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AN ANALYSIS OF TURKISH ACCOUNTING REGULATION'S CONFORMITY WITH THE DISCLOSURE PROVISIONS OF THE EU DIRECTIVE

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ÖZET

Üye ülkeler arasında muhasebe alanında mevcut farklılıkları ortadan kaldırmak amacı ile Avrupa Birliği (AB) tarafından birtakım genelgeler yayınlanmış olup, Dört Nolu genelgenin mevcut muhasebe alanındaki AB genelgeleri içerisinde en önemli olduğu kabul edilmektedir. Bu çalışmada AB'ne tam üye olmayan fakat bu alanda 1964 yılından bu yana çaba gösteren Türkiye'de mevcut hukuki düzenlemenin Avrupa Birliği Dört Nolu Genelgesi'nin (ABDNG) şirketler tarafından açıklanacak bilgilerle ilgili hükümleri ile uyum içerisinde olup olmadığı araştırılmıştır. Türkiye'de ki halka açıklanan bilgilerle ilgili hukuki düzenlemelerin ABDNG ile uyumu,Türkiye deki hukuki düzenlemeler ile ABDNG'nin analizi sonucu geliştirilen "açıklanması zorunlu bilgi çalışma tablosundaki" verilere dayanılarak ölçülmüş (nicel hale getirilmiş) ve de Mann-Whitney U istatistiği kullanılarak test edilmiştir. Bu çalışmanın sonucu halka açıklanan bilgilerle ilgili hukuki düzenlemelerin ABDNG ile uyumunun oldukça yüksek düzeyde olduğunu göstermesinin yanısıra, halen ABDNG tarafından şirketlerce açıklanması gerekli görüldüğü halde Türkiye de ki mevcut kanunlarca açıklanması zorunlu olmayan birtakım bilgilerin mevcut olduğunu ortaya koymuştur. Bu sonuç, Türkiye'nin AB'ye tam üye olması durumunda, halka açıklanacak bilgilerle ilgili hukuki düzenlemelerde birtakım değişikliğe gitmesinin gerekli olduğunu işaret etmektedir.

ABSTRACT

With the aim of removing differences in accounting among the member states, the EU issued a number of directives of which the Fourth Directive has been considered as the most important. This study seeks to determine if disclosure requirement in Turkey- a non-EU member European country with a desire to join to EU since 1964 when the association agreement was signed- is in conformity with the Fourth Directive of the EU (EUFD). The conformity was examined by developing "disclosure requirement worksheet" based on disclosure provisions of both Turkish regulation and the EUFD and quantifying the conformity, and by running Mann-Whitney U test. The result has shown that even though Turkish regulation's conformity with the disclosure provision of the EUFD was reasonably high, there are a number disclosure items required by the EUFD for which the Turkish regulation is not in conformity with. This would suggest that an amendment in disclosure provisions of Turkish regulation is needed if Turkey were to join the EU as a full member.

Key words: Disclosure requirements, conformity, EU Directive, Turkish regulation

1. Introduction

Factors such as the development of international business on a global scale and internalisation of the capital markets are exerting pressure on countries for the adoption of a more international accounting perspective. According to Adhikari and Tondkar (1992, p. 76) "nowhere is this trend more manifest than in the effort currently underway to harmonise accounting disclosure and reporting regulation".

Particularly over the last three decades, much effort has been devoted to harmonise corporate financial reporting on international level. One of the primary generators of harmonisation efforts is the European Union (EU). The EU, which has been described as "the most powerful source of change towards harmonisation among leading countries in world accounting" (Nobes and Parker, 1995, p. 140), has been active in achieving regional harmonisation of accounting principles through a series of directives. The Fourth Directive (FD) has been considered as the most important EU directive affecting accounting in Europe (see Roberts et al., 1996).

As the EU member states are obliged to transpose the provisions of the directives into national laws and the provisions of the FD has already been implemented in the national laws of all member states (Hopwood, 1994), the financial reporting and disclosure requirements of these countries are in conformity with the FD (see, Tay, 1989; and Alexander and Archer, 1992). Even though EU harmonisation is of major concern for member countries, there are arguments that the EU directives, particularly the Fourth Directive, also have had an impact on the accounting of non-EU member European countries due mainly such countries' desire to join the EU and their close economic and trade relationship with the EU. Indeed, the existence of the impact of the FD on accounting in the new EU member states prior to their accession to the EU (see for example Tay, 1989; Lukas, 1992; and Nasi, 1992) as well as the efforts made by non-EU-member European countries (i.e. Switzerland, Poland, Hungary, Czech Republic) to comply with the EU directives (see for example, Boross et al., 1995; Illes et al. 1996; Adams and McMillan, 1997) does support the arguments that the FD of the EU has had an impact on non-EU European countries.

Turkey is one of the non-EU member European country which has a desire to join the EU and had a close contractual and economic relation with the EU. Turkey's contractual relationship with the EU began in the late 1950s, when Turkey applied for associate membership, and Turkey has been an associate member of the EU since 1964. Turkey's formal application for full membership and the entry into the Customs union agreement in the last decade, marked major steps forward in the relationship between the EU and Turkey. Furthermore, almost half of Turkey's foreign trade is with EU member countries and over 60 percent of foreign capital comes from the EU countries. Turkey's relative involvement in trade with the EU is even greater than five of its full members. As far as the accounting and financial reporting is concerned, although Turkey is not obliged to implement the EU directives on accounting and financial reporting and till today, has not officially done so, there has been arguments that prevailing regulations that address the accounting and financial reporting in Turkey is so much in line with the provisions of the FD (see, Akdogan, 1991 and Yalkin, 2000). So far, however, a detail empirical analysis was not undertaken to examine whether disclosure requirements in Turkey is in conformity with the FD of the EU. This study, therefore, having reviewed disclosure provisions of both Turkish regulation and the FD of the EU, seek to determine whether or not disclosure requirements in Turkey is in conformity with the disclosure provision of the EU. Given the present effort to prepare Turkey to the full membership with the EU, this study may provide useful information for Turkish authorities that may attempt to bring the financial reporting requirements in Turkey in line with the EU.

This study proceeds to review of the EU Directives, focusing mainly on the Fourth Directive and financial reporting and disclosure requirements in Turkey. This is followed by method employed and result found in the examination of the Turkish regulation's conformity with the disclosure provision of the EUFD. The paper ends by considering the implication of results found.

2. The European Union and Harmonisation Efforts

The European Union (EU), previously known as the European Community, was created by the Treaty of Rome in 1957 with the main objectives of establishing the free movements of persons, goods, services and capital, and achieving economic integration within the member states. The achievement of these objectives necessitated harmonisation of company law within Member States (i.e. the approximation of the laws of Member States to the extent required for the proper functioning of the common market) and the EU Commission embarked on a major program of company law harmonisation almost from the start (Choi and Mueller, 1992).

The main instrument that has been used by the EU commission to achieve company law harmonisation is the adoption of directives. A directive is a legal instrument which enforces Member States to bring their regulations in line with its requirements. Once a directive is adopted, Member States are obliged to change inconsistent national law and/or introduce a new law, in order to comply with the provisions of the directive.

The accounting harmonisation program of the EU is part of a larger effort aimed at harmonizing company law and the EU Commission issued a number of directives which are of direct or indirect relevance to accounting and financial reporting. The fundamental and the most important EU directive relating the financial reporting is the Fourth Directive (Roberts et al., 1996 and Alexander. and Archer, 1992).

2.1. A brief history of the Fourth Directive and influences on it

The process of development of the FD started in 1967 when the EU Commission appointed a German accountant, Professor W. Elmendorff to prepare an expert's report on the form of financial reporting to be required in the EU. Professor Elmendorff later became the chairman of the working party of representatives from six Member States which produced an initial draft of the FD. In 1971, this draft was submitted to the Council of Ministers and the European Parliament for comment. This initial draft of which provisions were different from the Anglo-Saxon accounting tradition, was heavily influenced by the German stock corporation law (Niehus, 1972, and Nobes and Parker, 1995). In this draft, valuation rules were conservative, the formats of the balance sheet and profit and loss account were prescribed in rigid detail and disclosure by notes was very limited (Nobes, 1991).

In 1973 the UK, Ireland and Denmark were admitted into the EU. In 1974, the first draft was amended and second draft was published by taking into account: 1) the national law of the said three new members and 2) comments and observations issued on the first draft by various bodies, particularly the Groupe d'Etudes des Experts Comptables de la CEE (Tay, 1989). After further amendments, the final draft was published in 1978, and adopted in July 1978.

Unlike the first draft, the second and particularly the final adopted draft of the FD were strongly influenced by the Anglo-Saxon accounting tradition. The introduction of the Anglo-Saxon concept of "true and fair view" into the second draft and the establishment of this concept as a predominant principle in the presentation of financial statements in the final draft is one of the apparent examples of such influence. The Anglo-Saxon influence was also seen in the greater emphasis on the disclosure in the notes to the accounts as well as the greater flexibility given to Member States for presentation of financial statements, in the final draft of the FD (Tay, 1989). The other notable example of Anglo-Saxon influence was the replacement of the vague requirement of the first draft that "the annual accounts shall conform to the principles of regular and proper accounting" (Nobes, 1983, p.51) with the four principles of the UK's Accounting Standards SSAP 2 (i.e. accruals, prudence, consistency and going concern). Furthermore, the provision laid down in the final draft which gave the Member States a wider choice of methods of inflation accounting was considered to be the result of Anglo-Dutch influence (Tay, 1989).

Thus, the final version of the FD "while still based to a large extent on prescriptive codification as is known in Germany and France, takes full account of the Anglo-Saxon view that the fundamental objective of financial statements is to give a true and fair view. It also allows Member States to depart from the historical cost convention, as has been the case in the Netherlands where valuation by the replacement value method has been permitted for several years and in France, the United Kingdom and Ireland where revaluation of properties have been included in the accounts" (Whinney and Ernst, 1978, pp. 7-8).

2.2. A review of the content of the FD

The main requirements of the FD: The main provisions of the FD include those referring to disclosure (i.e., the content and presentation of financial statements, the contents of the notes to the accounts, and the contents of the annual reports), the valuation methods to be used in preparation of company accounts, and auditing and publication of annual accounts and reports. It does not cover consolidation, which is governed by the Seventh Directive. It is also silent on a number of important issues of corporate financial reporting, notably funds flow and cash flow statements, leasing, and foreign currency translation.

Disclosure provisions of the FD: The FD lays down rather detailed disclosure requirements. According to Gray (1984) the Directive puts more emphasis on disclosure of differences in accounting systems between European Countries than on removing them.

The disclosure requirements of the FD take mainly three forms. First, the standard profit and loss accounts and particularly balance sheet with their prescribed headings, sub-headings and sub-sub-headings require a high degree of detailed disclosure. The Directive which requires balance sheet and profit and loss accounts to be drawn and presented in a standard format, prescribes two alternative formats for balance sheet and four formats for profit and loss accounts.

The two formats for balance sheets, one or both of which may be allowed by Member States, are horizontal (two-sided with the assets on the left and liabilities and owners' equity on the right) and vertical (a narrative form that arrives at shareholders' equity by deducting each classification of liabilities from its respective classification of assets). Even though the order of items is not the same in these two balance sheet formats, there is no material difference between them in terms of information to be given on the face of the balance sheet. Headings in both types of balance sheet are divided into three categories: main headings (preceded by letters); sub-headings (preceded by Roman numerals) and sub-sub-headings (preceded by Arabic numerals). This classification is of particular importance, as Art. 4 permits the combination of sub-sub-headings on the face of the balance sheet if they are immaterial or for clarity (if combination is for the second reason, note disclosure is required). The directive also allows a more detailed sub-division of balance sheet items, provided that the overall layout is complied with (Art. 4 (1). Furthermore small companies (as defined in Art. 12) are allowed to draw up abridged balance sheets showing only the items preceded by letters and Roman numerals.

For the profit and loss account formats, the FD prescribes four formats: two classify expenses and revenues by nature (e.g. differences between opening and closing stocks, raw material costs, salary, etc.) and the other two classify them according to their function (e.g. production, administration, distribution, etc.). Like balance sheet items, the directive allows a combination of profit and loss account items preceded by Arabic numbers for clarity or if they are immaterial and a more detailed sub-division of profit and loss account items, provided that the overall layout is complied with (Art. 4 (1)). Member states may also allow small companies as defined in Art. 27 to adopt an abridged or simplified profit and loss account format.

The directive prohibits changes in the formats adopted by a company from one year to another, except in exceptional circumstances which must be explained in the notes on the accounts (Art. 3). Any set-off between items of assets and liabilities and items of income and expenditure is also prohibited (Art. 7).

For balance sheet and profit and loss accounts items, the Directive requires comparative figures for preceding financial years to be shown (Art. 4). Disclosure is also required where an asset or liability is related to more than one balance sheet item (Art. 13).

Second, the Directive prescribes information to be given in the notes on accounts in Arts. 2-42 and particularly in Art. 43, where minimum information which must be given in the notes on accounts is specified. Briefly, these requirements include explanation regarding various financial statement items (e.g. formation expenses, cost of research and development, extraordinary income and costs, long-term debts, movements in fixed assets and depreciation, etc.) as well as the commitments and contingencies, guarantees given and securities pledged, information regarding the valuation methods used in preparation of accounts, the effects of tax accounting, an analysis of sales by type of product and geographic area, information about affiliates, employees and directors' emoluments and loans, etc. The note disclosure requirements of the FD appear to serve the following functions: 1) to provide further information about 'on and off financial statement items' which may not always be identified directly from the published financial statements but may be of particular importance to users to understand the real financial and operating position of companies; 2) to clarify the basis on which the balance sheet and profit and loss account have been prepared; and 3) to provide information about the company's operating environment, particularly in relation to its staff, other companies and possibly other countries.

Finally, Arts. 46 and 50 of the Directive prescribe information to be disclosed in the annual reports and require disclosure of proposed appropriation as well as the appropriation of profit or treatment of loss, respectively. According to Art. 46, annual reports must include at least a fair review of the development of the company's business and position; indicate important events that have occurred since the end of the financial year, the company's likely future development, research and development activities and information concerning the acquisition of its own shares. These requirements are believed "to serve to 'flesh out' the operating picture drawn of the company in the annual accounts" (Tay, 1989, p. 200).

An important point to note is that the Directive specifies only minimum information to be disclosed. It does not, however, forbid member states to lay down further disclosure requirements.

3. Financial Reporting And Disclosure Requirements In Turkey

There was no specific regulation or accounting standards that address merely the accounting of the private-sector in Turkey until the early 1980s. TCC of 1956, which was substantially influenced by the Commercial Codes of European countries (particularly Germany, Italy and Switzerland), and tax laws introduced in the 1950s based on the German model, were the main regulators of the accounting practices of Turkish companies until the 1980s. These two sets of regulations, which are still in force, mainly address the accounting books that firms should keep and specify the financial statements that firms should prepare. However, neither of them puts forward specimens of financial statements that companies must conform to or details of information that they must disclose.

Turkey, however, has experienced a major breakthrough in the area of accounting and financial reporting since 1980. The main recent developments that have had a direct impact on financial reporting and disclosure practices of Turkish companies and govern the present financial reporting and corporate disclosure in Turkey have been:

1) the Communiqué No XI/1 on "Principles and Rules Appertaining to Financial Statements and Reports in the Capital Market" enacted in 1989 with the initiative of the

Capital Market Board (here on this communiqué will be referred as "Capital Market Board Communiqué-CMBC); and,
2) "Accounting System Application General Communiqué Order No. 1" enacted in 1992 with the initiative of the Ministry of Finance (Here on this communiqué will be referred as "Ministry of Finance Communiqué"- "MFC").

3.1. The Capital Market Board Communiqué (CMBC)

The CMBC No. XI/1 which has been in force since its enactment specifies financial reporting rules that apply only to the publicly held companies controlled by the Capital Market Board (CMB). In Turkey, all joint stock companies with more than 100 shareholders or which offer their securities to the public including all companies listed on the ISE have been required to be registered with the CMB and therefore controlled by the CMB.

The main requirements of the CMBC: The text of the Communiqué, which is relatively clear and straightforward, consists of four main sections. First, it defines fundamental accounting concepts to be taken into account in the selection and application of accounting policies. Second, it prescribes valuation rules to be used in the preparation of financial statements and the way in which transactions and events are to be reflected in the financial statements. The basic valuation method contained in the Communiqué is historical cost, but use of other valuation methods is also allowed under certain conditions and for certain specific balance sheet items. Third, the Communiqué XI/I prescribes formats and content of financial statements and reports and lays down rather detailed disclosure requirements. Finally, it lays down rules regarding publication of the financial statements and reports. The Communiqué, however, does not deal with a number of areas of corporate financial reporting, notably consolidations, leasing and deferred taxes. An important point word noting is that, even though the Communiqué addresses a number of important areas of corporate financial reporting, its focus seems to be very much on presentation and disclosure.

Disclosure provisions of the CMBC: The disclosure requirements of the Communiqué take three forms: first, the prescribed formats for financial statements require a high degree of detailed disclosure; in addition, the Communiqué specifies the minimum information which must be given in the notes; finally, it specifies the minimum information that must be disclosed in the annual reports of directors.

Formats and contents of financial statements: The financial statements of which formats and contents are prescribed in the Communiqué are balance sheet, income statement, cash and fund flow statements, a statement of costs of goods sold, and profit distribution statements.

Balance sheet: The Communiqué is rigid in terms of the presentation of the balance sheet, as it prescribes only one balance sheet format and requires all companies to present their balance sheet in the specified form. The prescribed format is horizontal. In this format, there are three types of balance sheet headings: main headings, which are preceded by Roman numerals; sub-headings, which are preceded by letters; and sub-

sub-headings, which are preceded by Arabic numerals. As main headings, assets are classified as current and fixed assets and liabilities are classified as short-term and long-term on the basis of a current-noncurrent approach. Owner's equity is also shown as a separate main heading. In addition, each main heading is divided into very detailed sub- and sub-sub headings. The classification of items as main, sub- and sub-sub headings is significant, first, because such items may be combined on the face of the balance sheet for clarity, or if they are individually immaterial to the decision of the users of the statement. Second, only main and sub-headings are required to be shown on the face of arbitraged balance sheets, which have to be published in national daily newspapers.

In terms of content (information required to be disclosed on the face of the balance sheet), the prescribed format in the Communiqué seems to be in line with the formats prescribed in the Fourth Directive. Furthermore, balance sheet items are classified into main and sub-groups in a similar way as they are classified in the formats prescribed by the Fourth Directive. However, in terms of the sequence of balance sheet items, unlike the Fourth Directive formats, in the format prescribed by the Communiqué, assets are listed from most-liquid items to least-liquid and liabilities are listed from the shortest maturity to the longest.

Income statement: As with the balance sheet, the Communiqué also lays down only one format for the income statement and prescribes the content and sequence of presentation in rigid detail. The prescribed income statement format is vertical. In this format, sales are analysed based on geographical breakdown (i.e., domestic sales, exports) and cost of goods sold is shown as a separate item. One of the notable features of the prescribed format is that income and expenses arising from operating activities are analysed separately from those arising from extraordinary items. Furthermore, expenses are classified based on sources (e.g., operating expenses, financing expenses, extraordinary expenses). In terms of content, the format prescribed in the Communiqué seems to be similar to that prescribed in Art. 25 of the Fourth Directive with few exceptions. However, in terms of classification of income statement items, the two formats are different. Unlike the format in Art. 25 of the Fourth Directive, where income statement headings are all preceded by Arabic numerals, there are two income statement headings in the format prescribed by the Communiqué: main headings, which are preceded by letters, and sub-headings, which are preceded by Arabic numerals. The importance of this classification is that only the main headings are required to be shown on the face of arbitraged income statements, which have to be published in national daily newspapers.

Cost of goods sold: According to the prescribed format of "cost of goods sold statements", which is required to be provided together with the income statements, details of costs of production (manufacturing) and trading activities as well as the cost of services are to be shown separately. With respect to production (manufacturing) activities, the items required to be shown in the statement are direct raw material and labour expenses, general production expenses, changes in work in progress and finished goods. As far as the trading activities are concerned, the amount of "goods for resale", at the beginning and end of the period as well as those acquired during the period, is required to be shown in the statements.

Funds flow statement: The prescribed format of fund flow statements requires funds generated from operating activities to be shown separately from funds generated from extraordinary items and other sources. Similarly, funds used in operating activities are to be shown separately from funds used in relation to unusual items and other uses of funds. Furthermore, changes in working capital are required to be shown at the end of the statement. In terms of information required to be disclosed with respect to sources and application of funds, the Communiqué seems to be in line with the ex-IAS 7 "Statement of Changes in Financial Position".

Cash flow statement: The prescribed format of cash flow statement contains the following main headings: amount of cash at the beginning and end of the period, cash receipts (inflows) and payments (outflows) during the period, and increase or decrease in cash. Furthermore, the cash inflows and outflows are classified into a number of sub-headings in such a way that details of cash outflows and inflows stemming from operating and other activities can be identified. An important point to note is that, in a number of standards that address preparation and presentation of the cash flow statement (see, for example IAS 7 and Financial Reporting Standard 1 of the UK), "cash flow" refers to inflows and outflows of cash and *cash equivalent,* whereas in the Communiqué refers only to inflows and outflows of 'cash in hand and at bank'.

Profit distribution statement: The last supplementary financial statement which is required to be presented together with the main financial statements by large companies is the profit distribution statement. According to the prescribed format, profit for the period and distribution of it (i.e., amount of tax paid, amount of profit kept as reserve, amount of dividend paid or payable to ordinary and preference shareholders), as well as the appropriation of the reserve to both preference and ordinary shareholders, have to be disclosed separately. Furthermore, dividend per share also has to be shown as a separate item in the said statement.

Note disclosure requirements: As discussed above, the prescribed formats for balance sheet and income statements require a high degree of detailed disclosure in the face of these statements. The Communiqué, which requires comparative figures for the preceding financial year to be shown on the face of the balance sheet and income statement, also lays down detailed note disclosure requirements. The note disclosures appear to serve three main functions: to clarify the basis on which the balance sheets and income statements have been prepared; to provide more information for the balance sheet and income statements items as well as the commitments, contingencies and post-closing date events; and to provide detailed information in relation to related companies (i.e., subsidiaries and associate companies).

Annual report and audit board's report: The Communiqué lays down detailed requirements concerning the content of the annual report to be prepared by the board of directors. In this respect, the Communiqué, first, requires that the annual report must include all financial statements and their notes that are required to be prepared in accordance with the rules put forth in the Communiqué. That is, the annual reports of the large companies, as described in the Communiqué, include all the main and supplementary financial statements and their notes. In addition, Art. 53, states that "annual reports must reflect the company's real and true economic and financial position as well as the development of its business". It requires that the reports prepared by all companies must also give an indication of any important post-balance sheet events, the corporation's likely future development, research and development activities and acquisition of its own shares. These requirements, which seem to be adopted from Art. 56 of the Fourth Directive, serve to "flesh out" the operating picture drawn of the company in the annual accounts. Furthermore, Attachment 14 of the Communiqué requires certain information, particularly with respect to the corporation's financial structure, owners, managers and employees to be included in the annual reports.

On the other hand, the Communiqué (Art. 55), which requires all companies to have their annual financial statements and reports audited by boards of auditors, prescribes the wording of the audit reports to be prepared by the boards of auditors. An important point to note is that the audit carried out by the board of auditors is the statutory audit which is required by the Commercial Code rather than an independent external audit (IEA). The provisions of the Communiqué with respect to the IEA limited to Arts. 49 and 56, which requires IEA reports to be published. According to Art. 49 "if the financial statements are not audited, such fact must be stated at the beginning of the financial statements". Both the audit board's report and the IEA report must be included in the annual report.

3.2. Ministry of Finance Communiqué (MFC)

The MFC is another recently enacted regulation that was introduced mainly to govern the financial reporting and disclosure of companies that are not controlled by the Capital Market Board . As the principles and rules laid down in the MFC is so much in line with those laid down in the CMBC (see, Mugan, 1995 and Çürük, 1999), the provisions of the MFC are reviewed briefly by referring to the above reviewed CMBC.

The main requirements of the MFC: The MFC describes the fundamental accounting concepts, specifies financial statements to be prepared and contains detailed provisions concerning the format and content of financial statements as well as of their notes, which are also the main issues addressed in the CMBC.

Disclosure provisions of the MFC: The majority of the provisions of the MFC address presentation and disclosure. Like the CMBC, the MFC specifies financial statements as balance sheet and income statements, cash and fund flow statements, a statement of costs of goods sold and profit distribution statements and prescribes their format and content. The CMBC also specifies information to be disclosed in the notes of the balance sheet and income statements. In terms of the format and information to be disclosed on the face and in the notes to these statements, rules laid down in the MFC are in line with those in the CMBC. However, unlike the CMBC, the MFC does not address annual reports and audit board's report. This is probably due to the fact that such reports are applicable to publicly owned companies, which are mostly subject to the CMB regulation.

This study which aims to assess the Turkish regulation's conformity with the disclosure provisions of the EUFD, analysis the conformity of the CMBC with the disclosure provisions of the EUFD. That is, in this study "required disclosure by the CMBC" is considered as "disclosure requirements in Turkey" for the assessment of the Turkish regulation' conformity with the EUFD. The CMBC was chosen because, in terms of disclosure provisions, there are no material differences between the CMBC and the MFC and therefore selection of CMBC or MFC would not lead the different results. In addition, like the EUFD, the CMBC applies to the limited liability companies. Furthermore, it is mandatory for the companies subject to the CMBC to publish their annual financial statements and reports to the public. There is, however, no such legal requirement for those companies that are subject to the MFC.

4. Turkish Regulation's Conformity With The Disclosure Provisions Of The EUFD

4.1. The method

As pointed out above, for the assessment of the conformity of the disclosure requirements in Turkey with the EUFD, "disclosure requirement in Turkey" refers to "required disclosure by the CMBC". That is, this study assess the CMBC's conformity with the disclosure provisions of the EUFD. In this assessments, first, the CMBC' conformity to the disclosure provisions of the EUFD were quantified and then H_0*"The disclosure provisions of the CMBC are not in conformity with those of the EUFD"* was tested.

Quantification conformity: To be able to quantify the CMBC's conformity to the disclosure provisions of the EUFD, first, a worksheet (the disclosure requirement worksheet) which listed all the disclosure requirements identified in the CMBC and the EUFD was developed.

Disclosure requirements in the EUFD: As discussed above, the disclosure requirements of the EUFD take three forms: first, standard balance sheet and profit and loss accounts prescribe information to be disclosed on the face of these statements. Second, Articles 2-43 prescribe the minimum information which must be given in the notes on accounts. Finally, Articles 46 and 50 prescribe the information to be disclosed in the annual reports and require disclosure of proposed appropriation as well as the appropriation of profit or treatment of loss. The list of items included in the worksheet covers all items of information required to be disclosed by the EUFD in all three forms. An important point to note is that, the EUFD provides two formats of balance sheet and four formats of profit and loss account. In this study, the balance sheet format prescribed in Art. 9 of the EUFD was arbitrarily taken as the basis for selecting the items of information included in the worksheet, as selection of either format would not result in a different worksheet. Furthermore, the income statement format prescribed in Art. 25, which requires a relatively broader and lower level of disclosure, was taken as the basis for selecting the items of information included in the worksheet. The list of items required by the EUFD to be disclosed was developed by this researcher on the basis of a review of the text of the EUFD, and its accuracy was checked by a UK academician.

Disclosure requirements of the CMBC: As pointed out above, the disclosure requirements of the CMBC take three forms: the prescribed formats for the financial statements require a high degree of detailed disclosure; in addition, the Communiqué specifies the minimum information which must be given by the notes; finally, the Communiqué specifies the minimum information that must be disclosed in the annual report of directors. The list of required disclosures by the CMBC covers information required to be disclosed by the CMBC in all forms. It was developed by this researcher on the basis of a review of the text of the CMBC and its accuracy was checked by a Turkish accountant who has been in practice for over ten years.

Having created the disclosure requirement worksheet, the disclosure requirements of the EUFD and the CMBC were classified into 23 main disclosure categories (see Table 1). These categories were selected on the basis of an examination of the disclosure provisions of the CMBC and the EUFD and of previous disclosure studies that classified disclosure issues into categories. These categories were intended to represent the major components of disclosure, particularly the major components of the disclosure provisions of the CMBC and the EUFD. The purpose of such a classification was to be able to employ statistical tests to test the hypothesis.

Having created the disclosure requirements as described above, the next step was to quantify the CMBC's conformity to the EUFD, which would enable the researcher to examine the extent of the CMBC's conformity to the EUFD and to test hypothesis. To do this, using the worksheet the researcher counted (for each category and in aggregate);

1. Number of required disclosure items by the EUFD ((#FD_{RDI})
2. Number of required disclosure items by the CMBC which conforms to the EUFD ((#ICFD)

In the case where the CMBC was adopted from the EUFD and therefore in full conformity to the EUFD, we would expect that "#ICFD" should not be different from "#FD_{RDI}" for each disclosure category and aggregate. In this study, therefore, the #ICFD was compared with the #FD_{RDI} to explore the CMBC's conformity. More specifically, first, the extent of the CMBC's conformity with the disclosure provisions of the EUFD was measured by creating a "Fourth Directive conformity index" (FDCONI) for each category and aggregate (FDCONI is the ratio of the "#ICFD" to the "#FD_{RDI}). Then, H_0 "the disclosure provisions of the CMBC are not in conformity with those of the EUFD" was tested by; identifying "#FD_{RDI}" and "#ICFD" for all disclosure categories and performing a statistical analysis to determine whether there were significant differences between them.

Test of hypothesis: The statistical analysis performed to test the hypothesis was a non-parametric two independent sample Mann-Whitney U test. The Mann-Whitney U test was chosen because: 1) the data used to test each hypothesis was gathered from two different sources; 2) the number of variables were limited and the variables were not normally distributed; and 3) this test is considered as "one of the most powerful of the non-parametric tests" (Siegel, 1956, p. 116). The results are discussed below

4.2. Results

Table 1 shows $\#FD_{RDI}$, #ICFD and FDCONI for each category and aggregate.

Table 1. The CMBC's Conformity With Disclosure Requirements of the EUFD

Main disclosure issues (categories)	$\#FD_{RDI}$	#ICFD	FDCONI
1. Intangible fixed assets	8	6	0.75
2. Tangible fixed assets	7	6	0.86
3. Financial fixed assets (long term investments)	5	4	0.80
4. Long term debtors (receivable)	5	4	0.80
5. Cash in hand and at bank(liquid assets)	1	1	1.00
6. Stocks (inventories)	5	5	1.00
7. Investments (Marketable securities)	2	2	1.00
8. Current debtors (receivable)	5	4	0.80
9. Other information about assets and debtors	6	0	0.00
10. Current creditors (liabilities)	11	11	1.00
11. Long term creditors (liabilities)	11	9	0.82
12. Other information about creditors (liabilities)	3	0	0.00
13. Provisions	2	2	1.00
14. Commitments and contingencies	3	3	1.00
15. Capital, reserves	8	8	1.00
16. Share ownership	3	2	0.67
17. Income statement	27	16	0.59
18. Other financial statements and other information relating to financial statements	6	5	0.83
19. Accounting policies, measurement and valuation methods	10	9	0.90
20. Auditing	1	1	1.00
21. Financial history	3	2	0.67
22. Segmental information	2	1	0.50
23. Other information	6	5	0.83
Aggregate	140	106	0.76

$\#FD_{RDI}$ = number of required disclosure items by the EUFD
#ICFD = number of required disclosure items by the CMBC which conforms to the EUFD
FDCONI = EUFD conformity index (#ICFD / $\#FD_{RDI}$)

As can be seen from Table 1, the total number of items of information required to be disclosed by the EUFD is 140, and 106 of these items are also required to be disclosed by the CMBC (i.e. the CMBC's aggregate level of conformity with the EUFD is 76%). The table also shows that, with respect to eight main disclosure issues, the CMBC is in full conformity with the EUFD. These issues are: 5. Cash in hand and at bank; 6. stocks; 7. investments; 10. current creditors; 13. provisions; 14. commitments and contingencies; 15. capital, reserves; 20. auditing). There is also a high level of conformity with respect to the following eight issues (conformity level 80% or above): 2. tangible fixed assets; 3. financial fixed assets; 4. long-term debtors; 8. current debtors; 11. long term-creditors; 18. other financial statements and other information relating to financial statements; 19. accounting policies, measurement and valuation methods; and 23. other information. The disclosure categories for which full and high level of conformity were observed are mainly related to balance sheet disclosure.

However, with respect to two balance-sheet-related main disclosure issues (9. other information about assets and debtors and 12. other information about creditors), none of the nine disclosure items required by the EUFD is required by the CMBC. These information items are those required to be given in the notes to the accounts. Furthermore, as Table 1 shows, the CMBC's conformity level for the other five categories is also relatively low (i.e. between 50% and 75%). Category "income statements", is a notable example. With respect to this category, 11 out of 26 disclosure items required by the EUFD are not required by the CMBC. The majority of these non-conforming items are also those required to be given in the notes to the accounts.

To test the H_0, *"the disclosure provisions of the CMBC are not in conformity with those of the EUFD"*, a non-parametric Mann-Whitney U test was run using SPSS for windows. The result is shown in Table 2.

Table 2. Significance of Differences Between the #ICFD and #FD_{RDI}

Mann-Whitney U test		
	Mean rank	sig.
#ICFD	: 21.22	0.246
#FD_{RDI}	: 25.78	

The differences between #ICFD and #FD_{RDI} are shown to be not significant even at the 0.05 level. Given the fact that if the CMBC is in agreement (conformity) with the EUFD, the #ICFD should not be different from the #FD_{RDI}, the test result leads us to conclude that there is no significant disagreement between the disclosure required by the CMBC and the EUFD.

There are, however, two important points to note. First, despite a high level of conformity, the required disclosure by the CMBC is not in full conformity with the EUFD. Just over 30 items of information are required by the EUFD but not by the CMBC. Most of the non-conforming items are those required to be given in the notes to the accounts by the EUFD. This suggests that the EUFD was not fully implemented in Turkey.

The second important point is that there are a considerable number of items of information that are not required by the EUFD but are required by the CMBC. The majority of these items are related to the detailed disaggregation of the financial statement items. Generally, despite the fact that the balance sheet format prescribed in the CMBC seems to be very similar to that prescribed in the EUFD in terms of information to be provided in this statement, the CMBC requires a more detailed sub-classification of balance sheet items. Furthermore, unlike the EUFD, the CMBC requires fund flow and cash flow statements to be prepared and lays down detailed disclosure requirements to be provided on the face of these statements.

5. Conclusıon

This study has shown that Turkish regulations' conformity with the disclosure provision of the EUFD was reasonably high. This results are in line with the arguments put forward by Yalkin (2000) who suggested that disclosure provisions of the Turkish regulation, including communiqués by the Capital Market Board in Turkey, are in line with the EU directives. Despite the observed high level of conformity, this study also revealed that there are a number disclosure items required by the EUFD for which the Turkish regulation is not in conformity with. If Turkey were to join the EU as a full member, full compliance of Turkish regulation with the EU directives is required. As such, if Turkish authorities decide to bring financial reporting and disclosure requirements in Turkey in line with the EU directives, disclosure provisions of the present regulation in Turkey needs to be amended.

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