

THE RELATIONSHIP BETWEEN ECONOMIC EXPANSIONS AND REGULATIONS IN THE AREA OF ACCOUNTING IN TURKEY (1990-2012)¹

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Abstract

The growth process income with per capital income of a developing country and by the way structural development of the national economy can be described as “economic expansion”. The aim of the economic expansion is to raise the general level of living of a society. Numerous regulations shaping the market are needed as a result of the emerged economic expansions in a country. From 1980s, when market economy is adopted in principle, considerable expansions occurred in Turkish economy.

The phenomenon called globalization, especially have gathered of speed from 2000s, and the expansions occurred in the economic area brought forth foreigners to come to Turkey as not only direct investors both also portfolio investors and also caused Turkish companies become global.

In the study, briefly, the macro economic expansions from 1990s to present day will be presented with numerical dimensions and the association between the establishments which make regulations in accounting area will be explicated.

Key Words: Economic expansions, economic regulations, accounting.

1. Introduction

The effect of economic expansions on the regulations of accounting area has been receiving attention from academicians and other related bodies in recent years. It is intended in this paper to reveal the economic expansions occurred in Turkey, by considering its relations with the regulations in the area of accounting, in a large time scale, with the support of numerical data.

The phenomenon called globalization, especially have gathered of speed from 2000s, and the expansions occurred in the economic area brought forth foreigners to come to Turkey as not only direct investors both also portfolio investors and also caused Turkish companies become global. By reason of these expansions, the principle of public disclosure gained more importance. Accordingly, the need of setting the financial statements, which are important tools in public disclosure, in accordance with International Financial Reporting Standards and auditing in respect of International Auditing Standards appeared.

In parallel with this need, a certain number of establishments arised with the aim of directing the market, and besides make regulations in the area of accounting. Capital Markets Board of Turkey was established to regulate the capital market. Banking Regulation and Supervision Agency (BRSA) was constituted to regulate the banking sector. Turkish Accounting Standards Board was established in 1999, was activated in 2002 and this board continued its activities by 2011. Recently, Public Oversight, Accounting and Auditing Standards Authority is formed in Turkey. Also, the Turkish Commercial Code was issued and came into effect in July 2012. All these regulations arised in parallel with the economic expansions. The point at issue establishments

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and legal arrangements performed a number of regulations in accounting area as for meet the public's fair and reliable information requirements.

The aim of the study is to identify the association between the economic expansions and legal regulations in accounting area in Turkey. Within the study, 1990-2012 period will be investigated. The reason for handling the mentioned period is that, the most consequential establishments and legal regulations shaping accounting area have become on the agenda in this period. Moreover, it can be evaluated as an important factor that Turkish economy have made headway within 1990-2012 period. The study is organized as a theoretical study. Provided that it consists of a comparison with the assistance of economic data. In the findings part, the globalization and modernization dimensions of Turkish economy will be denoted with economical data and, both the expansion within years and the proportion of Turkey in view of the world will be represented comparatively. It will be designated by numbers and considering periods that, the developments in accounting area in Turkey are very results of economic expansions.

The remainder of the paper is organized as follows. In the first section, the establishment of Capital Markets Board of Turkey and the effects of the mentioned Board will be investigated in detail. Subsequently, formation of Turkish Accounting Standards Board and regulations brought by this Board (Convergence with IFRS, in this context the developments occurred in Istanbul Stock Exchange, the number of companies, transaction volume, free floats, foreign capital, the foreign capital inside İstanbul Stock Exchange, privatization, developments in the initial public offering) will be handled. In the following section, Public Oversight, Accounting and Auditing Standards Authority which is established in 2011, and finally New Turkish Commercial Code will be explained within the study.

2. Capital Markets Board of Turkey

Capital market is a market which provide the transfer of the medium and long term loanable funds by trading the securities from savers to investors. In this market, the transfer of funds from savers to investors is provided by establishments such as financial intermediaries, banks, investment partnership and investment funds. The effective and reliable operation of the capital market is elicited by the legal regulations.

In Turkey, oriented to the formation of the capital markets, the Capital Markets Law is issued in July 30, 1981. The issuing aim of the mentioned Law is providing the effective and expansive participation of the society to economic development by transferring the savings to securities; regulating and supervising reliable, apparent and decisive operations of capital markets, and protecting the benefits and advantages of savers (Preamble of Law). The Capital Markets Board is established by this Law.

Public offering of securities and trading of them in this way is subjected to the permission of the Capital Markets Board. The operations of incorporated companies which issue the securities, and subsidiary companies which operate in capital market are included in the scope of duties of Capital Markets Board of Turkey.

In our country, important steps were taken about the change over process to free market economy during 1980s. One of these steps is reuniting of the capital markets to a legal regulation. Capital market is directly related to the economic development level. As a matter of fact, it can also be seen from the data below that, in the process of economic development of our country, the capital market is grown up gradually, by not being subject to any special regulation, beside the traditional financing system, banking.

In 1980's, although the stock activities were almost stopped, a big bounce was seen especially in bond market. Bonds issued by private sector reached 618 million Turkish Liras (TL) in 1974, 1.149 million TL in 1976, 1.708 million TL in 1978, 1.582 million TL in 1977 and by registering an increase of 2.199 million TL in 1978, 4.516 million TL in 1979 and 13.473 million TL in September, 1980. This increase in bond issuing, and the independent activities without the regulations of capital markets of individuals and establishments called bankers compelled ensuring the savers (Preamble of Law). The Capital Markets Law was published with this legal ground and the Capital Markets Board was established. The functions of the Board can be classified as follow;

1. Regulating the action rules of Capital Markets,
2. Regulating and supervising the Capital Markets and establishments covered by the Law,
3. Conserving the rights and benefits of the savers who make an investment in Capital Markets.
4. Eliciting the operations of the markets to be fair and effective.

The Board is a public corporation that have a financial and executive authority and exercises its authority independently under its own liability. The Capital Markets Board, in accordance with the Public Disclosure Principle, made an arrangement oriented to financial statements of companies. First arrangement is the aviso, published in 1983, that includes the figures and bases corresponding the financial statements and reports which will be published and will be given to the Board of the incorporated companies that are dependent on Capital Markets Board. This arrangement of the Board is the first arrangement in Turkey oriented to the financial statements of private sector companies. The Capital Markets Board, by making a new arrangement in 1989, abolished the financial statement format published in 1983 and published new financial statement formats that meet the needs of the day, close to the balance sheet and income statement format applied in State-Owned Enterprises.

The market capitalization and numbers of stock-exchange listed companies between the years 1986-1995 are shown in the table below.

Table 1: Market Capitalization and Numbers of Companies listed in Stock-Exchange (Million \$)

	Market Value					Number of Company	
	1986	1990	1993	1994	1995	1986	1995
Turkey	935	19065	37496	20772	21605	40	205

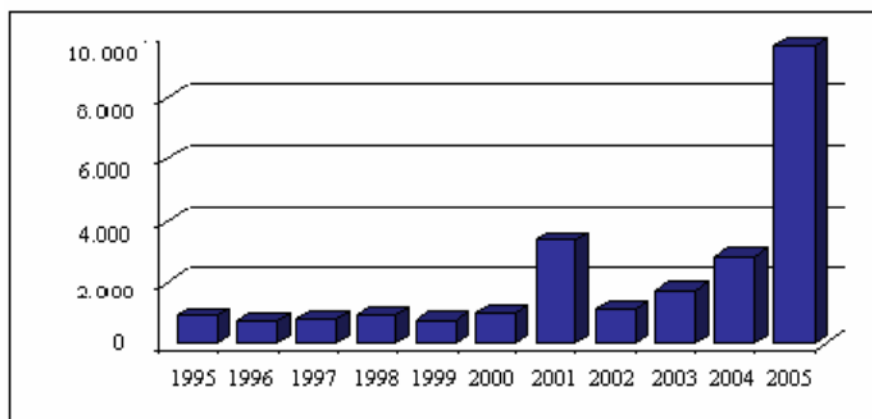
Source: Özgen, F. B. (1998). Globalleşme Sürecinde Gelişmekte Olan Ülkelerde Finans Piyasaları. <http://web.adu.edu.tr/user/fozgen/yayin/Finans%20piyasalari.pdf>

As it can be seen from the Table, an increase of 23 times in market capitalization is connoted between the years 1986-1995. And, the number of companies listed in stock-exchange is increased approximately 5 times.

When 2000s appeared, because of the increased share of foreign capital in capital markets, and opening of the Turkish firms abroad, arised the need for consistency of financial statements with International Financial Reporting Standards.

IFRS, which are adopted and administered by lots of country around the world, are also adopted by the Capital Markets Board of Turkey and as of 01.01.2005, companies listed in stock-exchange are subjected to prepare financial statements consistent with IFRS. Although there is no formal format suggested by IFRS, with the aim of providing users convenience, a new financial statement format consistent with IFRS is published.

The aviso numbered 25 published in 2004 was abolished because of not including the changes occurred in IFRS and because of being outdated. In lieu of this aviso, Series XI, numbered 29 and dated 09.04.2008 was issued in Official Gazette numbered 26842. With this aviso, some revisions are fulfilled in the financial statement format published earlier, and concerning with the preparation of the financial statements consistent with IFRS, the Capital Markets Board abdicated from publishing IFRS and started to quote reference to Turkish Accounting Standards Board.

Graphic 1: International Direct Investments in Turkey in the 1995-2005 Period (Million \$)

Source: Soydal, H. (2006). Türkiye’de Doğrudan Yabancı Sermaye Yatırımlarının Verimlilik Analizi: Otomotiv Sektörü Üzerine Bir Uygulama, p: 580

http://www.sosyalbil.selcuk.edu.tr/sos_mak/articles/2006/16/HSOYDAL.PDF

As it can be monitored from the graphic above, the foreign investments showed a significant increase in 2001, and increased to 9 billion dolar level with a considerable bounce in 2005. There is an expressive relationship between the increase in foreign investment with the effect of globalization, and the in principle adoption date of IFRS by Capital Markets Board (2005).

3. Turkish Accounting Standards Board

In conjunction with opening of the Turkish economy forth, the need for publishing the financial statements consistent with IFRS is arised for both investors who want to allure foreign capital to our country, and who want opening abroad. Turkish Accounting Standards Board (TASB) was established with the aim of meeting this demand.

TASB was established in 1999 and started its activities in 2002. The Board published Turkish Financial Reporting Standards consistent with IFRS, up to 2011, the date of completion of the Board’s activities. The Board is a public corporation with administrative and financial independency, is associated with the Ministry of Finance.

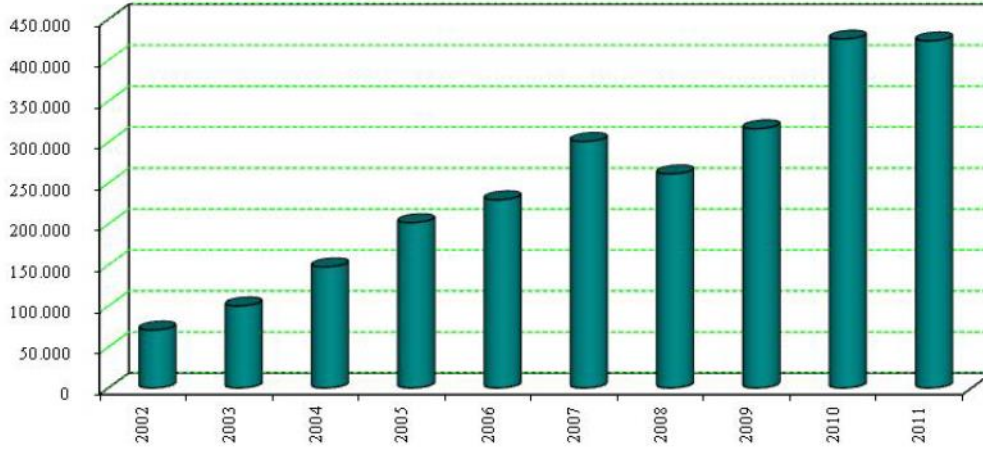
The aim of TASB is composing Turkish Accounting Standards that ensure true, reliable, comparable, convenient for the need, understandable and consistent financial information production. The Board exactly adopted IFRS, in principle, and in this extent, by signing an license aggrement with International Accounting Standards Committee Foundation (IASCF), started to publish one-to-one translation of IFRS in Official Gazete dating from 2006. Furthermore, the Board updated the changes occured in IFRS at the earliest. TASB, until the end of 2011, the abolishment year, published Conceptual Framework, 12 Turkish Financial Reporting Standard, 38 accounting standard and 26 interpretation. The standards published by TASB are being used by companies, banks and insurance companies whose shares are listed on stock-exchange.

As per 2000s, the development stages of foreign capital investments in Turkish economy can be seen from the figure. The expansion up to 2005 is shown in Graphic 1. After 2005, the direct foriegn investment amounts to our country are; 10 billion \$ in 2005, 20 billion \$ in 2006, 22 billion \$ in 2007, 18.5 billion \$ in 2008, 19.1 billion \$ in 2009 and 21 billion \$ in 2010.

The increase, especially in 2000s, in the foreign capital who invest in Turkey (not only direct investors, but also portfolio investors), raised a need of financial statement compatible with IFRS for this segment. In parallel with this necessity, significant regulations are done by both Capital Markets Board, and TASB. The upswing of the capital markets can be seen clearly from the following graphics.

The trading volume of ISE markets can be followed from the graphic below.

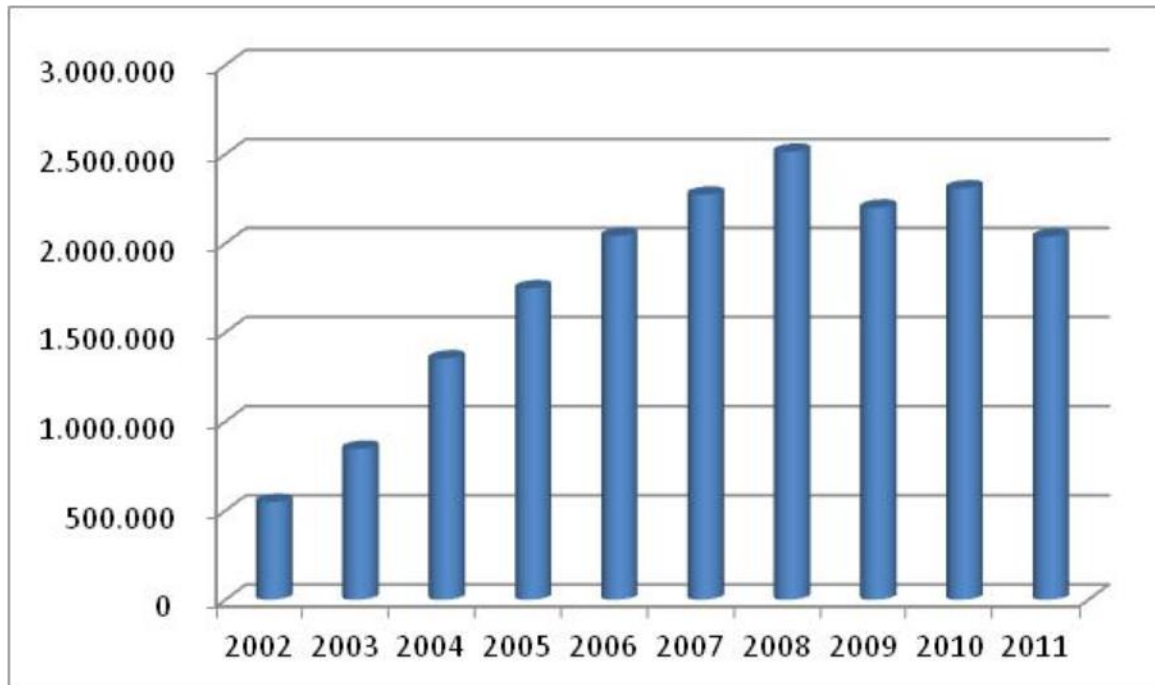
Graphic 2: ISE Stock Market Trading Volume (Million \$)



Source: (www.imkb.gov.tr)

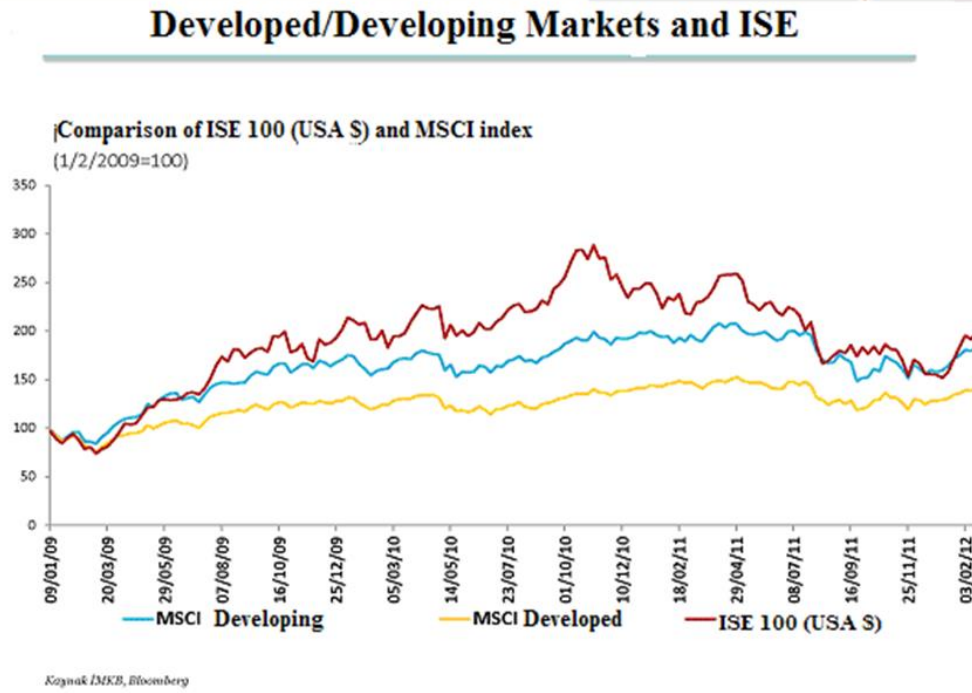
As it can be seen from Graphic 2, the trading volume of stock market in Turkey has expanded nearly eight times beginning from 2002. At the same time, in this period, foreign ownership increased up to 67%’s. Foreign investments can be received as a indicator of trust to the financial statements of Turkish companies.

Graphic 3: Bond and Notes Markets Trading Volume (Thousand \$)



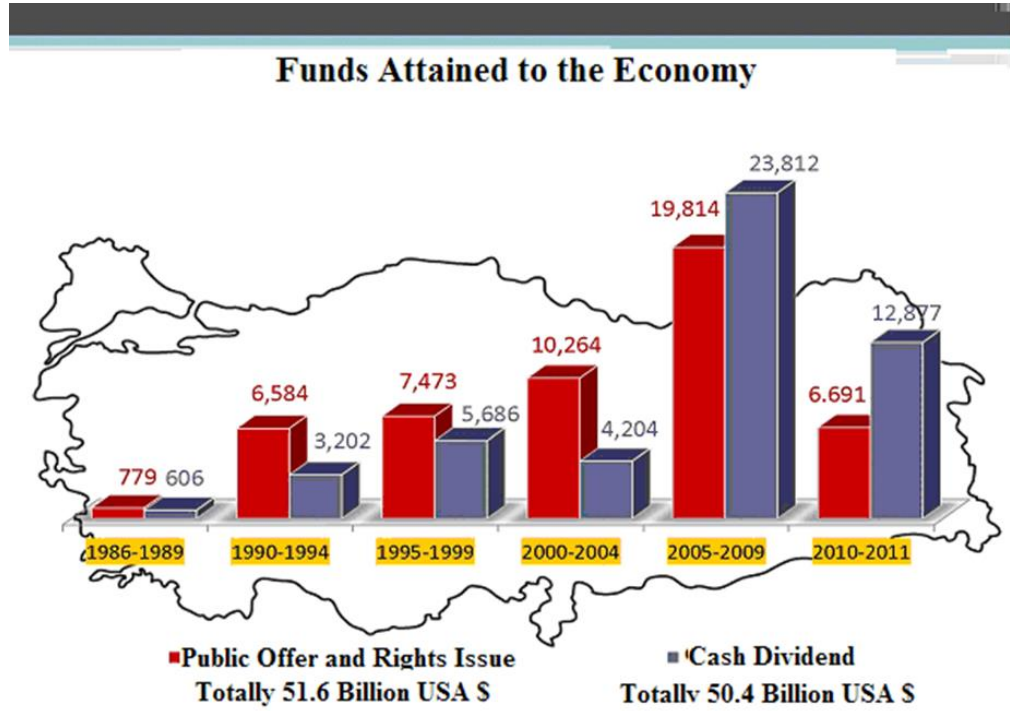
Source: (www.imkb.gov.tr)

Significant increases are registered in investment of capital market tools such as bond and notes in accordance with Graphic 3.

Graphic 4: Developed/Developing Markets and ISE

Source: (www.imkb.gov.tr)

It can be monitored from Graphic 4 that; ISE behaved identically, from time to time decomposed positively with developed and developing economy stock exchanges.

Graphic 5: Funds Attained to the Economy

When Graphic 5 is investigated, it can be seen that, the period which public offerings and cash dividends reached peak value is the period of coming into effect of IFRS.

Table 2: Development of ISE Market Value

Period	GDP (Million TL)	ISE Total MV (Million TL)	MV/GDP (%)
2003	454,781	96,073	21.13
2004	559,033	132,556	23.71
2005	648,932	218,318	33.64
2006	758,391	230,038	30.33
2007	843,178	335,948	39.84
2008	950,534	182,025	19.15
2009	952,559	350,761	36.82
2010	1,103,750	472,553	42.81

Source: (www.imkb.gov.tr)

According to Table 2, it is clear that the share of market value of the companies inside the GDP is increased two times from 2003 to 2010. This indicator designates that, the growth of publicly held company, in other words, companies which execute IFRS is larger.

4. Public Oversight, Accounting and Auditing Standards Authority

In 2011, two significant strides occurred in accounting area in Turkey. The first of these strides is, abolishment of Turkish Accounting Standards Board and establishment of Public Oversight, Accounting and Auditing Standards Authority in place of TASB. The aim of the new established Board is,

- Composing and publishing Turkish Accounting Standards consistent with IFRS,
- Determining the application uniqueness, the needed trust and quality in auditing and designating auditing standards,
- Authorizing the independent auditors and independent auditing establishments and controlling their activities,
- Public oversighting in independent auditing area.

The Board constitutes a Supreme Board qualification, and is independent in its activities. The Board started activities on the basis of reviewing and reissuing in near future, the previously published standards by TASB. One another important function of the Board is, publishing auditing standards compatible with International Auditing Standards and obtaining the independent auditing activities are performed convenient with these standards. Additionally, it is a great step in our country in increasing the effectiveness and quality of auditing that, auditing companies are subjected to the oversight of the Board. Thus, it is ensured in Turkey that, financial statements not only will be prepared qualified and consistent with international standards but also will be subjected to an independent auditing process consistent with the international standards.

5. New Turkish Commercial Law

Turkey is obliged to be prepared to European Union one hand, on the other hand must be a part of international trading, industry, service, finance and capital markets. The leading circumstance of assuring this is manifesting their claim of Turkish companies by financial statements that are prepared consistent with IFRS and audited according to the International Auditing Standards (General Preamble of Turkish Commercial Code).

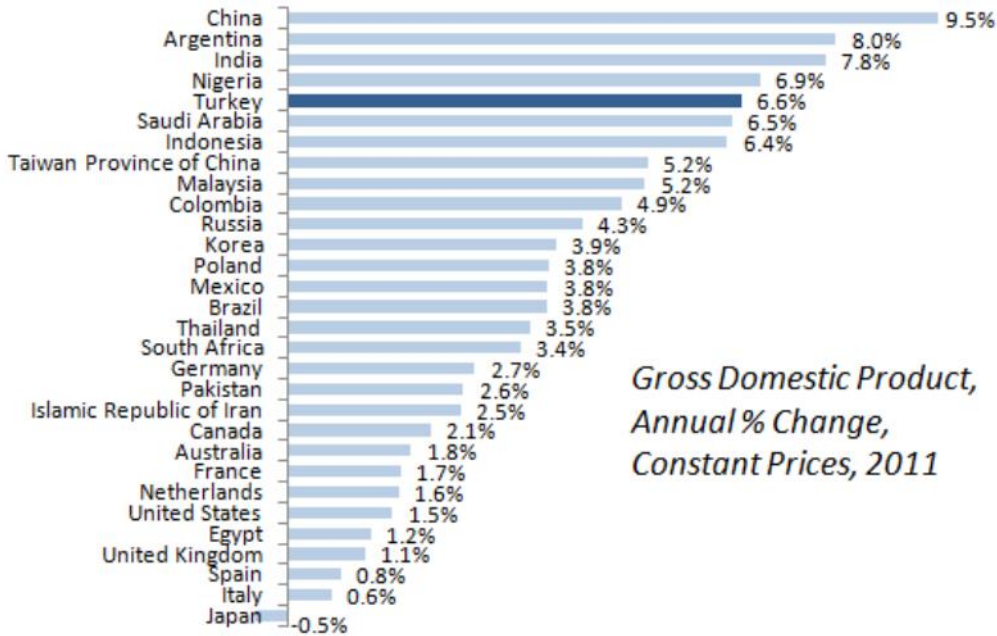
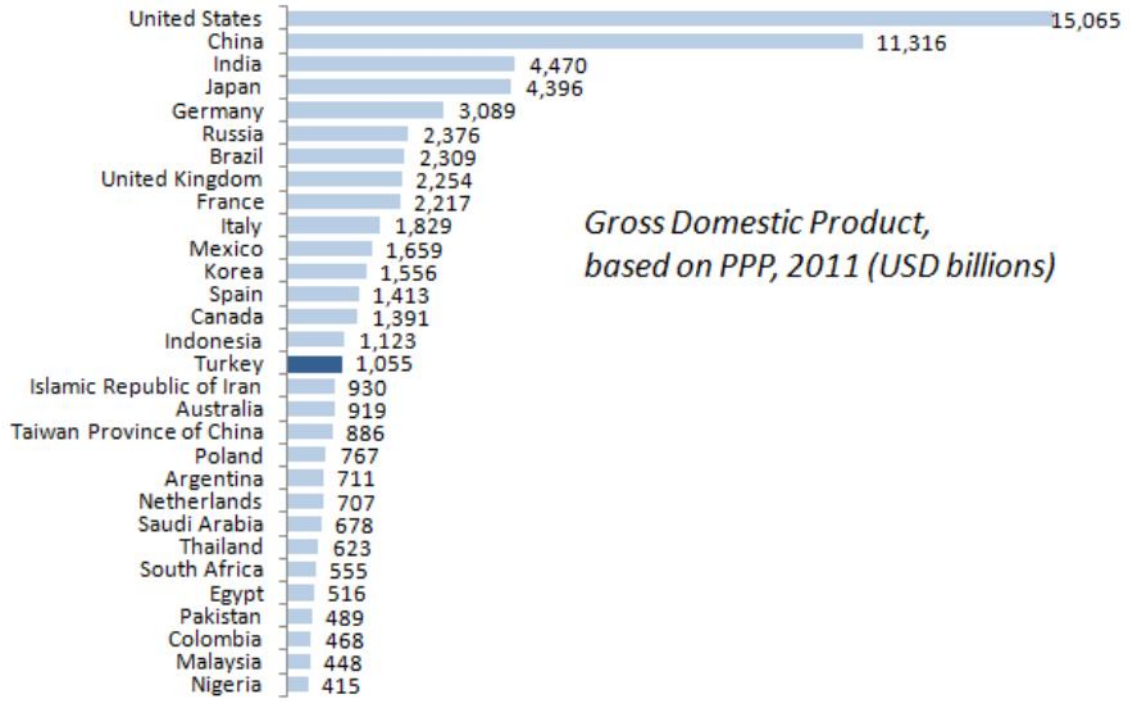
In the preamble of New Turkish Commercial Code, the aim of independent auditing is stated as, presenting the auditing results to interested bodies, foremost stakeholders, in the concept of corporate governance and honest picture, prepared with a clear, understandable manner and reported according to the public disclosure principles.

With respect to the article 397 of New Turkish Commercial Code⁵, the financial statements of an incorporated company and companies group were audited by an auditor, according to the Turkish Auditing Standards consistent with International Auditing Standards.

As per the mentioned article of the Law, including

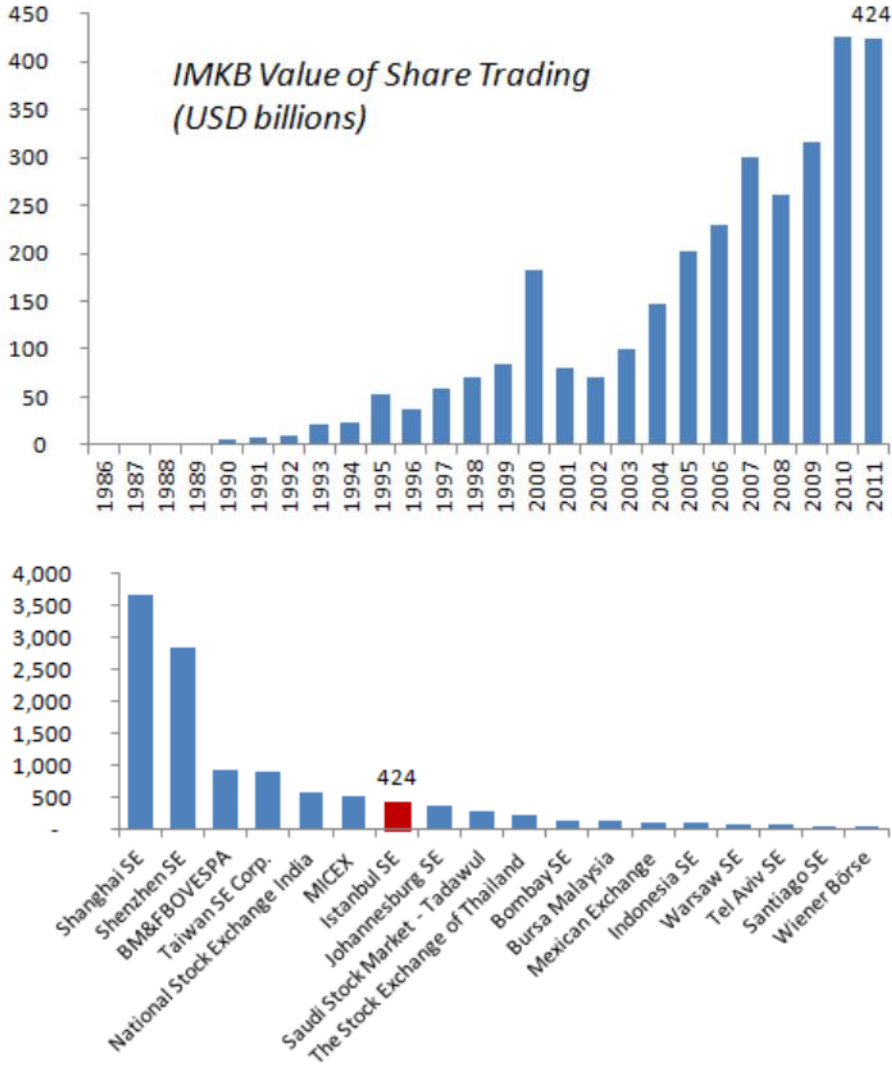
- Big, small and medium sized,
 - Public or private company,
 - Publicly-traded company or not,
 - Publicly held or nonadmission of the public company,
- all incorporated businesses are subjected to auditing.

⁵ The mentioned article was altered, current version says that size of the firms is given to the authority of Cabinet.

Graphic 6: Overview of the Turkish Economy

Source: (www.imkb.gov.tr)

From the perspective of Gross Domestic Product, considering 2011, Turkey is 16th economy of the world. The continuing table shows that, Turkey is in the 5th line from the perspective of growth rate concatenation. Moreover, in 2011, Turkey took place in growth rate concatenation by being the 2nd, following China.

Graphic 7: Role of Capital Markets in Turkey

Source: (www.imkb.gov.tr)

Especially after 2003, significant increases can be monitored in market values of the companies listed in ISE. This indicator runs parallel with Graphic 5. The graphic following Graphic 7 denotes that, from the perspective of market indicators of ISE, Turkey takes the 7th place in the concatenation of stock exchanges of developing countries.

Table 3: Economic Indicators

ECONOMIC INDICATORS (1980 - 2012)							
	PER CAPITA INCOME (GDP)	PER CAPITA INCOME (GDP)	GDP *	IMPORT	EXPORT	EXPORT/ IMPORT	EXPORT- IMPORT
	TL	(\$)	(Thousand TL)	Million \$	Million \$	(%)	Million \$
1980			7.031	7.909	2.910	36,8	-4.999
1981			10.621	8.933	4.703	52,6	-4.230
1982			14.104	8.843	5.746	65,0	-3.097
1983			18.693	9.235	5.728	62,0	-3.507
1984			29.570	10.757	7.134	66,3	-3.623
1985			47.177	11.344	7.959	70,2	-3.385
1986			68.663	11.105	7.457	67,1	-3.648
1987			100.445	14.158	10.190	72,0	-3.968
1988			173.709	14.335	11.662	81,4	-2.673
1989			305.579	15.792	11.625	73,6	-4.167
1990			528.369	22.302	12.959	58,1	-9.343
1991			847.032	21.047	13.593	64,6	-7.454
1992			1.469.755	22.871	14.715	64,3	-8.156
1993			2.664.116	29.428	15.345	52,1	-14.083
1994			5.200.119	23.270	18.106	77,8	-5.164
1995			10.434.647	35.709	21.636	60,6	-14.073
1996			19.857.343	43.627	23.225	53,2	-20.402
1997			38.762.506	48.559	26.261	54,1	-22.298
1998	1.124	4.338	70.203.147	45.922	26.973	58,7	-18.949
1999	1.651	3.907	104.595.916	40.671	26.587	65,4	-14.084

2000	2.594	4.130	166.658.021	54.503	27.775	51,0	-26.728
2001	3.688	3.021	240.224.083	41.399	31.334	75,7	-10.065
2002	5.310	3.492	350.476.089	51.554	36.059	69,9	-15.495
2003	6.801	4.559	454.780.659	69.340	47.253	68,1	-22.087
2004	8.253	5.764	559.033.026	97.540	63.167	64,8	-34.373
2005	9.462	7.022	648.931.712	116.774	73.476	62,9	-43.298
2006	10.925	7.586	758.390.785	139.576	85.535	61,3	-54.041
2007	12.002	9.240	843.178.421	170.063	107.272	63,1	-62.791
2008	13.373	10.438	950.534.251	201.964	132.028	65,4	-69.936
2009	13.250	8.559	952.558.579	140.929	102.143	72,5	-38.786
2010	15.115	10.067	1.103.749.801	185.544	113.883	61,4	-71.661
2011		10.063	1.281.453.519	240.833	134.954	56,0	-105.879
2012 P.		10.973	1.426.001.476	248.700	148.500	59,7	-100.200
* Data pertaining after 1998 are based on 98.							

Source: www.dpt.gov.tr

As it can be came out from the tables and graphics below, Turkish economy become the 16th biggest economy of the world. The important increase in the Gross Domestic Product (GDP) (Graphic 6), resulted in trending of the savings to capital market tools. This mentioned circumstances brought about the expanding importance of financial statements that are prepared compatible with IFRS and audited according to International Auditing Standards. On these grounds, the new Turkish Commercial Code is issued, and foundation of corporate governance oriented considerable regulations are committed by the mentioned Law. In the direction of foundation of corporate governance principles, the most important regulation took place in the Law are the articles corresponding the preparation of financial statements compatible with IFRS, and auditing of them according to the International Auditing Standards.

6. Conclusion

In this study, it is endeavoured to betray the relationship between economic expansions and constitutional regulations in Turkey with numerical data. As it can be monitored from the tables and graphics that are given within the text, in parallel with the economic expansions, the establishments directing the accounting area are founded by State and regulations so as to presenting reliable and fair information by financial statements, are making by these establishments.

The regulations directing accounting area in Turkey are done by the mediation of public establishments. With the come out of bankers and immediately after the blow up of a banker crisis in 1980s, resulted in come to

order of regulations directing capital markets, and in 1981, Capital Markets Board is established. The Board actualized many regulations as part of public disclosure, oriented to preparation of financial statements. The companies are stil reporting in accordance with IFRS and auditing independently.

Consequential economic pick-ups are experienced in Turkey beginning from the early 2000s. In parallel with this developments, preparation of financial statements compatible with IFRS become more important. TASB, from 2002 to its abolishment date, 2011, translated IFRS into Turkish, and continued to publish them as TFRS. In lieu of TASB, Public Oversight, Accounting and Auditing Standards Authority was established in 2011. This Board is continuing to issue the Standards published by TASB after revising them now.

Also, by New Turkish Commercial Code, many significant regulations are done by taking into consideration the effects of globalization. This study includes numerical data within the period of 1990-2012. This can be seen as a constraint of this study, it is recommended to future researches that, the data after 2012 up to now can be taken into consideration.

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