

November 11, 2004

**Marriott-Tverskaya Hotel (Moscow) – 11-12 November 2004
Russian Corporate Governance Roundtable Meeting**

**SESSION 4: HOW SHOULD IFRS BE ENFORCED?
THE EXPERIENCE OF TURKEY**

by Dr. A.R. Zafer SAYAR

Head of Accounting Standards Department, Capital Markets Board of Turkey
Vice President, Turkish Accounting Standards Board

Thank you. I am very pleased to be in Moscow with such a distinguished group of people who share a keen interest in international standard setting in the field of financial reporting. This is truly important work.

As mentioned, I am here in my capacity as Head of Accounting Standards Department in Capital Markets Board of Turkey (CMB) and also Vice President of Turkish Accounting Standards Board (TASB) which have recently become the most important regulatory bodies in Turkey in terms of setting financial reporting standards compatible with IFRS.

So, before I get into the specifics, I'd like to make a few comments about the role of the CMB and TASB.

SLAYT NO: 2

First of all, CMB's main job is to help ensure millions of investors can make investment decisions on the basis of timely, relevant, reliable and unbiased information that is presented in an understandable manner. Accounting standards provide the basic requirements for reporting transparent, high-quality financial information to investors in the capital markets and issuers shall prepare financial statements, financial reports and other information required by the CMB to be disclosed, including consolidated financial statements, in compliance with

the form and principles to be determined and generally accepted accounting principles, definitions and standards.

SLAYT NO: 3

As a regulatory body with the objectives of ensuring full transparency and disclosure, we acknowledge our vital role in corporate governance and the value that accounting contributes to the stability of the capital markets. That is why we are currently engaged in an enormous renewed effort to ensure that confidence to capital markets is deserved.

SLAYT NO: 4

CMB, ever since it has been founded in 1981, has adopted global regulations regarding financial reporting and accounting standards in order to eliminate the current gaps leading to important differences from generally accepted accounting principles and its regulations regarding “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” and “Restatement of Financial Statements in Inflationary Periods” were the pioneering ones.

SLAYT NO: 5

Then, considering the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of IFRS, which requires all EU companies listed on a regulated market to use IFRS from 2005 onwards and allowed Member States to extend this requirement to all companies, we have issued a communiqué involving almost all IFRS. The move is part of an effort to bring Turkish corporate reporting systems into line with EU principles.

SLAYT NO: 5

This communiqué is required for all listed companies by the year 2005, but until then, encouraged ones may apply IFRS. Today, we have many listed companies applying IFRS. As of 2005, all listed companies will have to switch to

our new regulation that is in compliance with IFRS. We are sure of that, the communiqué constitutes an important step for Turkish National GAAP to become closer in purpose to IFRS by eliminating the differences and inconsistencies in practice.

SLAYT NO: 6

On the other hand, the current fragmented regulatory and institutional arrangements for financial reporting and accounting in Turkey, with multiple agencies each administering their own regimes, have given way to a coordinated effort to put in place a single robust general-purpose system in compliance with IFRS which treats disclosure and transparency as public goods available to all market participants.

With this underlying principle, TASB, on the edge of its establishment, has the mission of setting uniform national accounting standards compatible with IFRS. TASB, having its own public legal entity and administrative and financial autonomy, has been established in 1999 by means of the encouragements of CMB. Recently, TASB have attempted to set up a formal relationship with IASB in order to clarify its road map in convergence project.

SLAYT NO: 7

At a conceptual level, supporting convergence is easy. Having high-quality standards for accounting benefits investors and reduces the cost of accessing the capital markets around the world. In short, convergence is good business and good for investors.

As is just the same for all emerging markets, Turkey aims to become one of the towering shareholders of international capital flows by improving her regulations in line with global trends and wants to be a focal point of foreign investors so as to vacuum foreign capital to the markets.

But, making regulations would mean nothing unless effective implementation and enforcement exist in the market.

Remember that, even when accounting standards are fully converged, the application of those standards will still be dependent upon accountants and auditors in every jurisdiction around the world. If the application varies from country to country, from auditor to auditor, from industry to industry, etc., we will lose much of the benefit of having converged standards.

Regulators have an important role to play with regards to international convergence in financial reporting. This role goes to the implementation and enforcement of accounting standards. Securities regulators must often determine, quickly, whether a company's proposed accounting is consistent with the relevant standards, in order to decide whether the company should be allowed to sell securities on the public markets.

SLAYT NO: 8

In this light, CMB has improved its existing regulations regarding independent auditing mechanism in the capital markets in accordance with Sarbanes-Oxley Act. Now, the current improvement has strengthened the independence of auditors and the health of internal control systems of publicly held companies, brought corporate governance requirements and provided independent institutional oversight. There is also a project on hand for this year regarding the full revision of existing auditing standards compatibly with International Standards on Auditing of IFAC. These standards are going to be introduced in Turkey in the first half of 2005.

CMB has also defined Corporate Governance Principles in parallel with OECD regulations, which can be used primarily by listed companies as well as by joint stock companies in both the private and public sector. Mr. Temucin will have his speech in another session tomorrow and you may know much about the recent improvements in the field of corporate governance in Turkey. But I

can say, over time, Turkey plans to adopt corporate governance principles in prospectuses of listed companies.

SLAYT NO: 9

As I mentioned above, in order to realize the benefits of truly international financial reporting, we need convergence in all of the areas accounting, auditing and disclosures. And we also need to work to continue to enhance cooperation and consistency in regulatory review and enforcement, and to improve training and interpretive mechanisms as well.

With the same or similar standards being used in so many jurisdictions, there is the possibility that different regulators will have different views on the correct application of a standard. That type of situation would be detrimental to the capital markets, and would of course, undo some of the gains of convergence in standards. To mitigate against this possibility, regulators have to work to develop processes that would encourage consultation amongst regulators, thereby reducing the chances for multiple interpretations.

We wholeheartedly would like to view this meeting as a milestone for Turkish experience integrate with Russian experience in this manner.

I finalize with my best wishes of good work to all participants.

Thank you.