



THE ROLE OF COMMITTEES
IN THE EFFECTIVE
FUNCTIONING OF
BOARDS OF DIRECTORS

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CORPORATE GOVERNANCE ASSOCIATION OF TÜRKİYE PUBLICATIONS

The Importance of Committees to the Success of Boards of

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FOREWORD

Having made significant contributions to the spread of corporate governance in Türkiye by working shoulder to shoulder with regulators, we at TKYD have believed from day one in corporate governance and the fact that its transformative power will contribute to the development of companies, starting with their boards, as well as the development of the countries in which they operate.

There is no doubt that boards of directors are the cornerstone of successful corporate governance. At TKYD, the issue of boards of directors is an important part of our agenda for disseminating best practices. We do not believe in large boards of directors, we believe in effective boards of directors, boards that operate corporate mechanisms, and boards that understand shareholders and manage expectations.

At this point, the structure of the board of directors, which plays an important role in increasing its effectiveness, is one of the issues we highlight. We support increasing the proportion of non-executive and independent board members, as well as the proportion of female members, and believe in the importance of ensuring diversity on boards. We also observe that the secretary of the board and the orientation for new board members are important for increasing the effectiveness of the board - we focus our efforts on promoting best practices that have not yet found a place in legislation, despite their increasing prevalence.

Undoubtedly, the selection of board members, the structure of the board, the orientation for board members, and the existence and quality of the board secretary position are of great importance to the board's success in managing the company. However, this publication will discuss in more detail the role of committees established within boards in their effective functioning. In fact, committees that report to the board play an important role in the board's informed decision-making as the most important cornerstone of corporate governance. In today's world of rapidly changing agendas and shifting expectations and needs, committees that provide in-depth analysis, present relevant information to the board with an accurate flow of information and agenda items, and enable it to use its time more effectively, are critical to its success. Although corporate governance first appeared on our agenda with practices applicable to publicly traded companies and related legislative arrangements, this mechanism actually provides guidance, responsibility, facilitation and greater transparency for all institutions, including public institutions. At TKYD, we believe that the existence and effectiveness of boards of directors and committees are of great importance not only for large, multinational, publicly traded companies but also for companies of all sizes and qualities,

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SMEs, family businesses, public institutions, and NGOs.

We hope that this publication will be a useful roadmap for business professionals and all interested parties. We would like to thank the members of the TKYD Board of Directors Working Group who contributed to our study; Ali Kamil Uzun, Chair of the Board of Directors Working Group, who conducted the interviews and prepared the content that forms the basis of this publication; Att. Nihal Mashaki, Menteş Albayrak, Müge Yalçın, Arzu Çakmakçiođlu; Aclan Acar, Ahmet Cemal Dördüncü, Aydın Öđücü, Duygu Yılmaz, İzzet Karaca, Orhan Turan, Ömer Aras, Selim Şiper and Dr. Yılmaz Argüden for sharing their experiences by giving their valuable time; Eser Taşcı, the editor who compiled this publication on behalf of the working group; and Dr. Burak Koçer, who proofread the publication.

Dr. Tamer Saka

Chairman of the Board of Directors, TKYD

INTRODUCTION

We know that in today's challenging and volatile environment, it is both necessary and difficult to manage businesses in a healthy and successful manner and to ensure their sustainability for generations to come. First, we see an emphasis on the volatile, uncertain, complex, and ambiguous nature of today's conditions through the internationally recognized term "VUCA." Indeed, today's business world is increasingly characterized by these characteristics.

In this regard, the foundation and key to sustainable success for businesses is to formulate the right strategies, identify the right success factors and objectives, and effectively implement the necessary action plans in this direction, while at the same time create the necessary management and operational structures, systems, resources (human, financial, etc.) and competencies.

The role and importance of an effective board of directors, as well as the management and employees of the company, is becoming increasingly clear to successfully manage all of the above challenging conditions and businesses.

Speaking of the role of the board of directors, it is worth briefly mentioning some of the important characteristics of this key governance body. As is well known, the top tier of the hierarchical structure of businesses consists of shareholders, who are represented in the general assembly in proportion to the weight of their shares. The general assembly normally convenes once a year to elect the board of directors that will manage the company on behalf of the shareholders. Also, the board meets regularly to provide direction and support to senior management, as well as to monitor and oversee practices.

The distribution of roles and tasks in this structure is very important. Similar to the parliament and government structure in modern and democratic state governance, the board (like a parliament representing the nation), represents with the authority it receives from the shareholders responsible for determining the principles and policies such as vision and mission, values, strategies, goals, etc., while monitoring and auditing the company's activities on a regular basis. Senior management (like a government), on the other hand, is responsible for running operations and achieving goals in line with the direction. The roles and responsibilities of these two bodies are therefore complementary, not conflicting, and the existence and coherence of both are essential. The board should not interfere with the executive authority and responsibilities of senior management but should play a role in overseeing it and providing warning or guidance when necessary.

The Role of Committees in the Effective Functioning of Boards of Directors



The board is the brains of the company. In companies with boards that do not fulfill this function, each body moves in a different direction.



Aclan Acar

Aclan Acar, Founder, Stratejik Danışmanlık Member, TKYD Advisory Board



The effective functioning of the board, i.e. the proper performance of its role as outlined above, is a critical factor for the sustainable success of the business on the one hand, and for the executive performance of senior management and the interests and well-being of shareholders and other stakeholders on the other hand, and it is of utmost importance that shareholders pay attention to the proper composition and functioning of this body, not only procedurally but also substantively.



Crises are opportunities for well-managed companies. Leadership matters in crises; companies that are agile, take quick decisions, work well with stakeholders and make the right choices turn crises into opportunities.



Orhan Turan

Chair of the Board, ODE Yatırım President, TÜSİAD



Finally, it is useful to recall a few points about the proper composition of the board. A board of directors must have certain characteristics in order to play its role effectively. First of all, the board should have a sufficient number of members with different competencies and should not have too many and disengaged members.

It is important for the effectiveness of the board that its members have diverse characteristics and work in harmony. It is primarily the duty of the chairman of the board to ensure this harmony. The need for different characteristics on the board stems from the fact that its roles and responsibilities are very diverse and broad. Let us recall the main themes:

- Strategic management and oversight (purpose, mission, vision, values, strategies, objectives, critical success factors, etc.)
- Corporate governance
- Risk management
- Audit
- Senior Management oversight (executive planning, development, performance management, etc.)
- Support services (financial affairs, legal affairs, information systems, human

Assembling a team with sufficient knowledge and experience in such matters is a prerequisite for board effectiveness. It is a common practice to consider competency in such matters when appointing board members and, in some special cases, to obtain such competency through external consulting services.

In addition, committees established and appointed by the board of directors also support it. These bodies are an important element that increases the effectiveness of the board by addressing some important matters in a more comprehensive manner on a different platform and reporting their conclusions and opinions to the board.



In today's world of accelerating change, all our organizations, whether family-owned or not, need to be much faster, more flexible, agile, resilient, and competitive. This can only be achieved by organizations that operate with the understanding required by corporate governance, manage with common sense, plan their resources correctly, embrace digitalization and, above all, invest in human resources. In a time when we need common sense more than ever, it is therefore essential to create a good board of directors and turn it into a platform where everyone's opinion can be heard.



Duygu Yılmaz

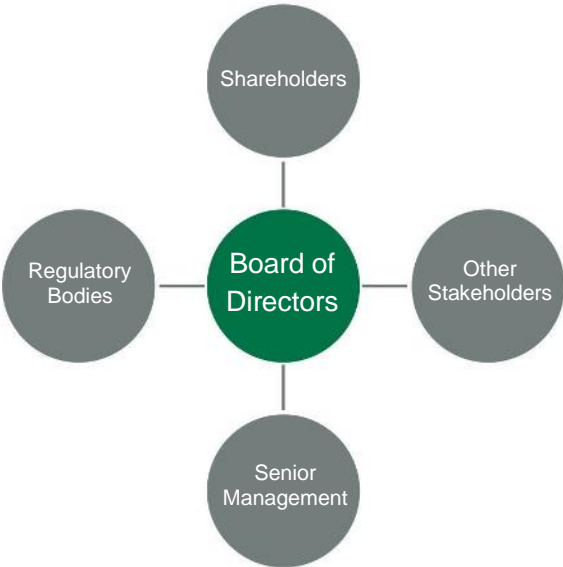
Board Member, Süttaş

Vice Chair of the Board of Directors, TKYD

I. Duties, Authorities and Responsibilities of the Board of

As is known, the board is the highest management body of a company. It acts as a bridge between shareholders and senior management. The board of directors exercises its legal authority to "manage the company" through senior management. It oversees the success of senior management in doing this work and is accountable to the people or organizations that have a stake in the company.

Management is responsible for running the company on behalf of shareholders and other non-shareholder stakeholders. However, the board should be composed of experienced and prudent members in order to avoid any conflict of interest between management and shareholders, and a board with such qualities is critical for the sustainability of the company.





If the new generation comes into the company but things are the same as they were yesterday, it is a waste of their training. It is important to give young people opportunities and to remain a family.



Aydın Öğücü

Board Member, Lila Kağıt A.Ş.



Power that is unchecked is not power. It is a critical board responsibility to ensure that all those with management responsibilities, including the CEO, act in accordance with the rules and values to ensure trust in the organization, not the individual. This responsibility cannot be adequately realized in organizations without a healthy internal and external audit system.



Dr. Yılmaz Argüden

*Chair of the Board, ARGE Consulting
Member, TKYD Advisory Board*



As the ultimate decision-maker, the Board's role is to proactively manage the company and create continuous and sustainable value for shareholders in the long term. Strategic decisions are among the most important elements that lead companies to create success and value. The essence of strategy is making choices. Why are choices important? Because every choice carries risks. Therefore, the presence of experienced members with different perspectives and the ability to think independently is very important in the formation of a board. After all, the board that will lead the company to success will consist of such members.

Boards spend too much time on operations and not enough on governance, strategy, and the future as they try to save the day. However, the board should not get bogged down in too many details but focus on the strategy and provide guidance.

Orhan Turan

*Chair of the Board, ODE Yatırım
President, TÜSİAD*

Article 365 of the Turkish Commercial Code states that "The joint-stock company shall be managed and represented by the board of directors." Surely there is no greater responsibility than this. From this perspective, it is clear how important the effectiveness of the board is to the success of the company. There are powers that the board of directors cannot delegate or relinquish, no matter how legally sound the governance structure is. Article 375 of the Turkish Commercial Code sets forth the non-transferable powers of the board of directors. Since the board cannot delegate these powers, it cannot also delegate the responsibilities arising from the exercise of these powers.

When managing a crisis, one needs to make decisions very quickly. Everyone can decide with 'perfect information'. The important thing is to make the right decisions with the information set you have and to implement them with effective communication. For example, during the Covid-19 crisis, all deputy general managers, the general manager, and I met at the bank every morning at 9:00 a.m. to assess the situation and communicate effectively with the entire bank. This has enabled us to lead the banking industry in pandemic preparedness. Sharing information builds trust. You are afraid of what you do not know, you are not afraid of what you know. Being optimistic is my principle in crises. Everyone needs to be in good spirits. Every crisis creates a new era. It is also necessary to prepare for such new periods.



Ömer Aras

Chair of the Board, QNB Finansbank

Undoubtedly, the structure of the board, the election, and orientation for board members, and the existence and quality of the board secretary position are of great importance to the board's success in managing the company.

II. Structure of Boards of Directors

There are many factors that make boards of directors work effectively. It is important to keep in mind that there is no one-size-fits-all model, just as the OECD states for the Principles of Corporate Governance. Each company should find the best model for itself among the principles of corporate governance and management models, while of course complying with all legislative requirements. Let's look at some of the factors that can contribute to the effective functioning of the board.

1. Structure of the Board of Directors

An effective board structure is, first and foremost, a balanced one. When forming the board of directors, we must be careful to create a balanced composition of members. So what is a balanced board?

First, a balanced board should have the ideal number of board members. Determining the number of board members is a very strategic issue. According to the TCC, the board of directors of a joint-stock company shall consist of at least one member. Since Article 339/2-g of the TCC clearly states that the number of board members may be determined by the articles of association, the founders and shareholders have the opportunity to freely regulate the number of board members in this document. Accordingly, the articles of incorporation may provide for a floor and a ceiling. It is possible to create flexibility between this lower and upper limit, depending on the needs of the partnership, and to ensure that a different number of board members are elected in each election cycle of the general assembly.

Although the TCC permits a board with a single person, publicly traded companies must have at least five board members. Under the TCC system (TCC Art. 390/1), the board convenes with the majority of the total number of members and takes its decisions with the majority of the members present, unless the articles of association provide otherwise. In case of equality of votes, the management of the joint-stock company may be locked, and it is common practice to have an odd number of board members to prevent such a situation. Even numbers can cause conflicts and unresolved situations. In family businesses, the number of family- and non-family board members should be determined by considering the effectiveness of the board. According to the TCC (Art. 390/3), in case of a tie, a new vote shall be taken and if the tie is not broken again, the proposal shall be deemed rejected.

The Role of Committees in the Effective Functioning of Boards of Directors

The board of directors must include both executive and non-executive board members. Given the board's duty to oversee the management, the number of executive and non-executive members on boards should be balanced. Non-executive board members have no duties in the company and are therefore impartial with respect to the implementation of the resolutions. They also bring an outside perspective, experience, and knowledge to the board as they are not involved in operations. They may also have favorable relationships that they can use to the benefit of the company. In fact, the CMB requires the majority of the boards of directors of publicly traded companies to be composed of non-executive members.

Turkish people ask, "Who do I report to?" "Who's in charge of me?" This is our culture; we want someone to take care of us. A board should be composed of competent, experienced, and knowledgeable people. One cannot go one step further in corporate life with friends and family. Institutionalism is based on mutual trust.



Selim Siper

CEO and Board Member, Petrol Ofisi A.Ş.

One of the most important issues when it comes to the concepts of executive and non-executive is whether the CEO or general manager, who is the chief executive, should be a board member. In 80 percent of the world, the CEO is also a member of the board of directors as the chief executive, even though this goes against the basic philosophy. The board's role is to appoint and supervise managers. Therefore, the executive and the board should be separate. But the best way to improve the quality of the board is to examine the board as a whole. All members of a board need to internalize the concept and culture of corporate governance very well, because there is a significant difference between being a manager and being a board member. Therefore, it is critical to understand the spirit of the business.

If the CEO attends board meetings, they need to view the board as a place to be coached and held accountable. The fact that some agenda items are discussed at board meetings only with the participation of board members, and that senior management representatives do not participate in the discussion of these items, is an extension of the corporate governance approach. In practice, this so-called "in camera-in private" session, usually held towards the end of the meeting, discusses issues that need to be addressed without the presence of the executive directors (e.g. CEO performance, employee benefits, or bonus plans).



The CEO and CFO must definitely attend board meetings.



İzzet Karaca

Independent Board Member, Anadolu Group



As with corporate governance, one size does not fit all when it comes to board structure. In Petrol Ofisi, the CEO has an active role on the board of directors. This is the unique model of Petrol Ofisi. I suggest that each company should design and manage its board of directors according to its own business.



Selim Siper

CEO and Board Member, Petrol Ofisi A.Ş.

The board should be supported by independent board members. The CMB's Corporate Governance Communiqué includes ten criteria for a board member to be considered independent, but in summary, all these principles require that an independent board member should be from any relationship that may affect their independent decision-making, and indeed, members are expected to be independent in mind and conscience.

The more subjective criterion of "having the professional training, knowledge, and experience to perform their duties properly" also touches on the concept of board diversity. However, it is important to remember that there should be no distinction between board members based on their qualifications (independent, executive, shareholder, etc.). No one member is superior to another and the only goal is for all members to work in balance and as a team.

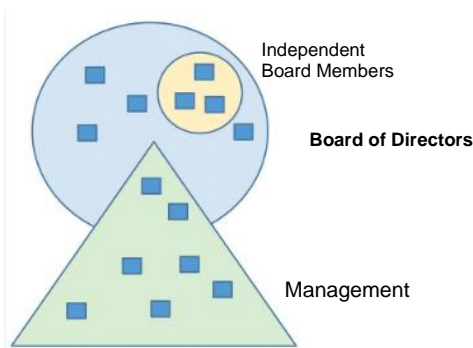


I strongly recommend that there should be at least one or two independent board members on the boards of non-listed companies. There should be an independent board member who is an expert in whatever aspect of the company is weak, and the board should meet regularly.



Orhan Turan

*Chair of the Board, ODE Yatırım
President, TÜSİAD*



The board members should have knowledge, experience, personality, and competencies that complement each other and are appropriate to the needs of the company. Although it is difficult to plan, it is important to remember that all organizations made up of people have a group dynamic. This is the result of personal interaction between people. It can be creative and productive or, in difficult situations, destructive. Therefore, it is wise to consider personal interaction on boards when selecting and



I think that independent members make very important contributions to our companies. This contribution is very valuable, not only in terms of the independent members' ability to offer an important vision to the company with their competencies and experience but also in terms of the implementation of corporate governance practices. These members bring an important discipline to the company, from the organization of board meetings to the reporting system, from the effectiveness of committees to performance management. They also serve to increase the management's accountability to the minority shareholders and other stakeholders by providing independent and objective assessments of issues that create potential conflicts of interest, particularly in family businesses.



Duygu Yılmaz

Board Member, Sütaş

Vice Chair of the Board of Directors, TKYD

Likewise, group dynamics is also a very important matter. The chair of the board has a big role to play in managing this dynamic. For example, if a member has doubts about an issue brought to the board, this should not be overlooked. The chair should prevent group dynamics from negatively affecting the board's decision-making capacity because of the way they conduct the meeting. This can be achieved by the chair encouraging each member to express their opinion, with the chair expressing their opinion last.



Although the board of directors is the highest decision-making body of the company, no single board member has any authority on their own. The main task of the board is to guide the company and to oversee the good and proper functioning of the management within the framework of the established rules. When forming the board, the relevant persons should take care to ensure that the members are a balanced team that respects each other's knowledge and opinions but does not hesitate to express their differing views. The presence of a single powerful person on the board would upset the balance. The board of directors is a decision-making body as a board, any no one member can be the sole decision-maker.



Dr. Yılmaz Argüden

Chair of the Board, ARGE Consulting

Member, TKYD Advisory Board

The Role of Committees in the Effective Functioning of Boards of Directors

Another issue to consider when forming a board of directors is age distribution. Accordingly, a succession plan should be in place so that board members do not retire at the same time. This is important both to ensure that the board is not incomplete at any one time and to ensure that different age groups/generations are represented on the board. At this point, it is important to create the right combination of competencies, experience, and characteristics of board members. In fact, differentiating past experiences, skills, and expertise can be very useful as it can bring different approaches to the company's performance, strategy, and risk perception. Considering where the company wants to go, a board matrix can be developed to enhance the board's strategic skills in line with the company's vision and mission.

The number of female board members should also be considered when considering diversity. As a matter of fact, according to the CMB's corporate governance principle, which is not yet mandatory, "The company shall set a target rate and target time for the ratio of female members on the board of directors, which shall not be less than 25%, and establish a policy to achieve this target. The board of directors shall evaluate the progress towards these goals on an annual basis."



I think that the more women are involved in the board and management, the better any work will be done. But I don't think it is right to limit it to a quota. When there is a quota, people are forced to comply. I do not think such quotas will change the flow of water much through coercion.



Aclan Acar

*Aclan Acar, Founder, Stratejik Danışmanlık
Member, TKYD Advisory Board*



I do not think it is right to see arrangements for the presence of women in decision-making processes as a means of solving gender inequality. I think this is a fundamental imperative to better manage our businesses.



Duygu Yılmaz

*Board Member, Süttaş
Vice Chair of the Board of Directors, TKYD*

In creating an ideal board structure, the CMB's independence criteria also include "the ability to devote time to the affairs of the company". As a matter of fact, according to a 2014 study, members of highly effective boards spend twice as much time as board members of companies with medium or low board effectiveness (members of boards with medium and low effectiveness spend a total of 19 days per year, while members of effective boards spend a total of 40 days per year)

2. Orientation for Board Members

The need for an orientation program that contributes to the development of boards as a vital function in the effective management of companies and prepares newly appointed board members to add value to themselves and the company through a quality process, may vary from member to member, depending on their prior knowledge and experience and the role they will assume on the board and in committees. It is important for the effectiveness of the board that this process is completed as soon as possible.

In the process involving the alignment between the newly appointed board member and the company, both need to pay attention to a number of issues. These include organizing an orientation meeting, collectively providing the new member with all materials to help them become familiar with the company, visiting the premises, meeting with other board members and key executives, and providing the new member with the information they need to fulfill their responsibilities as soon as possible. Today, we see that many companies have written down this process and started to present it in a systematic way. TKYD's Board Member Orientation Guide serves as a guide in this regard. The relevant publication is available on TKYD's website at www.tkyd.org.

3. Board Secretary

The company secretary-general is a strategically important position that coordinates the delivery of timely and accurate information to the board of directors, in a manner that is readily accessible to them. Establishing and ensuring the functioning of this position within the company is instrumental to the success of its board.

The importance of this position, which has been designated and filled by more and more companies in Türkiye with a better of understanding, becomes even greater in a world where information flows unlimitedly, agility has emerged as one of the main management concepts and quick decisions are increasingly required. On the other hand, company secretaries-general are expected to have not only professional experience and competency but also familiarity with principles of corporate governance and best practices, managerial qualities, and coordinating personality traits.

In practice, it is observed that in some companies this position serves only the board of directors, while other relevant persons are appointed for the committees, such as

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an investor relations manager for the corporate governance committee or an internal auditor for the audit committee. In some companies, this position is the secretary-general with broader responsibilities, including the board of directors and committees. For more information on the duties and responsibilities of the board secretary, TKYD's publication "Uluslararası Uygulamalar Çerçevesinde Şirket Genel Sekreteri" can be used as a reference. The relevant publication is available on TKYD's website at www.tkyd.org.

In addition, matters such as board members' liability insurance, evaluation of the board performance, and remuneration of board members in accordance with principles of corporate governance are also of great importance for positioning the board of directors in a way to add value to the company. The establishment of an electronic infrastructure that allows board meetings to be held electronically, especially during the pandemic period due to travel restrictions, is an element that supports diversity in the composition of the board of directors and attendance at meetings.



Critical to a board's success is preparing a charter that includes its core objectives, operating principles, and values, and ensuring that the board conducts regular self-evaluations to continually improve its effectiveness.



Dr. Yılmaz Argüden

*Chair of the Board, ARGE Consulting
Member, TKYD Advisory Board*

So why is the success of the board so important? Because the board of directors of a company is also an indicator of its reputation. It offers an environment of trust in which the interests of shareholders and stakeholders are protected, the company is in good hands, decisions are made in consultation and based on the necessary experience, the results are evaluated objectively, and, accordingly, trust is created in the ability to entrust management to competent people with merit and, if necessary, to replace them. Corporate governance is about trust. It increases resilience, reduces risk, and enhances corporate sustainability.

III. The Role of Committees in the Effective Functioning of Boards of Directors

Undoubtedly, the election of board members, the structure of the board, the orientation for the board members, and the existence and quality of the board secretary position are of great importance to the board's success in managing the company. However, this publication will discuss in more detail the role of committees established within the board in the effective functioning of the board.

In order for the board to use its time effectively, it is useful, even necessary, to establish various committees to deal in greater depth with issues such as audit, risk management, governance and sustainability. However, committees do not make decisions on behalf of the board. They work to facilitate the decisions of the board as a whole, providing important opinions on the issues under consideration and recommendations for decisions. Committees are established to ensure that important issues are placed on the agenda after review and to facilitate the Board's ability to see the big picture and look to the future.

Dr. Yılmaz Argüden

*Chair of the Board, ARGE Consulting
Member, TKYD Advisory Board*

According to corporate governance theory, the most important raison d'être of committees is to provide an environment in which non-executive members of the board can work without executive members. This non-executive environment is a sine qua non of corporate governance. Decisions resulting from the independent efforts of the committees are presented as recommendations to the board, which makes the final decision.

The Role of Committees in the Effective Functioning of Boards of Directors

At Lila Kağıt, the Family Council fulfills the function of committees. Specific matters are designed and implemented in the Council. One of the most important matters is value. We realized that our previous analysis of corporate values was outdated and that the order of importance had changed. These values need to be recoded. But the common denominator that allowed us to succeed in this whole process of institutionalization was using external intelligence and realizing the importance of auditing.

Aydın Öğücü

Board Member, Lila Kağıt A.Ş.

Today, the speed of digitization and a crowded agenda make it impossible for the board to devote sufficient time to each matter, and this is where the importance of committees comes becomes apparent. The reason for the creation of committees is to ensure that matters that cannot be sufficiently addressed by the Board of Directors are placed on the agenda. In this way, a board that cannot meet frequently because it does not have time to work through the details of the issues to be resolved can work more effectively by forming committees.

The company's size, structure, and needs are essential in determining which committees to establish. In fact, it is certain that the organization you will create in a large company will not be the same as the organization in a family business. At this point, it is important to understand the spirit of the business. Each company and structure must be considered individually. The committees to be formed should be considered according to needs.

Aclan Acar

*Aclan Acar, Founder, Stratejik Danışmanlık
Member, TKYD Advisory Board*

It is important to remember that committees are not the decision-makers per se. This is because committees can end up doing more harm than good if not managed well. A committee is only responsible for reviewing. The board's job, on the other hand, is to look at the big picture and see the future.



Committees should be meticulous in their preparation, groundwork and its submission to the board. Committees facilitate the board's activities and use of time while providing a framework for decisions.



Dr. Yılmaz Argüden

*Chair of the Board, ARGE Consulting
Member, TKYD Advisory Board*

The Turkish Commercial Code, Banking Law and Capital Markets Law contain regulations on committees.

Regulations on Committees in the Turkish Commercial Code

The Turkish Commercial Code (TCC) regulates committees in Articles 366 and 378. Article 392 refers to the right to obtain and review information.

Distribution of tasks

ARTICLE 366- (2) The board of directors may set up committees and commissions, which may also include the board members, to monitor the course of business, to prepare reports on matters to be submitted to it, to implement its resolutions, or for internal audit purposes.

Early detection and management of risk

ARTICLE 378- (1) For companies whose shares are listed in the stock exchange the board of directors is required to set up an expert committee to run and develop the system for the purpose of early detection of the causes that jeopardize the existence of the company, its development, and continuity of the business unit in danger, of applying the necessary measures and remedies in this regard, and of managing the risk. In other companies, such a committee shall be established immediately upon the auditor's written notification to the board of directors and shall submit its first report at the end of one month following its establishment.

(2) In a bimonthly report to the board of directors, the committee shall assess the situation, indicate the dangers, if any, and show remedial actions. The report shall also be sent to the auditor.

Right to information and inspection

ARTICLE 392- (2) Persons and committees in charge of company management, as well as all board members, are required to provide information at board meetings. A member's claim regarding this matter cannot be rejected and the member's questions must be answered.

The Role of Committees in the Effective Functioning of Boards of Directors

The establishment of committees auxiliary to the board is, as a rule, voluntary. However, the establishment of an early detection and management of risk committee is mandatory if the auditor deems it necessary.

Regulations on Committees in the Banking Law

For the banking industry, issues related to committees are regulated in the following legislation:

- ◇ Banking Law
- ◇ Regulation on Loan Operations of Banks
- ◇ Regulation on Principles of Corporate Governance of Banks
- ◇ A Guide to Good Remuneration Practices in Banks

The following committees are specified in the above-mentioned laws, regulations and guidelines. While audit, corporate governance and remuneration committees are mandatory, there is no legal requirement to establish a credit committee. According to the Banking Law, the authority to issue credit is vested in the board of directors of banks. However, the Board of Directors may delegate the authority to grant credit to the credit committee or the general management within the framework of the procedures and principles established by the BRSA in the Regulation on Credit Transactions of Banks. It can be said that the creation of a credit committee has become a necessity in an

- Audit Committee
- Corporate Governance Committee
- Remuneration Committee
- Credit Committee

Remuneration and Corporate Governance Committee

Corporate Governance Committee:

Guidelines on Principles of Corporate Governance of Banks

Principle 2- Authorities and responsibilities within the Bank should be clearly defined and implemented.

The board of directors should determine the powers and responsibilities of board members and senior management, oversee the activities of senior management, and senior management's compliance with the policies set by the board.

Senior management should clearly define the authority and responsibilities of employees, including compliance with policies and procedures, codes of ethics, and professional practices, and monitor the exercise of such authority and responsibilities. All employees should be aware that they are ultimately accountable to the board.

A corporate governance committee should be established to monitor the bank's compliance with principles of corporate governance, carry out relevant improvement activities, and submit proposals to the board of directors. The committee chairs should be elected from among the non-executive directors of the board. The committee must document and maintain a record of all its work.

Remuneration Committee:

A Guide to Good Remuneration Practices in Banks

Article 12. Banks should establish a remuneration committee to oversee remuneration policies, processes, and practices on behalf of the board of directors to ensure an independent and effective remuneration system. The remuneration committee consists of at least two non-executive board members who have sufficient knowledge and experience in remuneration policies and internal systems as a whole.

Audit Committee

Banking Law

Article 24. Banks' board of directors shall establish audit committees for the execution of the audit and monitoring functions of board of directors. Audit committee shall consist of minimum two members Audit committee members shall be appointed amongst the members of the board of directors who do not have executive duties. For banks operating in Türkiye as branches, a member of the board of managers to whom no executive unit is attached shall be appointed to fulfill the duties of audit committee.

Credit Committee

Regulation on Loan Operations of Banks

Formation of a credit committee

ARTICLE 6 - (1) A credit committee composed of minimum two members to be elected by the board of directors from among its members, who meet the same conditions sought for a general manager except for the term as per Article 25 of the Law and bank general manager or deputy general manager may be set up in order to perform the duties to be assigned by the board of directors in connection with loans. Two alternate members are elected from among the members of the board of directors, who meet the same conditions sought for a general manager except for the term, to substitute the members of the credit committee who would not be able to attend any meetings. Affirmative votes of at least three fourth of the members of the board of directors are sought for election of members and alternate members of the credit committee.

The Role of Committees in the Effective Functioning of Boards of Directors

The Banking Law and the Regulation on Banks' Credit Transactions also include provisions that the board of directors may delegate this authority. The analysis of the articles of the legislation did not reveal any regulations on the obligation to establish a credit committee.

There are also committees outside the board level that are legally required to be established in banks. We can see it in different banking legislation including communiqués and regulations. Examples include the Active and Passive Management Committee, Information Sharing Committee, and Information Security Committee.

Regulations on Committees in Capital Markets Legislation

The Corporate Governance Communiqué includes regulations on committees in capital market legislation. As is known, the principles of corporate governance on committees included in the principles annexed to this Communiqué are among the principles with which the CMB must comply.

4.5. Committees Established within the Board of Directors

4.5.1. The "Audit Committee" (except for banks), "Early Detection of Risk Committee" (except for banks), "Corporate Governance Committee", "Nomination Committee, and Remuneration Committee" (except for banks) are established to ensure that the board of directors fulfills its duties and responsibilities in a sound manner. However, if the structure of the board does not permit the establishment of a separate nomination committee and remuneration committee, the corporate governance committee shall perform the functions of these committees.

4.5.2. The remits, working principles, and membership of the committees shall be determined by the board and disclosed on the PDP.

4.5.3. Committees must have at least two members. In case the board consists of two members, both, and in case there are more than two members, the majority of them must be non-executive directors of the board. The committee chairs are elected among the independent board members. All members of the audit committee must be independent board members. Subject experts who are not board members may be members of committees other than the audit committee.

4.5.4. The chief executive officer/general manager cannot serve on committees.

4.5.5. Care is taken to ensure that a board member does not serve on multiple committees.

4.5.6. The board shall provide the committees with all resources and support necessary to carry out their duties. Committees may invite anyone they deem necessary to their meetings and receive their opinions.

4.5.7. The committees shall benefit from the opinions of independent experts on matters they deem necessary in relation to their activities. The cost of the consultancy services required by the committees shall be covered by the company. In this case, however, the annual report shall include information about the person/organization receiving the service and whether that person/organization has a relationship with the company.

4.5.8. The committees shall document and maintain a record of all their work. Committees shall meet as often as deemed necessary for the effectiveness of the work and as described in the working principles. Committees shall submit reports to the board of directors containing information about their activities and the results of their meetings.

4.5.9. Audit Committee

The audit committee oversees the company's accounting system, disclosure of financial information, independent auditing, and the functioning and effectiveness of the company's internal control and internal audit system. The selection of the independent audit firm, initiation of the independent audit process through independent audit contracts, and the activities of the independent audit institution at each take place under the supervision of the audit committee.

The audit committee determines the independent auditing institution that will serve the company as well as the services to be obtained and submits them to the board of directors for approval.

The audit committee determines the methods and criteria to be applied to the examination and resolution of the complaints received by the company regarding the accounting, internal control system, and independent audit as well as confidential assessment of company employees, accounting, and independent audit matters.

After taking the views of the company's responsible managers and independent auditors, the audit committee provides the board of directors with its evaluations regarding the authenticity and accuracy of the annual and interim financial statements that will be disclosed to the public in terms of accounting principles.

The audit committee convenes at least once every quarter and four times a year, and it records the results of the meetings in the minutes and presents them to the Board of Directors.

The annual report explains the activities of the audit committee and the results of the meetings. The annual report also describes the number of written notices from the audit committee to the board of directors during the year.

The audit committee shall immediately notify the board of directors in writing of its findings, assessments, and recommendations with respect to its duties and responsibilities.

4.5.10. Corporate Governance Committee

The corporate governance committee shall determine whether the principles of corporate governance are fully implemented and, if not, determine the reasons thereof and the conflicts of interest arising from the failure to fully comply with them, make recommendations to the board to improve corporate governance practices and oversees the activities of the investor relations department.

4.5.11. Nomination Committee

Nomination committee shall be responsible for:

- a) Working on establishing a transparent system to identify, evaluate, and train suitable candidates for the board of directors and for management positions with administrative responsibilities and to determine policies and strategies in this regard,
- b) Making regular assessments of the structure and efficiency of the board of directors and submitting recommendations to the board of directors regarding any possible changes to these matters.

4.5.12. Early Detection of Risk Committee

The early detection of risk committee is responsible for the early detection of risks that may jeopardize the existence, development, and continuity of the company, taking necessary precautions against detected risks, managing them, and reviewing the risk management systems at least once a year.

4.5.13. Remuneration Committee

- a) The board of directors shall determine the principles, criteria, and practices to be used in the remuneration of the members of the board of directors and executives with administrative responsibilities by taking into account the long-term goals of the company while overseeing them.
- b) It submits its proposals to the board of directors regarding the remuneration of the members of the board of directors and executive officers, taking into account the degree of achievement of the criteria applied to the remuneration.

The above is not an exhaustive list of the articles in the Corporate Governance Communiqué relating to the committees:

3.1.4. The company shall establish the necessary mechanisms for stakeholders to report to the Corporate Governance Committee or the Audit Committee transactions that violate applicable laws and are unethical.

4.2.3. Taking into account the views of the relevant board committees, the board of directors shall establish internal control systems, including risk management and information systems and processes, to minimize the effects of risks that may affect the company's stakeholders, particularly the shareholders.

4.2.7. The board of directors plays a leading role in ensuring effective communication between the company and the shareholders, settling and resolving any possible disputes. It works closely with the corporate governance committee and the investor relations department for this purpose.

4.3.1. The number of members of the board of directors shall be determined in such a way as to enable its members to work efficiently and constructively, to take decisions quickly and rationally, and to organize the formation and work of committees effectively, but in no case less than five members.

Companies may need to establish permanent or temporary committees from time to time in addition to the mandatory committees set out in the legislation. These committees may focus on priority areas such as capital markets and sustainability, or they may be related to the company's operations. However, all committees, whether temporary or permanent, are relevant for the success of the board to the extent that they have the resources to access the know-how to support its activities and are positioned to increase its effectiveness and influence.



There is a confusion over concepts in Türkiye. We cannot find a one-size-fits-all solution for every company. "Situational Leadership" is important. For example, Petrol Ofisi has a needs-based procurement committee. It is important for each company to identify its own risks and take steps accordingly.



Selim Siper

CEO and Board Member, Petrol Ofisi A.Ş.



In the companies I have worked in, we have set up and run mandatory committees, but I am more interested in the areas related to the spirit of the company (Strategy, Talent-HR Committee, etc.). I felt it was more important to prepare the people who will keep the company afloat.



Aclan Acar

*Aclan Acar, Founder, Stratejik Danışmanlık
Member, TKYD Advisory Board*

IV. Positioning Committees to Increase Board Effectiveness

1. Audit Committee

Legal Framework and Establishment

The Audit Committee performs on behalf of the board of directors the duties listed among the responsibilities of the board in Article 375 of the TCC, namely "accounting, financial auditing and, to the extent required by the management of the company, establishing the necessary order for financial planning and supervising that the persons responsible for management act in compliance with the laws, articles of association, internal directives and written instructions of the board of directors".

When examining the justification of the same article: "The establishment of a financial audit system is the demonstration of an "internal audit" system for auditing the company's business and transactions and the organization (department) that will achieve it. Regardless of the size of the company, there is a need for an effective internal audit organization consisting of experts who are completely independent of the accounting department. The audit of a joint-stock company cannot be entrusted to only one independent audit firm. An independent organization has dozens or even hundreds of clients as it provides many services to them. It cannot monitor every customer closely and internally. Financial audit is, in a sense, what the "inspection board" does. In addition to financial and internal auditing of transactions, it also includes the auditing and monitoring of the company's financial resources, their use, condition, and liquidity. Financial audit is a requirement of corporate governance rules.

In banks, the inspection board should not only control but also educate. If an external auditor finds a significant deficiency, it means that there is a deficiency in your control system.

Ömer Aras

Chair of the Board, QNB Finansbank

Pursuant to Article 366 of the TCC, the board of directors may establish committees and commissions, which may also include board members, to monitor the course of business, to prepare reports on matters to be submitted to it, to enforce its resolutions, or for internal audit purposes. Under this article, the establishment of an audit committee is optional.

Under Article 378 on the Early Detection and Management of Risk of the TCC, "For companies whose shares are listed in the stock exchange the board of directors is required to set up an expert committee to run and to develop the system for the purpose of early detection of the causes that jeopardize the existence of the company, its development and continuity of the business unit in danger, of applying the necessary measures and remedies in this regard, and of managing the risk." In other companies, this committee shall be established immediately upon the auditor's written notification to the board of directors.

The justification of the same article states the following: "The provision is an application of principles of corporate governance in companies whose shares are traded in the stock exchange. It is an internal control mechanism in addition to the financial audit and the auditing committee, which are required for all joint-stock companies. The difference between this committee and the audit committee is that the latter oversees management, while the former focuses only on risk. Moreover, whereas auditing is a retrospective review, risk identification is about the future and its interpretation. While audit cannot be managed, risk can and should be. The law also imposes the duties of an "internal audit committee" on the early risk detection committee.

An evaluation of all these articles and their justifications leads to the conclusion that the legislator has envisaged a "financial audit and audit committee" in all joint-stock companies to ensure that the board of directors effectively fulfills the above-mentioned responsibilities under Article 375. While the early detection of risks committee can undertake these tasks, ideally a separate "financial oversight and audit committee" should be established.

The board of directors may also establish a financial audit and an audit committee as per Article 366 of the TCC, which stipulates that "The board of directors may establish committees and commissions, which may include members of the board of directors, to monitor the course of business, to prepare reports on matters to be submitted to it, to enforce its decisions or for internal audit purposes."

In terms of Banking Law, Article 24 stipulates that the boards of directors of banks shall establish an audit committee to assist the board in fulfilling its audit and supervision activities. Audit committee shall consist of minimum two members Audit committee members shall be appointed amongst the members of the board of directors who do not have executive duties. For banks operating in Türkiye as branches, a member of the board of managers to whom no executive unit is attached shall be appointed to fulfill the duties of the audit committee. Audit committee members must have the qualifications specified by the board. The relevant information and documents shall be notified to the institution within seven working days at the latest following the assignment.

On behalf of the board of directors, the audit committee is responsible for overseeing the effectiveness and adequacy of a bank's internal control, risk management, and internal audit systems, the functioning of such systems, and accounting and reporting ones pursuant to this Law and related regulations, and the integrity of the information produced, making the necessary preliminary assessments for the selection of independent audit firms by the board of directors, regularly monitoring the activities of

the independent audit firms selected by the board of directors, and ensuring the consolidated maintenance and coordination of the internal audit functions of the institutions subject to consolidated audit in organizations that are parent companies under this Law.

When we set up the internal audit committee, we first realized that written processes were missing.

Ömer Aras

Chair of the Board, QNB Finansbank

The audit committee is obliged to receive regular reports from the units established within the scope of internal control, internal audit and risk management systems and independent audit institutions in relation to the performance of its duties and to notify the board in case of any issues that may adversely affect the continuity and safe conduct of the bank's activities or any breaches of the legislation and internal regulations.

I believe that the most critical period for a company is the growth phase. The first committee we established to implement the system during this period was the internal audit committee.

Aydın Öğücü

Board Member, Lila Kağıt A.Ş.

The audit committee is obliged to report to the board of directors the results of its activities and its opinions on the measures to be taken, practices to be implemented, and other issues it deems important for the safe continuity of the bank's activities provided that they do not exceed six-month periods.

Task Areas

The Audit Committee is authorized to obtain information and documents from all units of the Bank, contracted support service organizations, and independent audit institutions, and to procure consultancy services from specialized persons at the Bank's expense subject to the approval of the board of directors. The duties, authorities, and responsibilities of the audit committee, its working principles and procedures shall be regulated by the board of directors.

With regard to publicly listed companies, as per Communiqué on Corporate Governance II-17.1, Principles of Corporate Governance, 4.5.1., the establishment of an audit committee is a legal obligation (except for banks). According to the same communiqué, the audit committee oversees the company's accounting system, disclosure of financial information, independent auditing, and the functioning and effectiveness of the company's internal control and internal audit system. The selection of the independent audit firm, initiation of the independent audit process through independent audit contracts, and the activities of the independent audit institution at each take place under the supervision of the audit committee.

Article 366.2 of the TCC provides the legal basis for joint-stock companies to set up committees to assist the board of directors. This restructuring does not constitute a delegation of authority. In other words, the responsibility for matters that fall within the scope of the committee or commission lies with the board of directors. However, unless otherwise stipulated in the articles, the committee shall be legally established by resolution of the board.

From the perspective of publicly listed companies, principle no. 4.5 of the CGP titled "Committees Established within the Board of Directors" stipulates the establishment of committees to assist the board of directors and regulates their structure. A committee shall be established by the board of directors unless otherwise stipulated in the articles of association. The remit, working principles, and members of the committees shall be determined by the board of directors and disclosed on the Public Disclosure Platform.

Pursuant to Article 6 - (1) of the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks, the audit committee is established when the bank's board of directors appoints at least two non-executive directors elected from among its members as members of the bank's audit committee to assist it in carrying out its audit and supervisory activities.

As the TCC does not directly address the audit committee, the working procedures and principles of the risk committee can be used as a reference with regard to the tasks of the audit committee in public limited companies.

The committee shall submit its first report one month after its establishment according to Article 378 of the TCC. It regularly assesses the situation in its bimonthly report to the board, indicating any menaces, if any, and showing remedial actions. The report shall also be sent to the auditor. The justification of this article states that "The committee shall report to the board every two months in accordance with the purpose and spirit of the provision. For this reason, it would be appropriate for such a committee in listed companies to be chaired by a neutral director".

With regard to the banking industry, the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks lists the powers and responsibilities of the audit committee members as follows:

The Role of Committees in the Effective Functioning of Boards of Directors

ARTICLE 7 - (1) The Audit Committee shall oversee, on behalf of the board of directors, the effectiveness and adequacy of a bank's internal systems, the functioning of these systems and the accounting and reporting systems within the framework of the Law and the relevant regulations along with the integrity of the information produced, make necessary preliminary assessments for the selection of valuation and support service institutions by the board of directors, regularly monitor the activities of such institutions with which the board of directors enters into contracts, ensure that the internal audit activities of the companies subject to consolidation are conducted and coordinated on a consolidated basis in accordance with the regulations enacted pursuant to the Law.

(2) Within the scope of the first paragraph, the audit committee is authorized and tasked with the following:

- a) Monitoring compliance with the provisions of this Regulation and with the bank's internal policies, implementing internal control, internal audit, and risk management procedures approved by the board of directors, and making recommendations to the board on the measures deemed necessary,
- b) Establishing communication channels that will enable the personnel of the units within the framework of internal systems to reach it directly,
- c) Overseeing whether the internal audit system covers the bank's current and planned activities and the risks arising from these activities, and examining the internal audit regulations to be implemented with the approval of the board of directors,
- ç) Making proposals to the board of directors for the selection of the managers of the units as part of the internal systems that are connected to the audit committee, and giving opinions when the board of directors dismisses them,
- d) Receiving and evaluating the opinions and recommendations of senior management regarding internal systems,
- e) Ensuring that communication channels are in place to ensure that any irregularities within the Bank are reported directly to it or the internal audit unit or inspectors,
- f) Monitoring whether the inspectors fulfill their duties independently and impartially,
- g) Reviewing internal audit plans,
- ğ) Making recommendations to the board of directors on the qualifications required for the personnel working in the units within the framework of the internal systems,
- h) Monitoring the measures taken by senior management and their subordinate units regarding the issues identified in internal audit reports,
- ı) Assessing the level and adequacy of professional training of the managers and staff assigned to the units as part of the internal systems,
- i) Assessing whether the necessary methods, tools, and implementation procedures are in place to identify, measure, monitor, and control the risks borne by the Bank,
- j) Holding regular meetings with the inspectors and the independent auditors of the independent audit firm conducting the independent audit of the Bank at regular intervals,

not less than four times a year, according to the program and agenda to be determined,

k) Informing the board of directors on the opinions and assessments of the relevant senior management, the personnel working in the risk management, internal control and internal audit units, and the independent audit firm on the practices required for the proper fulfillment, efficiency, and development of the activities in line with their duties and responsibilities,

l) Reviewing the independent audit firm's assessments regarding the compliance of the Bank's accounting practices with the Law and other relevant legislation, and obtaining explanations from the relevant senior management on any discrepancies identified,

m) Evaluating with the senior management and the independent auditors the results of the independent audit, the annual and quarterly financial statements and related documents, and the independent audit report, and resolving any doubts raised by the independent auditor,

n) (Amended: OG-4/3/2017-29997) Evaluating the independence of the rating agencies, independent audit institutions, including those performing information systems audit, and valuation institutions, with which the Bank will sign a contract, as well as their chairs and members of the board of directors, auditors, managers, and employees involved in bank-related activities, and the adequacy of the resources allocated, submitting the evaluations with a report to the board, and repeating these procedures periodically during the term of the contract, not exceeding one year for valuation institutions and three months for other institutions,

o) Conducting risk assessments of the support services to be procured by the bank, reporting its assessments to the board of directors, repeating these procedures regularly during the term of the contract, but without exceeding a one-year period, and also monitoring the adequacy of the services provided by the support service organization,

ö) Supervising that the bank's financial reports are accurate and contain all the information required to be represented, that they are prepared by the Law and other relevant legislation, and that any errors or irregularities detected are corrected,

p) Conferring with the independent auditors on whether the financial reports accurately present the financial position of the bank, the results of its operations and cash flows, and whether they have been prepared in accordance with the procedures and principles set out in the Law and other relevant legislation,

r) Reporting to the board of directors the activities undertaken during the period and their results, provided that the period does not exceed six months, and including in the report the opinions on the measures to be taken in the bank, the practices that need to be implemented and other matters deemed important for the safe continuation of the bank's activities,

s) Monitoring the involvement of credit officers in the evaluation and decision-making stages of credit transactions involving them, their spouses and children under their supervision, or other natural or legal persons who form a risk group with them, and establishing communication channels to ensure that they are informed of these issues.

The Role of Committees in the Effective Functioning of Boards of Directors

(3) The audit committee is responsible for establishing the audit and control process to provide the necessary assurance on the adequacy and accuracy of the ICAAP.

According to the Corporate Governance Communiqué II-17.1 Principles of Corporate Governance (CGP), the duties of the audit committee in publicly traded companies are as follows:

4.5.2. Its remit, working principles, and membership shall be determined by the board of directors and disclosed on the PDP.

4.5.9. The audit committee determines the independent auditing institution that will serve the company as well as the services to be obtained and submits them to the board of directors for approval. The audit committee determines the methods and criteria to be applied to the examination and resolution of the complaints received by the company regarding the accounting, internal control system, and independent audit as well as confidential assessment of company employees, accounting, and independent audit matters.

After taking the views of the company's responsible managers and independent auditors, the audit committee provides the board of directors with its evaluations regarding the authenticity and accuracy of the annual and interim financial statements that will be disclosed to the public in terms of accounting principles.

The audit committee convenes at least once every quarter and four times a year, and it records the results of the meetings in the minutes and presents them to the Board of Directors. The annual report explains the activities of the audit committee and the results of the meetings. The annual report also describes the number of written notices from the audit committee to the board of directors during the year.

The audit committee shall immediately notify the board of directors in writing of its findings, assessments, and recommendations with respect to its duties and responsibilities.

4.5.6. The board shall provide the committee with all resources and support necessary to carry out its duties. The committee may invite anyone it deems necessary to its meetings and receive their opinions.

4.5.7. The committee shall benefit from the opinions of independent experts on matters it deems necessary in relation to its activities. The cost of the consultancy services required by the committee shall be covered by the company. In this case, however, the annual report shall include information about the person/organization receiving the service and whether that person/organization has a relationship with the company.

4.5.8. The committee shall document and maintain a record of all its work. It shall meet as often as deemed necessary for the effectiveness of the work and as described in the working principles. Committees shall submit reports to the board of directors containing information about their activities and the results of their meetings.

According to the TCC, there is no provision regarding the membership structure of the audit committee as it is an ad hoc committee. However, the qualifications of the

members of this committee are regulated in detail in both banking legislation and capital markets legislation.

Pursuant to the Regulation on Internal Systems and Internal Capital Adequacy Assessment Process of Banks, the qualifications of the audit committee members are listed below:

ARTICLE 6 - (1) The board of directors shall appoint at least two of its non-executive members to be members of the bank's audit committee to assist it in fulfilling its audit and supervision activities. These members;

a) Including the last two years prior to the date of appointment;

1) shall not be a member of the Board of Directors with executive duties in the Bank,

2) shall not be an employee of the bank and/or its subsidiaries subject to consolidation, except for those working in internal systems, financial control, and accounting units,

3) shall not be a shareholder or personnel of the organizations conducting the independent audit or rating or valuation of the Bank and/or its subsidiaries subject to consolidation, or of the organizations abroad that have a legal connection with these organizations, or not being involved in the independent audit, rating or valuation process,

4) shall not be a partner or employee of the organizations providing consultancy or support services to the Bank and/or its subsidiaries subject to consolidation, or not being one of the persons providing such services,

b) shall not be a qualified shareholder in the Bank and/or the partnerships subject to consolidation,

c) shall not be the spouse or relatives by blood or marriage up to the second degree (including this degree) of the controlling shareholder, the executive board directors, or the general manager,

ç) shall not have served on the audit committee of the same bank for more than nine years, intermittently or continuously,

d) shall not receive from the Bank and/or the consolidated subsidiaries any remuneration or similar income under any name whatsoever based on their profitability, with the exception of the payments made to all personnel out of profits in accordance with the provisions of the articles of association or the resolution of the general assembly,

e) shall have at least a bachelor's degree and at least ten years of experience in the banking or finance fields,

f) shall not have spouses and/or children as general managers, deputy general managers, or managers in equivalent positions in the bank and/or its subsidiaries subject to consolidation but shall have the qualifications and conditions required in subparagraph (a) of the first paragraph and subparagraph (b) of the same paragraph, except for sub-clause (1) and (2),

g) (Amended: OG-19/1/2016-29598) shall not work in any other commercial organization other than the organizations specified below;

1) Partnerships subject to consolidated audit, limited to the duty of board membership,

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2) Domestically or internationally established legal entities holding direct or indirect shares in the Bank,

3) Domestically or internationally established credit institutions and financial institutions that are individually or jointly controlled or participated in with unlimited liability by the natural person shareholders of the Bank or the shareholders specified in sub-clause (2). Sub-clause (2) of paragraph (a) of this paragraph does not mean that an audit committee member may also serve in internal systems, financial control, and accounting units. The prohibition in subparagraph (g) of this paragraph shall not apply to the members of the audit committees of banks established by law or the authority granted by the law to finance the development of the country or a particular sector or area without accepting deposits and participation funds.

(2) The qualifications sought for the election of the members of the audit committee shall be sought for the duration of such members' service. At least one audit committee member to be appointed shall have at least a bachelor's degree in law, economics, finance, banking, business administration, public administration, or equivalent disciplines, or a postgraduate degree in the aforementioned fields if they have a bachelor's degree in engineering. Also, at least one committee member must be a resident of Türkiye.

(3) In banks operating as branches in Türkiye, one member of the board of directors who does not have an executive unit reporting to them shall be assigned to the audit committee. The qualifications specified in sub-clauses (3) and (4) of subparagraph (a) and subparagraphs (ç), (d), and (e) of the first paragraph shall be sought in this member. The spouse and/or children of such a member shall not be a member of the board of directors, head office manager, head office branch manager, head office branch assistant manager, or a manager holding an equivalent position in the bank without a unit operating in an executive capacity under them; they shall not be shareholders or personnel of the institutions performing independent audit, rating or valuation of the bank, nor shall they take part in the independent audit, rating or valuation process, nor shall they be shareholders or employees of organizations providing consultancy or support services, nor shall they be one of the persons providing such services within the last two years before the date of appointment.

(4) If, for any reason, the number of members of the audit committee falls below two, the board of directors is obliged to appoint, within fifteen days at the latest, a sufficient number of members of the audit committee who possess the qualifications required by this article. If there are no members of the board of directors with the qualifications required by this article, non-executive board directors may be temporarily appointed to the audit committee. In temporary appointments, the member is required to have the qualification of a non-executive director since the appointment date. The board of directors is obliged to take the necessary measures, including calling the general assembly for an extraordinary meeting for the election of new board members, to be able to appoint, within one month following the date of appointment, a board member who possesses the qualifications specified in this article to replace the audit committee member appointed on a temporary basis.

According to Communiqué on Corporate Governance II-17.1, Principles of Corporate Governance, 4.5.3, it should consist of at least two members. All members of the audit committee must be independent board members. These qualifications are described in Article 4.3.6 of the principles. Persons, who are experts in their own subject but not members of the board of directors, may be included in the committee.

4.5.5. Care is taken to ensure that a board member does not serve on multiple committees. However, it is not mandatory due to various implementation constraints such as the number of independent members.

4.3.10. At least one audit committee member shall have five years of experience in audit/accounting and finance. Also, according to 4.3.6.g., they must have the professional training, knowledge, and experience to properly perform their duties as an independent director.

4.3.5. The term of office of the independent directors is up to three years and they are eligible for re-election upon nomination.

4.3.6.g. They shall not have served on the board of directors of the company for more than six years within the last ten years.

Implementation Challenges and Best Practices

A general examination of the audit committee concept shows that the importance of the audit function has increased with the Sarbanes-Oxley Act, which was enacted in the US after the corporate scandals caused by audit weaknesses. In our legislation, it has found an important place in both banking and capital market legislation with the entry into force of the Turkish Commercial Code No. 6102. The main goal is to ensure the sustainability of the company by establishing an effective audit mechanism in accordance with the corporate governance approach. This serves the interests not only of the controlling shareholders but also of all stakeholders in the short, medium, and long term alike.

Audit committees are indispensable for companies. This committee's added value is increased when it works together with the early detection of risk committee. In fact, Anadolu Group, which boasts many corporate governance best practices in Türkiye, holds the year-end meetings of these two committees



Ahmet Cemal Dördüncü
Board Member and Chief Executive
Officer, Akkök Holding

The Role of Committees in the Effective Functioning of Boards of Directors

The practice in Türkiye shows that this committee is most effectively established by banks, its implementation may occasionally be limited by listed companies with shares traded on the stock exchange, and it is known that it may function effectively after its establishment by certain non-listed and reputable joint-stock companies, family companies, and especially international companies with foreign shareholders who believe in the importance of corporate governance and sustainability.

From the audit committee's point of view, we need to reduce the targets because there are too many key performance indicators (KPIs) in Türkiye. If critical actions remain, they must be addressed. The chair of the audit committee should also be able to demand action when they see risks. Another point is that we have observed that talking about the positive first creates a good atmosphere in the committee. Accordingly, we made a list of savings and best practices, and now we start the audit committee meeting agenda with good news.

İzzet Karaca

Independent Board Member, Anadolu Group

The reason why this practice remains on paper from time to time, even though it is mandatory for listed companies, is that the culture of being listed is not widespread enough and management does not want this committee, which is composed only of independent directors, to be sufficiently involved in the internal affairs of the company.

Internal audit is the best training place within the company, you can learn all the details of the business. I would like the actions prepared by the Internal Audit Department to be implemented and reported. Anyone can make a proposal to change the procedure. Internal audit analyzes and evaluates this. Reports are shared with the board of directors.

Selim Siper

CEO and Board Member, Petrol Ofisi A.Ş.

In practice, it is also observed that the independent audit company is invited to the meetings at which the semi-annual financials with limited review and the annual financials with an independent audit are evaluated. In practice, the meetings of the audit committee are always observed to be attended by the company's chief financial officer. In companies with an internal audit unit, the internal auditor also attends the audit committee meetings and presents information on the results of the internal audits performed during the reporting period.

2. Early Detection of Risk Committee

Legal Framework and Establishment

Under Article 378 of the Turkish Commercial Code, "For companies whose shares are listed on the stock exchange, the board of directors shall set up a committee of experts to run and develop the system for early detection of the causes that jeopardize the existence of the company, its development, and continuity of the business unit in danger, applying the necessary measures and remedies in this regard, and managing the risk. In other companies, such a committee shall be established immediately upon the auditor's written notification to the board of directors and shall submit its first report at the end of one month following its establishment."

According to Corporate Governance Communiqué II-17.1 Principles of Corporate Governance,

4.5.12 is responsible for the early detection of risks that may jeopardize the existence, development, and continuity of the company, taking necessary precautions against detected risks, managing them, and reviewing the risk management systems at least once a year.

4.2.3. Taking into account the views of the relevant board committees, the board of directors shall establish internal control systems, including risk management and information systems and processes, to minimize the effects of risks that may affect the company's stakeholders, particularly the shareholders.

4.2.4. The board of directors reviews the effectiveness of the risk management and internal control systems at least once a year. The annual report provides information on the functioning and effectiveness of the internal audit system.

The principles of corporate governance exempt banks from the requirement to establish such a committee. Article 31 of the Banking Law stipulates that banks must establish a risk management system but does not require the establishment of a committee.

In terms of the above-mentioned legislation, the establishment of this committee or commission is, in principle, voluntary. However, under Article 378 of the TCC, listed companies are required to establish early detection and management of risk committees without any other condition, and others are required to do so if the auditor deems it necessary.

The establishment of early detection of risk committee is mandatory for publicly listed companies according to Article 4.5.12 of the Principles of Corporate Governance. Corporate governance principles stipulate the establishment of five committees, and as compliance with the principles regarding the establishment of committees is mandatory under Article 5.1 of the Communiqué on Corporate Governance, the establishment of these committees has also become mandatory for listed companies. Under Corporate Governance Principle 4.5.1, in the absence of an established nomination committee and remuneration committee, the duties of these committees shall also be fulfilled by the corporate governance committee, thus reducing the number of mandatory committees to at least three.

Banks are excluded from the obligation to establish such a committee. As Article 31 of the Banking Law requires banks to establish a risk management system, principles of corporate governance do not require banks to establish an early detection of risk committee. However, some regulations include phrases that recommend the establishment of a risk committee. The Guidelines for the Management of Operational Risk is an example.

The Role of Committees in the Effective Functioning of Boards of Directors

"As part of this process, obligations are set to measure risk, receive reports from various internal units, and report to the risk committee and the board of directors."

The legal basis for the establishment of committees to assist the board of directors is Article 366.2 of the TCC concerning how the committee is established. This restructuring does not constitute a delegation of authority. In other words, the responsibility for matters that fall within the scope of the committee or commission lies with the board of directors. However, unless otherwise stipulated in the articles of association, a committee shall be established by a resolution of the board of directors.

Principle 4.5 of the Principles of Corporate Governance titled "Committees Established within the Board of Directors" stipulates the establishment of committees to assist the board of directors and regulates their structure. A committee shall be established by a board resolution unless otherwise stipulated in the articles of association. The remits, working principles, and members of the committees shall be determined by the board of directors and disclosed on the Public Disclosure Platform.

In banks, a committee shall be established by a board resolution unless otherwise stipulated in the articles of association.

From the perspective of joint-stock companies and the banking industry, there is no provision regarding its membership structure as it is a voluntary committee. In the case of publicly listed companies, however, the qualifications of the committee members are specified in detail according to the capital markets legislation. Accordingly, it must consist of at least two members and the chair must be an independent board member.

- ◇ Under CGP 4.5.3, it is stipulated that both members of committees with two members and the majority of the members of committees with more than two members shall be non-executive board members.
- ◇ The chief executive officer and general manager will not be able to serve on committees. It aims to ensure that the committees are independent and can act in a specialized manner.
- ◇ This committee may also include persons who are not members of the board of directors. Board members may serve on more than one committee. However, Principle 4.5.5.5 of the CGP does not impose a prohibition, and it is preferred that a board member should not be a member of more than one committee.

Task Areas

The main duties of the early detection of risk committee can be listed as

- ◇ The Committee conducts oversight of risk management policies and practices and supports the board of directors in this regard.
- ◇ The committee reviews management's effectiveness in managing and assessing risks arising from management's activities, risk-taking, and the compatibility of risky activities with the company's current risk appetite and strategic objectives.
- ◇ The committee reviews the risk appetite.

In a bimonthly report to the board of directors, the committee shall assess the risk situation, indicate the dangers, if any, and show remedial actions. The report shall also be sent to the auditor. It also reviews risk management systems at least once a year.

According to the Common Principles:

4.5.6. The board shall provide the committees with all resources and support necessary to carry out their duties. Committees may invite anyone they deem necessary to their meetings and receive their opinions.

4.5.7. The committees shall benefit from the opinions of independent experts on matters they deem necessary in relation to their activities. The cost of the consultancy services required by the committees shall be covered by the company. In this case, however, the annual report shall include information about the person/organization receiving the service and whether that person/organization has a relationship with the company.

4.5.8. The committees shall document and maintain a record of all their work. Committees shall meet as often as deemed necessary for the effectiveness of the work and as described in the working principles. Committees shall submit reports to the board of directors containing information about their activities and the results of their meetings.

In other companies, such a committee shall be established immediately upon the auditor's written notification to the board of directors and shall submit its first report at the end of one month following its establishment.

Once the committee is established, a risk report is presented to the board of directors on a bimonthly basis, and the risk management systems are reviewed at least annually.

Implementation Challenges and Best Practices

In Türkiye, with the establishment of effective risk units, especially by holding companies, the importance of the risk committee has started to increase and many companies have put this issue on their agenda by preparing risk maps after it became mandatory for listed companies.

The shortage of skilled labor in this field has diminished over time with the support of various NGOs, and many companies have begun to address risk management in a more effective and systematic manner. Undoubtedly, the exposure of our geography to many risks and the increasing economic and political uncertainties of the last 20 years have played a role in this. The growing number of tools for managing economic uncertainty has also given rise to the phenomenon of risk management.

Especially after the 2001 crisis, the risk committee has become the most important committee. The risk committee is very active in banks. In addition to basic risks such as market risk, credit risk, operational risk, and liquidity risk, it monitors and controls all risks including cyber risk. On an annual basis, it identifies the areas in which the bank is willing to take on more risk and those in which it is not. Because banking is regulated by law, there is a discipline in the industry.

Ömer Aras

Chair of the Board, QNB Finansbank

3. Corporate Governance Committee

Legal Framework and Establishment

There is no provision in the TCC requiring the establishment of a corporate governance committee for joint-stock companies. According to the Guidelines on Principles of Corporate Governance of Banks, a corporate governance committee shall be established to monitor banks' compliance with Principles of Corporate Governance, carry out relevant improvement activities and submit recommendations to the board of directors. The obligation to establish this committee was introduced for listed companies by the capital markets legislation. Accordingly, it is obligatory to be established under the following articles of the Principles of Corporate Governance:

4.5.10. The corporate governance committee shall determine whether the principles of corporate governance are fully implemented and, if not, determine the reasons thereof and the conflicts of interest arising from the failure to fully comply with them, make recommendations to the board to improve corporate governance practices and oversees the activities of the investor relations department.

4.2.7. The board of directors plays a leading role in ensuring effective communication between the company and the shareholders, settling and resolving any possible disputes. It works closely with the corporate governance committee and the investor relations department for this purpose.

Like all other committees, the legal basis for the establishment of committees to assist the board of directors is Article 366.2 of the TCC. It must be established in accordance with the Guidelines on Principles of Corporate Governance of Banks. The CGP provides for the establishment of five committees and, as compliance with the principles on the establishment of committees is mandatory under Article 5.1 of the CGC, the establishment of these committees has also become mandatory for listed companies. Under Corporate Governance Principle 4.5.1, in the absence of an established nomination committee and remuneration committee, the duties of these committees shall also be fulfilled by the corporate governance committee, thus reducing the number of mandatory committees to at least three.

From the perspective of joint-stock companies, structuring the committee does not constitute a delegation of authority. In other words, the responsibility for matters that fall within the scope of the committee or commission lies with the board of directors. However, unless otherwise stipulated in the articles, the committee shall be legally established by resolution of the board. In the case of banks, this committee shall be established by a resolution of the board of directors, unless otherwise stipulated in the articles of association.

Principle no. 4.5 of the CGP titled "Committees Established within the Board of Directors" stipulates the establishment of committees to assist the board of directors and regulates their structure. A committee shall be established by a board resolution unless otherwise stipulated in the articles of association. The remits, working principles, and members of the committees shall be determined by the board of directors and disclosed on the Public Disclosure Platform.

There is no provision in the TCC regarding the qualifications of the members of the corporate governance committee. In the banking industry, the committee chairs should be elected from among the non-executive directors of the board. The Principles of Corporate Governance set out the qualifications of the members of the corporate governance committee established in listed companies:

It must consist of at least two members and the chair must be an independent board

- ◇ Under CGP 4.5.3, it is stipulated that both members of committees with two members and the majority of the members of committees with more than two members shall be non-executive board members.
- ◇ The chief executive officer and general manager will not be able to serve on committees. It aims to ensure that the committees are independent and can act in a specialized manner.
- ◇ This committee may also include members who are not members of the board of directors. Board members may serve on more than one committee. However, Principle 4.5.5.5 of the CGP does not impose a prohibition, and it is preferred that a board member should not be a member of more than one committee.

Task Areas

The main duties of the corporate governance committee can be listed as follows:

- ◇ Monitoring and auditing company activities to ensure compliance with corporate governance policies, regulations, and procedures with laws and regulations
- ◇ Leading, monitoring, and supporting activities that define and determine principles of corporate governance, ethical rules, and corporate values
- ◇ Submitting to the board of directors proposals designed to improve principles of corporate governance and/or practices
- ◇ Reviewing and improving the compliance report published annually by companies reporting on their compliance with principles of corporate governance

For the banking sector, the committee must document and maintain a record of all its work. For listed companies; according to common principles,

4.5.6. The board shall provide the committees with all resources and support necessary to carry out their duties. Committees may invite anyone they deem necessary to their meetings and receive their opinions.

4.5.7. The committees shall benefit from the opinions of independent experts on matters they deem necessary in relation to their activities. The cost of the consultancy services required by the committees shall be covered by the company. In this case, however, the annual report shall include information about the person/organization receiving the service and whether that person/organization has a relationship with the company.

4.5.8. The committees shall document and maintain a record of all their work. Committees shall meet as often as deemed necessary for the effectiveness of the work and as described in the working principles. Committees shall submit reports to the board of directors containing information about their



In our organization, the Early Detection of Risk Committee is structured completely separately from the Audit Committee and meets once a year. Its main task is to identify company risks and create action plans. The important thing here is to reduce the risk within the corporate culture through these actions.



İzzet Karaca

Independent Board Member, Anadolu Group

Implementation Challenges and Best Practices

This committee, which is not mandatory for joint-stock companies in Türkiye, is sometimes set up by family-owned companies that have chosen institutionalization as one of their main goals, but it is established by publicly traded companies because it is mandatory. It is observed that the functioning of this committee is generally maintained by publicly listed companies with the support of investor relations, which is a mandatory

In 2015, we established the Corporate Governance Committee, which reports to the board of directors, to ensure that Principles of Corporate Governance are adopted and developed within the company as an integral part of our way of doing business. For the seventh consecutive year, we received the "Company with the Highest Rating" award in the "Non-Public Real Sector Company" category in the Corporate Governance Awards, organized by the Corporate Governance Association of Türkiye (TKYD) based on corporate governance ratings.

Duygu Yılmaz

Board Member, Sütaş

Vice Chair of the Board of Directors, TKYD

As one of the committee's tasks is to oversee the activities of the investor relations department, it is seen that the investor relations department prepares and delivers the presentations for the committee meetings, although this varies according to the working principles. Occasionally, investor relations is not allowed to attend these meetings or Board members are not allowed to continue the meeting after investor relations has presented its activities, although this is a rare practice.

Corporate governance is not something that a committee can achieve. I see it as a cultural issue. Many companies have it because it is a must. However, the structure of the board of directors, distribution of duties, and board-management relations are extremely critical. For an effective board, information needs to flow well, accurately, and transparently. There should be a structure for sharing in good faith. I see two dimensions to the work of boards: technical and emotional. The emotional dimension is often forgotten. For example, the better the relationship between the general manager and the board, the more accurate the flow. A relationship based on affection and respect should be established between the board and the executive. I think the emotional engagement is important for the success of corporate governance.

Ömer Aras

Chair of the Board, QNB Finansbank

I think the value and importance of committees is not sufficiently understood in Türkiye. In particular, the corporate governance committee is not sufficiently internalized in Türkiye. Undoubtedly, the understanding of corporate governance should be the responsibility not only of the corporate governance committee but also of the company as a whole.

Ahmet Cemal Dördüncü

Board Member and Chief Executive Officer, Akkök Holding

The responsibilities of this committee have increased especially with the new corporate governance compliance reporting announced by the CMB. In particular, the reporting framework required of companies in the monitoring report announced by the CMB should be well understood and adopted by the committee and this report should be organized accordingly. At this point, the committee should provide guidance to investor relations.

4. Remuneration Committee

Legal Framework and Establishment

The Remuneration Committee makes recommendations to the board on the level and policy of remuneration for the board members, general manager/CEO, and senior executives.

Although the TCC stipulates that "The members of the board of directors may be paid attendance fees, wages, bonuses, premiums, and dividends from annual shares, provided that the amount is determined by the articles of association or by a resolution of the general assembly," there is no obligation to establish a remuneration committee on the board of directors.

According to the mandatory provisions of the Principles of Corporate Governance annexed to the CMB's Corporate Governance Communiqué, in the section entitled "Financial Rights Provided to Board Members and Executives with Administrative Responsibility," the principles governing the remuneration of board members and executives with administrative responsibility must be put in writing and presented to the shareholders as a separate item on the agenda of the general shareholders' meeting, giving them the opportunity to express their opinions on this matter.

Publicly listed companies establish a remuneration committee for this purpose. In the absence of a separate remuneration committee, this function is performed by the corporate governance committee.

The Corporate Governance Communiqué includes the following articles regarding remuneration. The first two of these articles are mandatory, whereas the last one is mandatory not only in terms of implementation but also reporting whether the principle has been complied with.

- ◇ The principles of remuneration of directors and executive officers shall be documented in writing and submitted to the shareholders as a separate item on the agenda of the general shareholders' meeting, thereby providing shareholders with the opportunity to express their views on this matter. The remuneration policy prepared for this purpose is available on the corporate website.
- ◇ Dividends, share options, or payment plans based on the company's performance cannot be used in the remuneration of independent board members. However, the remuneration of the independent board members should be at a level that preserves their independence.
- ◇ Remuneration and all other benefits provided to board members and executives with administrative responsibility shall be disclosed to the public in the annual

The remuneration policy adopted by the remuneration committee shall be made available on the website of listed companies to ensure transparency.

The reason for submitting the remuneration policy to the approval of the general assembly, i.e. all shareholders, is that "No one shall decide on their own remuneration".

The remuneration committee is also responsible for determining the level of remuneration paid to independent directors; the remuneration committee is expected to ensure that the compensation paid to independent directors is at a level that preserves their independence.

As with all board committees, this committee shall be chaired by an independent director. However, the Corporate Governance Communiqué states that "In case a separate nomination committee and remuneration committee cannot be established due to the structure of the board of directors, the corporate governance committee shall perform the duties of these committees."

Remuneration committee;

- ◇ It consists of a minimum of three members.
- ◇ All should be independent and non-executive directors.
- ◇ The chairperson of the committee shall be an independent member.
- ◇ Committee members shall be elected for a maximum term of three years and may be elected to a second three-year term if they stand for election and remain eligible for membership.

Task Areas

The remuneration committee has two important tasks:

- ◇ The board of directors shall determine the principles, criteria, and practices to be used in the remuneration of the members of the board of directors and executives with administrative responsibilities by taking into account the long-term goals of

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- ◇ It submits its proposals to the board of directors regarding the remuneration of the members of the board of directors and executive officers, taking into account the degree of achievement of the criteria applied to the remuneration.

The working principles of the remuneration committee shall be determined by the board of directors for its own companies according to laws and regulations.

The following is an example of the items that may be included in the working principles of the remuneration committee:

- It determines the company's remuneration policy for the chair and members of the board of directors and senior management of the company.
- It determines the criteria that may be used for remuneration in connection with the performance of the company and the member (share options or payment plans based on the company's performance are not used in the remuneration of independent directors).
- It submits its proposals to the board of directors regarding the remuneration of board members and senior executives, taking into account the degree of achievement of the criteria.
- It ensures that the remuneration system complies with the legislation and market conditions.
- It determines the amount of severance pay to be paid in the event of termination, taking into account the legislation and market conditions.
- It reviews and comments on the wage increases to be made throughout the company.
- It determines the policies regarding the benefits of board members and senior executives.

The following articles may also be included in the working principles:

- ◇ Who may attend the committee meetings (e.g., the general manager or consultants may be invited to attend by the committee chair, when necessary.)
- ◇ Term of office of committee members (e.g. committee members may be elected for three years)
- ◇ Qualifications of the committee members (e.g., committee membership may consist only of independent, non-executive members)
- ◇ Minutes of the meeting (e.g., the secretary of the board of directors also serves as the committee secretary and prepares the minutes of the meeting and sends them to the members for approval.)
- ◇ Frequency of meetings (e.g., two meetings per year, including information on

The meeting quorum for the remuneration committee shall be one member less than the number of members. The committee chair shall present the meeting agenda and recommendations at the board meeting.

Implementation Challenges and Best Practices

In Türkiye, there is a lack of understanding of the role and importance of the remuneration committee. Of course, the consideration of wages, salaries, and other benefits as the most important secret in countries like Türkiye also plays a role here. Therefore, its implementation generally does not go beyond legislation, as it is a somewhat more avoided subject.

It is noted that the duties of this committee are largely fulfilled by the corporate governance committee, and it is reflected in the working principles of listed companies. It is observed that the company's most senior executive responsible for human resources is invited to the corporate governance committees once a year, and makes a brief and concise presentation to the committee members.

The directors' attendance fees are determined by the general assembly. Therefore, the primary task of the committee is to develop a rewarding and incentive system that ensures parallelism between the rights of senior executives with administrative responsibility and the interests of shareholders, including but not limited to remuneration.

Another related issue we would like to draw attention to is the fact that this committee sets the criteria for the attendance fees paid to board members, but the majority of the committee is composed of members receiving these fees, which creates a conflict of interest. Such fees, which are included in the minutes of the general assembly meetings of publicly listed companies, are generally paid to non-executive directors, and in some companies, only to independent directors. The Remuneration Survey for Independent Board Members published by TKYD may be used to determine such fees. The relevant publication is available on TKYD's website at www.tkvd.org.

Nomination Committee

Legal Framework and Establishment

The nomination committee is responsible for identifying and presenting to the company's board of directors, for its consideration, candidates suitable for election to the board. To this end, it ensures the establishment of a transparent system and the identification of relevant policies and strategies. It evaluates the structure, composition, and performance of the board of directors and coordinates the efforts to recruit members with the desired competence, experience, and qualifications for the board.

- ◇ It addresses corporate governance issues such as the composition of the board and the appointment of new directors.
- ◇ It oversees the annual performance evaluation of the board of directors, committees, and board members.
- ◇ It reviews strategic human resources decisions and succession plans for the chair, other key board members, and senior executives.

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Forming an effective board of directors is necessary for a company to be well managed. The nomination committee shall seek, identify and manage the appointment of candidates that will enable the board to have the required level of knowledge, experience, and competencies and it aims to ensure that the board is composed of candidates with the required qualifications.

As with all board committees, the nomination committee should be chaired by an independent director. However, the Corporate Governance Communiqué states that "In case a separate nomination committee and remuneration committee cannot be established due to the structure of the board of directors, the corporate governance committee shall perform the duties of these committees."

Nomination Committee;

- ◇ It consists of a minimum of three members.
- ◇ The majority shall consist of independent, non-executive directors.
- ◇ The chairperson of the committee shall be an independent member.
- ◇ Committee members shall be elected for a maximum term of three years and may be elected to a second three-year term if they stand for election and remain eligible for membership.

Task Areas

- ◇ The working principles of the nomination committee shall be determined by the board of directors according to laws and regulations. Each company shall set the working principles of the committee for itself.
- ◇ The following are examples of some of the headings that may be included in the working principles:
 - It regularly reviews the composition of the board (number, qualifications).
 - It determines performance criteria for board members and senior executives.
 - It determines the expertise, experience, and competencies needed on the board of directors by monitoring the performance of the board and plans the process for the candidates who meet these qualifications to join the board.
 - It determines the strategies and policies for identifying, interviewing and evaluating director candidates with the specified qualifications.
 - It conducts the designation and nomination process.
 - It submits the nominees to the board of directors for its approval and follows up the appointment process.



The nomination committee does not need to be separate; it is addressed once a year in the corporate governance committee of our board. We look at country examples to see whether the increases are fair. In-camera sessions are held in the last part of board meetings. Consideration is given to whether the nomination will come from within or outside the company. There are different criteria for each level, so you need to find a good balance between them.



İzzet Karaca

Independent Board Member, Anadolu Group

The working principles also include the structure of the nomination committee, the frequency of its meetings, and its reporting responsibilities.

Implementation Challenges and Best Practices

The nomination committee is one of the committees that has not yet been internalized in Türkiye. It is most often established by listed companies and its responsibilities are delegated to the corporate governance committee. The committee prepares and approves the nomination report on the independence of the independent directors once a year before the general shareholders' meeting.

From this perspective, it can be argued that the nomination committee plays a major role in the composition of the board of directors. Actually, examples from abroad, particularly in Europe, show that the annual report includes detailed information on the criteria used by the committee to search for candidates for new board members, the number of candidates it evaluates, the methods used to reach candidates, and the reasons why the selected candidate is preferred. Transparent disclosure of this information in the annual report would be an important threshold for overcoming this problem.

In the absence of an effective pool of candidates for independent directors in listed companies in Türkiye, independent directors are invited from the circle of friends and relatives of shareholders or senior management, and when that director reaches the six-year term defined in the Communiqué on Corporate Governance, another independent director is appointed. Members who no longer meet the independence requirements, but who are believed to contribute to the company, are retained by continuing to serve on the boards of other group companies.

While it would not be right to lose an independent director at the most valuable time when they would know the company and contribute the most to the board of directors and thus to the company, the use of systems that allow for electronic board meetings gained currency for the adoption of the corporate governance approach due to the travel bans, especially during the pandemic, enabling directors living in different countries with potentially great contributions to the company and diversity, to join the board.

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The committees up to this section are mandatory committees stipulated by the Turkish Commercial Code and Capital Markets Legislation and the purpose of these committees is to enable independent directors to work separately from the executive board. As a matter of fact, the mandates of these committees, which are regulated by legislation, are selected from among the matters in which the executive board should not be involved, such as the nomination of candidates and auditing. However, other committees established by companies according to their own needs and roadmaps deviate from the non-executive philosophy of the legally mandated committees. Especially in areas such as sustainability and ethics, it is common to refer to these bodies as boards, working groups, etc., rather than committees, to underline their

5. Sustainability Committee

Legal Framework and Establishment

Before answering the questions about the legal basis, working principles, and the members of the sustainability committee, we would like to define the concept of "sustainability" and emphasize its importance for companies.

Adopted by the 193 member states of the United Nations on September 25, 2015, the agreement "Transforming Our World: The 2030 Agenda for Sustainable Development" consists of 17 Sustainable Development Goals and 169 associated targets.

The 17 sustainability goals defined by the OECD enable companies to assess their own sustainability and provide guidance for reporting.

1. Overcoming Poverty
2. Zero Hunger
3. Health and Wellbeing
4. Quality Education
5. Gender Equality
6. Clean Water and Public Health
7. Accessible and Clean Energy
8. Decent Work and Economic Growth
9. Industrial Innovation and Infrastructure
10. Reducing Inequality
11. Sustainable Cities and Settlements
12. Responsible Consumption and Production
13. Climate Impact
14. Underwater Life
15. Life Above Ground
16. Peace, Justice, and Strong Institutions
17. Partnership for Goals

In the banking sector, the Basel Committee has addressed sustainable development in terms of capital adequacy and related risks in the BASEL III standards and published them.

For companies, sustainability can be summarized as the capacity of companies to adapt to changes in global, macroeconomic, environmental, and social trends arising from sustainability and related legal regulations. For a healthy sustainability practice in companies, the three pillars of sustainability - economic, social, and environmental parameters - should be integrated into all fundamental, strategic, and operational processes and decision-making mechanisms of companies.

Corporate sustainability is the adaptation of economic, environmental, and social factors to corporate activities and decision-making mechanisms through principles of corporate governance and the management of risks that may arise from these issues to create long-term value in companies.

When addressing and evaluating sustainability in companies, it is important to consider not only the financial and technological structure of the company in line with its vision and mission, the markets in which it operates, and its corporate structure including competitors, but also social and environmental factors and to approach the issue as a whole. Sustainability activities and measures maximize opportunities for companies while minimizing potential negative impacts on the company's core operations, the environment, society, and the overall economy.



The two committees that I have required the general manager to attend at the companies I have served so far have been the talent management and sustainability committee meetings.



Aclan Acar

*Aclan Acar, Founder, Strategic Consulting
Member, TKYD Advisory Board*

In an international survey conducted by McKinsey, most of the executives surveyed stated that sustainability creates real value, 76% stated that sustainability increases shareholder value in the long term, and 50% said that sustainability creates value in the short term. 72% of the respondents stated that sustainability is very important for the company's corporate reputation and brand value.

Article 375/1 of the TCC stipulates the non-transferable and inalienable duties and powers of the board of directors. When we look at the first two of these duties and powers, they include:

- Conducting top management of the company and giving relevant instructions
- Determining the company's management organization

The Role of Committees in the Effective Functioning of Boards of Directors

This demonstrates that the board of directors can establish the committee structure it deems necessary to ensure sustainability and principles of corporate governance as a whole.

The mission of the sustainability committee, which will be established to ensure sustainability in companies, is to support the board of directors in increasing the efficiency and quality of decision-making processes in the company's activity field and to support the execution of its activities in accordance with the law and legislation, ethical values, internal control principles, and principles of corporate governance and procedures.

Article 366/2 of the TCC stipulates that "The board of directors may set up committees and commissions, which may also include the board members, to monitor the course of business, to prepare reports on matters to be submitted to it, to implement its resolutions or for internal audit purposes."

The concept of committees to assist management has become clearer and more functional with the concept of corporate governance.

This demonstrates that the board of directors can establish the committee structure it deems necessary to ensure sustainability and principles of corporate governance as a whole as part of the resolution to be adopted by the board. Committees help the board of directors to operate in a professional manner and to be as informed as possible about the company's business.

The committees to be established pursuant to Article 366/II of the TCC may be composed of board members or non-board members.

Although there is no obligation for the board of directors of a joint-stock company to prepare a separate internal directive for the committees, a more functional directive may be created for the committees to work more efficiently by determining the committees to be established, the committee members to be elected, their duties, terms of office, working procedures and principles.

There are no mandatory rules regarding the composition of the sustainability committee, as it is a voluntary committee.

Given the broad scope of sustainability, it is a common practice in the examples we reviewed to include senior executives from relevant company departments such as finance, human resources, corporate governance, investor relations, stakeholder relations, environment, etc., as well as a member representing the board of directors, preferably an independent member, serve on this board. The companies whose sustainability is addressed and monitored by the board of directors successfully integrate sustainability into their business processes.

Task Areas

Although our legislation does not explicitly address the establishment and working principles of the sustainability committee, it indirectly emphasizes the importance and benefits of including this issue in companies' annual reports.

The "Environmental Law" No. 2872 constitutes a reference in the regulation of a sustainable environment.

The first reference for addressing and reporting on sustainability in joint stock companies is the Turkish Commercial Code No. 6102 and the implementation of the "Regulation on Determining the Minimum Content of the Annual Report of Companies" dated 28.08.2012. Furthermore, Article 516 of the TCC stipulates that the "Annual Report" is the responsibility of the board of directors, while Article 514 of the TCC stipulates that the boards of directors of joint-stock companies, Article 610 of limited liability companies and Article 565 of limited partnership companies with capital divided into shares must prepare and submit this report to the general assembly within three months following the accounting period.

Regulation on Determining the Minimum Content of Companies' Annual Reports

- General Information
- Financial benefits to the members of the governing body and senior executives
- The company's research and development activities
- Financial state
- Risks and assessment of the governing body
- Other matters

The information to be included in the annual report under the above headings can be evaluated in the context of the economic sustainability of the company. There is no obligation in the Regulation to report on environmental, social, and corporate governance responsibilities. By addressing the sustainability matter in their annual reports or issuing independent sustainability reports, companies document their medium- and long-term strategy and compliance with principles of corporate governance and procedures and ensure that their value is enhanced in the eyes of shareholders, stakeholders, and the financial circles and that they create value in the long term.

- ISO 14001 Environmental Management System
- ISO 14064 Greenhouse Gas Management System
- ISO 50001 Energy Management System

reports can be published as part of the annual reports. The most widely accepted international sustainability standard is the reporting format developed by the Global Reporting Initiative (GRI), headquartered in the Netherlands. "The Sustainability Reporting Guidelines" were updated in 2015 and the G4 version entered into force.

The Role of Committees in the Effective Functioning of Boards of Directors

In 2013, Borsa Istanbul and Ethical Investment Research Services Limited (EIRIS) created the "BIST Sustainability Index" for listed companies, which is based on companies' performance in environmental, social, and corporate governance issues. Currently, this index work is being carried out with Refinitiv. The goal is to create an index that will include companies listed on Borsa Istanbul with a high level of corporate sustainability performance.

The document "BIST Sustainability Index Research Methodology" contains the list of criteria and indicators that companies are expected to meet when assessing their compliance with the index criteria. The Index provides a tool for investors to identify and invest in companies that embrace the principles of sustainability and corporate social responsibility, and an indicator for asset managers to issue various financial products such as funds, exchange-traded funds, and structured products based on sustainability principles.

The Working Group on the Role of the Financial Sector in Sustainable Growth of the Banking Association of Türkiye prepared a guidelines/resource document containing best practices on the contribution of the banking and financial sector to sustainable development. This document outlines seven structured key principles for sustainability best practices in banking and finance:

Principle 1: Assessment and Management of Environmental and Social Risks Arising from Banking Activities

Principle 2: Managing the Internal Impacts of the Banking

Sector Principle 3: Human Rights and Employee Rights

Principle 4: Stakeholder Engagement

and Communication Principle 5:

Corporate Governance

Principle 6: Capacity Building

Principle 7: Monitoring and Reporting

There is no legislation published in Türkiye on the structure and working principles of the sustainability committee.

Unlike other committees, the sustainability committee monitors and coordinates activities related to many areas of the company, so its working principles should be defined. Members should allocate a certain amount of time during the year to committee work and evaluate sustainability developments. Because the issues to be evaluated are those that require board attention and approval, such as strategic planning and progress on sustainability projects and reporting, the committee should preferably be chaired by a board member and meet before or after board meetings.

Fortunately, we work with a business model that embodies sustainability in all its dimensions. We have a sustainability committee reporting to the board of directors responsible for determining sustainability strategy, policies, and targets, and for monitoring and auditing performance. We ensure that these targets are translated into business plans and implemented through our seven working groups, which we have established to cover all our business lines.

Duygu Yılmaz

Board Member, Süttaş
Vice Chair of the Board of Directors,

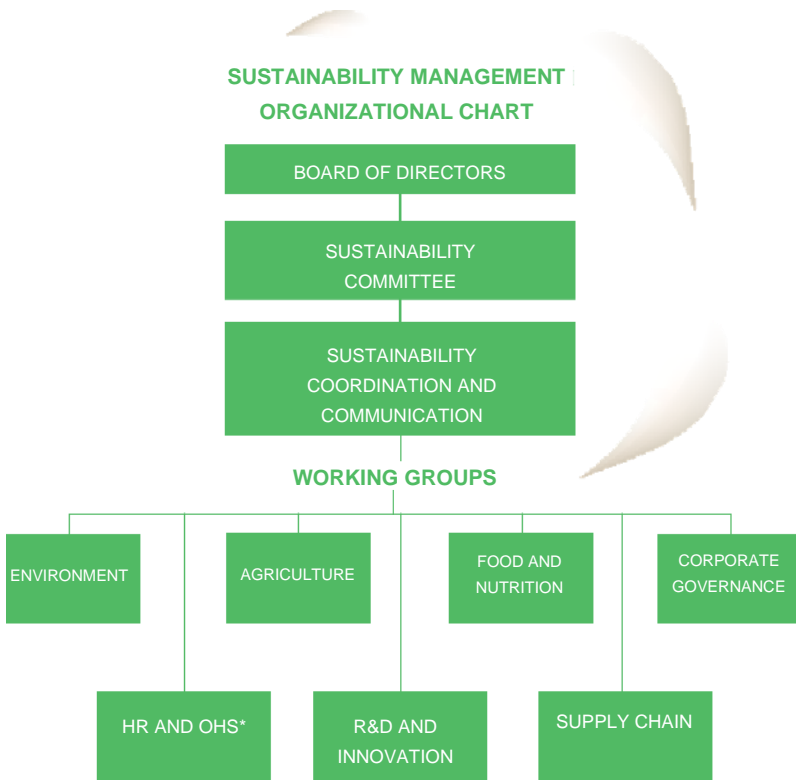


Figure 1: Sustainability Organizational Structure at

* HR: Human Resources - OHS: Occupational Health and Safety

The Role of Committees in the Effective Functioning of Boards of Directors

The sustainability committee submits the integrated report to the board of directors for approval at the end of the fiscal year in companies that have established and run a sustainability committee, especially in those that have started to publish an integrated report. During the preparation of this report, the sustainability committee and its sub-committee of supporting business unit managers meet at least quarterly to evaluate the report's objectives and progress.

Implementation Challenges and Best Practices

The issue of sustainability, the importance of which is primarily voiced by international organizations, is becoming increasingly important on the agenda in Türkiye. This trend has been accelerated by the positive differentiation of sustainability indices from other indices and by now trillion-dollar-worth of responsible investment. In this regard, companies are surrounded on all sides by the EU Green Deal, other directives and all environmental legislation.

Sustainability has moved much higher on the agenda of publicly traded companies since

CMB announcement dated 02.10.2020.

The "Communiqué on Amendments to the Communiqué on Corporate Governance (II-17.1)

(II-17.1.a)" was published in the Official Gazette dated 03.01.2014 and numbered 28871 and entered into force with the publication of the "Communiqué on Amendments to the Communiqué on Corporate Governance (II-17.1)" in which necessary additions were made to Articles 1 and 8 of the Communiqué on Corporate Governance (II-17.1) to ensure that the basic principles (Sustainability Principles Compliance Framework) expected to be disclosed by listed companies when conducting environmental, social and corporate governance activities are shared with stakeholders.

With the addition to Articles 1 and 8 of the Corporate Governance Communiqué;

In line with the application scope of sustainability principles, the second paragraph of Article 1 of the Communiqué states that corporations other than the following are required to include the disclosures within the scope of the Sustainability Principles Compliance Framework in their principles of corporate governance compliance reporting: "... (a) Publicly listed corporations whose shares are not traded on the stock exchange, (b) Corporations whose shares are traded on other markets or platforms other than the National Market, the Second National Market or the Corporate Products Market, (c) Corporations that have applied to the Board for their shares to be offered to the public for the first time and/or to start trading on the stock exchange; corporations whose shares will be traded in other markets, markets or platforms other than the National Market, Second National Market or Corporate Products Market, and (ç) Corporations deemed to be non-residents according to the Decree No. 32 on the Protection of the Value of the Turkish Currency, which was put into effect by the Decree of the Council of Ministers dated 7/8/1989 and numbered 89/14391..."

Corporations are required to disclose in their annual reports, among other things, whether or not the sustainability principles are applied, and if not, a justified explanation for this, as well as the implications for environmental and social risk management of not fully complying with these principles.

Pursuant to the CMB's decision dated June 23, 2022 and numbered 34/977, it was decided that the disclosures required within the scope of the sustainability principles compliance framework by the companies whose shares are traded on the Main Market, Stars Market and Sub-Market of the Stock Exchange pursuant to the CMB's decision dated June 23, 2022 and numbered 34/977 and the Corporate Governance Communiqué numbered II-17.1 shall be made with the Sustainability Report template on the Public Disclosure Platform to be used starting from the reporting for 2022. In this context, the status of compliance with the sustainability principles, the implementation of which is voluntary, must be reported annually within the reporting period of the financial reports and in any case at least three weeks before the date of the general assembly, using the Sustainability Report Template, and it is left to the discretion of the companies to include this template in their annual reports. In addition, the necessary disclosures will be made in the annual report as per Article 8 titled "Reports on compliance with principles of corporate governance" of the Corporate Governance Communiqué numbered II-17.1.

Sustainability Principles Compliance Framework

General Principles				
A1. Strategy, Policy and Objectives				
Background:	Background:	Justification:	Compensator or action:	Whether there is a plan to comply in the future :
A brief description of the company-specific situation and the background to the developments that led the company to decide to deviate from the principle.	A brief description of the company-specific situation and the background to the developments that led the company to decide to deviate from the principle.	Providing a reasonable and understandable justification for the company's preference	Identification of alternative actions that would reduce the risk and achieve the same objective in a different way	Indicating whether the non-compliance is time-limited and whether the company intends to comply with the relevant principle in the future
The board of directors identifies priority ESG issues, risks, and opportunities, establishing ESG policies accordingly.				
Internal directives, work procedures, etc. may be developed for the effective implementation of these policies.				
The board of directors decides on these policies and discloses them to the public.				
It determines the Partnership Strategy in line with ESG policies, risks, and opportunities.				
It determines and discloses its short and long-term goals in line with its partnership strategy and ESG policies.				

A2. Implementation / Monitoring
It identifies and publicly discloses the committees/units responsible for the execution of ESG policies.
The responsible committee/unit reports to the board the activities carried out under the policies at least once a year, and in any case, within the maximum timeframes specified in the relevant board arrangements for the public disclosure of annual reports.
It forms and publicly discloses implementation and action plans in line with the short and long-term targets set.
It identifies ESG Key Performance Indicators (KPIs) and explains them comparatively on a yearly basis.
Where verifiable data is available, it presents KPIs together with local and international sector benchmarks.
It describes innovation activities to improve the sustainability performance of business processes or products and services.

As is evident in this framework, publicly traded companies must define a committee/unit to address sustainability issues. However, in practice, we observe that sustainability is carried out through working groups formed with the participation of various departments, rather than through a committee structured under the board of directors due to the first year of implementation. This may be because it is unknown whether the legislation that applies to committees established within the board of directors, as defined in the capital markets legislation, also applies to committees that are not required to be established by the legislation.

Although few, it is also seen in practice that sustainability-related responsibilities are delegated to the corporate governance committee.

There are various non-governmental organizations (NGOs) to guide companies in their sustainability efforts. The cooperation of companies with these NGOs will undoubtedly prevent them from starting from scratch and bring new values of sustainability to society, especially to companies.



At Lila Kağıt, we have been working with various NGOs, especially TEGV (Educational Volunteers Foundation of Türkiye), on sustainability for many years and we believe that these collaborations can be improved.



Aydın Öğücü

Board Member, Lila Kağıt A.Ş.

6. Ethics Committee

Legal Framework and Establishment

The ethics committee is not regulated by the Turkish Commercial Code or any other legislation in Türkiye and is not a mandatory committee.

Business ethics is about the application of moral norms and rules in businesses and organizations in business life. The interests of the company are not the only relevant consideration in its management. "Other people with whom the company is associated, employees, customers, other companies doing business with it, communities, political organizations, trade unions, etc., are all factors that should be taken into account in company decisions where appropriate." (Edward Freeman)

Business ethics examines what business behaviors promote the welfare and well-being

- Integrity
- Honor
- Reliability
- Loyalty
- Neutrality
- Caring for and respecting the rights of others
- Respect for the law
- Commitment to excellence
- Leadership
- Honor
- Morality
- Accountability

On the other hand, the code of ethics is a set of written rules prepared by the company to guide the current and future behavior of the company's managers and employees. When developing their codes of ethics, companies should first consider "principles of corporate governance", the fundamental principles set out in the Global Compact, and the company's mission, vision, and values.



We take the issue of ethics very seriously and, with this in mind, we will rewrite the ethical values to reflect the ethical codes for employees as soon as possible.



Aydın Öğücü

Board Member, Lila Kağıt A.Ş.

It is important that a working group consisting of all unit managers involved in the company's activities formulates this draft and submits it to the board of directors for approval. The management of approved ethical codes, receipt, evaluation, and finalization of complaints may be managed by a board consisting of one or more members representing legislation, law, human resources, investor relations, and the board of directors, in addition to operational unit managers.

The ethics committee may convene with an agenda on the formation and updating of ethical codes. With regards to complaints, rumors, and denunciations to be submitted to the ethics committee, this information is collected as it is received.

It is not very common for the managers who run the business and make the decisions to be members of the ethics committee. It would be more appropriate for the ethics committee to include managers from units that are not responsible for day-to-day operations, such as human resources, audit, legal, and compliance, to ensure that it is impartial and able to make decisions.

Task Areas

The ethics committee defines and implements the ethical rules to be followed by the company, the information to be provided to ensure that the company and its employees comply with these rules, and the processes to be followed in case of non-compliance

“Since 2013, we have provided ethics training not only to our Group employees but also to all our business partners, to help them understand and adopt our ethical principles and to establish and develop a culture of business ethics. This training programs begin with ethics training given to every new employee as part of the orientation program. The Ethical Sütüş Website allows all our stakeholders to make anonymous notifications and follow up on their applications. These reports are collected by an independent company with a confidentiality agreement, in its systems, and only shared with members of the Ethics Committee. All incoming reports are evaluated by the Ethics Committee, which meets weekly, and feedback is provided to the report owner.”

Duygu Yılmaz

Board Member, Sütüş

Vice Chair of the Board of Directors, TKYD

The duties of the Ethics Committee can be detailed as follows:¹

- Planning and leading the necessary actions for the understanding, implementation, and development of the ethics program,
- Taking the initiative to create and regularly review ethical documents, policies and procedures,
- Planning necessary activities to highlight ethical principles, raise ethical awareness and ensure implementation by everyone,
- Planning and delivering ethics training courses,
- Answering questions on ethics and acting as a consultant,
- Investigating or ensuring the investigation of nonconformities and violations reported or discovered by individuals,
- Reporting on the company's ethics program on a regular basis

Law No. 5176, which entered into force on May 25, 2004, established the Ethics Committee for Public Officials, which covers only certain public officials. Although it is not mandatory for private companies to have an ethics committee, many of them do, albeit under different names (ethics board, ethics committee, business ethics compliance committee, etc.) because of the perceived benefits of contributing to compliance with corporate governance principles such as transparency, accountability, and impartiality.

¹ Çiğdem GÜRER, CFE, Certified Public Accountant, Excerpt from the article ""Etik Kurul'um Olmadan Asla.""

The Role of Committees in the Effective Functioning of Boards of Directors

The work of the ethics committee and the ethical rules created by companies are guided by the following 10 basic principles set out by the "Global Compact", the world's largest voluntary corporate responsibility initiative, which has been signed by more than 9,000 corporate participants and other stakeholders from more than 160 countries since 2000.

Human Rights Title

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights. Principle 2: Businesses should make sure that they are not complicit in human rights abuses.

Labor Standards Title

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labor 5: Businesses should uphold the effective abolition of child labor.

Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Environment Chapter

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies

Implementation Challenges and Best Practices

This unit, which has been implemented for many years by international companies that have pioneered anti-corruption practices in Türkiye under names such as the ethics board and ethics committee, is not one of the committees that operate within the board of directors, and its boundaries are defined by legislation. This committee may also happen to operate as an independent unit under the audit committee.

The independence of the Ethics Committee is also one of the most important issues. Therefore, how this committee is positioned and to whom it reports should be structured to support its independence.



I would like to see ethical issues in the ethics committee. The ethics committee reports only to me.



Ahmet Cemal Dördüncü

Board Member and Chief Executive Officer, Akkök Holding

V. Best Practices on Committees

For the committees to contribute to the company, the board of directors must first believe in them, and this understanding must come from the top down as a culture. It is also important that existing committees are able to adequately communicate their voices to the board. It is for this reason that in some large companies, the committees are the first item on the agenda of each meeting of the board of directors. In these companies, the chairs of all committees within the board of directors provide an update on the work of the committee at the beginning of the board meeting. This enables the board to be informed about, and sometimes direct, the activities of the committees and increases the importance of the committees in enhancing the effectiveness of the board.



In our organization, the CEO, CFO, Investor Relations Manager, and the group CFO participate in corporate governance committees. The actions needed to address the deficiencies in the corporate governance rating report are high on the agenda.



İzzet Karaca

Independent Board Member, Anadolu Group

In Türkiye, the reports prepared by the committees are shortly discussed on the agenda of the board of directors. However, important issues should be discussed at length in the boardroom. The main reason behind this is that the functions and tasks of the committees are not sufficiently known. The first step in the decision-making process is the preparation of the background and then the decision-making process in the boardroom. At this point, it is up to the committees to prepare the kitchen.

The Role of Committees in the Effective Functioning of Boards of Directors

Getting the right people on the committees and communicating with business stakeholders is critical to maximizing the benefits of the committees. At this point, bad experiences in the past should be seen as an opportunity for development, just as a problem between shareholders should be seen in the best interests of the company. Indeed, owning shares is not owning the company. Another issue is to invite relevant employees to the meetings on different topics to make the work of the committees more effective. This is really a form of motivation and coaching for senior management, while at the same time raising awareness of the committee and its work among employees and the company as a whole.



There is still a perception that corporate governance in Türkiye is a monopoly of large companies. However, we need to bring corporate governance down to medium-sized companies. Of course, this is not something that can be done in one day, it is a process of change, and we cannot do it overnight. But we can start planning for this transformation.



Ahmet Cemal Dördüncü

Board Member and Chief Executive Officer, Akkök Holding

Working principles are crucial to the effectiveness of committees. Not only the working principles of the committee but also all the necessary procedures and authorization limits must be prepared for the sustainability of a company. It shouldn't be dependent on a committee - it should already be in the DNA of the company. This helps to spread the corporate governance culture within companies.



In many companies in Türkiye, the working principles of committees are not regularly reviewed unless the legislation changes. In the US, all significant procedures are regularly discussed, reviewed, presented to the board, and evaluated. There is actually a good practice used abroad for this: Prepared and approved procedures have an expiration date. When this happens in Türkiye, many procedures and working principles that were created in the past, but forgotten and not updated, will be brought back to the table and re-invigorated.



Ahmet Cemal Dördüncü

Board Member and Chief Executive Officer, Akkök Holding

Independent board membership is one of the most important issues in corporate governance. In this regard, selecting members who see what the company cannot see becomes important. From this point of view, it is important that active non-governmental organizations, including especially TKYD, keep the indispensable position of independent directors for corporate governance on the agenda and frequently bring it to the public's attention through various training and best practice programs, panels and publications so that this understanding becomes widespread and properly established in our country.



In Türkiye, committee reports are typically shared only as information on the board agenda. However, important issues should be discussed extensively in the board meeting. Moreover, efforts rarely go beyond the legally required committees. Of course, too many committees can also increase the risk that decisions are delegated to committees rather than to the board, making it more difficult for the board to oversee the whole picture. But we cannot overlook the fact that the main purpose is to increase trust in the organization and to provide the control that will ensure the sustainability of good governance in the company. Therefore, rather than increasing the number of committees, ensuring a thorough assessment of issues such as strategic risks, changes in corporate culture, management succession, stakeholder expectations, sustainability, and adherence to corporate values and principles can be included in the mandatory duties of committees.



Dr. Yılmaz Argüden

*Chair of the Board, ARGE Consulting
Member, TKYD Advisory Board*

In fact, the issue concerns the adoption of corporate governance. Progress in this area will be made as the number of independent directors and shareholders who believe in the benefits to the company of effective committee functioning grows. Shareholders who used to invite people to the board of directors who they thought would be easier to get along with as independent members are now more likely to ask, "Who can I benefit from?"



I have been observing institutionalization efforts in family businesses in recent years. The way family businesses look at professionals has also changed. Family members are now moving more from operations to management. In our company, there are two independent board members. One is the chairman of the internal audit committee, and the other is the head of the sustainability activity system.



Orhan Turan

*Chair of the Board, ODE Yalıtım
President, TÜSİAD*



The CEO should attend all committee meetings and meetings at which decisions are taken by the board, except for in-camera sessions that are useful at the beginning and/or end of board meetings. Otherwise, the CEO should separately receive all reports prepared by the committees. The main objective is to ensure that the person who assumes management responsibility is not only accountable for performance but also for identifying the organization's risks and implementing practices to ensure its sustainability.



Dr. Yılmaz Argüden

*Chair of the Board, ARGE Consulting
Member, TKYD Advisory Board*

Just like committee members, committee chairs are crucial to the effective functioning of committees. Just as a good board member's first duty is to protect the organization's interests, not those of shareholders, the committee chair must also protect the organization's interests as a trustee. The interests of the organization as a whole are more important than those of the stakeholders, and the committee chair must carefully guide the committee to avoid any potential conflicts of interest. Another important responsibility of the committee chair is to present the committee reports to the board.



I think companies do not know how to use consultants and independent board members sufficiently.



Orhan Turan

*Chair of the Board, ODE Yalıtım
President, TÜSİAD*

As is known, the board of directors of companies has a secretariat. Committees may receive support from the company secretariat in preparing meeting resolutions, minutes, and report formats. Committee preparation should be as meticulous as board meetings, and the background should be prepared and presented to the board with the same diligence. Indeed, the committee is the body that prepares the background for the board. It is important that meetings are held with an agenda and that topics are shared in advance. In many companies where committees work well, the committee's annual calendar is set at the beginning of the year and entered into the calendars of the committee members. The agenda and relevant annexes for each meeting are distributed at least one week in advance.

In some companies, committees may be combined from time to time. In such cases, scale matters significantly. For example, a board of directors with 10 to 15 members may have many more committees. However, in such a case, it is necessary to establish a structure to synchronize such committees. Indeed, it is important that the committees are connected and integrated. Rather than increasing the number of committees, especially for smaller boards, other matters can be distributed among the three mandatory committees. For example, committees that are established separately as required by legislation may hold joint meetings once or twice a year. Likewise, very few companies go beyond the mandatory committees. There is no one-size-fits-all rule in this regard; companies should determine the committees to be established by their boards of directors according to their structures, expectations, and needs.

VI. Epilog

Türkiye is undergoing a transformation in terms of governance. The most beneficial developments in this transformation have taken place in corporate governance. Although the importance of the independent board member requirement was not immediately recognized when it was first introduced by the CMB, companies today increasingly view these board members as an added value.

The committees have not responded sufficiently to the same transformation and change. While the audit committee and the early detection of risk committees are somewhat more welcomed by the board of directors, we observe that the corporate governance committee, which is different by its nature, is not sufficiently internalized in Türkiye.

The functions and roles of the committees are not well understood, and as a result, the board cannot devote sufficient time to each matter and cannot derive sufficient benefit from the committees. However, the committees intend to ensure that such matters are placed on the agenda and discussed independently so that recommendations can be made. In some companies, board agendas do not provide sufficient opportunity to review the reports meticulously prepared by the committees.

Another important issue is that companies are hesitant to go beyond the committees required by the legislation. However, it is necessary to first prepare the background, followed by the board's evaluation and decision-making process, to put some matters on the board's agenda for decision.

We would like to reiterate; corporate governance, the board of directors and independent directors are not just for public companies. It is very important that non-listed companies also recognize the importance of this issue. At TKYD, we strongly recommend that non-listed companies have at least one independent board member. An independent director should be recruited as an expert in the area where the company is weak. Similarly, the board should spend more time on plans and strategy than on day-to-day operations. Board meetings should be held on a strictly regular basis. Once the board starts functioning well and the resistance of family members to independent members has been overcome, committees should be established and positioned to contribute to the effective functioning of the company's board.

There is no one-size-fits-all for boards. Understanding the spirit of business requires an individual view of each company and its structure because each has a different industry, position, size, opportunities, risks, and dynamics. The organization in a large company should not be the same as the one in a family business. On the other hand, you should also look at the needs of the company. For example, one of the current issues is digitalization, and if the company does not have such an expert in-house, it should seek the support of consultants to acquire this expertise. Likewise, for committees,

it is necessary to know the company well and analyze its needs well.

Of course, this is not the end of the story; all necessary procedures and working principles should be prepared and implemented for the committees. This kind of work should not be done once, filed away and forgotten, but should be kept alive. A workflow should be established to ensure that it is reviewed on a regular basis.

As TKYD, we have tried in this publication to cover the committees, the legal framework relating to them, the best practices, and the problems encountered in practice, including but not limited to the issues mentioned here. It is the initiative and responsibility of companies to put in place the necessary mechanisms to establish and position committees to contribute to the company's board.

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Abbreviations

- BRSA : Banking Regulation and Supervision Agency
- ESG : Environmental, Social and Corporate Governance
- ICAAP : Internal Capital Adequacy Assessment Process
- PDP : Public Disclosure Platform
- CGP : Principles of Corporate Governance
- CGC : Corporate Governance Communiqué
- CMB : Capital Markets Board
- NGO : Non-governmental Organization
- TKYD : Corporate Governance Association of Türkiye
- TCC : Turkish Commercial Code



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