



SCREENING CHAPTER 6 COMPANY LAW

AGENDA ITEM : COMMISSION RECOMMENDATIONS

**Country Session : The Republic of Turkey
20 July 2006**



RECOMMENDATION ON DIRECTORS' REMUNERATION



RELEVANT LEGISLATION

- **Turkish Commercial Code**
- **Corporate Governance Principles issued by CMB in 2003**



TURKISH COMMERCIAL CODE

➤ Remuneration of board of directors

➤ Articles of Association of the company shall contain the following details (Article 279):

- Special advantages to be granted to the founders, directors and other persons out of the profits of the company**

- The method of choosing the person to be entrusted with the administration and the control of the business of the company, their rights and duties**

➤ Fees and allocations of the directors are decided in annual general assembly, if not already provided by the Articles of Association (Article 369).



CORPORATE GOVERNANCE PRINCIPLES OF CMB

- **Issued in 2003 by CMB for publicly held companies**
- **Consists of four main sections: Shareholders, disclosure and transparency, stakeholders and board**
- **Adopts “comply or explain” approach**

(cont.)

➤ **Corporate Governance Principles Compliance Report
(starting from 2004)**

- ✓ The report is included in the annual reports of the listed companies as a separate section.
- ✓ CMB Corporate Governance Principles that are adopted and not adopted by the company, reasons for not applying the principles, and conflicts of interest resulting from not wholly adopting these principles are disclosed in this report.



DIRECTORS' REMUNERATION

➤ In the “Board of Directors” section of the Compliance Report, the following are disclosed by listed companies:

- ✓ All rights, compensations and wages granted to the members of the board and the criteria used to determine them,
- ✓ Whether the remuneration is determined according to the performance of the board of directors and the company,
- ✓ Whether the company lends money to any member of the board and to managers; if so, its grounds and the conflicts of interest that result from this incident.



RECOMMENDATION ON DIRECTORS AND BOARD COMMITTEES



RELEVANT LEGISLATION

- **CMB Communiqué Serial:X No:22 on Auditing Standards in Capital Markets**
- **Corporate Governance Principles issued by CMB in 2003**



AUDIT COMMITTEE (CMB Communiqué Serial:X No:22)

- **It is compulsory for listed companies to establish an audit committee.**
- **It is composed of at least 2 board members.**
- **Majority of the members must be non-executive members.**



(cont.)

➤ Main functions

- ✓ The audit committee shall supervise execution and efficiency of the accounting system of the company, disclosure of financial statements to the public, external audit of the company and internal control system.**
- ✓ Appointment of the external audit company and the services to be provided thereby shall only be submitted to the board upon the preliminary approval by the audit committee.**
- ✓ The audit committee shall control whether or not the periodic financial statements are prepared in accordance with the current legislation and international accounting standards and shall submit its written opinion to the board of directors.**



CORPORATE GOVERNANCE PRINCIPLES OF CMB

➤ Board of Directors

- ✓ Formation and election of the board of directors**
 - The board must include independent members**
 - Committees to be established by the board:**
 - Corporate Governance Committee and Audit Committee,**
 - Adequate number of committees enabling the board to carry out its tasks efficiently**
 - Chairman for each committee must be elected from independent members of the board**



(cont.)

✓ Corporate Governance Committee

Main functions of this Committee are:

- Monitoring the company's compliance with corporate governance principles,
- Constituting a transparent system for determination, evaluation, training and rewarding of candidates eligible for the board of directors and determining policies and strategies in this respect,
- Determining the principles and practices regarding the evaluation of performances of the board members and executives, and their career planning and rewarding.



(cont.)

✓ Independent Board Members

- **Must have no direct or indirect relationship with the company, its subsidiaries or any other group companies**
 - **Must not receive any compensation other than the board membership compensation and attendance fee**
- ✓ Independent member of the board of directors must provide a written declaration to the board of directors, stating that he/she is independent within the framework of the criteria stated in Corporate Governance Principles of the CMB.**



CORPORATE GOVERNANCE COMPLIANCE REPORTS

In the “Board of Directors” section of the Compliance Report, the following are disclosed by listed companies:

- **Structure and composition of board of directors and independent members**
- **Qualifications of board members**
- **Mission, vision and strategic targets of the company**
- **Internal control and risk management mechanism**
- **Authority and responsibility of the members of the board and executives**
- **Number, structure and independency of the committees established by the board of directors**
- **Remuneration of the board of directors**



THANK YOU FOR YOUR ATTENTION