Corporate Governance Challenges in Turkey

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Corporate governance has long been viewed as essential for healthy capital markets. Indeed, following the financial crises in Asia and Russia in the late 1990s, weak corporate governance was diagnosed as contributing to these financial crises and since then, corporate governance has emerged as an explicit and stand-alone risk factor for investors. This development triggered government initiated corporate governance reforms - representing efforts to mitigate governance risks and to provide an enabling environment for both investors and issuers to contribute, and benefit from deeper, more efficient capital markets.

Throughout the1980s and 1990s, the Turkish Corporate Governance regime was characterised by opacity and was prone to corrupt practices. Shortcomings in the legal and regulatory framework together with weak enforcement, contributed substantially to the high macro risks associated with investing in the Turkish equity markets. Improvements to the legal and institutional framework for corporate governance in parallel with structural reforms, as documented and presented at this conference, were supported by the Capital Markets Board's issuance of Corporate Governance Guidelines in 2003. These were recommended for adoption by listed companies on a "comply or explain" basis. The Guidelines borrow from OECD guidelines, as did other numerous codes issued over the past 15 years around the world. IIF's 2005 report on Turkish CG compares the mandatory provisions of laws and CMB Communiqués with international standards (as materialised in the IIF Code) to conclude that they address approximately two-thirds of key CG areas. IIF reports that mandatory provisions combined with the voluntary CG Principles address all.

After observing that the recognition of CG guidelines by listed companies remained as low as 31% in 2003, the CMB mandated that all listed companies include a CG compliance report in their annual reports from 2004 onwards. Almost all companies issued a compliance report but the contents of these reports were far from being explanatory. In our assessment, only 8 companies' reports provide an understandable picture of their level and nature of compliance. Mean actual compliance is between 40-50% for ISE-30. Although "nominal compliance"- compliance in form, does not necessarily lead to "compliance in substance" and better performance - this exercise raised awareness of the topic at board level. This development is therefore not to be underestimated but should be analysed in context.

In the remaining time of my talk, I will first briefly explain the pre-reform environment as it shaped the governance systems and management practices of companies in Turkey and then present my view of how today's governance issues are related to the pre-reform period's legacy. I will then offer my assessment of

governance challenges faced by the market players. I will particularly focus on the issues that arise from single shareholder control and holding structures, and how these relate to the role of equity finance. I hope this assessment will offer some insight to investors.

The legacy of pre-reform period

During the pre-reform period between the1980s and 2001, the Turkish economy was characterised by an absence of a rule-based policy framework and deterioration in the quality of public governance. Lack of moral credibility of the rule makers further weakened their enforcement capabilities. As a result, the unregistered economy continued to grow and became almost as big as the formal economy. While protectionist policies meant that domestic companies faced little competition and enjoyed government contracts, political uncertainty constrained private sector investments. Chronic high inflation and high interest rates applied to public borrowing diverted business managers' attention from their core activities to extraordinary incomes and rents. This environment created a culture of risk averseness and shaped the nature of managerial practices - which were typified by highly informal systems and a distrust of formal mechanisms. Concentrated ownership continued to be the dominant form of corporate governance.

The governance of Turkish companies is still characterised by highly concentrated ownership and insider-dominated boards. These insiders are often controlling shareholders or are related to them. Businesses are organised as subsidiaries of a holding company whose portfolio includes both financial and industrial companies, both listed and unlisted. In recent years market capitalisation has fluctuated at around 20-25% of GDP and free float was around 20-25% and only 20% of the largest 500 companies are currently listed on the ISE. From 1986 when the ISE started trading, the market was characterised by opportunistic IPOs and a high occurrence of market abuses (especially market manipulation and insider trading). Related lending and transfer pricing were common practices and were unregulated. Government bonds and treasury bills absorbed most of the available private capital; companies lacked strategic direction, focused on day to day operations and delayed investments that were necessary to achieve competitiveness if the market were freer. Against this background boards continued to be highly ineffective.

This grimy picture started to change from 2001 as the macroeconomic outlook improved. Firstly, the legal and regulatory framework was strengthened considerably - a process that still continues thanks to anchors such as IMF and EU. Secondly, enforcement has improved, together with accounting, reporting and audit standards. Thirdly, increased interest from foreign portfolio investors and direct investors in Turkish companies has forced companies to put their house in order - a process which has proved to be much more difficult and protracted than changing the rules.

The changing environment has required that companies refocus on their core business and competitiveness through productivity improvements and innovation, increase their share of equity finance to reduce their cost of capital, set a strategic direction for their business, and move from a culture of risk aversion towards growth and risk management - not to mention the need to become more transparent. All these changes require different leadership skills and management capabilities than those prevalent

during the pre-reform period. Managing this change will require that owner-managers let go their executive roles and delegate their executive powers to new professional managers.

Current Practice

In Turkey 5 powerful families control 80% of the public companies with an average voting block of 68%. According to CMB's survey in 2004, 42% of the companies have privileged shares with board nomination rights. 77% of companies did not have a disclosure policy. 52% of companies did not have an internal audit and risk control systems. Only 26% of the companies reported having independent board members. Most worrying is that only 4% of the companies remunerated their management based on some form of performance criteria.

In a typical Turkish company, family members dominate the board; there would be a salaried manager with the title of either CEO or General Manager. In Holding companies they may have the title of "Coordinator"; however this role is quite different than is implied by the title. In most cases the board delegates all executive powers to a designated (family) board member called "Murahhas Aza". This duly empowered member is authorised with executive powers and creates another layer of agency problem in the governance structure. This structure is not compatible with creating the necessary tension between entrepreneurship and control, neither is it compatible with the principle of "separation of powers". The "Murahhas Aza" institution effectively dis-empowers the board and reduces its role to rubber stamping. Executives (salaried managers), whether they have the title of CEO or General Manager, are not expected to be visionaries or talented strategists; they are typically implementers and their loyalty is the key to a long tenure. Owners' expectations are low – as are the compensations for salaried managers. Most board members do not receive any significant compensation for their board services. The 2001 average total compensation of Turkish boards of companies with revenues of around USD250 million, was equal to 25% of an average CEO's compensation in the USA and 73% of a CEO's compensation in the UK. The mean board size in Turkey is 7.

Finance literature recognizes concentrated ownership as the most common governance form in environments where the legal protection of ownership rights is weak. Some scholars explain the usefulness of group structures as an alternative internal market mechanism where stock markets are inefficient and foresee the dismantling of conglomerates alongside with dispersion of ownership as the natural consequences of economic development. CG literature suggests that the dominant conflict of interest in concentrated ownership environments is the conflict of interest between controlling-, and minority-shareholders. I propose to add to this the conflict of interest between the block holder/managers and professional executives.

I recently helped a Turkish company going through a transformation process; although the owner agreed that they would need a professional CEO, he refused to offer him a seat on the board. His belief was that if the CEO were to sit on the board on an equal standing with the owners, she/he could not be called to account and she/he could not be given instructions!

My view is that changing the governance form is the most important challenge faced by the Turkish private sector. Even if owner/managers come to terms with the need for change and would be willing to give up some of their powers, finding the required skills and experience in the local managerial labour market and instituting a formal system of checks and balances will not be easy. Such a system should give the freedom to management to become the driving entrepreneurial force in the company but should however, also enable the board to monitor executive performance, and reward them accordingly.

Turkey is only now developing an equity culture and concentrated ownership, which was a governance form in response to weak ownership rights, is now becoming a disabling legacy. Although a CG index was launched by ISE in 2004, no companies have so far undertaken the necessary steps to be included in that index – despite the considerable reduction in listing fees they would enjoy. One possible explanation for reluctance is that companies still rely mainly on internal funds to finance their investments. Holding structures which include both listed and unlisted firms allow "excess" returns to be allocated to promising ventures by "shuffling" profits. Limitations on companies owning their own stock (which will be changed with the new Company Law and CML), may contribute to the fact that more than 80% of new investments were financed by internal funds and 4% by bank loans (2002, IFC) and only 8% of firms used new equity capital from the sale of shares in 2000 (IFC). Only 10% of the securities registered in Turkey belong to private sector.

CMB's performance demands respect in creating a favourable legal and institutional environment demands respect, however compliance with rules does not necessarily ensure a true culture of governance and the pre-reform period's legacy leaves many provisions of good governance ineffective. Research conducted by our university demonstrates that there is no performance effect resulting solely from compliance with standards, but that companies which disclose more about their board structure and processes perform better. Obviously, the level of disclosure is not the cause of better performance but a proxy of the importance given to the board's role and of the existence of a formal system of governance. Some examples may clarify the shortcoming of a compliance focus and negligence of ownership structures.

Many boards of listed subsidiary companies include employees of a controlling parent holding - who normally take executive orders from that holding company's management with respect to their decisions. In one case I came across an employee of a holding company who sat on 21 subsidiary boards. Such salaried employees share their insight about a listed, subsidiary company's financial status and plans with the controlling shareholders. There is no disclosure requirement about this dependency and unfair disclosure. American investors would have difficulty understanding this structure whereas in Turkey nobody would question the arrangement's legitimacy. American investors may however, be surprised to learn the right of shareholders to have a role in board elections is an absolute right for Turkish shareholders – a right US activists are still fighting for. Board members can only be nominated by shareholders during the general assembly; while nomination rights prevent chaotic general assemblies - where any shareholder can nominate a director, it also negates the utility of board nomination committees and confers considerable power to single block holders.

To conclude Turkey made great steps to develop and improve its legal and institutional framework and continues to make progress in setting the right regulatory environment for efficient capital markets. The corporate sector and financial institutions are following suit to adapt. This path has all the known obstacles and pitfalls associated with progressive and fast change. There is however a number of less obvious challenges on the long road to dynamic, deep and liquid markets resulting from Turkey's culture of possession and hierarchical control, shortage of the management skills and experience necessary to provide trusted stewardship of other people's money, and the culture of disregard for minority investors. Turkey's great efforts to institutionalise democratic principles and encourage civic involvement needs to reflect through the relationship between powerful owners and other market players.

While emphasising the importance of new laws and regulations, I would like to caution investors that they cannot rely solely on laws and regulations. They themselves must assume responsibility for monitoring and assessing the risks and performance implications of the governance quality of those companies they invest in, as well as whether their governance form is compatible with their future aspirations, strategy and plans.

APPENDIX

Comparison of international best practices and
Commercial Code (CC)/ Capital Market Law (CML)/ Capital Market
Communiqués (CMC)
And
CMB Principles
As Applied to Listed Companies
Source: IIF report on Turkey(2005)

Topic	International Standards (IIF)	MANDATORY Commercial Code (CC), Capital Market Law (CML), and Capital Market Communiqués (CMC) COMPLY OR EXPLAIN Capital Markets Board Corporate Governance Principles (CMB Principles)
Minority Shareholder Protection		
Voting rights		
Proxy voting	Firms are encouraged to allow proxy voting.	Proxy voting allowed (CC Art. 360, details on execution outlined in CMC Ser. IV, No. 8, Art 4 et. Seq.). Provisions restricting proxy voting should not be included in the company's articles of association (CMB Principles Sec. I Art. 4.6).
One share one vote principle	"One share one vote" should be a threshold requirement for new issues.	May have multiple voting and non-voting shares. Privileges regarding voting rights should be avoided (CMB Principles Sec. I Art. 4.5).
Cumulative voting	Cumulative voting should be permitted.	Optional. Cumulative voting should be adopted (CMB Principles Sec. I Art. 5, Sec. IV Art. 3.4).
Capital structure		

Procedures on major corporate changes	Shareholder approval of mergers and major asset transactions should be required. If an offer is made above a reasonable minimum threshold of outstanding stock, a significant portion of that purchase must be through a public offer. Ownership exceeding 35% triggers a public offer in which all shareholders are treated equally. Under a merger or takeover, minority shareholders should have a legal right to sell shares at appraised value.	Mergers require a change in company articles of association, which requires shareholder approval (CC Art. 388). A tender offer for remaining shares is required when a shareholder's interest crosses 25%, or if initially between 25% and 50% increases by 10% or more, of voting stock within any given 12-month period or if there is change of management's control regardless of percentage of shares held. Price offered may not be less than price offered to target shares. CMB may grant exceptions in certain limited cases (CMC Ser. IV, No. 8, Art. 14 et seq.).
Procedures on major corporate changes (continued)		Shareholder approval of major decisions, including divisions and sale, purchase, pledge, or lease of significant assets, should be required (CMB Principles Sec. I Art. 3.6). The information about tender offer should be disclosed immediately (CMB Principles Sec. II Art. 1.11.5, 6)
Capital increase (pre-emptive rights)	Shareholders approval is required. Any capital increase over a period of 1 year and above a minimum threshold must first be offered to all existing shareholders.	In a capital increase, shareholders are generally entitled to subscribe for new shares in proportion to their respective shareholdings. Pre-emption rights of the shareholders may be restricted wholly or in part by an affirmative vote of the holders of a majority of the outstanding share capital at a shareholders meeting (CC Art. 388). For companies that have adopted the authorized capital system (most listed companies) this authority may be conferred upon the board, which is required to apply such restrictions equally with respect to all shareholders (CML Art. 12). The power to restrict the rights of shareholders obtaining new shares may not be used in a way causing inequalities among the shareholders (CML Art. 12).
Share buybacks	Details of share buybacks should be fully disclosed to shareholders.	Not permitted, save for certain limited exceptions (CC Art. 329).
Shareholder meeting		
Meeting notice and agenda	Meeting notice and agenda should be sent to shareholders within a reasonable amount of time prior to meetings.	Notice and relevant documents should be given to shareholders at least 15 days in advance of all shareholder meetings (CC Art. 368). Extensive details on notice and agenda listed (CMB Principles Sec. I Art. 3).
Special meetings	Minority shareholders should be able to call special meetings with some minimum threshold of the outstanding shares.	Shareholders holding at least 5% of share capital can call special meeting (CC Art. 366, CML Art. 11).
Treatment of foreign shareholders	Foreign shareholders should be treated equally with domestic shareholders.	All shareholders, including minority and foreign shareholders, should be treated equally (CMB Principles Sec. I Art. 8.1).

Conflicts between shareholders	Should have mechanisms whereby a minority shareholder can trigger an arbitration procedure to resolve conflicts between minority and controlling shareholders	5% of share capital may ask a shareholders' meeting to appoint a special auditor to examine alleged abuses. If shareholders' meeting violates rules, shareholders may directly petition court for appointment of a special auditor (CC Arts. 348, 356, 367, 381 et seq., CML Art. 12).
		The board, corporate governance committee, and an investor relations department should facilitate the exercise of shareholder rights, including protecting minority shareholders (CMB Principles Sec. I Art. 1, Sec. IV Art. 1.5).
Quorum	Should not be set too high or too low. Suggested level would be about 30% and should include some independent non-majority-owning shareholders.	In general, quorum is 25% of share capital, with no quorum for adjourned meeting. For amending articles, 50% with 33% (1/3) for adjourned meeting (CC Arts. 372, 388).

Structure and Responsibilities of the Board of Directors		
Board structure		
Definition of independence	Cannot have a business or personal relationship with the management or company, and cannot be a controlling shareholder such that independence, or appearance of independence, is jeopardized.	No provision.
		7 criteria for independent directors, including not having any direct/indirect relationship with the company, not holding more than 5% of total share capital, not having been previously elected to represent special shareholder group, not having served on board for more than 7 years, not have been employed by external auditor (CMB Principles Sec. IV Art. 3.3.5).
Share of independent directors	At least one-third of the board should be non-executive, a majority of who should be independent.	No Provision
		Majority of the board should be non-executive. At least one-third should be independent, with a minimum of 2 (CMB Principles Sec. IV Arts. 3.2.1; 3.3.1). The board chairman and chief executive officer is not the same person and that majority of the board should consist of non-executive members (CMB Principles Sec. IV Art. 3.2.1).
Frequency and record of meetings	For large companies, board meetings every quarter, audit committee meetings every 6 months. Minutes of meetings should become part of public record.	No Provision
		Board should meet at least once a month. Decisions of the board should be recorded in the minute book (CMB Principles Sec. IV Arts. 2.16.2; 2.17.5; 2.19.1).
Quorum	Should consist of executive, non-executive, and independent non-executive members.	The meeting quorum of a Board of Directors under Turkish law is constituted by the presence of half plus one more of directors of a joint stock company. The decision quorum is the majority of the board members present in a meeting (CC Art. 330).
		Quorum should be included in the articles (CMB Principles Section IV Art. 2.18).
Nomination of directors	Should be done by nomination committee chaired by an independent director. Minority shareholders should have mechanism for	Shareholders of at least 10% of share capital may put forward a nominee for the board at AGM or SGM (CC Art. 366).

	putting forward directors at Annual General Meeting (AGM) and Extraordinary General Meeting (EGM).	Board should have a corporate governance committee that nominates directors chaired by independent director with majority of independent directors (CMB Principles Sec. IV Arts 5.2, 5.3. 5.7).
Term limits for directors	For large companies, re-election should be every 3 years with specified term limits.	Board must have a minimum of 3 directors elected for a maximum term of 3 years (CC Arts. 312, 314).
		Independent members cannot serve for 7 years or more (CMB Principles Sec. IV Art. 3.3.4).
Board committees	The Board should set up 3 essential committees: nomination, compensation and audit.	Audit committee consisting of a minimum of 2 non-executive directors supervises company auditing (CMC Ser. X, No. 16 Art. 28/A).
		Should have audit committee chaired by an independent director with a majority of non-executive directors and a corporate governance (which covers issues of nomination and compensation) committee with a majority of independent directors (CMB Principles Sec. IV Arts. 5.2, 5.3, 5.6, 5.7).
Disclosure		
Disclosure of information that affects share prices	Any material information that could affect share prices should be disclosed through stock exchange. Material information includes acquisition/disposal of assets, board changes, related party deals, ownership changes, directors' shareholdings, etc.	Public discloser should be made of a wide variety of events including acquisition/disposal of assets, board changes, related party deals, ownership changes, directors' shareholdings, etc. (CMC Ser. VIII, No. 39).
		Any developments that affect value of the company's capital market instruments should be disclosed to the public without delay. In addition to legally required disclosure, company should disclose any information that may affect decisions of shareholders and investors (CMB Principles Sec. II Arts. 1.3; 1.12).
Procedures for information release	Through local exchanges and as best practice, through company website.	Information to be released through the exchange and, if deemed necessary by the Exchange board, through media or electronic means (CMC Ser. VIII, No. 39, Art. 16).
		Company's website should be actively used as a means of public disclosure (CMB Principles Sec. II Art. 1.11).
Remuneration of directors	Should be disclosed in annual report. All major compensation schemes, including stock options, should be fully disclosed and subject to shareholder approval.	All compensation of directors is determined in the articles of association or at the annual meeting (CC Arts. 333, 369).
		Remuneration of directors, including share options, should be disclosed in annual report (CMB Principles II Art. 3.2.2).
Other responsibilities		

Conflict of interest	Any potential or actual conflicts of interest on the part of directors should be disclosed. Board members should abstain from voting if they have a conflict of interest pertaining to that matter.	Director must inform the board of any conflicts of interest and may not participate in deliberations on the matter. They may not without permission from shareholders enter into business relations with the company either directly or indirectly unless permitted by the general assembly (CC Arts. 332, 334, 335).
		Board members not permitted to attend the board meeting that may concern his/her interests (CMB Principles Sec. IV Art. 2.20).
Internal control and risk management system	Should be a function of the audit committee.	Audit committee is required to supervise management and effectiveness of the internal control system (CMC Ser. X No. 16 Art. 28/A)
		Board should establish internal control and risk management mechanisms. Audit committee should supervise the execution of the company's internal control system (CMB Principles Sec. IV Art. 1.3.2; 5.6.4).

Investor Relations	Should have an investor relations program	No provision.
		Extensive provisions for investor relations department associated with chair of corporate governance committee (CMB Principles Sec. I Art. 1.1).
Social responsibility and ethics	Make a statement of policy concerning environmental issues and social responsibility.	No provision.
		Ethical rules should be prepared by board, disclosed to the public, and information on such rules provided to general assembly. Company should be considerate of its social responsibility (environment, public health, consumer protection, etc) and act in accordance with its ethical rules (CMB Principles Sec. III Art. 6; 7).
Accounting/Auditing		
Standards		
National/international GAAP	Identify accounting standard used. Comply with local practices and use consolidated accounting (annually) for all subsidiaries in which sizable ownership exists.	IFRS must be used with inflation adjustment (CMC Ser. XI No. 20 Art. 9; Ser. XI No. 25 Arts. 378 et. seq.).
Frequency	Semi-annually audited report at end-FY.	Companies should present financial statements to CMB and exchange on a quarterly basis. They should also have their end-year and mid-year financial results audited by external auditors (CMC Ser. XI No. 1 Arts. 48, 49; Ser. XI No. 3 Art. 10).
Audit quality	Independent public accountant. As a best practice, auditors should adhere to the global standards devised by the International Forum on Accountancy Development (IFAD).	Companies must be independently audited by auditors certified by CMB. Auditors are liable for civil sanctions if they mislead investors ((CML Art. 16/4) (CMC Ser. X No. 16 Arts. 32, 45). Audit firm may only be appointed for a maximum period of 5 years (CMC Ser. X No. 16 Art. 24)

		Audit firm must be independent and subject to regular rotation a maximum period of 5 years (CMB Principles Sec. II Art. 4.1-2).
Audit committee		
Audit committee	For large firms, must be chaired by qualified independent director with a financial background	Audit committee consisting of a minimum of 2 non-executive directors to supervise company auditing is required (CMC Ser. X No. 16 Art. 28/A).
		Audit committee should be chaired by an independent board member and the majority of members should be non-executive. All board members should be capable of analyzing and interpreting financial statements and reports (CMB Principles Sec. IV Arts. 3.1.5, 5.2, 5.3).
Relationship/communication with internal and external auditors	Committee should approve services provided by external auditor. Breakdown of proportion of fees paid for each service should be made available in annual report. Communication with auditors should be without executives present. Contemporaneous provision of audit and non-audit services from the same entity should be prohibited.	Audit committee supervises appointment, services and any work by independent auditors (CMC Ser. X No. 16 Art. 28/A).
Relationship/communication with internal and external auditors (continued)		Audit committee should supervise external auditor of the company. Appointment and activities of the external audit firm should be under the surveillance of an audit committee. Audit committee should be able to invite executives, internal and external auditors to its meetings. Audit firms are not permitted to provide consultancy services to the company to which they provide external auditing services within the same period (CMB Principles Sec. II Art. 4.3.1; Sec. IV Arts. 5.6.1; 5.6.3; 5.6.4; 5.6.5).
Transparency of Ownership and Control		
Buyout offer to minority shareholders	Ownership exceeding 35% triggers a buyout offer in which all shareholders are treated equally.	See section on procedures on major corporate changes above.
Related-party ownership	Companies should disclose directors' and senior executives' shareholdings All insider dealings by directors and senior executives should be disclosed.	Detailed information about related party transactions should be included in the company's financial statement (CMC Ser. VIII, No. 39). Insider trading is punishable by administrative and penal sanctions (CML Art. 47). "Disguised profit transfers" among related parties are subject to administrative and penal sanctions (CML Arts. 15/7, 46, 47/A).

		Board members, executives, and shareholders who own directly or indirectly 5% of the company's capital should disclose all company capital market instrument transactions (CMB Principles Sec. II Art.2.3). To prevent insider trading, a list of the names of executives and other persons who can potentially possess price-sensitive information should be disclosed to the public (CMB Principles Sec. II Art. 5.2).
Minimally significant Shareholders	Shareholders with minimally significant ownership (greater than 3-10%) of outstanding shares must disclose their holdings	Changes in direct or indirect ownership of 5%, 10%, 15%, 20%, 25% 33⅓ %, 50%, 66⅔%, 75% or more of total voting rights or capital must be disclosed (CMC Ser. VIII, No. 39, Art. 5).

Regulatory Environment		
Enforcement powers	The supervisory authority and the exchange must have adequate enforcement powers. Exchanges should have the power to grant, review, suspend, or terminate the listing of securities. Enforcement authorities must have an adequate training and understanding of the judicial process.	The CMB has wide range of powers and responsibilities in enforcing law and regulations to protect investors. Can issue cease and desist orders, assess administrative penalties, and refer cases for criminal prosecution. Conducts investigations and conducts market surveillance. The Istanbul Stock Exchange has authority to put on watch list and de-list companies.
Independence of supervisory body and of exchange	The supervisory body and the exchange should be politically independent and professional	The CMB is an independent statutory authority. Board members are appointed through a largely non-political process. Members have fixity of tenure. Staffing is professional. The Istanbul Stock Exchange is an independent statutory authority. Staffing is professional.

Improvements to the Regulatory Framework	
Date	Reform / Improvement
2003	The Commercial Code dated 1956 has come under review, with a view to make it compatible with Emus' company and capital markets legislation.
2003 - 2005	Work on the Banking Law, which would restrict connected lending and empower the Banking Regulatory and Supervision Agency to issue mandatory corporate governance codes for banks.
2003 (July)	The Capital Market Board has issued the Corporate Governance Code. The code provides for various standards on a 'comply or explain' basis for listed companies.
2005 (March)	The Capital Markets Board announced a major review of the Capital Markets Law.
Improvements to the Disclosure Framework	
Date	Reform / Improvement
2004	Introduction of inflation-adjusted accounting standards.

2005	IFRS has become mandatory standard.
2004-2005	New internal auditing standards have been introduced. 'Audit Committees' headed by a non-executive director has to endorse and be held responsible for financial reports and auditor relations.
2004-2005	External auditing standards have been improved, by tightening the regulatory oversight of auditing firms and requiring rotation of auditors every 5 years.
2004-2005	Separation of audit and consultancy companies.
2004-2005	Work towards introducing the Public Disclosure System, which will employ digital certificates and electronic signatures.