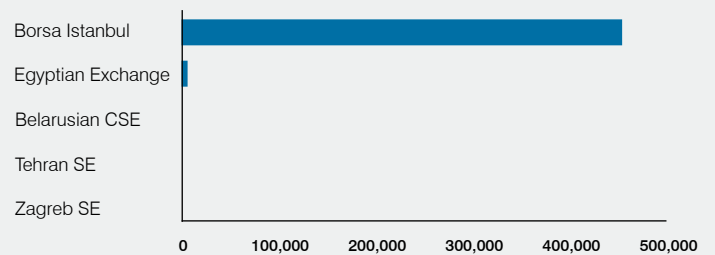
YTD 2013 FEAS Region Volume by Type

YTD 2013 FEAS Region Volume by Type (Trading Volume)



Top 5 Bond Trading (US\$ million)

2013 YTD



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For Turkish Fixed Income Markets

Serkan Aran

saran@isinvestment.com

serkan@bloomberg.net

+90 212 350 23 24

İlkay Dalkılıç

idalkilic@isinvestment.com

ilkay@bloomberg.net

+90 212 350 23 14

www.isinvestment.com

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