Cerebra
ACCOUNTING • AUDIT • ADVISORY

Cerebra Newsletter

MAY 2016 No: 6
ISTANBUL-TURKEY

BEYOND FOOTBALL

Galatasaray case and thoughts on compliance and corporate governance

I am not a football fan. However, when I heard Galatasaray was excluded from participating in the next UEFA club competition due to failure to comply with the Financial Fair Play of UEFA, I just got alert, because the enforcement was nothing to do with "football" but "Financial Fair Play". Therefore, I thought it is worth diving deeper.

In order to understand what happened, let's take a look at what UEFA's Financial Fair Play rules are.

Financial fair play is about improving the overall financial health of European club football. Financial fair play was approved in 2010 and the first assessments kicked off in 2011. Since then, clubs that have qualified for UEFA competitions have to prove they do not have overdue payables towards other clubs, their players and social/tax authorities throughout the season. In other words, they have to prove they have paid their bills.

Since 2013, clubs have also been assessed against break-even requirements, which require clubs to balance their spending with their revenues and restricts clubs from accumulating debt. In assessing this, the independent Club Financial Control Body (CFCB) analyzes each season three years' worth of club financial figures for all clubs in UEFA competitions. The first sanctions and conditions for clubs not fulfilling the break-even requirement were set following this first assessment in May 2014. The conditions relating to non-compliance with break-even requirements were effective for the 2014/15 campaign.

So, the financial fair play is not new, dating back to 2010. I have also noted that there have been some cases where clubs were excluded from participating in the UEFA club competition in the last couple of years. It is clear that UEFA has been serious on the enforcement of rules.

In accordance with the Financial Fair Play, clubs can spend up to €5million more than they earn per assessment period (three years). However, it can exceed this level to a certain limit, if it is entirely covered by a direct contribution/payment from the club owner(s) or a related party. This prevents the build-up of unsustainable debt.

Page 2 •

Contents:

GOOD THINGS COME TO THOSE WHO WAIT

DiCaprio finally won his first Oscar on the 88th Academy Awards, on his 6th nomination 22 years after he was first nominated. Some strategic Mergers and Acquisition transactions are more or less the same, they may have a successful closing years after the initial talks begin.

In order for a global strategic acquisition to go through, a potential acquirer must at least have initial green light on the following issues:

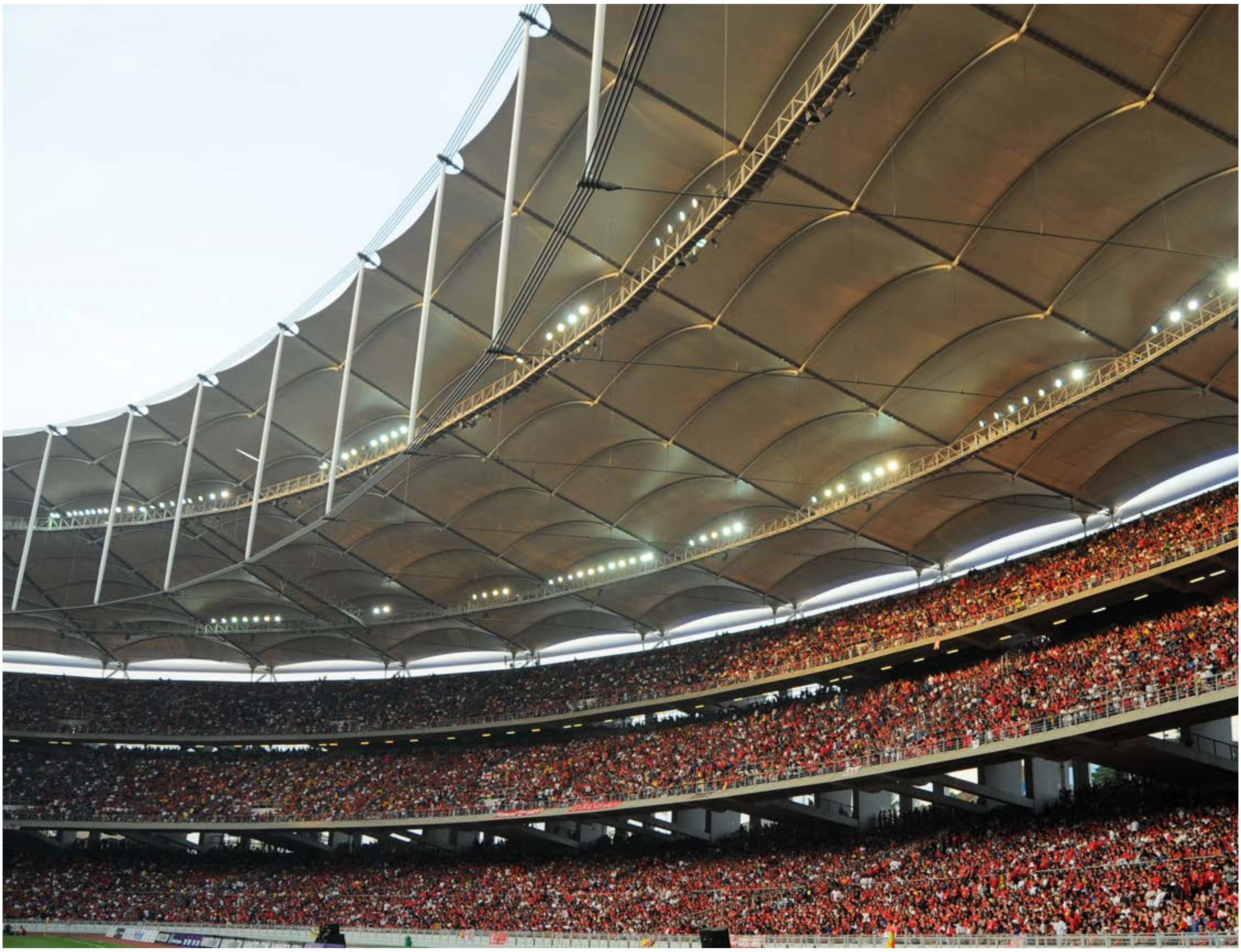
- Region/country that acquisition is going to be made in,
- Percentage of ownership,
- Short list of target companies,
- Valuation approach/range.

The acquirer and the target company both may agree on mutual grounds regarding the above points including the valuation approach, but sometimes the timing may not be right. There could be different reasons for this. Here are some of the reasons that we have encountered in transactions we were engaged:

- Certain issues arising from due diligence process may have negative effects on the value or the terms of the potential deal. As a result, the seller may tend to stop the negotiations. This usually happens when the seller believes that they could deal with these issues that decrease the value within a certain

Page 3 •

BEYOND FOOTBALL



- The limits are:
  I €45m for assessment periods 2013/14 and 2014/15
  I €30m for assessment periods 2015/16, 2016/17 and 2017/18

Galatasaray is a listed company in İstanbul Stock Exchange. Galatasaray made an announcement on 19 January 2016 to public informing that UEFA investigators stated Galatasaray accumulated debts of €164.2 million in the last three years and considering the limit of €30 million, the accumulated losses exceeded the limits by €134.2 million. I have looked at the financial statements and noted that the accumulated losses including current year income amounted to approximately TRY 583 million at 31 May 2015. The purpose of this article is, of course, not the reconciliation of the TRY amount with the EUR amount, but obviously the accumulated losses are far beyond the threshold of Financial Fair Play.

The simple question I am unable to answer is that how come Galatasaray ended up with this clear failure of compliance with the Financial Fair Play rules. The rules are not new and the losses have not been accumulated overnight. As said, Galatasaray is a listed company and there are couple of governance layers such as board of directors, audit committee, corporate governance office etc. I really wonder if this matter was raised by the management or those charged with governance bodies before. If not raised, there is nothing to say! If raised, what actions were taken to mitigate this compliance risk?

I do not know the dynamics in football. What I know is that Galatasaray is a listed company with thousands of investors. In addition, it has millions of stakeholders, namely funs, all over the world. Here is a simple rule as far as the corporate governance is concerned: more stakeholders require more transparency, accountability and of course responsibility. I believe that this case should be discussed further not only by and among the football commentators (through their lingering and irrelevant discussions) but also business people who contribute to the case from the perspectives of corporate governance and compliance. On top of the corporate governance and compliance, someone may raise the bar and say "ethics" and "integrity" should also be talked about. I would not say no to this recommendation!

I suspect that this case is not solely a case of Galatasaray. The UEFA's decision about Galatasaray may be a signal for other Turkish clubs which may be in the similar situation. I hope they could take actions earlier than UEFA to mitigate risks arising from Financial Fair Play.

Fikret Sebilcioğlu, CFE, CPA

GOOD THINGS COME TO THOSE WHO WAIT

- period of time and that they could in due course restart the talks with the existing or a new potential acquirer,
- The target company may have just finished a new investment and the parties could not agree on how to reflect the potential positive impact of this development to the valuation. The seller may feel that the proposed value is not enough and may want to wait or vice versa the acquirer may not want to take the risk of over valuing it and feel the need to wait a couple years to see the actual results.

The list of reasons above may go on in accordance with the specific dynamics of the potential deal. In some instances the acquirer may stop the process and start thinking about looking at other alternatives. The same may be true for the seller that may also want to stop the process so that they can internally work towards better deal conditions in the future.

We believe that a patient acquirer that is willing to pursue the existing opportunity rather than going after a secondary plan may in the end be rewarded with a successful transaction. We have seen cases in which some deals were closed years after the initial talks began, because the parties revisited their existing relations and kept an open communication channel. Middle-sized Turkish companies are usually family owned and in most instances their representative in an M&A process is the first generation founder if not the second generation siblings. Such counterparts sometimes already have difficulties in discussing the selling of their company that they see as their baby let alone valuing it. Potential acquirers that take their time and that are patient enough to wait for the correct timing for both sides may sometimes be demonstrating the critical wisdom to have an impression on the father of the bride and hold the key for a long term successful acquisition in Turkey.

Ömer Tunabaş

CAN YOU GET AWAY FROM THE REALITY OF FRAUD? GLOBAL FRAUD STUDY OF ACFE PROVES NO!

The Association of Certified Fraud Examiners (ACFE) published the results of its most recent global fraud survey in its highly anticipated 2016 Report to the Nations on Occupational Fraud and Abuse on 30 March 2016.

The study included 2,410 occupational fraud cases investigated by Certified Fraud Examiners (CFEs) all over the world between January 2014 and October 2015. 81.3 percent of the reported fraud instances occurred in the private companies while 18.7 percent occurred in government entities.

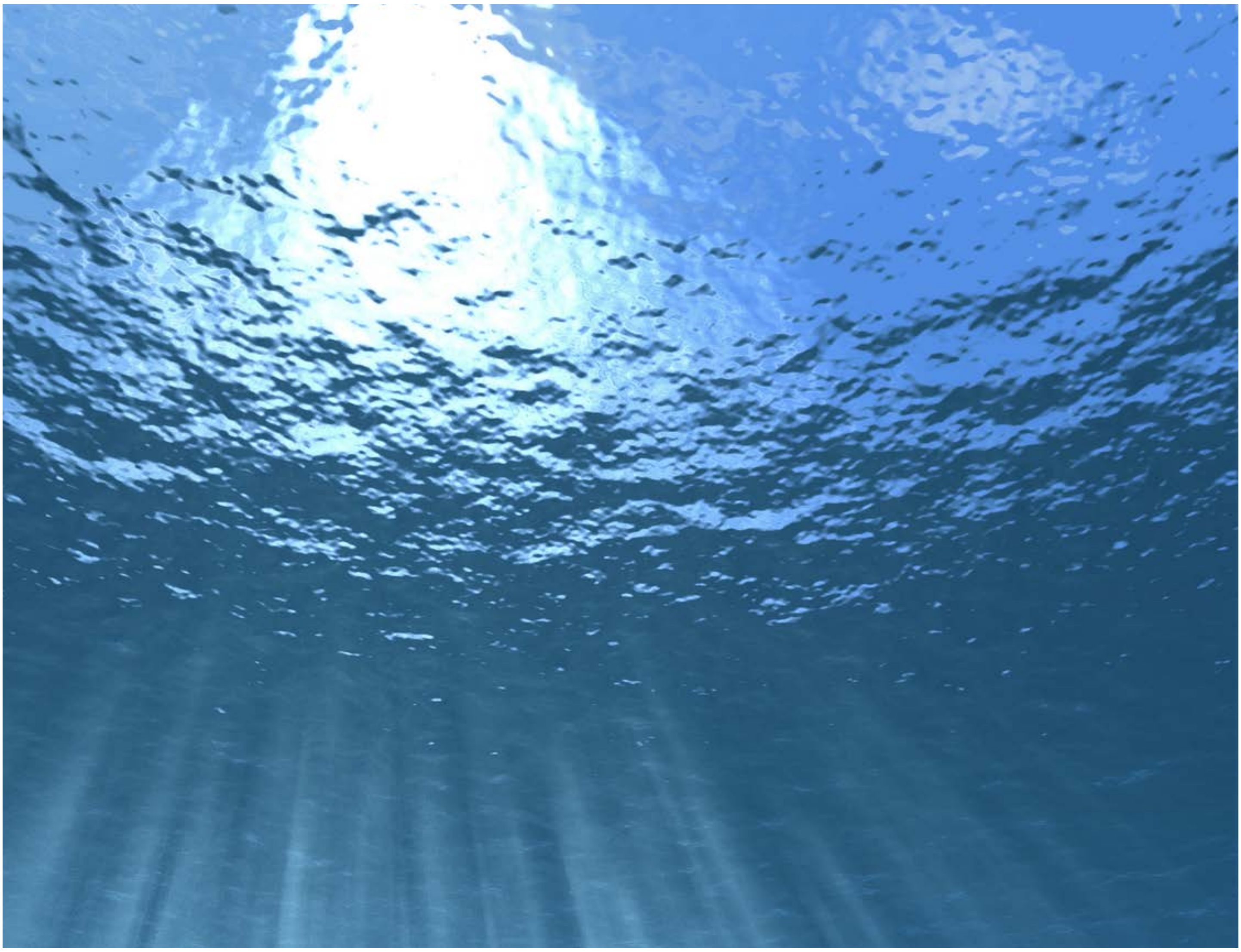
Key findings from the 92-page report include (all values in U.S. dollars) the followings:

Fraud is very costly: The CFEs who participated in the survey estimated that the typical organization loses 5% of revenues in a given year as a result of fraud. When applied to the 2014 estimated Gross World Product of $74.16 trillion, this translates to potential global fraud losses of up to $3.7 trillion.

Asset misappropriation is the most frequent and least costly, while financial statements fraud is the least frequent but most costly: Asset misappropriation was by far the most common form of occupational fraud, occurring in more than 83% of cases, but causing the smallest median loss of $125,000. Financial statement fraud was on the other end of the spectrum, occurring in less than 10% of cases but causing a median loss of $975,000. Corruption cases fell in the middle, with 35.4% of cases and a median loss of $200,000.

The longer a fraud lasted, the greater the financial damage it caused: While the median duration of the frauds in our study was 18 months, the losses rose as the duration increased. At the extreme end, those schemes that lasted more than five years caused a median loss of $850,000.

Using fraudulent physical documents are the most common way of concealment of fraud schemes: In 94.5% of the cases in the study, the perpetrator took some efforts to conceal the fraud.



The top five concealment methods are (i) created fraudulent physical documents; (ii) altered physical documents; (iii) altered transactions in the accounting system; (iv) created fraudulent transactions in the accounting system; (v) destroyed physical documents. It is a rather interesting finding that the vast majority of fraudsters proactively attempted to conceal their schemes by creating, altering or destroying physical documents.

Tips are the most common detection method: The most common detection method in our study was tips (39.1% of cases), but organizations that had reporting hotlines were much more likely to detect fraud through tips than organizations without hotlines (47.3% compared to 28.2%, respectively). In cases detected by tip at organizations with formal fraud reporting mechanisms, telephone hotlines were the most commonly used method (39.5%). However, tips submitted via email (34.1%) and web-based or online form (23.5%) combined to make reporting more common through the internet than by telephone.

Frauds hit small business worse: The losses suffered by small organizations were the same as that incurred by the largest organizations. However, this type of loss is likely to have a much greater impact on smaller organizations. In addition, small organizations had a significantly lower implementation rate of anti-fraud controls than large organizations. This gap in fraud prevention and detection coverage leaves small organizations extremely susceptible to frauds that can cause significant damage to their limited resources.

Organization sizes impact fraud schemes: Organizations of different sizes tend to have different fraud risks. Corruption was more prevalent in larger organizations, while check tampering, skimming, payroll, and cash larceny schemes were twice as common in small organizations as in larger organizations.

Fraud exposure is higher in certain industries: The banking and financial services, government and public administration, and manufacturing industries were the most represented sectors in the fraud cases examined. It is also noted that although mining and wholesale trade had the fewest cases of any industry in the study, those industries reported the greatest median losses of $500,000 and $450,000, respectively.

Most common anti-fraud controls: While the implementation rates of anti-fraud controls varied by geographical region, several controls—external audits of the financial statements, code of conduct, and management certification of the financial statements—were consistently among the most commonly implemented across organizations in all locations.

External audit is one of the least effective anti-fraud control although it is the most implemented one in victim organizations: Although the external audit is one of the least effective anti-fraud control (3.8% of cases), it is the most commonly implemented anti- fraud control; nearly 82% of the organizations in the study underwent independent audits.

More anti-fraud controls lead to lower fraud losses: The presence of anti-fraud controls was correlated with both lower fraud losses and quicker detection. Organizations that had specific anti-fraud controls in place were compared against organizations lacking those controls and it was found that where controls were present, fraud losses were 14.3%–54% lower and frauds were detected 33.3%–50% more quickly.

Schemes based on perpetrator's department: More occupational frauds originated in the accounting department (16.6%) than in any other business unit. More than three-fourths of the frauds analyzed were committed by individuals working in seven key departments: accounting, operations, sales, executive/upper management, customer service, purchasing, and finance.

More individuals involved leads to higher losses: The median loss caused by a single perpetrator was $85,000. When two people conspired, the median loss was $150,000; three conspirators caused $220,000 in losses; four caused $294,000; and for schemes with five or more perpetrators, the median loss was $633,000.

Most common behavioral warning of fraud perpetrators: Fraud perpetrators tended to display behavioral warning signs when they were engaged in their crimes. The most common red flags were living beyond means, financial difficulties, unusually close association with a vendor or customer, excessive control issues, a general "wheeler-dealer" attitude involving unscrupulous behavior, and recent divorce or family problems. At least one of these red flags was exhibited during the fraud in 78.9% of cases.

Source: Report to the Nations on Occupational Fraud and Abuse – 2016 Global Fraud Study by ACFE. The 2016 Report to the Nations is available for download at ACFE.com/RTTN.

Fikret Sebilcioğlu, CPA, CFE

CUSTOMIZING FINANCIAL DUE DILIGENCE SCOPE

Tailor-made suits may be seen as a nice to have luxury, whereas a tailor-made financial due diligence work program may be a necessity for a successful transaction.

Financial due diligence work should be refined and focused on the pre-determined priorities. The buy side financial due diligence is normally carried out after the memorandum of understanding is signed and before the final legal documentation is drafted if the deal is to be closed. This is a period in which the target company is at a certain level of positive motivation regarding the due diligence process that they are going to go through. In Turkey it is highly probable that the target company is an entity that has never been audited let alone go through a due diligence process. When this is the case, a financial due diligence that drags on may decrease the level of motivation that is much needed for the negotiations of the final legal documentation.

A customized financial due diligence scope eases the process for all parties including the service provider that carries out the due diligence work. It optimizes the efficiency of the work as well as the focus on the major dynamics of the potential deal. Each party has its own homework to achieve a productive customization of the scope:

The acquirer: should inform the service provider of the major aspect of the potential deal from their perspective. An example of this could be that the historic working capital level of the target company may be a crucial ingredient in the decision making process of the acquirer.

The target company: should be communicative from the beginning regarding the significant issues that they are already aware of. Such an approach from the beginning could pave the way for the scope to be customized and prioritized.

The service provider: should be sincere in advising the acquirer (its client) of what a necessity item is and what a nice to have item is, once the initial information sharing is done by the target company.

A realistic customization of the financial due diligence scope may save resources (time and fees) and/or cover additional risks that may not have been apparent at the beginning for the acquirer. At the same time it would also avoid unnecessary over work that would exhaust the process all together.

We, as Cerebra transaction services team, are strong believers in effective field-work. Below you may find some examples of alterations in the scope that we propose to our clients:

A target company having numerous public offices as customers: In such instances we may propose to add high level review of the relationship between the target company and such customers with a perspective dictated by the Foreign Corrupt Practices Act or the UK Bribery Act, if the acquirer is within the jurisdiction of such regulations. The results of a high level review may result in avoiding a future full scope anti-fraud due diligence.

Only a few number of customers making up a majority of the revenues: We usually do not send out confirmation letters for the trade receivables of the target company during a financial due diligence work. However, in such an instance it may be worthwhile to do so, as we may end up with a higher quality of comfort for the completeness of sales and trade receivables that make up an important part of the working capital. Due to this, we may prioritize such an approach rather than wasting time with alternative reviews of the trade receivables.

Timing of the fieldwork: There could be times when our scope covers numerous fiscal years in which the last year may have to be an interim period. In such instances we may change the sequence of our program and carry out the full year's work first and leave the interim period's analysis to the end. By doing so, we buy time for the target company to prepare the most recent months end for our review. Such an approach usually prevents the necessity for frequent updates of the report.

Ömer Tunabaş

TURKEY NAMED ONE OF THE BIG DECLINERS IN 2015 CORRUPTION PERCEPTIONS INDEX

Corruption Perceptions Index 2015 was announced by Transparency International on 27 January 2016 in Berlin. The index covers perceptions of public sector corruption in 168 countries.

The press release of Transparency International stated that the research showed that people working together can succeed in the battle against corruption. Although corruption is still rife globally, more countries improved their scores in the 2015 edition of Transparency International's Corruption Perceptions Index than declined.

The 2015 Corruption Perceptions Index clearly shows that corruption remains to be a blight around the world. But 2015 was also a year when people again took to the streets to protest corruption. People across the globe sent a strong signal to those in power: it is time to tackle grand corruption," said José Ugaz, Chair of Transparency International.

Big Improvers

The big improvers include Greece, Senegal and UK. Denmark took the top spot for the 2nd year running.

Top performers share key characteristics: (i) high levels of press freedom; (ii) access to budget information so the public knows where money comes from and how it is spent; (iii) high levels of integrity among people in power; and (iv) judiciaries that don't differentiate between rich and poor, and that are truly independent from other parts of government.

Big Decliners

The big decliners in the past 4 years include Libya, Australia, Brazil, Spain and Turkey. North Korea and Somalia took the worst performers.

Brazil was the biggest decliner in the index, falling 5 points and dropping 7 positions to a rank of 76. The unfolding Petrobras scandal brought people into the streets in 2015 and the start of judicial process may help Brazil stop corruption.

Closer Look Into Turkey's Result

Turkey is ranked 66th out of 168 countries in 2015. The Turkey's ranking was 64th out of 175 countries in 2014 and 53rd out of 177 countries in 2013, 54th out of 176 countries in 2012. Unfortunately, this significant deterioration in the last years brings Turkey one of the "Big Decliner" title.

People who are interested in this research will definitely discuss the results and make details analysis as to why Turkey has performed that bad. I believe that the short answer is hidden above

where the key characteristics of top performers are detailed.
A research conducted by the World Bank related to the 2014 index showed rather disappointing facts. The report issued in May 2015 indicated that the rank of 64 in 2014 did not reflect the truth and, in reality, Turkey is much lower in the list. The World Bank looked into the "reticence to tell the truth" regarding the said index results in its research. This research that involved seven countries including Turkey concluded that Turkey is the top country to "avoid giving the right answer" to the questions addressed in the corruption perception survey. In short, they were not honest and gave misleading answers to the questions. I believe that we can easily consider the same behavior for the Turkish results for the 2015 results. If you would like to review the report, you can access it via the website of the World Bank (report number WPS7276).

CEREBRA ORGANIZED A JOINT EVENT WITH KDK AND SOLMAZ GROUP ON "THIRD PARTY RISK MANAGEMENT"

Third party risk management is becoming a hot topic all around the world. Companies conducting business overseas face growing legal and reputational risks. These risks have become even more important because of increasingly complex business regulations worldwide. In the field of anti-corruption in particular, under many legal frameworks including the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act, organizations may indeed be held liable for acts of corruption by third parties, i.e. their agents, consultants, suppliers, distributors, joint-venture partners. Before entering into relationships with third parties, organizations should take active steps to ensure that potential corruption risks flowing from these relationships are responsibly evaluated and managed. In fact, conducting a risk-based due diligence on third parties has become a legal expectation in many countries that have ratified the OECD Anti- Bribery Convention and/or the United Nations Convention against Corruption.
In order to discuss these issues, a seminar named "Managing Third-Party Risk in Turkey: Is Third Party Risk Your Risk?" was jointly organized by Cerebra Accounting Audit Advisory, Kolcuoğlu Demirkan Koçaklı Law Firm and Solmaz Group on 13 April 2016 at the House Hotel Bosphorus, İstanbul. The seminar was held with about 60 participants from various large multi-national and local companies.
Mr. Tayfun Zaman, Secretary General at Ethics and Reputation Society made a keynote speech. Mr. Fikret Sebilcioğlu of Cerebra, Mr. Okan Demirkan of KDK Law Firm and Mr. Asım Barlın and Ms. Billur Barlın of Solmaz Group shared their experience and thoughts on third party risks and their management with the participants.

FİKRET SEBİLCİOĞLU SPOKE ABOUT FRAUD AND CORRUPTION AT GOOD GOVERNANCE CONFERENCE

In cooperation with Corporate Governance Association of Turkey, Argüden Governance Academy organized “Good Governance for State-Owned Enterprises” Conference for public and private sector leaders with the contributions of Republic of Turkey Prime Ministry Undersecretaries of Treasury and Union of Turkish Public Enterprises on 7 April 2016 at the Boğaziçi University.

Fikret Sebilcioğlu, Managing Partner of Cerebra, joined a panel discussion with Ms. Ayşegül Ekşit, Capital Markets Board of Turkey, Vice President, Mr. İlhami Koç, Turkish Capital Markets Associations, TKYD Vice Chairman and Mr. Dr. Erkin Erimez, ARGE Consulting. The panel was entitled “Accountability, Performance Assessment System and Fraud Risk Management in the Listed Companies”. Fikret has presented the results of “Reports to the Nations on Occupational Fraud and Abuse-2016 Global Study” issued by Association of Certified Fraud Examiners and shared thoughts and perspectives as to how fraud and corruption risks are managed in private companies as well as methods which could be implemented in the state-owned companies.

In the conference, “OECD Guidelines on Corporate Governance of State–Owned Enterprises 2015 Edition” whose original version was published by OECD both in English and French were presented to the attendees.

Fikret Sebilcioğlu, CFE, CPA

About Cerebra

Cerebra is an independent accounting, audit and advisory firm based in İstanbul, Turkey. Combining years of international expertise with practical Turkish experience and knowledge, Cerebra serves to companies from all over the world. Our clients and working partners in general are multinational firms, funds and other entities based especially in Western Europe, Scandinavia and USA as well as firms, funds, law firms and investment banks established in Turkey.

Cerebra defines itself as a platform providing value added services with a customized approach. The firm is led by a group of professionals with over two decades of experience in the local and international markets. Since its inception in 2009, Cerebra’s vision has always been to be your continuous trusted business partner in Turkey.

Our professionals provide the following services to its international and local clients:

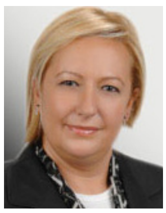
- Forensic Accounting & Fraud Investigation
- Accounting Compliance and Reporting (Outsourcing)
- Internal Controls & Internal Audit
- Post Merger & Acquisition Integration
- Buy Side and Sell Side Due Diligence including Vendor Assistance
- Company Valuation
- Audit and Assurance

Fikret Sebilcioğlu
Partner
CPA, CFE

More than 20 years of experience managing accounting, financial statement audit, financial reporting, internal controls, forensic audits and compliance initiatives. Certified Public Accountant and Certified Fraud Examiner. Worked with PwC Turkey and the Netherlands for 15 years. Board member of Association of Certified Fraud Examiners Turkey and Ethics and Reputation Society, a member of Corporate Governance Association of Turkey.

Ömer Tunabaş
Partner

Worked with PwC Turkey and Alfa Securities for 6 years as an auditor and corporate finance consultant. Continued his career as an internal financial and business development consultant in Koç Holding for 10 years. Became a partner of Cerebra in 2010. Has a wide range of experience in independent audit, buy and sell side financial due diligence, M&A advisory, company valuation, budgeting and strategic planning.



Seda Bayraktar
Director
CPA

Worked total of 8 years in BDO and PwC. Continued her career as a CFO in Clear Channel Turkey before joining Cerebra in 2009 as the Head of Accounting Compliance and Reporting. Has a wide range of experience in independent audit, accounting and finance management, internal controls, IFRS and US GAAP.

Cerebra

ACCOUNTING • AUDIT • ADVISORY

Cerebra Newsletter

MAY 2016 No: 6
ISTANBUL-TURKEY

BEYOND FOOTBALL

Galatasaray case and thoughts on compliance and corporate governance

I am not a football fan. However, when I heard Galatasaray was excluded from participating in the next UEFA club competition due to failure to comply with the Financial Fair Play of UEFA, I just got alert, because the enforcement was nothing to do with "football" but "Financial Fair Play". Therefore, I thought it is worth diving deeper.

In order to understand what happened, let's take a look at what UEFA's Financial Fair Play rules are.

Financial fair play is about improving the overall financial health of European club football. Financial fair play was approved in 2010 and the first assessments kicked off in 2011. Since then, clubs that have qualified for UEFA competitions have to prove they do not have overdue payables towards other clubs, their players and social/tax authorities throughout the season. In other words, they have to prove they have paid their bills.

Since 2013, clubs have also been assessed against break-even requirements, which require clubs to balance their spending with their revenues and restricts clubs from accumulating debt. In assessing this, the independent Club Financial Control Body (CFCB) analyzes each season three years' worth of club financial figures for all clubs in UEFA competitions. The first sanctions and conditions for clubs not fulfilling the break-even requirement were set following this first assessment in May 2014. The conditions relating to non-compliance with break-even requirements were effective for the 2014/15 campaign.

So, the financial fair play is not new, dating back to 2010. I have also noted that there have been some cases where clubs were excluded from participating in the UEFA club competition in the last couple of years. It is clear that UEFA has been serious on the enforcement of rules.

In accordance with the Financial Fair Play, clubs can spend up to €5million more than they earn per assessment period (three years). However, it can exceed this level to a certain limit, if it is entirely covered by a direct contribution/payment from the club owner(s) or a related party. This prevents the build-up of unsustainable debt.

Page 2 •

Contents:

GOOD THINGS COME TO THOSE WHO WAIT

DiCaprio finally won his first Oscar on the 88th Academy Awards, on his 6th nomination 22 years after he was first nominated. Some strategic Mergers and Acquisition transactions are more or less the same, they may have a successful closing years after the initial talks begin.

In order for a global strategic acquisition to go through, a potential acquirer must at least have initial green light on the following issues:

- Region/country that acquisition is going to be made in,
- Percentage of ownership,
- Short list of target companies,
- Valuation approach/range.

The acquirer and the target company both may agree on mutual grounds regarding the above points including the valuation approach, but sometimes the timing may not be right. There could be different reasons for this. Here are some of the reasons that we have encountered in transactions we were engaged:

- Certain issues arising from due diligence process may have negative effects on the value or the terms of the potential deal. As a result, the seller may tend to stop the negotiations. This usually happens when the seller believes that they could deal with these issues that decrease the value within a certain

Page 3 •

Cerebra

ACCOUNTING • AUDIT • ADVISORY

Cerebra Newsletter

MAY 2016 No: 6
ISTANBUL-TURKEY

BEYOND FOOTBALL

Galatasaray case and thoughts on compliance and corporate governance

I am not a football fan. However, when I heard Galatasaray was excluded from participating in the next UEFA club competition due to failure to comply with the Financial Fair Play of UEFA, I just got alert, because the enforcement was nothing to do with "football" but "Financial Fair Play". Therefore, I thought it is worth diving deeper.

In order to understand what happened, let's take a look at what UEFA's Financial Fair Play rules are.

Financial fair play is about improving the overall financial health of European club football. Financial fair play was approved in 2010 and the first assessments kicked off in 2011. Since then, clubs that have qualified for UEFA competitions have to prove they do not have overdue payables towards other clubs, their players and social/tax authorities throughout the season. In other words, they have to prove they have paid their bills.

Since 2013, clubs have also been assessed against break-even requirements, which require clubs to balance their spending with their revenues and restricts clubs from accumulating debt. In assessing this, the independent Club Financial Control Body (CFCB) analyzes each season three years' worth of club financial figures for all clubs in UEFA competitions. The first sanctions and conditions for clubs not fulfilling the break-even requirement were set following this first assessment in May 2014. The conditions relating to non-compliance with break-even requirements were effective for the 2014/15 campaign.

So, the financial fair play is not new, dating back to 2010. I have also noted that there have been some cases where clubs were excluded from participating in the UEFA club competition in the last couple of years. It is clear that UEFA has been serious on the enforcement of rules.

In accordance with the Financial Fair Play, clubs can spend up to €5million more than they earn per assessment period (three years). However, it can exceed this level to a certain limit, if it is entirely covered by a direct contribution/payment from the club owner(s) or a related party. This prevents the build-up of unsustainable debt.

Contents:

Page 2 •

GOOD THINGS COME TO THOSE WHO WAIT

DiCaprio finally won his first Oscar on the 88th Academy Awards, on his 6th nomination 22 years after he was first nominated. Some strategic Mergers and Acquisition transactions are more or less the same, they may have a successful closing years after the initial talks begin.

In order for a global strategic acquisition to go through, a potential acquirer must at least have initial green light on the following issues:

- Region/country that acquisition is going to be made in,
- Percentage of ownership,
- Short list of target companies,
- Valuation approach/range.

The acquirer and the target company both may agree on mutual grounds regarding the above points including the valuation approach, but sometimes the timing may not be right. There could be different reasons for this. Here are some of the reasons that we have encountered in transactions we were engaged:

- Certain issues arising from due diligence process may have negative effects on the value or the terms of the potential deal. As a result, the seller may tend to stop the negotiations. This usually happens when the seller believes that they could deal with these issues that decrease the value within a certain

Page 3 •

ACCOUNTING • AUDIT • ADVISORY

Cerebra Newsletter

MAY 2016 No: 6
ISTANBUL-TURKEY

BEYOND FOOTBALL

Galatasaray case and thoughts on compliance and corporate governance

I am not a football fan. However, when I heard Galatasaray was excluded from participating in the next UEFA club competition due to failure to comply with the Financial Fair Play of UEFA, I just got alert, because the enforcement was nothing to do with "football" but "Financial Fair Play". Therefore, I thought it is worth diving deeper.

In order to understand what happened, let's take a look at what UEFA's Financial Fair Play rules are.

Financial fair play is about improving the overall financial health of European club football. Financial fair play was approved in 2010 and the first assessments kicked off in 2011. Since then, clubs that have qualified for UEFA competitions have to prove they do not have overdue payables towards other clubs, their players and social/tax authorities throughout the season. In other words, they have to prove they have paid their bills.

Since 2013, clubs have also been assessed against break-even requirements, which require clubs to balance their spending with their revenues and restricts clubs from accumulating debt. In assessing this, the independent Club Financial Control Body (CFCB) analyzes each season three years' worth of club financial figures for all clubs in UEFA competitions. The first sanctions and conditions for clubs not fulfilling the break-even requirement were set following this first assessment in May 2014. The conditions relating to non-compliance with break-even requirements were effective for the 2014/15 campaign.

So, the financial fair play is not new, dating back to 2010. I have also noted that there have been some cases where clubs were excluded from participating in the UEFA club competition in the last couple of years. It is clear that UEFA has been serious on the enforcement of rules.

In accordance with the Financial Fair Play, clubs can spend up to €5million more than they earn per assessment period (three years). However, it can exceed this level to a certain limit, if it is entirely covered by a direct contribution/payment from the club owner(s) or a related party. This prevents the build-up of unsustainable debt.

Page 2 •

Contents:

GOOD THINGS COME TO THOSE WHO WAIT

DiCaprio finally won his first Oscar on the 88th Academy Awards, on his 6th nomination 22 years after he was first nominated. Some strategic Mergers and Acquisition transactions are more or less the same, they may have a successful closing years after the initial talks begin.

In order for a global strategic acquisition to go through, a potential acquirer must at least have initial green light on the following issues:

- Region/country that acquisition is going to be made in,
- Percentage of ownership,
- Short list of target companies,
- Valuation approach/range.

The acquirer and the target company both may agree on mutual grounds regarding the above points including the valuation approach, but sometimes the timing may not be right. There could be different reasons for this. Here are some of the reasons that we have encountered in transactions we were engaged:

- Certain issues arising from due diligence process may have negative effects on the value or the terms of the potential deal. As a result, the seller may tend to stop the negotiations. This usually happens when the seller believes that they could deal with these issues that decrease the value within a certain

Page 3 •

Cerebra
ACCOUNTING • AUDIT • ADVISORY

Cerebra Newsletter

MAY 2016 No: 6
ISTANBUL-TURKEY

BEYOND FOOTBALL

Galatasaray case and thoughts on compliance and corporate governance

I am not a football fan. However, when I heard Galatasaray was excluded from participating in the next UEFA club competition due to failure to comply with the Financial Fair Play of UEFA, I just got alert, because the enforcement was nothing to do with "football" but "Financial Fair Play". Therefore, I thought it is worth diving deeper.

In order to understand what happened, let's take a look at what UEFA's Financial Fair Play rules are.

Financial fair play is about improving the overall financial health of European club football. Financial fair play was approved in 2010 and the first assessments kicked off in 2011. Since then, clubs that have qualified for UEFA competitions have to prove they do not have overdue payables towards other clubs, their players and social/tax authorities throughout the season. In other words, they have to prove they have paid their bills.

Since 2013, clubs have also been assessed against break-even requirements, which require clubs to balance their spending with their revenues and restricts clubs from accumulating debt. In assessing this, the independent Club Financial Control Body (CFCB) analyzes each season three years' worth of club financial figures for all clubs in UEFA competitions. The first sanctions and conditions for clubs not fulfilling the break-even requirement were set following this first assessment in May 2014. The conditions relating to non-compliance with break-even requirements were effective for the 2014/15 campaign.

So, the financial fair play is not new, dating back to 2010. I have also noted that there have been some cases where clubs were excluded from participating in the UEFA club competition in the last couple of years. It is clear that UEFA has been serious on the enforcement of rules.

In accordance with the Financial Fair Play, clubs can spend up to €5million more than they earn per assessment period (three years). However, it can exceed this level to a certain limit, if it is entirely covered by a direct contribution/payment from the club owner(s) or a related party. This prevents the build-up of unsustainable debt.

Page 2 •

Contents:

GOOD THINGS COME TO THOSE WHO WAIT

DiCaprio finally won his first Oscar on the 88th Academy Awards, on his 6th nomination 22 years after he was first nominated. Some strategic Mergers and Acquisition transactions are more or less the same, they may have a successful closing years after the initial talks begin.

In order for a global strategic acquisition to go through, a potential acquirer must at least have initial green light on the following issues:

- Region/country that acquisition is going to be made in,
- Percentage of ownership,
- Short list of target companies,
- Valuation approach/range.

The acquirer and the target company both may agree on mutual grounds regarding the above points including the valuation approach, but sometimes the timing may not be right. There could be different reasons for this. Here are some of the reasons that we have encountered in transactions we were engaged:

- Certain issues arising from due diligence process may have negative effects on the value or the terms of the potential deal. As a result, the seller may tend to stop the negotiations. This usually happens when the seller believes that they could deal with these issues that decrease the value within a certain

Page 3 •

Cerebra

ACCOUNTING • AUDIT • ADVISORY

Cerebra Newsletter

MAY 2016 No: 6
ISTANBUL-TURKEY

BEYOND FOOTBALL

Galatasaray case and thoughts on compliance and corporate governance

I am not a football fan. However, when I heard Galatasaray was excluded from participating in the next UEFA club competition due to failure to comply with the Financial Fair Play of UEFA, I just got alert, because the enforcement was nothing to do with "football" but "Financial Fair Play". Therefore, I thought it is worth diving deeper.

In order to understand what happened, let's take a look at what UEFA's Financial Fair Play rules are.

Financial fair play is about improving the overall financial health of European club football. Financial fair play was approved in 2010 and the first assessments kicked off in 2011. Since then, clubs that have qualified for UEFA competitions have to prove they do not have overdue payables towards other clubs, their players and social/tax authorities throughout the season. In other words, they have to prove they have paid their bills.

Since 2013, clubs have also been assessed against break-even requirements, which require clubs to balance their spending with their revenues and restricts clubs from accumulating debt. In assessing this, the independent Club Financial Control Body (CFCB) analyzes each season three years' worth of club financial figures for all clubs in UEFA competitions. The first sanctions and conditions for clubs not fulfilling the break-even requirement were set following this first assessment in May 2014. The conditions relating to non-compliance with break-even requirements were effective for the 2014/15 campaign.

So, the financial fair play is not new, dating back to 2010. I have also noted that there have been some cases where clubs were excluded from participating in the UEFA club competition in the last couple of years. It is clear that UEFA has been serious on the enforcement of rules.

In accordance with the Financial Fair Play, clubs can spend up to €5million more than they earn per assessment period (three years). However, it can exceed this level to a certain limit, if it is entirely covered by a direct contribution/payment from the club owner(s) or a related party. This prevents the build-up of unsustainable debt.

Page 2 •

Contents:

GOOD THINGS COME TO THOSE WHO WAIT

DiCaprio finally won his first Oscar on the 88th Academy Awards, on his 6th nomination 22 years after he was first nominated. Some strategic Mergers and Acquisition transactions are more or less the same, they may have a successful closing years after the initial talks begin.

In order for a global strategic acquisition to go through, a potential acquirer must at least have initial green light on the following issues:

- Region/country that acquisition is going to be made in,
- Percentage of ownership,
- Short list of target companies,
- Valuation approach/range.

The acquirer and the target company both may agree on mutual grounds regarding the above points including the valuation approach, but sometimes the timing may not be right. There could be different reasons for this. Here are some of the reasons that we have encountered in transactions we were engaged:

- Certain issues arising from due diligence process may have negative effects on the value or the terms of the potential deal. As a result, the seller may tend to stop the negotiations. This usually happens when the seller believes that they could deal with these issues that decrease the value within a certain

Page 3 •