

A New Milestone in Sustainability Reporting: Türkiye Sustainability Reporting Standards

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The Decision on Türkiye Sustainability Reporting Standards issued by the Public Oversight, Accounting and Auditing Standards Authority by considering the standards of the International Sustainability Standards Board was published in the Official Gazette. The decision regulates the scope of application of TSRS 1 "General Provisions on Disclosure of Sustainability-Related Financial Information" and TSRS 2 "Climate-Related Disclosures" standards that institutions, organizations and entities will consider while preparing their sustainability reports.

Under Türkiye Sustainability Reporting Standards ("**TSRS**") published by the Public Oversight, Accounting and Auditing Standards Authority ("**POA**") in the Official Gazette dated 29 December 2023 and numbered 32414, the first standard ("**TSRS 1**") titled as *General Provisions on Disclosure of Sustainability-Related Financial Information* requires disclosure of the information about sustainability-related risks and opportunities, and the second standard ("**TSRS 2**") titled *Climate-related Disclosures* requires disclosure of information about climate-related risks and opportunities. The aim of the TSRS is to enhance access to green financing for enterprises established in Türkiye and increase their competitiveness by making them a focal point in international investment decisions.

TSRS require disclosures on governance, strategy, risk management, metrics and objectives. The main considerations for this content are as follows:

- With respect to governance, the governance processes, controls and procedures that businesses use to monitor and manage sustainability and climate-related risks and opportunities are disclosed.
- With respect to strategy, the approaches the business uses to manage sustainability and climate-related risks and opportunities are disclosed.
- With respect to risk management, the processes the entity uses to identify, assess, prioritize and monitor sustainability and climate-related risks and opportunities are disclosed.
- With respect to metrics and targets, the entity's performance in relation to sustainability and climate-related risks and opportunities is disclosed, including progress against self-imposed or regulatory targets.

The Board Decision on the Scope of Implementation of Turkish Sustainability Reporting Standards (TSRS) ("**Board Decision**") published in the same Official Gazette regulates the entities to which TSRS will be implemented and the transition period provisions. The significant highlights in the Board Decision are as follows:

Companies Obligated to Report Under TSRS

1. The entities listed below that exceed at least two of the following criteria in two consecutive reporting periods are obliged to report under TSRS.

- Total assets of 500 million Turkish Lira
- Annual net sales revenue 1 Billion Turkish Lira
- Number of employees: 250 people

a. The following entities among the companies subject to the regulation and supervision of the Capital Markets Board Pursuant to Law dated 06.12.2012 numbered 6362:

- i. Investment institutions,
- ii. Collective investment institutions,
- iii. Portfolio management companies,
- iv. Mortgage finance institutions,
- v. Central clearing organizations,
- vi. Central depository institutions,
- vii. Data storage organizations,
- viii. Joint stock companies whose capital market instruments are traded on a stock exchange or other organized markets, or which have a prospectus or issue document with a validity period approved by the Capital Markets Board for their trading,
- ix. Joint stock companies issuing capital market instruments other than shares without being publicly offered, although not traded on a stock exchange or other organized markets (until the end of the accounting period in which the capital market instruments issued by them are redeemed) or joint stock companies holding an issue certificate with a validity period approved by the Capital Markets Board for this purpose,

b. The following entities among the companies subject to the regulation and supervision of the Banking Regulation and Supervision Agency pursuant to the Banking Law dated 19.10.2005 and numbered 5411 ("**Banking Law**"):

- i. Rating institutions,
- ii. Financial holding companies,
- iii. Financial leasing companies,
- iv. Factoring companies,
- v. Financing companies,
- vi. Asset management companies,
- vii. Companies holding qualified shares in financial holding companies and banks as defined in Banking Law,
- viii. Savings finance companies.

c. Insurance, reinsurance and pension companies operating under the Insurance Law No. 5684 dated 03.06.2007 and the Individual Pension Savings and Investment System Law dated 28.03.2001 numbered 4632.

d. Authorized institutions, precious metals brokerage houses, companies engaged in the production or trade of precious metals that are permitted to operate in the Markets of Istanbul Stock Exchange

2. The banks subject to the regulation and supervision of the Banking Regulation and Supervision Agency pursuant to the Banking Law, except those under the Savings Deposit Insurance Fund, are within the scope of mandatory

reporting without being subject to any threshold.

3. The entities outside the scope will also be able to report in accordance with the Turkish Sustainability Reporting Standards on a voluntary basis.

Consideration of Subsidiaries' and Affiliates' Data in Threshold Assessment for Entities

In determining whether the thresholds have been exceeded, entities are taken into account together with their subsidiaries and affiliates. Accordingly;

1. If the entity has a subsidiary:

In terms of total assets and annual net sales revenue, the sum of the items included in the financial statements of the parent and subsidiary (if any, intra-group transactions are eliminated); in terms of the number of employees, the sum of the average number of employees of the parent and subsidiary for the last two years is taken into consideration.

2. If the entity has an affiliate:

The respective items of the affiliate are taken into account in proportion to the entity's interest in the affiliation.

Commencement of Reporting Obligation under TSRS

The obligation to report under TSRS will commence with the annual financial reporting for fiscal years beginning on or after 01.01.2024.

Entities subject to thresholds will be subject to the scope of application of TSRS from the following accounting period if they exceed the threshold for at least two of the three criteria mentioned above in two consecutive accounting periods.

Entities are not required to disclose Scope 3 greenhouse gas emissions for the first two reporting periods in which they implement TSRS within the scope of implementation.

Reporting Time within the Scope of TSRS

Reporting under TSRS shall be made together with the financial report.

However, in accordance with Provisional Article 2 of the Board Decision, as a transitional provision, reporting may be made for the first annual reporting period:

- If an interim financial report is required, on the same date as the second quarter or six-month interim financial report;
- In the case of optional interim financial reporting, on the same date as the second quarterly or semi-annual interim general purpose financial report, but not more than nine months after the end of the reporting period;
- If no interim financial report is presented, within nine months of the end of the annual reporting period in which the TSRS is first applied.

Termination of the Reporting Obligation under TSRS

An entity that is subject to the scope of application of TSRS due to exceeding the thresholds is out of the scope of application of TSRS as of the following accounting period:

- if it falls below the thresholds for at least two of the three criteria in two consecutive accounting periods or
- if it falls twenty percent or more below the thresholds for at least two of these criteria in an accounting period.

In determining whether the thresholds are exceeded, the financial statements of the last two years prepared in accordance with the legislation to which the entity is subject in terms of total assets and annual net sales revenue, and the average number of employees for the last two years in terms of the number of employees are considered.

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