The Capital Markets Board of Turkey (the "**CMB**") brought changes to the Communiqué numbered VI/11 (the "**REIC Communiqué**") regarding Real Estate Investment Companies (the "**REIC(s)**") on January 31, 2012. According to the CMB, the aim of the changes to the REIC Communiqué is to allow REICS to (i) become compatible with recent developments; (ii) develop their portfolios; (iii) obtain services regarding research of alternative opportunities from their related parties; (iv) fulfil their needs in a developing market environment; and (v) remove discrepancies regarding the lead shareholders and privileged shares.

We believe the amendment package to the REIC Communiqué is reasonably expected to bring further stability and predictability to the REICs in general. Even though most of the amendments appear to be relatively non-stringent, some of the changes may not make life easier on the Turkish REICs. There are currently 24 publicly-traded REICs in Turkey and the REICs index is calculated under the ticker "XGMYO" in the Istanbul Stock Exchange.

Below is a snapshot of the recent changes and our estimation as to how those may affect the REICs:

"Most of the amendments appear to be relatively less stringent, though some of the changes may not make life easier for the Turkish REICs."

1. **Lead shareholder.** The REIC Communiqué formerly regulated that the lead shareholders must have a minimum of 20% shareholding in the REIC. The amendments to the REIC Communiqué specifically emphasize that such requirement is only sought during the incorporation or transformation of the REIC, as well as at the stage of registration of its shares with the CMB.

   In the event there are no privileged shares in the REIC, the lead shareholder is required to maintain a dominant shareholder role for the two years immediately following the mandatory public offering of the minimum amount of shares of the REIC required to be publicly held, in accordance with the REIC Communiqué and other CMB regulations.

   With these provisions, the lead shareholder of the REIC no longer faces the requirement to remain as one at all times. However, we understand that the CMB wishes to make sure that an influential shareholder has a continuing major interest in the REIC following the public offering. The amendment package faces such wish in a way that, in case the lead shareholder or any other influential shareholder does not maintain privileged shares, which may be existent following the public offering, then the lead shareholder must maintain its interest with the company subsequent to the public offering. This provision is reasonably expected to provide the REIC with better sustainability and stability of the share price following the public offering, protecting the interests of minor shareholders, as well as holders of publicly-traded shares, which, in the case of domestic markets, may usually be retail investors.

2. **Portfolio.** The REICs are now allowed to open and hold participation accounts within participation banks and include their holdings in such participation accounts in their portfolio valuation. The former

provisions only allowed inclusion of deposit accounts in the portfolios of the REICs.

The effects of this change remain to be tested. As the REICs are now allowed to include their holdings in participation banks in their portfolios, this may reasonably be expected to benefit the REICs with slight improvements in their portfolio values in short to mid-term and boost the relations of participation banks with the REICs.

3. **Portfolio limitations.** The portfolio limitations applicable to the REICs suffered minor tweaks with the amendment package.
Although the changes are minor, their effect on calculation and referencing the portfolio limitations may shift the emphasis from the portfolio valuations to the financial statements of the REICs.

4. **Group companies and related parties**. In order to ensure that the know-how of the group companies specializing in real property, the amendment package provides that the REICs may retain intra-group companies (related parties) as consultants, in accordance with the CMB regulations regarding related party transactions. The CMB maintains the right to exercise a limit for the fees and commissions payable to the related parties for such services.

5. **Board of directors and independent members.** The amendment package to the REIC Communiqué brings an update to the independent board members. The regulations regarding the corporate governance principles of the CMB were amended with a series of Communiqués published by the in October, December 2011 and on February 2012 regarding the Corporate Governance Principles and their Implementation (for ease of reference, all defined as the "**Corporate Governance Communiqué**"). The corporate governance principles were adopted from the OECD regulations previously by the CMB on a non-binding basis and the rule of "complain or explain" was applicable. As of February 2012, with the adoption of the Corporate Governance Communiqué, certain corporate governance principles are mandatory and non-compliance may be reprimanded by the CMB.

"The CMB introduced mandatory corporate governance principles as of the fourth quarter of 2011."

The amendment package to the REIC Communiqué synchronizes the independent board member requirement of the REICs with the Corporate Governance Communiqué by way of reference. The REIC Communiqué formerly defined the independent board members with reference to the non-binding corporate governance principles. Following seven years of service in the board of directors, the independent board members were no longer considered as independent. The amendment package is content to make a reference to the CMB's mandatory corporate governance principles for the independent members of the board of directors.

This does not strictly mean that the requirements pertaining to the independent board members have become less stringent.

6. **Securities.** The REICs were formerly allowed to issue securities and debt instruments. This remains intact. Furthermore, the amendment package allows REICs to further issue a specific type of asset backed securities. The underlying assets in such securities may be (i) lease revenues; and (ii) receivables arising from the sale and promise to sell contracts regarding real property, as well as real property sale receivables backed by bonds.

The effects of this provision remain to be tested as to whether the REICs will have the appetite to issue the said securities.

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