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HAVE WE REALLY BEEN USING THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) SINCE 2005? CASE OF TURKEY

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─Abstract ─

Starting from the year 2002, the Turkish national regulatory agency has undertaken an extensive role in the convergence efforts towards IFRS. In order to support the transition, the Turkish Capital Markets Board (TCMB) implemented several versions of IFRS, regulatory practices and compliance requirements- all over the course of 15 years. The first effort undertaken in the road to IFRS transition was the issuance of Series XI, No: 25 by the TCMB. However, Series XI, No: 25 was not fully compatible with the international standard set and Series XI, No: 27 was put into effect in order to allow the companies to refer to the original IFRS when necessary. This has created three groups of reporting companies; Series XI, no: 25 users, IAS/IFRS users and mixed users of both sets. Nobes (2006) states that there is a risk that the process of translation will change or lose meaning from the original version of the standard and as these various IFRS are given legal status in various countries, this approach can potentially lead to application differences between jurisdictions. In line with this argument, the aim of the current study is to discuss impact of these differences on financial report comparability and analysis in Turkey.

Key Words: *IFRS, harmonization, convergence, Turkey, Series XI, No: 25*

JEL Classification: M41, M48, M49

1. INTRODUCTION

Starting from the year 2002, the Turkish national regulatory agency has undertaken an extensive role in the convergence efforts towards IFRS. In order to support the transition, the Turkish Capital Markets Board (TCMB) implemented several versions of IFRS, regulatory practices and compliance requirements- all over the course of 15 years. In this respect, Turkey provides a rewarding setting to discuss the impact of such transition.

In the year 2002, the Head of the Capital Markets Board, Doğan Cansızlar addressed the agencies intentions of aligning national accounting standards with those of the IFRS in a press conference and stated that “the harmonization of accounting practices was an important step in achieving the countries strategic goals”. Turkey's main reason for taking the initiative for IFRS was the support the IASB had gained from the World Bank and the International Monetary Fund (Ulusan, 2005: 17). Coupled with Turkeys status as an applicant to the EU, the increasing importance of access to foreign capital and the desire of the World Bank and the International Monetary Fund were a mobilizing force to ensure a global transition to comparable and high in quality financial reports. Thus, on July 30th 2002, the TCMB sent the International Monetary Fund a letter of intent, committing to the gradual adoption of the IFRS in Turkey.

IASB, as an independent standard setter, requires backing at a national level in order to spread the adoption of the IFRS/IAS. The Letter of Intent was an important factor in ensuring the eventual compulsory adoption of IFRS for firms listed on the Borsa Istanbul (BIST). After the submission of the national regulatory agencies commitment letter, the TCMB adopted various approaches in order to support the switch from the national accounting system to the IFRS/IAS. We shall now go over the different forms of implementation Turkey has undergone over a period of 15 years.

2. IFRS TRANSITION BETWEEN 2003-2007

Published on the 15th of December 2003 (Official Gazette No. 25290), the Capital Markets Accounting Standards Communique (Series: XI, no: 25) was prepared by the TCMB by translating a number of 33 IAS as a basis. These 33 IAS were incorporated into the national accounting standards and those applying the communique under their financial statements of companies were considered to be in full compliance with the IAS/IFRS by the TCMB. The communiques application was mandatory for companies listed on Borsa Istanbul Stock Exchange (BIST) starting from the end of the first interim period of 1st of January 2005. However, the financial requirements listed under Series XI, no: 25 were not fully compatible with the IFRS/IAS for two reasons. First, even though the TCMB’s letter of commitment had stated that the whole standard set was to be applied under the financial reports of the firms, the Series XI, No: 25 at the time did not cover the whole of the IASB published standard set and second, as stated under the communique itself, the two sets included differences. These differences include items such as; leasing, impairment, borrowing costs, segment reporting, discontinued operations, related party disclosures, financial instruments and construction contracts. Thus, even though the firms applying Series: XI, No: 25 was to be considered in full compliance with the IAS/IFRS, this was not the case in reality. This lead to the eventual replacement of the Series XI, No: 25 communiques.

However, before the replacement of Series XI, no: 25, the IFRS convergence efforts in Turkey shifted their implementation approach and on the 21st of December 2004 (Official Gazette No. 25677), in addition to Series: XI, no: 25, amendment, Series: XI, No: 27 was published giving firms the option of preparing financial statements using the full IAS/IFRS set. This was an important step solidifying Turkey’s commitment towards an eventual full-convergence of accounting standards. Series: XI, no: 27 stated that those that took advantage of this communique would be in full compliance with the mandatory disclosure obligations to the TCMB. As a result, firms listed on BIST were able to use either the Series: XI, No: 25, IFRS/IAS or a mixture of Series: XI, No: 25 and IFRS/IAS until the end of 2007. Mixed users of the Series: XI, no: 25 and IFRS/IAS stated that they prepare their financial reports in accordance with Series: XI, No: 25.

However, they report certain disclosures in accordance with IFRS/IAS and give reference openly in their reports.

The fact that the IFRS/IAS was allowed use for listed firms marked the gradual passage from the harmonization of accounting standards to the convergence of accounting standards in Turkey. Thus, for these years we saw the application of multiple types of IFRS versions under the BIST as seen in Figure 1.

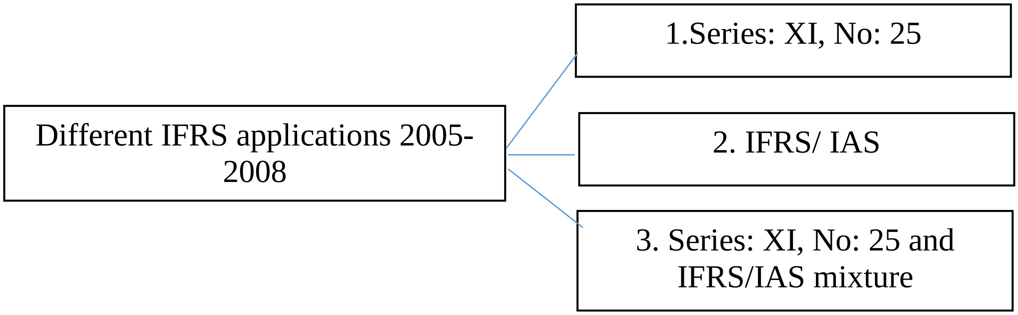

Figure 1: Different applications of IFRS/IAS between 2005-2008

However, this application had an adverse impact on the comparability of these financial reports. Those that took advantage of communique Series: XI, no: 27 and started preparing their financial statements using the full IAS/IFRS set as early adopters and those that continued employing Series: XI, no: 25. These differences in application needed to be taken into consideration when conducting empirical research on Turkish firms as they can lead to differences in results. This argument can be supported by the following analysis. By analyzing the disclosures of the financial and non-financial firms listed under the BIST in 2007, we determine that even though firms have been given the option of preparing financial statements using the full IAS/IFRS set in the year 2004 (Series: XI, no: 27) not all firms have taken advantage of the communique. Additionally, 82% of unconsolidated reports and 59% of consolidated reports have been prepared according to Series: XI, no: 25. This supports the argument that multiple types of IFRS versions are in use within one accounting period and highlights the importance of carefully reviewing the accounting policy disclosures of firms before including them under a sample. Regardless of the reluctance to complete the full shift to the IFRS/IAS we see that the consolidated reports for listed firms during 2007 have a higher percentage of use. This might partially be due to the fact that those firms have more complicated transactions and have to refer to the original IFRS for better reporting. Table 1 shows the number of companies that prepare their financial reports according to Series: XI, No: 25 and IFRS/IAS.

Table 1: The type of accounting standards employed by listed firms during 2007

	Unconsolidated	Consolidated
Series: XI, No: 25	142	102
IFRS/IAS	30	72

3. IFRS TRANSITION AFTER 2007

Unfortunately, as mentioned before, the financial requirements listed under Series XI, no: 25 were not fully compatible with the international standard set. Additionally, the TCMB's letter of commitment to the adoption of the IFRS had stated that the whole standard set was to be applied, thus the communique was later replaced by the "Principles of Financial Reporting" (Series: XI, no: 29), published on the 9th of April 2008 (Official Gazette: 26842). With this communique, the compulsory adoption of the "EU-approved version" of IFRS for firms listed on BIST was put into effect, effective from the 1st of January 2008.

Bengstsson (2011) and Nobes (2006; 2011) addresses the inherent problems in adoption [or as Nobes referred to it as, 'the alleged adoption"] of the "EU-approved version" of IFRS under their study. They state that as standard items sometimes fail to pass the EU endorsement procedure this results in the eventual creation of an "EU-endorsed hybrid IFRS version". As such, the firms applying the EU-approved version of IFRS are in effect applying a "different version" (Nobes, 2006; 2011) and not the full standard set as approved and published by the IASB.

Two additional drawbacks can also potentially occur when a country applies the EU-approved version of IFRS. Both of which are addressed by Nobes (2006); these are "translation issues" and "time issues". We first address "translation issues".
Nobes (2006) states that there is a risk that the process of translation will change or lose meaning from the original version of the standard and as these various

translations of IFRS are given legal status in their various countries, this approach can potentially lead to application differences between jurisdictions. However, in the case of Turkey, various steps were taken in order to overcome such issues. As mentioned before, with the publication of Series: XI, no: 29, firms listed on the BIST were to adopt the "EU-approved version" of IFRS, however, firms were also given the option of employing use of the Turkish translations of IAS/IFRS as they were published by the Turkish Accounting Standards Board (TASB) via the Official Gazette. The different applications of IFRS/IAS between 2008-2013 is depicted below as Figure 2.

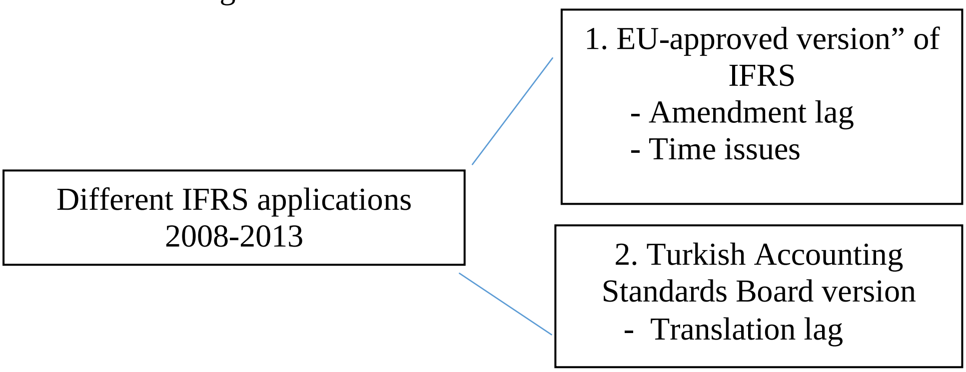

Figure 2: Different applications of IFRS/IAS between 2008-2013

It must be noted that as Article 5 under Series: XI, no: 29 explicitly states that firms are to follow the IFRS/IAS as (and when) adopted by the EU, there is a natural lag between the publication of a standard amendment under the EU Official Journal and the publication of the translation by Turkish Accounting Standards Board (TASB). Naturally, this led to the development of issues regarding compliance- these are addressed under "time issues" below].

The translation of the IFRS/IAS were attempted three times; the efforts were initially spearheaded by the TCMB, but later continued by the TASB. Unfortunately, the first two versions of the translations [by the TCMB and TASB] gathered tremendous negative feedback. Thus, for the third translation efforts, the TASB incorporated a diverse group of highly respected academics and practitioners into the due process to ensure the translation quality of the IAS/IFRS. As a result of these efforts, the royalties and license agreement entered by the TASB with the IASB resulted in a faithful (Gençoğlu and Ertan, 2012) Turkish translation of the full standard set.

We next address Nobes's (2006) "time issues" for applying the EU-approved version of IFRS under a country. As Turkish firms were also legally obligated (Series: XI, No: 29- Article 5) to follow the IFRS/IAS as adopted by the EU, issues regarding the amendment to the standard set were quick to develop. Any amendment to the standard set needs to pass through an examination conducted by various organizations charged by the European Parliament and the European Commission, and the amount of time required for approval is quite lengthy. Unfortunately, as the financial report preparers and auditors need to follow the application date of standards and amendments as publicized under the EU Official Journal, waiting for the Turkish translation of the EU-approved IFRS/IAS would cause them to possibly miss the in-effect date of the standard. One example of this in Turkey is the amendment to the IFRS 7 "Financial Instruments: Disclosures" standard published on the 23rd of November 2011 in the Official Journal. Financial report preparers who did not follow the ratification of the amendment "Transfers of Financial Assets" under the Official Journal disclosed under their annual financial statements (85 firms) that it had yet to enter into force and thus, missed out on applying it and fell into non-compliance with the standard.

Following these developments, Turkey adopted another approach to implementing IFRS/IAS. The Public Oversight Accounting and Auditing Standards Authority was established by the "POAASA Organization and Responsibilities Law" numbered 660 on November 2nd, 2011 and was awarded the authority to set and issue accounting standards compliant with the international standards (IFRS/IAS). Additionally, the Authority was given the option of publishing financial reporting principles, procedures and explanatory guidelines in order to ensure clear and comparable reports are published and practice unity is achieved. The compliance with these publications and decisions of the Authority are mandatory. On September 13th, 2013 Communique II-14-1 (Official Gazette 28676) repealed Series XI, No: 29 (which was published in accordance to the 6362 Capital Markets Law -12 June 2012), officially transferring power from the TASB to the POAASA via item 5 of the communique.
As mentioned before, Series: XI, no: 29 came into effect from the 1st of January 2008 and mandated the compulsory adoption of the "EU-approved version" of

IFRS for firms listed on BIST. However, after the publication of Communique II-14-1 this changed and the POAASA is now legally obligated to employ use of the IFRS/IAS as published by the IASB when preparing the Turkish translations of the standards. Additionally, the requirement for firms to follow the "EU-endorsed hybrid IFRS version" as (and when) published under the EU Official Journal was repealed. This version of IFRS implementation is not popular among non-EU countries. Nobes and Zeff (2010; 2015) states that, several countries in the Arab world, Caribbean and Africa have started legally requiring the use of IFRS as issued by the IASB for certain purposes.

This change is an important step taken towards full-convergence of IFRS in Turkey and aided in the reduction of the "timing issues" mentioned above. Previously, any amendment to the standard set needed to pass through an examination conducted by various organizations charged by the European Parliament and the European Commission. However, by shifting away from the EU-version of the standard, the risk of missing the application date because of a lengthy approval process was reduced. This, unfortunately, does not remove the natural lag that can occur between the IASB publication/amendment of a standard and the publication of the translation by the POAASA. Additionally, this shift away from the EU-version of the standard can also potentially reduce the comparability of the financial information being reported.

For example; European Commission (EC) postponed the amendments regarding the application of consolidation exception and sale or contribution of assets between an investor and its associate or joint venture for "IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures" (EY 2015). Additionally, EC was reluctant to endorse IFRS 14 Regulatory Deferral Accounts (EY 2015) and carved out the IAS 39 Financial Instruments: Recognition and Measurement. The carve-out included items such as the option to fair value all financial assets and liabilities and fair value hedge accounting for portfolio hedge of interest rate risk (IFRS 2015). These differences between the EU version of IFRS/IAS and as published by the IASB should needs to be taken into consideration when comparing financial information published across countries. In the case of Turkey, these differences should also be taken into account under the time wise comparison of financial statements.

Following the changes that were made to Series: XI, no: 29, listed firms under the BIST are now obligated to prepare their financial statements according to the Turkish translation of the IFRS/IAS, which means that the effective date for each amendment and standard shall be different than the proposed effective date by the IASB. This is another common example for “Different Version of IFRS” as covered under Nobes (2006) for non-English speaking countries. Nobes (2006) states that standards generally have an effective date of “annual periods beginning on or after...” with early adoption being allowed for a short period. However, these dates can differ between countries. This raises another issue for consideration during cross-country IFRS studies.

Even though the shift towards IFRS as issued by the IASB is an important step taken towards full-convergence, we for-see that Turkey might eventually repeal Communique II-14-1 and return to applying the EU-approved version of IFRS. The main reason being Turkey’s candidate status as an EU-Member. During our phone-interview with the POAASA several important issues were brought up by a representative concerning the need for the shift, these were; differences in the effective date between the EU-version of IFRS and the IASB issued dates, carve outs of standard items (under IAS 39) and delays of mandatory effective dates of standards (IFRS 9). However, as Regulation 1606/2002 (approved March 2002) forces member states to apply the EU-approved version of IFRS under the consolidated financial statements of companies listed on the stock market (effective as of the 1st of January, 2005) Turkey might eventually be forced to shift back, regardless of these important implementation issues.

4. CONCLUSION

The Turkish national regulatory agency has undertaken an extensive role in the convergence efforts towards IFRS. In order to support the transition, the Turkish Capital Markets Board (TCMB) implemented several versions of IFRS, regulatory practices and compliance requirements- all over the course of 15 years. This shows that transition to IFRS is not a smooth process. During the process, application differences through years and firms exist. This increase the comparability of financial statements issue. This paper adds to the Nobes (2006) argument of translation and jurisdiction differences by pointing out the existence of different versions of IFRS application within the same time period in one country.

This study contributes to the literature by stressing the importance of detailed evaluation of IFRS/IAS application of companies when conducting empirical research. There have been many studies that overlook these issues in their sample selection. This could potentially result in misleading conclusions. In this respect, this study is particularly important for researchers who wish to conduct empirical research by using Turkish data.

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