RISK REGULATIONS AND DISCLOSURE IN THE UNITED ARAB EMIRATES: AN INSTITUTIONAL THEORY ANALYSIS

Mostafa Kamal Hassan*

Abstract

The paper aims at exploring the social, political and economic forces underlying the development and the deployment of risk disclosure regulations in the United Arab Emirates (UAE). It synthesizes an institutional theory framework in order to link the UAE institutional environment to the UAE corporations' practices associated with risk disclosure. Drawing on DiMaggio and Powell's (1983) notions of "isomorphic mechanisms", Meyer and Rowan's (1977) notions of "sagacious conformity" and Oliver's (1991) notion of "strategic choice", the paper explores the legitimation processes behind risk disclosure regulations in the UAE and, at the same time, reveals how managers put into effect and deploy these regulations. The paper relies, primarily, on the discourse analysis of textual data published in legislations, newspapers articles and annual reports published by some of the UAE corporations listed in Abu Dhabi and Dubai financial markets. The paper finds that the UAE institutional context - mainly the country's aspiration to join global security markets, regulatory framework and accountancy profession activities - excretes pressures on individual corporations to put into effect risk disclosure regulations. In response, the UAE corporations adopt risk regulations as a "strategic disclosure", or as Oliver (1991) calls a "strategic choice", that enables those corporations to communicate a positive image to wider stakeholders. The paper adds to the literature relating to the institutional development behind risk disclosure and the disclosure management literature in emerging economies countries.

Keywords: Risk Reporting, Risk Disclosure Management, Institutional Theory, UAE

*Associate Professor in Accounting, University of Sharjah and (on leave Alexandria University, Egypt), College of Business Administration, Department of Accounting, P.O Box 27272
Tel: +971 (0) 6 5050571
Fax: +971 (0)6 5050100
Email: mhassan@sharjah.ac.ae

1. Introduction

The last few years have witnessed an ever increasing number of studies that investigate risk regulations and disclosure (e.g. Jenkins Committee Report, 1994; Solomon et al., 2000; ICAEW, 1997, 2000; Schrand and Elliot, 1998; Spira and Page, 2003; Beretta and Bozzolan, 2004; Abraham and Cox, 2007; Linsley and Actrence, 2007; Lajili and Zéghal, 2005; Linsley and Shrives, 2006; Amran et al., 2009; Hassan, 2009). These studies found variations in the content and format of the risk information disclosed in the annual reports. One of the key aspects of these studies is that they utilize statistical methods to empirically test the positive accounting theory-based explanations for these variations. This paper extends on the previous studies and aims at exploring the institutional development behind risk regulations in an emerging capital market located in the Western region of Asia - the UAE.

The paper also contributes to research pertaining to disclosure management literature. Several scholars argue that financial disclosure - defined as the deliberate release of financial information whether numerical or qualitative, required or voluntary - is the end result of *management processes* that encompass: first, the regulatory and professional activities at the macro level and, second, the discretionary activities of corporations' management at micro organizational level (Gibbins et a., 1990; Waterhouse et al., 1993; Elias, 1993; Adam, 1997; Neu, et al., 199; Trabelsi et al., 2004; Magness, 2006). The paper argues that the macro-micro activities associated with the risk disclosure regulations are a part of, what Waterhouse et al., 1993 and Magness, 2006 call, "strategic disclosure" through which UAE corporations manage stakeholders' impressions as will be explained later in the paper.

There are several reasons to choose the UAE for this study. First, the use of institutional theory in the UAE is rare except for Irvine (2008) study that explains how the UAE has responded to powerful global pressures, excreted from International Monetary Fund, to develop economic and political systems that legitimate the adoption of International Financial Reporting Standards (IFRS). In contrast to

Irvine (2008) study, this paper investigates how the UAE local institutions and corporations interact together to manage risk disclosure policies.

Another key reason to choose the UAE is the existence of different legislations and professional requirements that legitimate the disclosure of risk information. On the one hand, the Corporations Act No. 8 of 1984, the Central Bank and the Emirates Securities and Commodities Market Authority (ES&CMA) directly and indirectly set some risk regulations. On the other hand, there are some professional activities that enable the dissemination of risk disclosure practices across the UAE corporations. These regulatory and professional requirements make risk disclosure an important issue in the UAE.

The paper is organized in eight sections. After this introduction, section two defines risk regulations and disclosure as used in this study. Section three discusses the study theoretical framework. Section four presents the study methodology and methods. Section five explores the institutional developments that lie behind risk regulations in the UAE. Section six explains how corporations' managers put into effect risk regulations. Section seven discusses the empirical findings before the conclusion section.

2. Risk regulations and disclosure

Several studies discuss the meaning of risk for financial reporting purposes (ICAEW (1997, 2000; Eccles et al., 2001; Schrand and Elliott, 1998; Collier and Berry, 2002; Spira and Page, 2003; Cabedo and Tirado, 2004; Linsley and Shrives, 2006; Amran et al., 2009; Hassan, 2009). These studies broadly define risk reporting as the disclosure of events, factors, opportunities, hazards, dangers, harms, threats or exposures that positively or negatively influence the company operations and consequently the company wealth.

This paper defines risk in a different way. It defines risk as interrelated macro-micro activities. The macro level activities include risk regulations that encompass the activities of government, regulatory agencies such as capital markets and professional or trade associations (Taylor and Turley, 1986). These macro level activities refer to legislative, administrative and professional controls over various aspects of risk disclosure and practices. They refer to the imposition of constraints on the preparation, content and form of financial reports made by bodies other than the preparers of those reports at the micro organizational level (Hassan, 2008 a).

The micro level activities refer to how organizations interpret and put into effect risk regulations. These micro level activities include organizations managerial actions to disclose risk related information in their annual reports. These actions, whether voluntary or non-voluntary, incorporate the creation of law-based reserves in accordance with the UAE Federal Commercial Corporations Act of 1984, the creation of voluntary reserves, the use of financial instruments and other actions under the corporations' management discretion.

3. Theoretical framework

The paper draws on the institutional theory to explore activities associated with risk regulations and disclosure in the UAE. Since risk regulations and disclosure is defined as interrelated macro-micro activities, the paper synthesizes an institutional theory framework that enables exploring macro level activities behind risk regulations in the UAE and, at the same time, revealing how these regulations are put into effect and deployed at micro organizational level. The following subsections discuss the institutional theory framework utilized in this study.

3.1 Legitimating activities: risk regulations

Institutional theorists argue that the processes of isomorphism and/or legitimacy represent the central forces explaining why and how several rules (like risk regulations) emerge (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). One of the underlying themes of the intuitional theory is that organizations are pressured to conform with constituents demands (Scott, 1995; Lounsbury, 2008). Constituents' demands are presented through what institutional theorists call *isomorphic mechanisms* (Meyer and Rowan, 1977; DiMaggio and Powell, 1983). One can argue that isomorphic mechanisms are regulatory and professional activities that legitimate individual organizations towards the compliance with constituents' demands. These isomorphic mechanisms, or regulatory/professional legitimating activities, explain why organizations put into effect certain rules (like risk regulations).

The UAE institutional context can be envisaged as a field in which multiple constituents exert pressures on the UAE organizations. These constituents are the Minister of Economic and Planning, the ES&CMA, international audit firms operating in the UAE, the professional bodies such as the UAE Accounting and Auditors Association (AAA), the UAE Institute of Internal Auditors (IIA-UAE chapter), consultancy firms and partnerships with multinational corporations.

Organizational constituents operate around individual organizations and create pressures that lead individual organizations to adopt specific rules (like risk regulations) (Ribeiro and Scapens, 2006; Hassan, 2008b). The constituents' activities legitimate organizational micro practices through, what DiMaggio and Powell (1983) call, isomorphic pressures. For instance, the governmental agencies can be a source of *coercive* pressures, professional bodies can contribute to the creation of *normative*

pressures and consultants and partnerships may facilitate the emergence of *mimetic* pressures.

Coercive pressure is illustrated by the influence of the state or government agencies on other organizations through the enactment of legislations (DiMaggio and Powell, 1983, p.150). The UAE has various legislations regulating the risk disclosure. These legislations include the Commercial Companies Act of 1984, the ES&CMA listing conditions and the Central Bank requirements. *Normative pressure* stems primarily from the professions. Professional activities exert institutional pressure through disseminating knowledge, about risk regulations and disclosure, among different organizations operating in the same field. The UAE accountancy profession activities disseminate knowledge about risk disclosure and risk management. Finally, *mimetic pressure* reflects the desire to mirror others' practices that are recognized as both successful and worthy adopting (Scott, 1995, p.43). The UAE desire to join global security market through partnership with multinational corporations can lead to mimic practices such as risk disclosure.

3.2 Social legitimacy: risk practices and organizations strategic disclosure

Institutional theorists argue that organizations respond to pressures resulting from their constituents by adopting rules (like risk disclosure rules) that are accepted as being the most appropriate rules. Meyer and Rowan (1977) add that the adoption of these institutional rules maybe a sign of wise action or, as they describe, 'sagacious conformity' through which organizations convey a positive *image* about themselves to outside audiences (Hassan, 2008 b). Financial disclosure practices, defined as the deliberate release of quantitative or qualitative information, are means through which corporate managers communicate with different stakeholders (Waterhouse et al., 1993). Mangness (2006, p. 542) adds that managers use the financial disclosure to: correct public misunderstanding, alter stakeholders' expectations, show how their corporations have improved and deflect the public attention away from negative aspects such as pollution problems.

Stanton at al., (2004, p.57) argue that financial and narrative disclosures provide the means by which management can mould annual reports readers' expectations about the reporting corporation. For example, pictures and financial graphs, sometimes, are used to add creditability and enhance stakeholders' perception of corporation performance (Grave et al., 1996; Beattie and Jones, 1999). Managers' strategic purpose, Stanton at al., (2004, p.57) argue, is to build an image of a corporation that complies with external constituents' demands (Ibid., p.58).

Financial disclosure is said to have a strategic element or, as Magness (2006, p. 543) states, "strategic posture" (See also Elias; 1993; Adam, 1997; Neu, et al., 1998; Trabelsi et al., 2004). Strategic posture refers to the way in which organizations' managers respond to external dements. Magness (2006, p. 543) adds that "strategic posture" is the way in which managers manage stakeholders' perception. Managers use financial disclosure to shape stakeholders' impression about their corporations' responsibilities and the degree to which their corporations are satisfying those responsibilities.

The adoption of risk regulations maybe, as Oliver (1991) states, a "strategic choice" in which organizations' managers put into effect these regulations to convey a positive image of full transparency, better disclosure and consequently alter public expectation about risk management. The paper examines the UAE corporations' annual reports in the light of the UAE institutional context. It goes on to explore the misalignment between institutional requirements and organizational risk disclosure practices. Accordingly, the paper reveals whether the UAE corporations' managers manage stakeholders' perceptions or otherwise. These issues will be discussed in section six.

4. Methodology and methods

The paper aims at understanding of the macro institutional activities associated with the development of risk disclosure regulations and, at the same time, how these regulations are put into effect and deployed at micro organizational level. The main research questions can be summarized as follows: "How the risk disclosure rules have emerged and developed in the UAE? Are the UAE listed corporations adopting these regulations? And "How UAE corporations put into effect and deploy these risk disclosure regulations?" These enquiries are contextually oriented and seek interpretation and explanation which suggests the use of the interpretive methodology (Yin 1994).

Owing to access constraints, the study relies on discourse analysis to interpret and explain the empirical findings. Hoque (2008), following Philips and Hardy (2002), argues that discourse refers to actual practices of talking and writing. He highlights Philips and Hardy's (2002) main perspectives in discourse analysis: social linguistic analysis; interpretive analysis and critical discourse analysis. Social linguistic analysis, Hoque (2008) argues, examines specific examples of texts and conversations, participant observation and stories. Interpretive analysis pays more attention to the analysis of the broader social context and the discourse that supports it. Critical discourse analysis, Hoque (2008) adds, focuses on how the power associated with the discourse creates social change.

This paper uses interpretive discourse analytical approach to explore various activities – institutional activities and corporations' activities – that shape risk disclosure policies in the UAE. The author relies on

this approach since other forms of data collection such as interviews and participant observation were not possible. The paper uses texts from archival materials such as annual reports and financial regulations. These materials provided adequate description of the subject phenomena.

The description of such discourses is restricted to the analysis of legislation, research reports and the examination of newspaper reports and UAE corporations' annual reports. The study examines the financial reports of some UAE corporations listed in Dubai and Abu Dhabi financial markets (see appendix 1). The examined reports were published by December 31 2005. The reports were obtained through accessing corporations' web sites. 41 reports were obtained. These reports span over financial (24) and non-financial (17) corporations. Examining the annual reports reveals two interesting facts. First, these reports have been audited by one of the big international audit firms. Second, the reports mention that they were prepared in accordance with IFRS and requirements of the UAE Company Act of 1984.

5. The UAE constituents' activities and risk regulations.

This section explores various institutional pressures or, as institutional theorists state, organizational field players' activities associated with the development of risk disclosure regulations in the UAE. It clarifies how the UAE regulatory framework, professional activities and aspiration to join international security markets have contributed to the development of risk disclosure regulations.

Coercive isomorphism: legislations

There are different legislations that coercively regulate risk disclosure in the UAE. These legislations include the commercial corporation law no.8 of 1984, the ES&CMA listing conditions, the central bank requirements and Dubai Financial Service Authority (DFSA) requirements. First, both DFSA and the UAE central bank compulsory require all banks and financial institutions to prepare their annual reports in accordance with IFRS (Islam, 2003; Al-Qahtani, 2005; Hussain et al., 2002). The consequence of harmonizing the UAE accounting practices with the IFRS is that the UAE corporations are required to disclose risk related information presented under financial instruments, contingencies and concentration of business operations (i.e. segment reporting) standards.

Second, the federal commercial corporation law No. 8 of 1984 requires the UAE corporations to have different "reserves" in order to manage future unforeseen circumstances. The law includes two articles, known as Article 192 and 193, that are concerned with risk management. Article 192 states that that a 10% of the net profit for the year has to be transferred to the statutory reserve. The statutory reserve is meant to protect investors' investment and therefore it is not available for distribution. Nevertheless, corporations may discontinue such annual transfers when the statutory reserve equals 50% of the nominal value of the paid up share capital. Article 193 states that upon the approval of Articles of Association of the Corporation, a certain percentage of the net profit for the year is transferred to a legal reserve. Legal reserve is not available for use except in matters specified in the corporation's article that establishes that reserve.

In addition to the above law-based reserves, corporations' managers, at their discretion, may establish a contingency reserve and/or a general reserve. The contingency reserve stresses on unforeseen future risks or contingencies which may arise from general risks, while the general reserve aims at fulfilling Board of Directors general objectives. Both reserves are made upon the recommendation of the Board of Directors. The contingency reserve is used, only, for the purposes recommended by the Board of Directors after the approval of the shareholders.

Finally, the ES&CMA listing conditions also encourage corporations to fully disclose with appropriate level of transparency certain risk related information (UAE federal Act No. 4 of 2000 and its amendments of 2004). For example, Article 35 of Federal Act No. 4 of 2000 states that capital market registrants have to promptly provide, when so requested, any explanatory information which relates to their corporations *circumstances* and *activities* to raise investors' confidence. An amendment (decision No. 75 of 2004 and decision 155 of 2005) set more detailed requirements that emphasis risk reporting. The amendment requires potential registrants, as a pre-listing condition, to supply financial statements users with a report from the corporation's board of directors that includes the following:

> *"A statement of the significant events that the company has experienced from its incorporation up to the date of submitting the application for listing"*
>
> *"Any significant developments affecting the prices of the company's securities such as catastrophes, fires, mergers, the issue of new securities, the discontinuance of a production line, voluntary liquidation or Act suits filed by or unexpected events against the company will."*

The ES&CM also passed the UAE corporate governance code in the early of 2007 (Khaleej Times (2006 a). The code encourages corporations, as a part of best practices, to have regular procedures allowing the determination, measurement and disclosure of their risks. The enforcement of corporate governance code is to raise investors' confidence and trust in the UAE business. That trust, eventually, will overcome the persistence of the secretive culture in the UAE.

The report of one of Abu Dhabi investment firm, the National Investment (TNI), states that:

> *"The quality of disclosed information is still very uneven. Some companies publish bare headline figures while others give out full details and accounts. Corporations still need to improve disclosure content."(TNI Director cited in Khaleej Times, 2006 b)*

The report concludes that the scarcity of data and the culture of secrecy are harmful, yet still to continue among UAE corporations (Khaleej Times, 2006 b). The report mentions *"the most challenging aspect about analyzing UAE stock markets is the scarcity of data"*. In order to stimulate culture of transparency, the UAE developed Dubai Financial Service Authority (DFSA) (www.dfsa.ae).

DFSA aims at regulating the financial services and operations that are carried out in Dubai International Financial Center (DIFC). It also encourages international cooperation and partnership with international security markets. One of the DFSA's underlying principles is to ensure the compliance with principles of good governance and risk disclosure. DFSA is committed to the UAE financial markets success through clear and effective regulations that encourage transparency. DFSA clearly expresses its objectives as follows:

> *"Corporations, licensed and listed by the DFSA, have to demonstrate their ability to meet the high standards through applying the international best practices. Otherwise these corporations will be held accountable for "lagging" behind." (www.dfsa.ae).*

DFSA, through DIFC, aims at developing the UAE capital markets to match international capital markets. It aims at developing the UAE capital markets in harmony with, or as institutional theorists argue mimetic, the New York, London and Hong Kong capital markets (www.difc.ae). Both DFSA and DIFC request listed companies to report under IFRS and to comply with best practices adopted in other security markets (Irvine, 2008).

Normative isomorphism: the accounting profession

Greenwood et al., (2002, p.58) argue that professional bodies are institutions that contribute to creation and diffusion of knowledge. They add that accountancy profession activities create a discourse that legitimates the development and the deployment of certain accounting rules (like risk disclosure regulations). Professions host conferences, organize seminars and provide training programs that eventually disseminate knowledge about best practices such as risk disclosure. The UAE has two accounting related professional organizations: first, the UAE Accountants and Auditors Association (AAA), second, the UAE Institute of Internal Auditors (IIA-UAE chapter).

Although the AAA recommends the adoption of IFRS in order to enhance the quality of annual reports (Aljifri and Khasharmeh, 2006), the AAA activities seem to contribute more in providing a feedback on government legislations (Velyutham and Al-Segini, 2002). The number of conferences, training programs and workshops associated with risk reporting is low. At best the issue of risk reporting maybe introduced under the banner of "corporate governance" in the UAE (http://www.aaa.org.ae). However, the Institute of Internal Auditor (IIA-UAE chapter) organized conferences and seminars with different speakers in order to promote the importance of corporate governance, risk disclosure and risk management (IIA-UAE newsletter, 2007).

The IIA organized various workshops and conferences that address the issue of risk disclosure. During 2006, the IIA organized a workshop presented by a representative of Ernest and Young. That workshop addressed how the UAE can achieve effective corporate governance. The workshop also highlighted the role of internal auditor in managing and reporting business risks. In February 2006, the IIA organized the 7th annual gulf regional audit conference. The conference theme was "New frontiers and new challenges". The president of the conference states:

> *"Many organizations begun to implement approaches to ensure a uniform procedures to risk management and reporting across them, and therefore, there is need to develop auditors skills to face that challenge"* (IIA-UAE, newsletter, 2006).

In January 2007, a workshop about the role of internal auditor in risk reporting and risk management was organized. A senior internal auditor in Dubai Department of Civil Aviation presented that workshop (Harb, 2007). The workshop addressed some of risk reporting challenges such as the lack of awareness of the role of internal audit in risk reporting and management (Harb, 2007).

In March 2007, the IIA organized the 8th annual gulf regional audit conference. One of the conference main themes was risk management and reporting and the challenges that face UAE. The chief operating officer of DFSA presented a paper about the essence of risk management and reporting (Balden, 2007). On May 2007, an article about how to gain a competitive position through risk based approach was published (IIA-UAE, newsletter, 2007). The article also discusses the risk reporting and risk management methodologies.

The above analysis shows that the UAE profession, mainly institute of internal auditors, hosted an active discourse that legitimate the UAE corporations' managers towards putting into effect risk disclosure regulations. The institute hosted conferences and organized seminars that contribute in disseminating knowledge about risk disclosure among UAE practitioners. The IIA-UAE chapter was an

active institution or, as institutional theorists argue, organizational field player in developing risk disclosure regulations in the UAE.

Mimic isomorphism: pro-international practices

As an emerging capital market with ambitious plans to be recognized internationally, the UAE is engaged in partnerships with multinational organizations (Irvine, 2008). These partnerships together with the country vision to join global security markets make the mimic process inevitable. Irvine (2008) argues the UAE partnerships with international corporations encouraged the adoption of international standards for governance and risk management. IFRS, risk disclosure and governance, known as best international practices, became a must in order to achieve these partnerships and consequently participate in international security markets.

Furthermore, the practicing of accountancy profession in the UAE is dominated by the big international auditing firms, namely Ernst and Young, Arthur Andersen, Price Waterhouse Coopers, Touche Ross and Co and KPMG Peat Marwick. Among them, they audit most of the local commercial banks and big corporations. Islam (2003) argues that all the Abu Dhabi banks are audited by Ernst and Young. Similarly, Hussain et al., (2002, p.358) add most of UAE local banks use one of the international auditing firms.

Both partnerships with international corporations and the domination of big audit firms on audit service market excrete pressures to mimic international practices. That mimic is best described as follows "*The UAE corporations adopt the IFRS without modification compared to Saudi Arabia that modified those standards* (Kamla, 2007, p.114)." Likewise, DIFC clearly states that its underlying aim is to mimic the same stature as New York, London and Hong Kong security markets (www.difc.ae).

The existence of big audit firms, DFSA and partnerships with multinational corporations created a momentum to diffuse practices, such as risk disclosure, that resemble best practices applied in countries with advanced security markets. Risk regulations and disclosure practices not only legitimate the UAE corporations to international best practices but also facilitate those corporations' desire to compete with other corporations operating in the international security markets.

6. The UAE Corporations' activities: exercising risk regulations

The UAE institutional context – constituents' activities - stimulates the UAE corporations' managers to report on their corporations' unforeseen circumstances and risks. This study links the UAE corporations' risk disclosure practices exercised at micro organizational level to the UAE institutional context. It also aims at understanding how the UAE corporations' managers strategically utilize risk disclosure. Due to limited access to carry out interviews, the study relies on the disclosed risk information, published in the corporations' annual reports, to outline how corporations' mangers put into effect and deploy risk disclosure regulations in practice.

Two sets of risk disclosures practices, exercised at micro organizational level, are outlined. The first set, presented in Appendix 2, includes risk disclosure practices that are under the management discretion. This set include practices that span over general risks, accounting policies and others practices associated with financial instruments, segment reporting and risk management policies (see Diagrams in appendix 2). The diagrams show that financial and non-financial corporations exercise the first set of risk disclosure practices. Although financial corporations' level of deployment is higher than that level of non-financial corporations, the diagrams present a similar pattern of level of deployment across the two types of corporations.

There are two possible explanations for this observation. First, financial corporations are more sensitive to risk regulations and disclosure. Therefore, they exercise more risk disclosure practices in order to discharge their accountability to stakeholders, including corporations' constituents, about how they manage risk. Second, the examination of the UAE corporations' annual reports, whether financial or non-financial, reveals that most of these corporations hire one of the big four audit firms. These big audit firms legitimate UAE corporations towards international best practices such as risk disclosure practices.

The second set includes risk management practices associated with types of "accounting reserves" included in the UAE corporations' annual reports. The examination of how corporations put into effect and deploy accounting reserves not only raises the question of "whether corporations' managers utilize reserves to manage risk disclosure and consequently "constituents' impression", but also casts doubt on the quality of annual reports. To recall, the UAE regulatory framework requires the UAE corporations to have statutory and legal reserves (The Federal Commercial Companies Act No. 8 of 1984, Article 192, 193). The examination of annual reports shows that some of UAE have legal and statutory reserve in a lump sum figure.

> *"10% of the annual net profit of the company and its subsidiaries is appropriated to **legal and statutory** reserve until such reserve equals 50% of the paid-up share capital." (Corporations, 14; 25; 66)*

According to the commercial company Act of 1984, a 10% of net profit is transferable to statutory reserve. Then another percentage, on top of this

statutory 10%, is transferable to legal reserve. The above practice does not underscore the statutory reserve since no separate transfer is made to the statutory reserve. Likewise some corporations have legal reserve and a reserve that maintains the status of statutory reserve yet under the name of "regular reserve" (14), "special reserve" (3; 23; 32) and "general reserve" (5; 11; 22; 66). The use of a general reserve to serve as a statutory reserve can lead to conflicts since the former is meant to be available for distribution while the latter is not available for distribution except for matters specified by law.

Furthermore, examining annual reports reveals that one of the corporations uses contingency reserve to cover unforeseen future risks. The report states that:

> *"The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general risks."(Corporation 1)*

Other corporations have utilized general reserve as a contingency reserve. These corporations' annual reports state that:

> *"The corporation maintains a general reserve to address the risks inherent in the operating environment. Contributions to this reserve are made at the discretion of the Directors." Corporation 30; 35)*

The above observation raises a question about the differences between "general reserve" and "contingency reserve". The former is established to enhance the capital base of the corporation, while the latter is formed to cover unexpected future events and unforeseen circumstance. The conflation between the two reserves not only causes financial statements users' confusion but also runs the risk of earning management. Although both reserves are available for distribution, auditors, capital market and financial reports' users closely monitor the contingency reserve since it highlights the corporation's risks.

Some corporations have voluntary reserves (30; 57). One of these corporations has three reserves: a legal reserve; a voluntary reserve treated as statutory reserve and special reserve to cover credit risks (30). The other corporation has two reserves: a statutory reserve and a voluntary reserve treated as legal reserve (57). The voluntary reserve differs from statutory/legal one in that:

> *"In accordance with the Articles of Association of the bank, 10% of the net profit for the year is transferred to a* ***voluntary reserve*** *until such time as the balance in the reserve equals* ***20%*** *of the issued share capital.* ***This reserve is available for distribution****."(Corporations 30; 57)*

Reading the above quotation reveals two features of voluntary reserve. First, the transfer to voluntary reserve is suspended when it reaches 20% of capital. This feature coincides with the nature of statutory reserve, rather than the legal reserve, since the Act does not specify a percentage where the transfer to the legal reserve is suspended. Second, in contrast to the non-distributable legal/statutory reserves, voluntary reserve is available for distribution. The examination of UAE corporations' risk management practices, mainly accounting reserves, shows that mangers manage risk management disclosure in accordance with the corporation law of 1984 while, at the same time, conveying a positive image about their corporations.

7. Discussion

The conceptualization of risk reporting as interrelated macro-micro levels' activities together with exploring these activities using intuitional theory enable the paper to present interesting findings at each level. First, although the accounting profession is typically portrayed as an important regulatory mechanism (DiMaggio and Powell, 1983), it has been underscored as an immature and relatively powerless in emerging capital market and developing economies (Samules and Oliga, 1982; Chamisa, 2000). Greenwood et al., (2002, p.58) add that little attention has been given to understand the role of profession as an organizational field institution that links individual organizations to wider social context. This paper highlights how the accounting profession, as an organizational field player, has legitimated the deployment of risk disclosure practices in the UAE.

The UAE accounting professional association has legitimated the deployment of risk disclosure practices by hosting a process of discourse through which these practices are debated and authorized. To recall the IIA- UAE chapter hosted various conferences and workshops aiming at discussing issues related to risk disclosure and management. The accounting profession became an arena through which UAE corporations interact together and it is from that interaction an understanding of risk disclosure and management emerges. In other words, the profession plays a role in disseminating knowledge about risk disclosure and management.

Another major interesting finding is that the paper highlights the heterogeneity in risk reporting in the UAE. The notion of risk reporting appears to be heterogeneous within the UAE institutional context. Risk regulations and categories mentioned in the IFRS differ from those mentioned in ES&CA listing conditions and both differ from those mentioned in the Federal Corporation Act of 1984. The multiplicity and the diversity of sources may have led to a lack of homogenous risk disclosure practices. This finding coincides with the French case where a standardized definition of risk reporting is not fully accomplished yet (Combes-Thuelin et al., 2006).

Third, against the claim that transitional developing countries are characterized by secretive culture and therefore their corporations' annual reports lack transparency (Doupnik and Tsakumis, 2004), the paper reveals that the UAE openly

discloses risk related information similar to developed countries. The openness of UAE to join international global markets has facilitated the adoption of risk disclosure practices. Therefore, one can argue that the UAE corporations' adoption of risk reporting is a part of what Eldomiaty and Choi (2006) call "strategic transparency".

Eldomiaty and Choi (2006) argue that corporations, in transitional emerging economies, disclose information that strengths their market positions. The UAE corporations put into effect risk regulations to strengthen their market position locally and globally. The UAE institutional infrastructure enables the variation in exercising risk disclosure regulations. To recall, the Corporation Act of 1984 requires certain risk disclosure practices, the ESC&M requires other disclosure practices, the IFRS encourages the adoption of different practices, and finally corporations' managers can exercise other practices on top of legal and IFRS requirements. This variation in the institutional requirements enables UAE corporations, willing to operate at local, regional or international level, to exercise risk disclosure practices that suit their circumstances. It enables the creation of a flexible benchmark that accommodate to pressures excreted from international capital markets that request high level of disclosure and transparency.

Finally, the paper contributes to several studies that address "strategic disclosure" and "disclosure management" (Gibbins et al., 1990; Adam, 1997; Trabelsi, 2004). These studies identify two dimensions of managers' disclosure position: ritualism and opportunism. Opportunism disclosure position, they argue, refers to mangers interest to seek firm specific advantages through publishing certain information such as risk related information. This position involves an active role of managers in their attempt to seek these specific advantages and consequently reap benefits by managing the disclosure process. This paper provides an institutional analysis that coincides with that position. To recall, the exercise of risk regulations seems to legitimate the UAE to international best practices introduced by international security markets.

Ritualistic disclosure position, they argue, describes manages uncritical adherence to prescribed rules and regulations for measurement and disclosure. Accordingly, the role of managers is passive since they just comply with rules without necessary believe in the importance of these rules. To claim that the UAE corporations' ritualistically deploy risk disclosure practices requires a more in-depth investigation that relies on case-based studies of individual corporations. This investigation goes beyond the scope of the current paper and therefore represents an area of future research.

8. Conclusion

The paper uses institutional theory to reveal the institutional development behind risk regulations in the UAE and, at the same time, explore how the UAE corporations' managers put into effect and deploy these regulations. It defines risk regulations and disclosure as interrelated macro-micro activities. On the one hand, the macro level activities incorporate the activities of government, regulatory agencies and professional associations to develop risk regulations. On the other hand, the micro level activities refer to how organizations implement risk regulations. One can argue that both activities constitute the way in which risk disclosure is exercised in the UAE.

Exploring the UAE institutional context, at macro level, illustrates that the UAE regulatory framework requires the publication of risk related information in the annual reports. The Corporation Act of 1984, the ES&CMA listing conditions and DFSA requirements coercively align the UAE corporations towards the adoption of different risk disclosure practices. Furthermore, the UAE professional association, mainly the IIA-UAE chapter, organized different seminars and conferences associated with risk reporting. These seminars and conference created a discourse between the UAE corporations' managers and international audit firms. The interaction among these groups disseminates, or as institutional theorists argue creates normative pressure, knowledge about risk reporting and management. Finally, the UAE trend to adopt, or as or as institutional theorists argue "to mimic", international best practices applied in developed countries is evident. To recall, the DFSA is meant to enforce the same practices applied in USA and Hong Kong.

Examining annual reports, at micro organizational level, shows that UAE corporations' managers exercise risk regulations. The UAE corporations' disclose risk related information to gain legitimacy in international security markets and thereby access these markets. In the light of the global trends and pressures to adopt international best practices, developing and emerging economies countries harmonize local practices with those of international ones (Ali, 2005). That harmonization, Ali (2005, p.11) argues, could be formal (De-jure) and/or material (De-facto). The former refers to the process by which difference in national sets of disclosure regulations, acts, rules and principles can be reduced, whereas the latter refers to differences existing in actual reporting practices adopted by corporations. Ali (2005) also adds that both types can exist together or one may exist without the other.

In the light of the study analysis, risk reporting in the UAE is undergoing through the two types of harmonization. On the one hand, DFSA regulations aim at harmonizing the UAE regulatory framework in line with the stature of international financial markets

such as New York, London and Hong Kong. These regulations adhere to high level of corporate governance, transparency and risk management. On the other hand, examining the UAE listed corporations' annual reports reveals that the deployed risk disclosure practices are similar to those practices adopted by Western and European corporations (see Linsley and Actrence, 2007; Beretta and Bozzolan, 2004; Lajili and Zéghal, 2005; Linsmeier et al., 2002; Jorion, 2002; Schrand, 1997; Lopes and Rodrigues, 2007).

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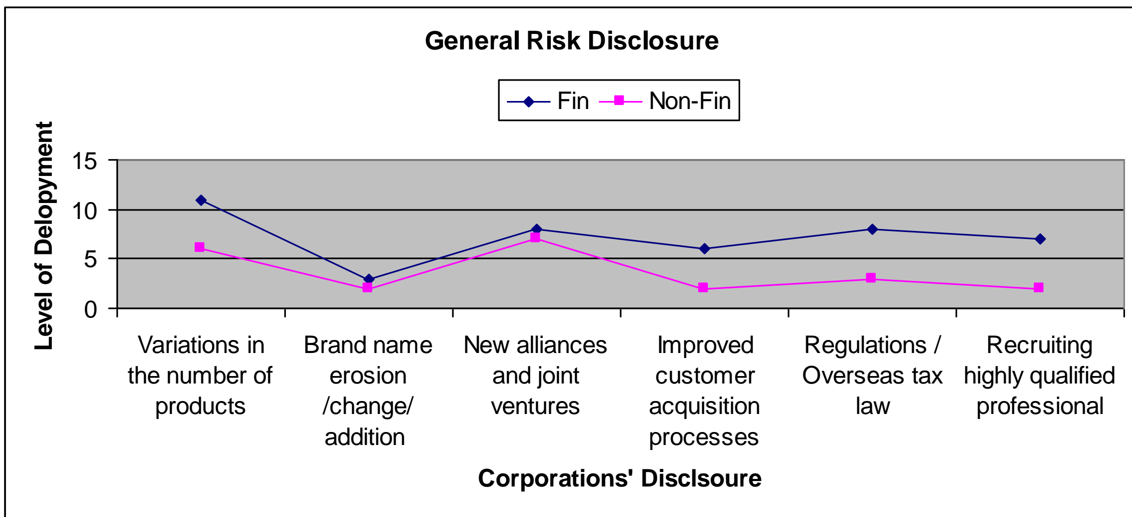
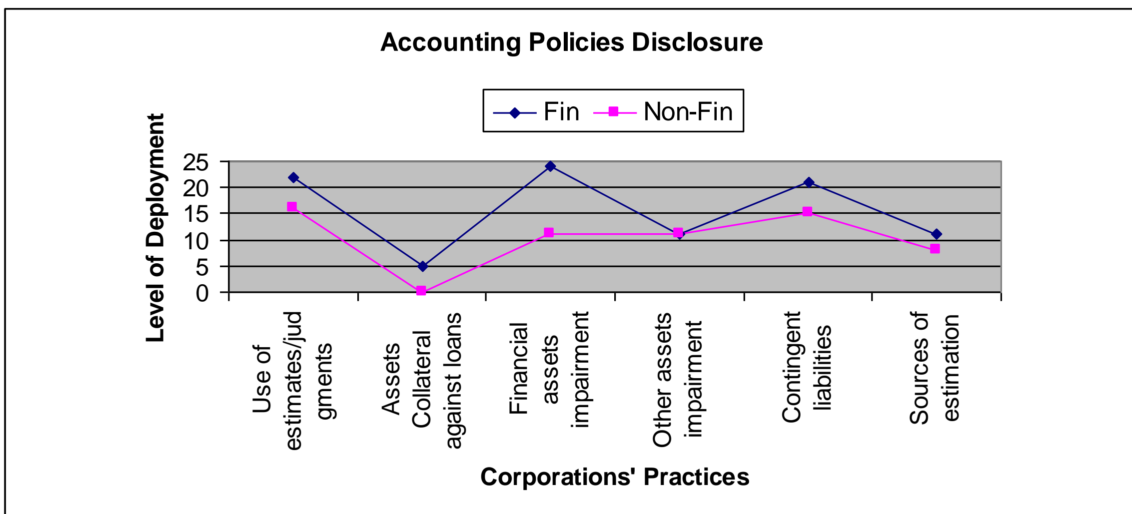
Appendix 1

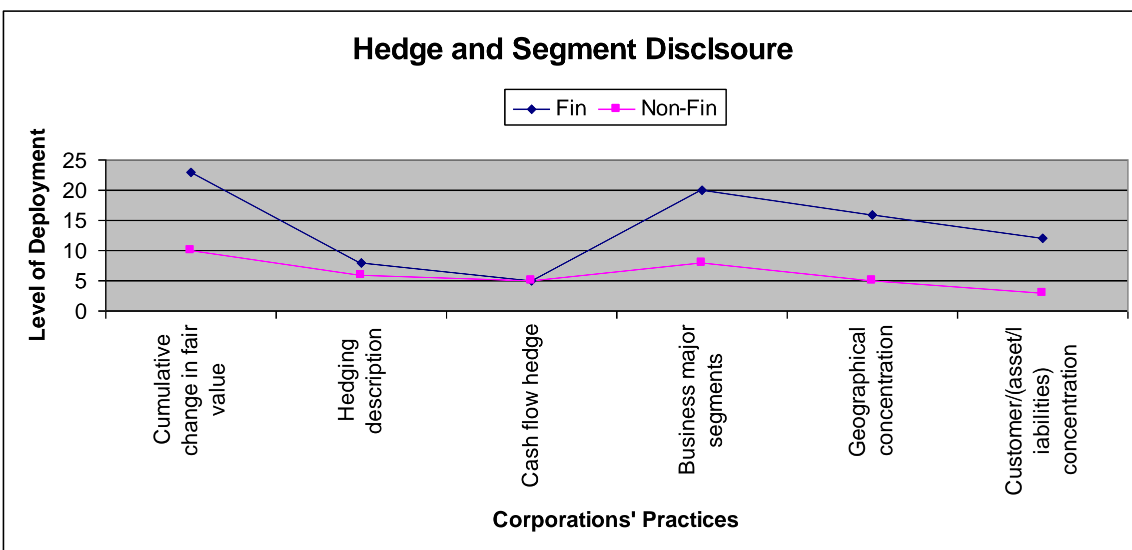
Financial Sector	Non-financial Sector
3- Arab Emirates Investment	51- Abu Dhabi National Energy
5- Amalak Finance	61- National Tourism & Hotels
37- United Arab Bank	Emirates Food Stuff
UAE Finance House	52- Abu Dhabi National Hotel
7- Commercial Bank of Dubai	40- Aldar Properties
10- Dubai Islamic Bank	66- Union Properties
11- Dubai Investment	49- Etisalat
Ins 5- Oman Insurance	53- Abu Dhabi Shipping
35- Umm Alqun Bank	63- Ras Al-Khaimah Cement
14/15 - Emirates Bank International	38- Abar Petroleum Company
16- Gulf Finance House	57- Gulf Cement Company
19- Gulf General Investment	71- Tabreed
33- Sharjah Islamic Bank	13- EMAAR
23- Investment Bank	6- Emirates Arab Technical Construction
25- Mashreq Bank	22- Arab Heavy Industries
26- National Bank of Abu Dhabi	
30- National Bank of Ras Al-Khaimah	
32- Bank of Sharjah	
1- Abu Dhabi Commercial Bank	
Alsagr national Insurance	Arab International logistics ARAMEX
Emirates Insurance Com	Emirates Integrated Telecommunication
Islamic Arab Insurance	
Tamweel	
Abu Dhabi Insurance	

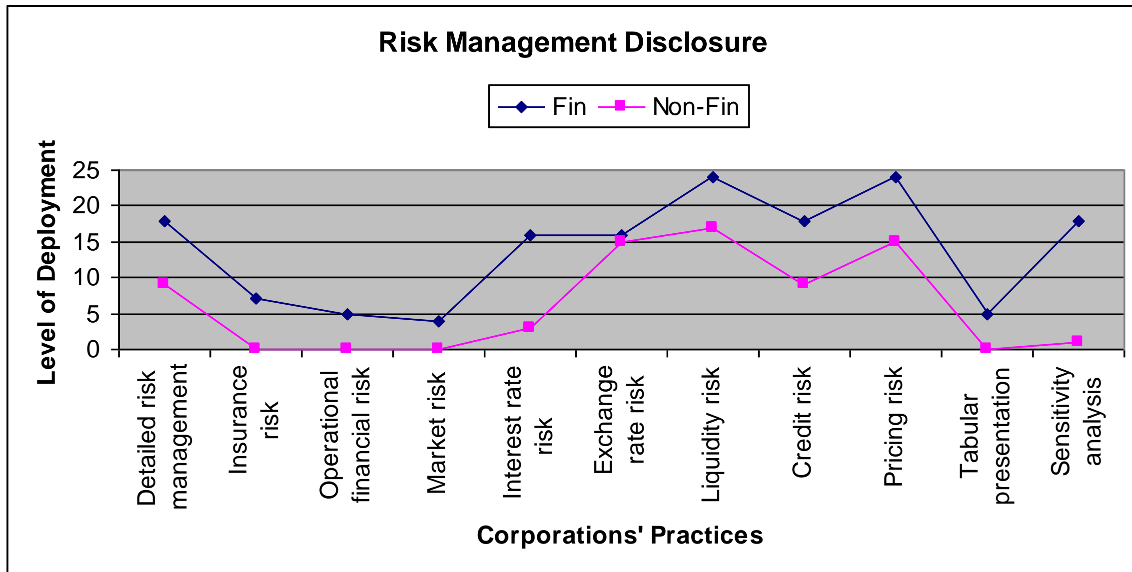
* The number besides the company name has been utilized as a reference number in the text.

Appendix 2








Risk Management Disclosure
Fin
Non-Fin
Level of Deployment
25
20
15
10
5
0
Detailed risk management
Insurance risk
Operational financial risk
Market risk
Interest rate risk
Exchange rate risk
Liquidity risk
Credit risk
Pricing risk
Tabular presentation
Sensitivity analysis
Corporations' Practices