



## **SCREENING CHAPTER 6 COMPANY LAW**

# **AGENDA ITEM : FINANCIAL REPORTING**

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



# ANNUAL ACCOUNTS



## FRAGMENTED STANDARDS IN MULTIPLE REGULATIONS

- **Turkish Commercial Code**
- **Tax Procedures Law**
- **Capital Market Law**
- **Banking Law**
- **Insurance Law**

## FRAGMENTED STANDARDS FROM MULTIPLE AUTHORITIES

- **Ministry of Industry and Trade**
- **Ministry of Finance**
- **Capital Markets Board**
- **Banking Regulation and Supervision Board**
- **Undersecretariat of Treasury**



## TURKISH ACCOUNTING STANDARDS BOARD (TASB)

- **Sets uniform national accounting standards compatible with IFRS,**
- **Public legal entity,**
- **Administrative and financial autonomy,**
- **Official relationship with IASB:**
  - **Agreement for Waiver of Copyright**
  - **Official translation process**

## **TURKISH COMMERCIAL CODE (TCC)**

- **Ministry of Industry and Trade**
- **The first provisions on**
  - **financial statements**
  - **reports**
  - **legal entities**
  - **books**
  - **documentations**
  - **basic accounting rules**
- **Mostly do not reflect current accounting principles**
- **Inadequate sanctions for non-compliance**



**TAX PROCEDURES LAW (TPL)  
AND  
IMPLEMENTING LEGISLATION ON ACCOUNTING  
ISSUED BY MINISTRY of FINANCE**

- **The most comprehensive implementing legislation**
- **Practical accounting applications**
- **Based on the provisions of Tax Law**
- **Some differences between TPL and implementing legislation**
- **Accounting applications are based on the implementing legislation**
- **Taxable amount is determined according to the provisions of TPL**

## IMPLEMENTING LEGISLATION ON ACCOUNTING (I)

- **Content of the Legislation**
  - **Basic concepts of accounting: “*True and Fair View*”**
  - **Explanation of accounting policies**
  - **Principles of financial statements**
  - **Preparation and presentation of financial statements**
  - **Framework of Turkish Uniform Chart of Accounts (TUCA) and its functions**

## IMPLEMENTING LEGISLATION ON ACCOUNTING (II)

### ➤ **Scope of the Legislation**

- **Entities that keep accounting records on a balance sheet basis**
- **Small and Medium-sized Enterprises (SMEs) not covered**
  - **SME distinction is based on revenue and total assets**

### ➤ **Entities not covered**

- **Banks and Insurance Companies**
- **Private Financial Institutions (Investment Banks)**
- **Financial Leasing Companies (Including Factoring)**
- **Investment Trusts, Intermediaries (Brokerage Firms)**



## IMPLEMENTING LEGISLATION ON ACCOUNTING (III)

### ➤ Inflation Adjustment

- Tax Procedures Law (as amended by Law No: 5024)
- Communiqués (No: 328 and 338) on Tax Procedures Law

### ➤ Financial Leases

- Tax Procedures Law (as amended by Law No:4842)
- Communiqué (No:319) on Tax Procedures Law

## CAPITAL MARKET LAW (CML) (I)

- **Establishes the Capital Markets Board (CMB)**
- **CMB introduces accounting principles for:**
  - **Publicly held companies**  
(joint stock companies whose shares have been offered to the public and/or that has more than 250 shareholders)
  - **Capital market institutions**
- **Disclosure purpose (investor oriented)**
- **Compatible with international accounting principles**



## CAPITAL MARKET LAW (CML) (II)

### A ) Listed Companies

- CMB has adopted IFRS by Communiqué Serial: XI, No. 25 on Accounting Standards in Capital Markets Issued on 15 November 2003.
- Mandatory for all listed companies and intermediary institutions (brokerage firms) from the beginning of 2005.
- Mandatory formats for financial statements predetermined by CMB
- Early adoption was allowed

### B) Non-Listed Companies

- Communiqué Serial XI, No.1



## BANKING LAW

- **By-law on Accounting Principles and related communiqués**
- **Disclosure requirements of banks' financial statements are determined**
- **Formats of banks' financial statements are determined**
- **Turkish Accounting Standards will be adopted for banks by November 2006**



## **TURKISH ACCOUNTING STANDARDS BOARD (TASB) (I)**

- **Established to solve fragmented structure of accounting regulations**
- **Sets uniform national accounting standards compatible with IFRS,**
- **Public legal entity,**
- **Administrative and financial autonomy,**
- **Official relationship with IASB:**
  - **Agreement for Waiver of Copyright**
  - **Official translation process**



## TURKISH ACCOUNTING STANDARDS BOARD (II)

- **Composed of nine members from:**
  - **Ministry of Finance,**
  - **Ministry of Industry and Trade,**
  - **Council of Higher Education,**
  - **Undersecretariat of Treasury,**
  - **Capital Markets Board,**
  - **Banking Regulation and Supervision Board,**
  - **The Union of Chambers and Commodity Exchanges of Turkey (TOBB),**
  - **Professional Organization of Accountants (1 Self-Employed Accountant and 1 Sworn Financial Advisor)**



## TURKISH ACCOUNTING STANDARDS BOARD (III)

- **Working Groups**
  - **Composed of accountants and auditors**
- **Public opinions on draft standards**
- **36 IAS/IFRS adopted**
- **IAS 32, IAS 39 and IFRS 7 to be adopted in July 2006**



## TURKISH ACCOUNTING STANDARDS BOARD (IV)

### SME PROJECT

- **Simplified accounting standards for SMEs**
- **Active participation in SME Project of IASB**
- **Working Group formed**



## ANNUAL ACCOUNTS: MAIN RULES

- **Content and Formats**
- **Notes to Financial Statements**
- **Layouts and Valuation**
- **Inflation Accounting/Adjustment**
- **Publication**
- **Auditing Requirements**



## REFORM

- **Draft Turkish Commercial Code**
  - **Under the examination of Turkish Grand National Assembly**
  - **Clear expression that the application of the accounting standards to be established by the Turkish Accounting Standards Board**
  - **Fully compatible with the IAS/IFRS**



# CONSOLIDATED ACCOUNTS



## RELATED REGULATIONS

- **Not regulated by Tax Laws**
- **Not regulated by existing Turkish Commercial Code**
- **Capital Market Law**
- **Banking Law (Presented within Chapter 9/Financial Services/Banking and Financial Conglomerates, not covered here)**
- **Turkish Accounting Standards Board (TASB)**



## CAPITAL MARKETS LAW

- **Capital Markets Board**
- **Communiqué for Consolidated Financial Statements (before the adoption of IFRS); Serial XI, No. 21**
- **Communiqué for Inflation Adjusted Financial Statements (before the adoption of IFRS); Serial XI, No. 20**
- **Current Situation: Consolidated financial statements are prepared in accordance with the Communiqué (Serial XI, No. 25) which is in compliance with IFRS**



## **TURKISH ACCOUNTING STANDARDS BOARD (TASB)**

- **“TMS 27 Consolidated and Separate Financial Statements” fully compatible with IAS 27**
- **Published in Official Gazette on 17 December 2005**



## CONSOLIDATED ACCOUNTS: MAIN RULES

- **When to be prepared**
- **Layouts and Valuation**
- **Consolidation Techniques**
- **Publication**
- **Auditing**



# INTERNATIONAL FINANCIAL REPORTING STANDARDS

## RECENT INTERNATIONAL DEVELOPMENTS IN ACCOUNTING

- **Globalisation**
- **Accounting scandals**
- **International convergence**
- **IAS/IFRS vs US GAAP**
- **IAS Regulation of the EU**



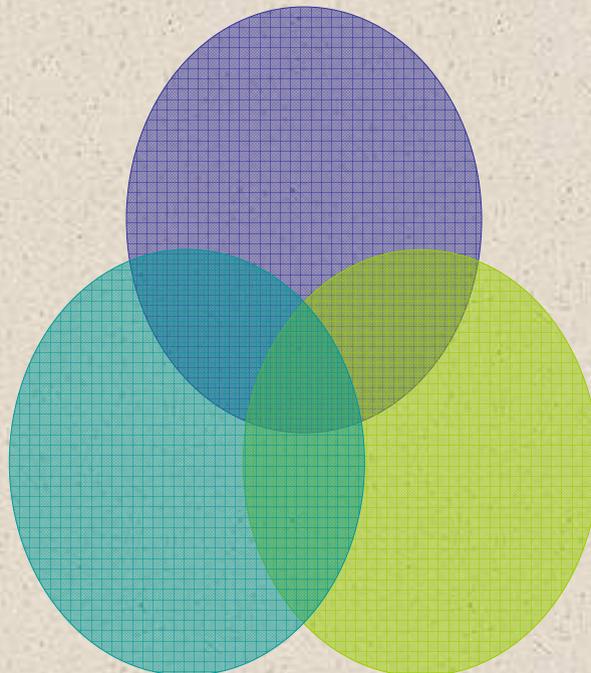
SCREENING CHAPTER 6  
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**ACCOUNTING**  
(IAS/IFRS)

- European Commission
- IMF
- WorldBank

- CMB
- BRSA
- Turkish Accounting Standards Board (TASB)



**AUDITING**  
(SARBANES-OXLEY)

- Ethical Standards
- Independence of Auditors
- Corporate Governance

**CORPORATE GOVERNANCE**

- Corporate Responsibility
- Restored Confidence in Markets



## LEGISLATION ON IFRS

- **Turkish Accounting Standards by TASB are compatible with IAS/IFRS**
- **Accounting legislation issued by CMB are compatible with IAS/IFRS**
- **Accounting legislation in banking sector are largely compatible with IAS/IFRS**



## REFORM

- **Draft Turkish Commercial Code**
  - **Accounting standards to be established by the Turkish Accounting Standards Board**
  - **Fully compatible with the IAS/IFRS**
  - **Transitional period**
  - **Simplified accounting standards for SMEs**



# STATUTORY AUDITS



## FRAGMENTED STANDARDS FROM MULTIPLE AUTHORITIES

- **Ministry of Industry and Trade**
- **Ministry of Finance (MoF)**
- **Capital Markets Board (CMB)**
- **Banking Regulation and Supervision Board (BRSA)**
- **Undersecretariat of Treasury**

## TURKISH COMMERCIAL CODE

- **Ministry of Industry and Trade**
- **Requirement to appoint an Auditor or Board of Internal Auditors**
- **In practice not strictly followed**
- **The auditors and the audit itself do not conform to international auditing principles**
- **Inadequate sanctions for non-compliance**



## MINISTRY OF FINANCE

- **Law on Independent Accountancy, Independent Accountant Financial Advisory and Sworn Financial Advisory (1989)**
  - **Defines 3 categories of audit profession:**
    - **Independent Accountant (Bookkeeping)**
    - **Independent Accountant and Financial Adviser (bookkeeping and tax services) (IAFA)**
    - **Sworn Financial Advisor (can perform tax audit) (SFA)**
  - **Restrictions and requirements for acceptance to all categories**
- **The audit performed by Sworn Financial Advisors based on Tax Regulations**



## **BANKING REGULATION AND SUPERVISION AGENCY (I)**

- **The annual financial reports/financial statements to be presented by banks shall be approved by independent audit firms**
- **The authorisation and termination of the activities (temporarily or permanently) of independent audit institutions**
- **Authorised audit firms announced on BRSA web page**
- **There are two by-laws regarding independent audit:**
  - **By-law on Independent Audit of Banks**
  - **By-law on Authorisation of Independent Audit Firms**



## **BANKING REGULATION AND SUPERVISION AGENCY (II)**

- **IT audit requirement for banks**
- **By-law on IT Audit of Banks**
  - **Based on principles of Control Objectives for Information and Related Technology (COBIT) and Application Controls**
- **Draft By-law on Independent Audit of Banks is prepared in the framework of International Standards on Auditing**
  - **To be put into force by November 2006**

## CAPITAL MARKETS BOARD (I)

- Auditing activities and audit firms in capital markets are regulated by CMB (Communiqué Serial:X, No:16)
- After accounting scandals (Enron etc.) existing regulations have been revised:
  - Separation of audit and consultancy
  - Establishment of audit committees for listed companies and brokerage firms
  - Audit firm rotation
  - Determination of corporate responsibility for the preparation, presentation and accuracy of financial statements and annual report

## CAPITAL MARKETS BOARD (II)

- In order to conduct auditing activities in capital markets, the following requirements should be met:
  - Company limited by shares formed with registered share
  - University degree in related economics sciences
  - Licensed audit professionals
  - Adequate personnel and equipments
  - Other requirements
  
- Applications evaluated by CMB

## CAPITAL MARKETS BOARD (III)

- **CMB oversees audit firms**
- **Performs quality controls**
- **All complaints about audit firms evaluated**
- **Sanctions are imposed when necessary**



## CAPITAL MARKETS BOARD (IV)

### ADOPTION OF INTERNATIONAL AUDITING STANDARDS (June 2006)

- International standards on auditing are adopted for auditing of listed and non-listed companies, brokerage firms subject to CML (Communiqué Serial:X, No:22)
- Rotation rule for auditors/audit firms is harmonized with 8<sup>th</sup> Directive Proposal (maximum 7 years)
- To close educational knowledge gap (theoretical subjects of the 8<sup>th</sup> Directive, Art.8) of auditors of publicly held companies in international financial reporting standards (IFRS) and international standards on auditing (ISA), exam requirement is introduced
- Regulations related to appointment/dismissal and penalties of auditors are updated
- Public oversight role of CMB is emphasized
- Ethical principles are revised



## REFORM PROCESS

- **Draft Turkish Commercial Code**
  - **Independent auditing is required for;**
    - **All limited liability and**
    - **All incorporated companies**



## FINAL REMARKS (I)

### DRAFT TURKISH COMMERCIAL CODE

- **Crucial importance for alignment with the *acquis***
- **Books to be kept will be determined by TASB**



## FINAL REMARKS (II)

### DRAFT TURKISH COMMERCIAL CODE

#### ➤ End of the Year Financial Statements;

##### ➤ Balance Sheet

##### ➤ Income Statement

both must be prepared in accordance with Turkish Accounting Standards (TAS) set by Turkish Accounting Standards Board (TASB)



## FINAL REMARKS (III)

### DRAFT TURKISH COMMERCIAL CODE

- **Authority/responsibility assigned to TASB (Art. 68)**
  - **Sole authority in accounting and financial reporting**
  - **Sole authority in the adoption of IAS/IFRS**
  - **Separate and consolidated financial statements must be prepared in full compliance with TAS**
  - **Establishing accounting standards for SMEs or different sectors**
  - **Other independent and regulatory authorities**



## FINAL REMARKS (IV)

### DRAFT TURKISH COMMERCIAL CODE

- **Auditing is mandatory for most of the firms**
- **Qualifications of the auditors and auditing contracts denoted**
- **Audit reports clarified**
- **Auditors' responsibilities defined**



## FINAL REMARKS (V)

### DRAFT TURKISH COMMERCIAL CODE

- **Web-sites and Financial Statements**
  - **Financial Statements**
  - **Auditing Reports**
  - **Other**
  - **With 3 years of Disclosure Period**



## FINAL REMARKS (VI)

### DRAFT TURKISH COMMERCIAL CODE

- **And as important as those stated above;**
  - **in case of non-conformity, adequate sanctions are imposed...**



**THANK YOU FOR YOUR ATTENTION**