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European Bank
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Corporate Governance in Transition Economies

Turkey Country Report

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The contents of this publication reflect the opinions of individual authors and do not necessarily reflect the views of the EBRD.

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If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

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This Report – along with all other country reports prepared within this initiative – is available at: <http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html>

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development (“EBRD”) has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the “Assessment”).

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish “reference points” enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case

more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored “moderately strong” or “strong”, then the resulting average was increased by 0.5. However, this “positive” adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Rating:

“Strong to very strong” (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

“Moderately strong” (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

“Fair” (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

“Weak” (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

“Very weak” (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the “quantitative” assessment obtained according to the methodology described above, a “qualitative” assessment was also undertaken, by classifying our findings for each section as “strengths” and “weaknesses”. Because understanding corporate governance requires a “holistic perspective”, when the “quantitative” assessment was finalised, the assessment team compared it with the “qualitative” assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ± 0.5 .

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework

The primary sources of corporate governance legislation in Turkey are the Turkish Commercial Code, the Capital Market Act, regulations issued by the Banking Regulation and Supervision Agency and various Communiqués of the Capital Markets Board. The Corporate Governance Code in Turkey is represented by the “Principles on Corporate Governance” first issued in 2003 and revised various times, most recently in 2014. Some of the provisions of the Principles are mandatory, others are to be implemented under the so-called “comply or explain” approach. The mandatory provisions now apply to all listed companies, with some few exceptions depending on the companies’ systemic significance, which is determined based on their market values and liquidity and resulting in three distinct groups of listed companies.

Structure and Functioning of the Board

Companies are organised under a one-tier system. The Turkish Corporate Governance Principles, which apply to listed companies, work on a ‘comply or explain’ basis with parts that are mandatory. The Principles recommend the role of the CEO and chair of the board to be separate, and in the case of combined roles, grounds for such decision should be provided by companies. The Principles require that the majority of the board members be composed of non-executive directors and that at least 1/3 of the board be made up of independent directors. The Principles include a fairly comprehensive definition of independence. All ten largest listed companies have independent directors sitting on their boards.

The New Turkish Commercial Code includes qualification requirements for board members and, overall, boards of the ten largest listed companies seem to have a diversified mix of skills. Legal entities can be board members. Gender diversity at the board is limited. The law and the Principles require listed companies to establish committees. Audit committees must be entirely composed of independent directors, while other committees may comprise non-executive, executive and non-board members, which raises some concerns as some of these committees deal with issues that involve a high potential of conflict of interests such as remuneration. The majority of the surveyed companies disclose their board and committee activities online, and disclose having a company secretary. Board evaluation is recommended by the Principles, but disclosure in this respect is very limited. Fiduciary duties, directors’ liability and conflicts of interests are regulated by law.

Transparency and Disclosure

The law and the Corporate Governance Principles require disclosure of a fair amount of non-financial information and companies seem to comply with this requirement, disclosing through their website, the central securities depository’s Public Disclosure Platform or their annual reports information on their board composition, directors’ qualifications and independence, board and committee activities, capital, number of shares, major shareholders, transactions by directors with company’s shares, general shareholders’ meeting’s minutes, articles of associations and material events. Companies are required to disclose their annual report along with the auditor’s opinion and all the surveyed companies appear to comply with this requirement and declare their auditor to be independent. Companies’ websites are generally complete and updated.

Listed companies are required to disclose whether they comply with the Principles, or to explain why they do not apply certain recommendations. Explanations are however rather weak and often limit themselves to rephrasing the Principles or the law. All the ten largest listed companies disclose their code of ethics. Breach of disclosure obligations is subject to sanctions. Disclosure on the provision of non-auditing services by external auditors (which is allowed in some cases) is limited.

Internal Control

Companies are required to establish an internal control function. Banks are also required to set up a compliance function and to establish a clear separation between the management and control functions. Companies and banks seem to comply with these requirements. Listed companies are required to set up an audit committee which should be made up only of independent directors. The audit committee is responsible for ensuring the external auditor’s independence. All companies of our sample disclose having an audit committee in place and the committees of the majority of these companies are composed of independent board members. Disclosure on the audit committee’s meetings and activities has room for improvement.

Listed and large companies are required to appoint an independent external auditor to review the financial results being reported in their financial statements. All the surveyed companies disclose their financial reports along with the auditor's opinion and declare their external auditor to be independent. Both auditors and audit firms are required to rotate (every five and seven years, respectively), while the provision of certain non-auditing services is restricted to tax consultancy and tax auditing.

Companies are recommended to adopt a code of ethics, and all the ten largest listed companies disclose having one. Related party transactions and conflicts of interest are regulated by law and regulation is considered to be in line with international good practices even if identification of related party transactions remains often challenging. Protection of whistle-blowers exists but is limited.

Rights of Shareholders

Basic shareholder rights seem to be adequately regulated by law. Shareholders representing 5% of the share capital of listed companies are entitled to call a general shareholders' meeting and to add items to the agenda. Shareholders are provided with timely notification, agenda and material for the general shareholders' meeting online. Furthermore, shareholders have general inspection and pre-emptive rights and in some cases supermajority is required to approve major corporate changes.

However, the law allows multiple/disproportional voting rights and does not grant cumulative voting rights to the minority shareholders – this seems to depend on such rights being granted by the articles of association.

The New Commercial Code made it explicit that shareholders can file a suit against board members and managers for breach of their duties and/or obligations. Shareholders have access to a fair amount of information made available on the companies' websites and the Public Disclosure Platform. Self-dealing is regulated and insider trading is prohibited and several insider trading cases have been investigated in the past five years. Shareholder agreements are common, but they lack specific regulation. Related party transactions and conflicts of interests are regulated by law. Share register of listed companies must be maintained by an independent registry institution. The free transferability of shares may be limited in certain cases.

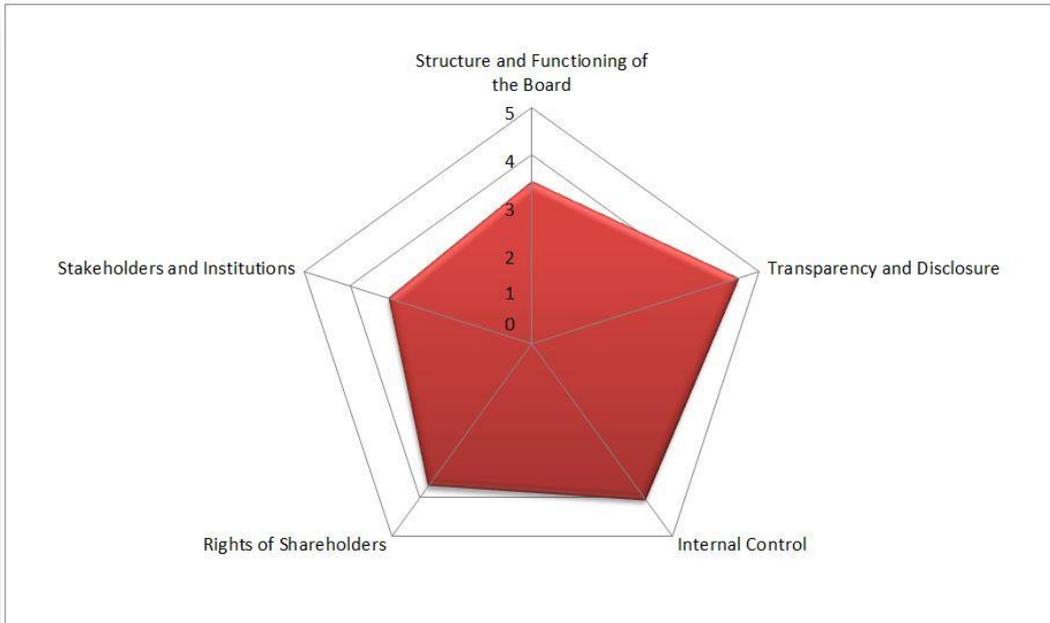
Stakeholders and Institutions

The institutional framework supporting good corporate governance in Turkey is relatively advanced.

The Istanbul Stock Exchange (ISE) is the main local stock exchange in Turkey. There are three main listing tiers at the ISE, but the listing requirements among these three do not require stricter corporate governance standards. Yet, the ISE has established an additional Watch List Tier for companies subject to stricter monitoring and examination and for companies that fail to comply with financial and corporate governance regulations. The ISE has also launched a Corporate Governance Index and it rates compliance with the Principles.

The Capital Markets Board of Turkey (CMB) is the state regulator responsible for supervising the capital market and the activities of publicly traded joint stock companies. The CMB seems to be actively promoting the Corporate Governance Principles and monitoring the securities market. Whilst some of the Principles are mandatory, others can be implemented under a 'comply or explain' basis. All ten largest listed companies in Turkey provide a corporate governance compliance report in their annual reports. The CMB can take disciplinary actions in case of breach of the Principles, and has issued sanctions in the past. International audit, rating agencies and law firms have a material presence in the country. No significant inconsistencies were found in laws and regulations. Indicators provided by international organisations rank Turkey moderately well with regard to corruption, competitiveness, and investor protection perceptions.

Corporate Governance Legislation and Practices in Turkey



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Key Areas and Rating	Strengths and Weaknesses
<p>1. Structure and Functioning of the Board Fair</p>	<p>Companies are organised under a one-tier system. The Turkish Corporate Governance Principles, which apply to listed companies, work on a ‘comply or explain’ basis with parts that are mandatory. The Principles recommend the role of the CEO and chair of the board to be separate, and in the case of combined roles, grounds for such decision should be provided by companies.</p> <p>The Principles require that the majority of the board members be composed of non-executive directors and that at least 1/3 of the board be made up of independent directors. The Principles include a fairly comprehensive definition of independence. All ten largest listed companies have independent directors sitting on their boards.</p> <p>The New Turkish Commercial Code includes qualification requirements for board members and, overall, boards of the ten largest listed companies seem to have a diversified mix of skills. Legal entities can be board members. Gender diversity at the board is limited.</p> <p>The law and the Principles require listed companies to establish committees. Audit committees must be entirely composed of independent directors, while other committees may comprise non-executive, executive and non-board members, which raises some concerns as some of these committees deal with issues that involve a high potential of conflict of interests such as remuneration.</p> <p>The majority of the surveyed companies disclose their board and committee activities online, and disclose having a company secretary. Board evaluation is recommended by the Principles, but disclosure in this respect is very limited.</p> <p>Fiduciary duties, directors’ liability and conflicts of interests are regulated by law.</p>
<p>1.1. Board Composition Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Companies are organised under a one-tier board system where the Corporate Governance Principles recommend splitting the roles of board chair and CEO. This recommendation is not mandatory, but if a listed company decides to combine the roles, it must disclose the grounds for such decision. None of the companies of our sample combines the roles. In many cases, the CEO is a member of the board. Boards are well-sized, with an average of 10 board members. The Principles require that the majority of the board members of listed companies must be composed of non-executive directors, and that at least 1/3 of the board be made up of independent directors. The New Turkish Commercial Code includes various provisions related to the professionalism of the board. For banks, the regulation establishes ‘fit and proper’ requirements and requires that the majority should have a degree of law, economics, finance, banking, business, public administration or related fields and at least ten years of professional experience in the field of banking or business administration. The Principles requires that independent board members have professional education, knowledge and experience. Overall, the boards of the companies of our sample appear to have a diversified mix of skills. Listed companies are required by the Principles to set up an audit committee formed exclusively of independent directors. It appears that in eight out of the ten largest listed companies the majority of the audit committee members is independent. <p>Weaknesses:</p> <ul style="list-style-type: none"> Legal entities may serve as board members. Once appointed, the legal entity must nominate a representative who will be registered and announced in the Turkish Trade Registry Gazette and on the company’s website. However, none of the ten largest listed companies have corporations represented by individuals sitting on their board. The Principles require listed companies to set up four other committees (see below), including a nomination and a compensation committee. These committees appear to comprise non-executives and executives. This raises concerns as remuneration and nomination are issues that have a high potential for conflict of interests. These committees may further comprise outsiders, which is not in line with best practices.
<p>1.2. Gender Diversity at the Board (7.89%) Very Weak</p>	<ul style="list-style-type: none"> All ten largest listed companies disclose the composition of their boards. Five companies have women sitting on their boards. Among these companies, the average of female representation amounts to 15.79%. In total, there are 9 women among 104 board members. The average of female representation on boards of the largest listed companies is 7.89%.
<p>1.3. Independent Directors Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The Corporate Governance Principles require that the majority of the board members of listed companies must be composed of non-executive directors, and that at least 1/3 of the board be made up of independent directors. All ten largest listed companies have independent directors. In six companies, independent directors represent 1/3 of the board. The Principles provide for a quite comprehensive definition of independence, mentioning some positive independence criteria - such as, being able to maintain objectivity in conflict of interest situations and having strong ethical standards – to be coupled with adequate professional education, knowledge and experience.

Key Areas and Rating	Strengths and Weaknesses
	<p>Criteria linked to tax residency are more questionable.</p> <ul style="list-style-type: none"> The nomination committee is responsible for reviewing the directors' independence once they are nominated and for reporting on any situation which jeopardizes their independence.
<p>1.4. Board Effectiveness Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies are required by the Corporate Governance Principles to set up an audit committee formed exclusively of independent directors. The audit committees of eight of the ten largest listed companies are made up of a majority of independent directors. The Principles require listed companies to set up four other committees: the Early Detection of Risk Committee, the Corporate Governance Committee ('CG Committee'), the Nomination Committee and the Compensation Committee. The functions of the latter two may be performed by the CG Committee. Companies are recommended to have a company secretary to assist the board and nine of the ten largest listed companies disclose having one in place. The Principles require boards to meet frequently and its members to be diligent to attend the meetings. Audit committees should meet at least four times a year. They also require annual reports to include information on the board and committee activities. The majority of the surveyed companies disclose online the number of their board and audit committee meetings. <p>Weaknesses:</p> <ul style="list-style-type: none"> Except for the audit committee, the other committees required for listed companies, including those dealing with nomination and remuneration, may comprise non-executive and executive members (except for the CEO) and in practice these committees do have the presence of these members. This raises concerns as remuneration and nomination are issues that have a high potential for conflict of interests. Furthermore, these committees may include outsiders, which is not in line with best practices. Boards are recommended to undertake self- performance evaluation. Moreover, the nomination committee is responsible for regularly evaluating the structure and productivity of the board and submitting advices on possible adjustments. Disclosure on board evaluation is very limited though and only one of the surveyed companies discloses performing an evaluation of its board, without providing much detail on the results and follow-up actions.
<p>1.5. Responsibilities of the Board Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The New Turkish Commercial Code vests the board with non-delegable duties and assigns to the board key strategic functions, clarifying roles between the general assembly, the board and management. Liability of board members is provided by law and it seems that there is clear and consistent case law related to their liability for the integrity of the accounts. Conflicts of interests are regulated by law –board members cannot participate in discussions with respect to themselves or their related persons on matters that may lead to conflict between the company's and their interests, and such a member must further declare his conflict of interest. Board members are also prohibited from competing or making a transaction with the company, unless the general shareholders' meeting approves this. <p>Weaknesses:</p> <ul style="list-style-type: none"> Fiduciary duties are detailed in law; however, it seems that courts have not developed clear and robust standards and interpretation of director duties. Relevant court decisions regarding due care, good faith and honest belief for company affairs have reportedly been contradictory.

Key Areas and Rating	Strengths and Weaknesses
<p>2. Transparency and Disclosure Moderately Strong/Strong</p>	<p>The law and the Corporate Governance Principles require disclosure of a fair amount of non-financial information and companies seem to comply with this requirement, disclosing through their website, the central securities depository's Public Disclosure Platform or their annual reports information on their board composition, directors' qualifications and independence, board and committee activities, capital, number of shares, major shareholders, transactions by directors with company's shares, general shareholders' meeting's minutes, articles of associations and material events.</p> <p>Companies are required to disclose their annual report along with the auditor's opinion and all the surveyed companies appear to comply with this requirement and declare their auditor to be independent. Companies' websites are generally complete and updated.</p> <p>Listed companies are required to disclose whether they comply with the Principles, or to explain why they do not apply certain recommendations. Explanations are however rather weak and often limit themselves to rephrasing the Principles or the law.</p> <p>All the ten largest listed companies disclose their code of ethics.</p> <p>Breach of disclosure obligations is subject to sanctions.</p> <p>Disclosure on the provision of non-auditing services by external auditors (which is allowed in some cases) is limited.</p>
<p>2.1. Non-Financial Information Disclosure Moderately Strong/Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies are required to publish their Annual Reports as well as other material events. All ten largest listed companies disclose their Annual Reports on their website. Companies are required to have a corporate website which must provide information on shareholder meeting, minutes, annual reports, audit reports, pre-emptive rights, among other documents/information. The Principles require listed companies to provide a fair amount of non-financial information on their corporate website and on their Annual Reports. This should include information on strategic objectives, board's and committees' composition, activities, meetings and member attendance, independence of directors, lawsuits filed against the company, conflicts of interest, cross ownership subsidiaries, social rights and compliance with the Principles. Information disclosed on the website of the ten largest listed companies seems complete and easy to find. Websites and/or Annual Reports generally include information on general shareholders' meeting minutes, board composition, directors' qualifications, board and committee activities, capital, number of shares, forward-looking strategic statement, articles of association, significant shareholder variations, and transactions by directors and managers with the company's shares major shareholders (in five of the surveyed companies, there is also information on the main beneficial owner). All ten largest listed companies disclose their codes of ethics. <p>Weakness:</p> <ul style="list-style-type: none"> Disclosure on the audit committee's meetings and activities has room for improvement.
<p>2.2. Financial Information Disclosure Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Companies are required to publish their financial statements along with the auditor's opinion. All ten largest listed companies disclose their financial accounts in accordance with the IFRS.
<p>2.3. Reporting to the Market and to Shareholders Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> All listed companies are required to publish their annual (financial) reports as well as other material events using the Public Disclosure Platform, which is an electronic disclosure system managed by the Turkish stock exchange. All ten largest listed companies disclose their Annual Reports on their websites. Information disclosed on the website of the ten largest listed companies seems complete and easy to find. Companies are required to disclose the general shareholders' meeting minutes and companies comply with this requirement disclosing them on their own websites or on the Public Disclosure Platform. Listed companies are required to make timely disclosures of price sensitive events and of the start of insolvency or restructuring process. Breach of disclosure obligations is subject to sanctions.
<p>2.4. Disclosure on the External Audit Moderately Strong</p>	<p>Strength:</p> <ul style="list-style-type: none"> All ten largest listed companies disclose the auditors' names and opinions on their financial statements, and declare that their auditor is independent. <p>Weakness:</p> <ul style="list-style-type: none"> The provision of certain non-auditing services is restricted to tax consultancy and tax auditing and auditors are required to submit a separate invoice for those services, but there is no information on that.

Key Areas and Rating	Strengths and Weaknesses
<p>3. Internal Control Moderately Strong</p>	<p>Companies are required to establish an internal control function. Banks are also required to set up a compliance function and to establish a clear separation between the management and control functions. Companies and banks seem to comply with these requirements.</p> <p>Listed companies are required to set up an audit committee which should be made up only of independent directors. The audit committee is responsible for ensuring the external auditor's independence. All companies of our sample disclose having an audit committee in place and the committees of the majority of these companies are composed of independent board members. Disclosure on the audit committee's meetings and activities has room for improvement.</p> <p>Listed and large companies are required to appoint an independent external auditor to review the financial results being reported in their financial statements. All the surveyed companies disclose their financial reports along with the auditor's opinion and declare their external auditor to be independent. Both auditors and audit firms are required to rotate (every five and seven years, respectively), while the provision of certain non-auditing services is restricted to tax consultancy and tax auditing.</p> <p>Companies are recommended to adopt a code of ethics, and all the ten largest listed companies disclose having one.</p> <p>Related party transactions and conflicts of interest are regulated by law and regulation is considered to be in line with international good practices even if identification of related party transactions remains often challenging. Protection of whistle-blowers exists but is limited.</p>
<p>3.1. Quality of the Internal Control Framework Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • Companies are required to establish an internal audit department. For banks, the regulation requires a strict separation between the management and control functions with internal audit, internal control and risk management functions reporting to the board, via the audit committee. • The Corporate Governance Principles recommend boards to annually review the efficiency of their risk management and internal control systems. • Banks are required by law to establish a compliance function and according to our respondents, banks seem to comply with this requirement. • Listed companies are required to set up an audit committee composed exclusively of independent directors. This requirement does not seem to be fully implemented, however – in the large majority of cases – the majority of the members of the audit committee is declared to be independent. • The Principles recommend the adoption of a code of ethics, and all the ten surveyed companies disclose having one. <p>Weaknesses:</p> <ul style="list-style-type: none"> • There is no specific whistleblowing regulation in Turkey. Other laws afford general protections for employees who report wrongdoing, but they are limited.
<p>3.2. Quality of Internal and External Audit Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> • Companies are required to establish an internal audit department. For banks, the regulation requires a strict separation between the management and control functions. The Principles further recommend boards to annually review the efficiency of their risk management and internal control systems. • All ten largest listed companies disclose having an internal audit department in place. • Listed companies and companies that meet certain criteria in terms of sales revenue (€52 million), assets (€26 million) and/or number of employees (250) are required to have their financial information reviewed by an independent external auditor, appointed by the GSM. • The audit committee is responsible for running the 'independence test', for supervising the external auditor's work and for preparing his contract with the company. All the analysed companies declared their auditors to be independent. • The audit firms of the ten largest listed companies are all international firms. • Audit firms are subject to rotation obligations and all the companies of our sample have rotated their external auditor recently. • The provision of non-auditing services is restricted to tax consultancy and tax audit ; however, according to our respondents, it is not common. Audit and non-audit fees paid to external auditors are not disclosed within the Annual Report and financial statements. •

Key Areas and Rating	Strengths and Weaknesses
<p>3.3. Functioning and Independence of the Audit Committee Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Listed companies are required to set up an audit committee and the Principles require them to be composed exclusively of independent directors. All of the surveyed companies have formed an audit committee. In eight of these companies, it comprises a majority of independent directors. Audit committees are recommended to meet four times a year and to provide explanations in the Annual Report on their activities and meeting results. Six out of the ten largest listed companies disclose their audit committee number of meetings. <p>Weaknesses:</p> <ul style="list-style-type: none"> Disclosure on the committee's activities is limited.
<p>3.4. Control over Related Party Transactions and Conflict of Interest Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The corporate governance regulation defines related party transactions in detail, and the definition is consistent with the international best practices (particularly the IAS 24). Companies and subsidiaries must seek the board's approval before initiating a transaction with their related parties, worth over 5% of total assets, revenue amount, or the value of corporation. If the transaction value exceeds 10% of the book value of the company's assets, an approval from the independent directors and an appraisal are required. If these members reject the transaction, the explanations should be submitted for the general shareholders' meeting approval. Related parties cannot vote at the general shareholders' meeting. Conflicts of interests are regulated by law. A board member cannot participate in discussions with respect to themselves or their related persons on matters that may lead to conflict between the company's and his interests, and such a member must further declare his conflict of interest. Board members are prohibited from competing or making a transaction with the company, unless the general shareholders' meeting approves this. Disclosure of identified related party transactions in financial reports seems to be comprehensive. However, identification of all related party transactions seems to remain a challenge. <p>Weaknesses:</p> <ul style="list-style-type: none"> In the case of groups, it often appears the information provided on intra-group related party transactions is insufficient to assess whether some subsidiaries support less performing ones.

Key Areas and Rating	Strengths and Weaknesses
<p>4. Rights of Shareholders Fair</p>	<p>Basic shareholder rights seem to be adequately regulated by law. Shareholders representing 5% of the share capital of listed companies are entitled to call a general shareholders' meeting and to add items to the agenda. Shareholders are provided with timely notification, agenda and material for the general shareholders' meeting online. Furthermore, shareholders have general inspection and pre-emptive rights and in some cases supermajority is required to approve major corporate changes. However, the law allows multiple/disproportional voting rights and does not grant cumulative voting rights to the minority shareholders – this seems to depend on such rights being granted by the articles of association. The New Commercial Code made it explicit that shareholders can file a suit against board members and managers for breach of their duties and/or obligations. Shareholders have access to a fair amount of information made available on the companies' websites and the Public Disclosure Platform. Self-dealing is regulated and insider trading is prohibited and several insider trading cases have been investigated in the past five years. Shareholder agreements are common, but they lack specific regulation. Related party transactions and conflicts of interests are regulated by law. Share register of listed companies must be maintained by an independent registry institution. The free transferability of shares may be limited in certain cases.</p>
<p>4.1. General Shareholders' Meeting (GSM) Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Shareholders representing 10% of the share capital or 5% in the case of listed companies are entitled to convene a GSM and to add items to the GSM agenda. The Articles can provide a lower percentage. All ten largest listed companies published GSM notifications and in most cases, also the materials and information about voting rights and their exercise by shareholders on their websites and on the Public Disclosure Platform. Shareholders have the explicit right of asking questions (and being answered) at the GSM. Voting by proxy and electronically is provided by law. <p>Weaknesses:</p> <ul style="list-style-type: none"> Cumulative voting is not provided in the law and it seems that it needs to be provided in the articles of association. The law allows for multiple voting rights. The Principles, however, recommend that privileges should be avoided. It seems that information provided to investors voting by proxy is less comprehensive than the information provided during the general shareholder meeting.
<p>4.2. Protection against Insider Trading and Self-dealing Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> Insider trading is prohibited and may be punished with fines and imprisonment for up to 5 years. Several insider trading cases have been investigated in the past five years. Board and management members, and controlling shareholders must disclose information on transactions with the company's shares and the large majority of the companies of our sample provide such information on an official website.
<p>4.3. Minority Shareholders Protection and Shareholders' Access to Information Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> All ten largest listed companies disclose their Annual Reports on their websites. Shareholders have general inspection rights, as well as pre-emptive rights and no abuses of these rights have been reported to us. Besides, shareholders have the right to call a general shareholders' meeting and to add items to the agenda. Companies' websites and the Public Disclosure Platform provide complete and updated information, including a fair amount of non-financial information. Material transactions, such as M&A and capital increase, require the GSM approval (the blocking minority shareholding for major corporate changes is 33%+1). However, this rule is only applicable if less than 50% of the shares with voting rights are represented at the general shareholders' meeting. If the number of present shares is higher than 50%, these decisions can be reached by simple majority. Upon the New Commercial Code, shareholders are given the explicit right to file a lawsuit against directors to seek compensation for damages caused by breach of directors' duties or obligations. <p>Weaknesses:</p> <ul style="list-style-type: none"> Cumulative voting is not foreseen by law and it seems that it needs to be provided in the articles of association. The law allows for multiple/disproportional voting rights, such as golden shares, for instance. The Principles, however, recommend that privileges should be avoided.

Key Areas and Rating	Strengths and Weaknesses
4.4. Registration of Shareholdings <i>Moderately strong</i>	<p>Strengths:</p> <ul style="list-style-type: none">• <i>Share register of listed companies is maintained by an independent registry institution.</i>• <i>If a person's shareholding exceeds or falls below certain thresholds of the share capital or voting rights, he/she must promptly inform the capital market authority and the company, and this information must be publicly disclosed.</i> <p>Weaknesses:</p> <ul style="list-style-type: none">• <i>The Principles recommend that restrictions to the free transferability of shares should be avoided; however, the law allows the transferability of shares to be limited in certain cases.</i>• <i>Shareholder agreements are common in Turkey, but they lack specific regulation. Only the execution of a shareholder agreement must be disclosed, but not information on its content.</i>

Key Areas and Rating	Strengths and Weaknesses
<p>5. Stakeholders and Institutions Fair/Moderately strong</p>	<p>The institutional framework supporting good corporate governance in Turkey is relatively advanced.</p> <p>The Istanbul Stock Exchange (ISE) is the main local stock exchange in Turkey. There are three main listing tiers at the ISE, but the listing requirements among these three do not require stricter corporate governance standards. Yet, the ISE has established an additional Watch List Tier for companies subject to stricter monitoring and examination and for companies that fail to comply with financial and corporate governance regulations. The ISE has also launched a Corporate Governance Index and it rates compliance with the Principles.</p> <p>The Capital Markets Board of Turkey (CMB) is the state regulator responsible for supervising the capital market and the activities of publicly traded joint stock companies. The CMB seems to be actively promoting the Corporate Governance Principles and monitoring the securities market. Whilst some of the Principles are mandatory, others can be implemented under a 'comply or explain' basis.</p> <p>All ten largest listed companies in Turkey provide a corporate governance compliance report in their annual reports. The CMB can take disciplinary actions in case of breach of the Principles, and has issued sanctions in the past.</p> <p>International audit, rating agencies and law firms have a material presence in the country.</p> <p>No significant inconsistencies were found in laws and regulations.</p> <p>Indicators provided by international organisations rank Turkey moderately well with regard to corruption, competitiveness, and investor protection perceptions.</p>
<p>5.1. Corporate Governance Structure and Institutions Moderately Strong</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The Istanbul Stock Exchange (ISE) is the main local stock exchange in Turkey. Its market capitalisation is around 22% of the GDP¹ and the volume of trades is relatively high. There are three main listing tiers at the ISE; however, the listing requirements among these segments do not require stricter corporate governance standards. Yet, the ISE has established an additional Watch List Tier for companies subject to stricter monitoring and examination, which is composed of companies that fail to comply with financial and corporate governance regulations. The ISE launched a Corporate Governance Index in 2007 aiming at measuring the price and return performance of listed companies with a higher corporate governance rating which is based on their compliance with the Principles. Some of the ten largest listed companies state that they are proud of their rating. The ISE's website discloses company information on its Public Disclosure Platform, an electronic disclosure system. The ISE works closely with the Capital Markets Board of Turkey (CMB) which is the state regulator responsible for supervising the stock market and the activities of JSCs. The CMB can take disciplinary actions such as giving warnings to companies and imposing administrative fines. For the most severe types of breaches and in case of inability of the company to operate, the CMB can place the company on the 'Watch List' listing Tier, or delisting it altogether. International rating agencies are active in the country; all ten largest listed companies got ratings from several agencies. International audit and law firms also have a material presence in the country. Rulings of regulatory agencies are documented, publicly available and easily accessible. <p>Weaknesses:</p> <ul style="list-style-type: none"> There seems to be few institutions providing training courses for company directors.
<p>5.2. Corporate Governance Code Fair</p>	<p>Strengths:</p> <ul style="list-style-type: none"> The Turkish Corporate Governance Principles were first developed in 2003, and were last revised in 2014. Some of the Principles, which include those related to independent directors, committees and split of the board chair and CEO roles, are mandatory for listed companies. Others recommendations are to be implemented under a 'comply or explain' basis and annual reports must inform the extent to which CG Principles are implemented. All ten largest listed companies in Turkey included long corporate governance reports in their annual reports. Overall, the reports provide meaningful explanations, but sometimes information is limited to articles extracted from the by-laws without further explanation. The CMB has the authority to issue sanctions for breaches of the Principles, and has issued a number of sanctions in the past. <p>Weaknesses:</p> <ul style="list-style-type: none"> No monitoring report has been issued so far to report how companies comply with the Principles. However, the CMB is currently working on this and the first monitoring report is expected soon.

¹ The capitalization has increased significantly since the cut-off date of the report and was around 28% of the GDP in June 2016.

Key Areas and Rating	Strengths and Weaknesses
5.3. Institutional Environment Fair	<p>Strengths:</p> <ul style="list-style-type: none">• The CMB seems to be actively monitoring the securities market and the implementation of the Principles, notably the mandatory provisions. The CMB publishes a weekly bulletin, which has information on enforcement proceedings and sanctions. No significant inconsistencies were found in laws and regulations.• Indicators provided by international organisations rank Turkey moderately well with regard to corruption competitiveness, and investor protection perceptions. <p>Weaknesses:</p> <ul style="list-style-type: none">• In the 2015 EBRD Assessment on Accessibility of Court Decisions, ease of access by both the parties and the public was rated with an overall score of 1/10. Among the major issues identified in the assessment was the inadequate legal framework.