

FACTORS INFLUENCING DISCLOSURE PRACTICES IN EMERGING MARKETS: CASE OF THE GULF COUNTRIES

Nermeen Shehata*

Abstract

The paper focuses on one homogeneous group of countries in the Middle East North Africa Region, the Gulf Cooperation Council (GCC) countries, which provides an opportunity to better understand the environment and context, and help shape future research. The purpose of this paper is to provide an analysis of three factors affecting corporate disclosure practices in the GCC countries including: economy, capital markets, and laws and enforcement mechanisms. Several recommendations that would help improve disclosure and financial reporting practices in the GCC are presented. Accounting researchers, especially those with interests in disclosure and financial reporting issues, should take into account the impact of the previous factors while designing their empirical research and reporting its findings.

Keywords: Bahrain, Disclosure, Financial reporting, Gulf Cooperation Council, GCC, Kuwait, Oman, Qatar, Saudi Arabia, UAE

* Assistant Professor, Department of Accounting, School of Business, The American University in Cairo
AUC Avenue, P.O. Box 74, New Cairo 11835, Egypt
Email: n.shehata@aucegypt.edu

1. Introduction

Financial reporting is one of the tools for acquiring information and is an important source of creating investor confidence in a market especially as globalisation of financial markets has occurred extensively since the last decade. During that period and up till now, investors tend to move large sums of money with very high speed all around the world (Saudagaran & Diga, 2003). Normal consequences to the flow of foreign capital into emerging markets are impressive growth in these markets, as well as a boom in their stock markets. Investing in these emerging markets is accompanied with several risks including political, economic, and structural problems. Difficulty in obtaining adequate reliable financial information represents another risk (Saudagaran & Diga, 2003). Investors generally in developing markets use corporate disclosure for their investment decisions (Chau & Gray, 2010) which is required to evaluate investment opportunities and threats in these markets (Saudagaran and Diga, 2003). Accordingly, disclosure and transparency are the key that will help the Middle East and North African (MENA) region recover and attract more investments and capital (Saidi, 2004). Several factors affecting disclosure practices have been identified through the literature, among which capital markets, economy, and laws and enforcement mechanisms within a regulatory framework (Wallace & Gernon, 1991, Radebaugh & Gray, 2006) are addressed in this research.

Countries in the MENA region are generally grouped into three categories based on their performance and economic status according to Sourial (2004) and IFC (2008). The first category includes the early reformer countries which are: Egypt, Jordan, Morocco, and Tunisia. Those countries are characterised by the implementation of economic liberalisation programs that have started since the mid-1980s, a reduction in their budget deficit and inflation, opening up of their economies to foreign investments, privatisation of state-owned enterprises, and liberalisation of their trade. The second category comprises the oil exporters, the GCC six countries: Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, and the United Arab Emirates (UAE). Economies of those countries depend heavily on oil production and exportation. The third category comprises countries that suffer from economic instability mostly due to political reasons including: the West Bank, Gaza, and Iraq, and countries in the early reform stages including: Lebanon, Syria, Algeria, Sudan, Libya, and Yemen.

The focus of this research is the GCC countries due to several reasons. First, they share the same ethnicity (Arabs), the same religion (Islam), the same political regime (Monarchy), and the same culture and tradition (Benbouziane & Benmar, 2010). Second, they are rich countries in terms of oil resources (IFC, 2008) which has led to being classified by the World Bank (2013) as high income. According to the World Bank (2013), a country is classified as a high income country when the average gross national income

(GNI) exceeds \$12,276. Third, their capital markets develop rapidly (IFC, 2008). Fourth, attraction of many expatriates from all over the world due to the internationalisation scheme that has started and the free market policies that have been adopted (Obay, 2009; Al-Ajmi, 2009). Finally, they share unique corporate characteristics including: presence of high ownership concentration which is in most cases royal families and families with political connections (Sourial, 2004), domination of board members by controlling shareholders (Saidi, 2004), domination of politically connected (royal family) members on boards of directors, tightened relations with the West by adopting Western laws such as the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) in the last couple of decades (Al-Qahtani, 2005).

Few research papers have been conducted assessing corporate disclosure in the GCC compared to developed countries and other developing countries in the region, such as Egypt where several studies addressed disclosure level in the Egyptian environment (e.g., Dahawy *et al.*, 2002; Samaha *et al.*, 2012). Research addressing corporate disclosure in the GCC includes Alsaeed (2006), Hossain and Hammami (2009), Al-Shammari and Al-Sultan (2010) where the average disclosure level was considered low: 33%, 37%, and 19% respectively. However, before calling for more research investigating disclosure practices in the GCC, analysing the factors that might affect those practices would shed light on the GCC environment and help understand its nature. This will guide future research addressing disclosure practices in those countries.

Accordingly, the purpose of this paper is to provide an analysis of the factors affecting corporate disclosure practices in the GCC including the three factors highlighted earlier: economy, capital markets, and laws and enforcement mechanisms within a regulatory framework (Wallace & Gernon, 1991; Radebaugh & Gray, 2006). Accordingly, the paper is organised as follows: the next section discusses the economic conditions; followed by the nature of the capital market; then a discussion on the laws and enforcement mechanisms is provided, and finally a conclusion and further recommendations improving financial reporting practices in the GCC are presented.

2. Economic conditions

2.1 Qatar: Qatar is one of the smallest countries in the Gulf with respect to geographical area and population. It gained independence from Great Britain in 1971 (Alattar & Al-Khater, 2007). It has 5% of the world's total gas reserves giving it the second largest gas stocks in the world (Hossain & Hammami, 2009). Qatar enjoys other reserves of natural resources as well as a growing and diversifying economy. This abundance of wealth and resources has led the Qatari government to adopt policies aimed at developing its

economic infrastructure and diversifying income sources (Hossain & Hammami, 2009). Therefore, investment opportunities have increased in Qatar especially with respect to exploration projects in the oil and gas sector, where the government has presented many incentives to foreign investors to conduct projects. This has produced a rapidly growing economy (Hossain & Hammami, 2009). As one of the initiatives to increase foreign investment and enhance the economic development, foreign investors could own and trade with 25% of their capital in listed companies (Alattar & Al-Khater, 2007). Moreover, the government developed the Qatar Financial Centre in 2005 with the main purpose of attracting foreign investments in different sectors and to become more integrated into the global economy. These sectors include finance, health, education, transportation, tourism, and energy, all of which leading to a more healthy developing environment (Hossain & Hammami, 2009).

2.2 Oman: Oman's modern economy has started in the mid-70s when oil prices boomed in the international market (MEEPAS, 2010). This was the turning point in Oman's economy, even though it does not enjoy the same oil reserve levels like other GCC countries. Oman has started investing and exporting non-oil products after identifying the fact that their oil reserves are expected to deplete in 2020. Oman has free trade agreements and privatisation programs that encourage growth of its economy (MEEPAS, 2010).

2.3 Kuwait: Kuwait is also one of the small GCC countries, which enjoys a relatively open economy compared to other GCC countries (Al-Shammari & Al-Sultan, 2010). It has 10% of the world's total gas reserves (Al-Shammari & Al-Sultan, 2010). Oil production in Kuwait represents about 50% of its gross domestic product, 80% of the government's income, and 90% of revenues from exports (Al-Shammari & Al-Sultan, 2010). Increased oil production in Kuwait coupled with the increasing process of oil exports has let Kuwait's economy rapidly grow (Al-Shammari & Al-Sultan, 2010). The government has adopted several measures to attract foreign investment including privatisation programs. Accordingly, foreign ownership has been permitted to reach 49% in Kuwait (Al-Shammari & Al-Sultan, 2010). An action plan has been conducted in 2009 jointly between the government of Kuwait and the United Nations Development Program (UNDP) for the years 2009-2013 in which one of its outcomes was to enhance and expand the participation of women in political decision making and economic activities (United Nations, 2009).

2.4 Saudi Arabia: Saudi Arabia is also one of the oil-based economies and has around 25% of the world's total petroleum reserves. It is the largest

exporter of oil in the world, where oil exports represent around 85% of total exports, 75% of government revenue, and 35% of its gross domestic product (Hussainey & Al-Nodel, 2008). Saudi Arabia enjoys a free market system (Al-Razeen & Karbhari, 2004) through increasing foreign direct investment in the country. The huge income rise that occurred in Saudi Arabia from oil exports led to major economic developments in the 1970s. The country established joint stock companies and started issuing regulations for businesses and professionals (Basher & Sadorsky, 2006). The Saudi government has intensified the privatisation of state owned companies since the 1990s (Al-Razeen & Karbhari, 2007). In 2000, the government issued a law allowing foreigners for the first time to invest in their country (Naser & Nuseibeh, 2003). This was for the purpose of developing the Saudi economy to the extent that it would compete internationally (Naser & Nuseibeh, 2003). Accordingly, Saudi Arabia became “the Arab world’s top destination for foreign direct investment” (Davids, 2011).

2.5 UAE: The United Arab Emirates (UAE) is a federation of seven emirates (Dubai, Abu Dhabi, Sharjah, Ras Al-Khaimah, Ajman, Fujairah, and Umm Al-Qaiwain) that was established in 1971. It is the second largest GCC country in terms of population and gross domestic product. It has the six largest oil reserves in the world (Obay, 2009). Being rich in oil as its counterparts in the GCC countries (Aljifri, 2008), the UAE attracted many foreigners working in the country, where expatriates reached more than three quarters of the population by the end of 2005 (Obay, 2009). The UAE has an open

economy that operates with a philosophy of trade liberalisation, thus adopting a free market economy. Accordingly, the UAE can adopt its own local laws in addition to the international ones (Aljifri & Khasharmeh, 2006; Aljifri & Hussainey, 2007). Finally, the UAE is considered attractive for companies wishing to invest in a growing market in the MENA region due to its liberalisation philosophy (Aljifri, 2008).

2.6 Bahrain: Bahrain has gained its independence in 1971 from Great Britain. Similar to other GCC countries, the Bahraini economy has the following characteristics: the dependence on oil and high dependence on foreign labour (Al-Ajmi, 2009). The boom in oil prices in the 1970s served the current economic growth in the country (Joshi and Wakil, 2004). Petroleum processing and refining is one of the major industries in Bahrain, where the country maintained both offshore and onshore operations (Joshi and Wakil, 2004). Bahrain was one of the earliest GCC countries that opened up its market to foreigners (Joshi *et al.*, 2008); non-GCC countries residents have been allowed to own up to 49% (Sourial, 2004). In addition, Bahrain is considered a financial hub in the MENA region (Joshi *et al.*, 2008).

Finally, Tables 1 and 2 present the Gross Domestic Product (GDP) per capita income and the Gross National Income (GNI) per capita for the six GCC countries from 2007 to 2011. Table 2 indicates that Qatar had the highest GDP in 2010, whereas Saudi had the lowest GDP. Moreover, the highest GNI was also in Qatar in 2010 as shown in Table 2, while the least was in Bahrain.

Table 1. GDP per capita (current ‘2013’ USD)

Country \ Year	2007	2008	2009	2010	2011
Bahrain	19,955	20,813	16,518	18,184	
Kuwait	46,867	57,842	40,023	45,437	62,664
Oman	16,360	22,968	17,280	20,791	25,221
Qatar	67,516	82,389	61,075	72,398	92,501
Saudi	15,091	18,203	14,051	16,423	20,540
UAE	47,757	50,727	38,960	39,625	45,653

Source: WDI, the World Bank (2013)^[1]

Table 2. GNI per capita (current ‘2013’ USD)

Country \ Year	2007	2008	2009	2010	2011
Bahrain	26,550	24,700	21,230	21,200	
Kuwait	58,310	58,180	53,470	53,720	
Oman	23,440	25,540	24,930	25,720	
Qatar	73,180	74,220	72,150	76,330	86,440
Saudi	21,860	22,760	22,610	23,100	24,700
UAE	62,610	56,450	50,330	46,900	47,890

Source: WDI, the World Bank (2013)^[2]

¹ No data was available for Bahrain in 2011, neither for all countries in 2012

² No data was available for Bahrain, Kuwait, or Oman in 2011, neither for all countries in 2012

3. Capital markets

It has been argued that the existence of capital markets affects the nature, type and availability of information required by investors, having a direct impact on the disclosure levels adopted by companies (Adhikari and Tondkar, 1992; Doupnik and Salter, 1995).

3.1 Qatar: In Qatar, the Qatar Exchange (QE), formerly Doha Securities Market (DSM), is the only principal stock market, in the GCC, that dates back as far as 1995 and works as an independent government entity. Efforts aimed at developing the QE started in 1995, while QE began operating in 1997. The QE plays a major role in the country's economy: it provides fair, efficient, orderly and facilitated trading; thus, it protects both accredited and non-accredited investors, oversees key participants in the market, provides access to public information, encourages timely disclosure of important information, and enforces the securities law (Hossain and Hammami, 2009).

3.2 Oman: The Muscat Securities Market (MSM) of Oman was established in 1988. MSM works as an independent organisation that aims at regulating and controlling the securities market of Oman. The establishment of MSM helped Oman have a successful environment that adds value to the economic cycle (Mohamed *et al.*, 2009; Oyelere and Al-Jifri, 2011). In addition, MSM allowed the Omani government to keep pace with the international developments and enhance presence of a solid economy in the country (Mohamed *et al.*, 2009; Oyelere and Al-Jifri, 2011). In 1998, the government realised the need to split the regulation and market activities functions carried out by MSM. This was for the purpose of providing enhanced investors' protection through better regulation and control of the market (Mohamed *et al.*, 2009; Oyelere and Al-Jifri, 2011). Moreover, this would help the Omani government grow effectively with respect to the development of the local and international securities markets (Mohamed *et al.*, 2009; Oyelere and Al-Jifri, 2011). Accordingly, the Capital Market Authority (CMA) of Oman was developed, representing a regulatory governmental authority, thus making MSM's role only concerned with the stock exchange where listed securities are traded through. Omani CMA regulates, oversees and organises the securities issuance and trading, whereas MSM is independent from the CMA but works under its supervision (Mohamed *et al.*, 2009; Oyelere and Al-Jifri, 2011). In 2000, several measures were adopted by the CMA for the purpose of improving MSM's performance and strengthening its role in the market. Among those measures are the following: the issuance of new controls on related party transactions and board of directors appointment and the issuance of the

corporate governance code for listed companies in 2002 that has been amended and replaced in 2003 (Mohamed *et al.*, 2009; Oyelere and Al-Jifri, 2011).

3.3 Kuwait: Kuwait has the oldest, largest, and most developed stock exchange among the GCC countries (Naser *et al.*, 2003); it was established in 1983. Kuwait Stock Exchange (KSE) is working on becoming a "World-Class Stock Exchange" offering unique investment opportunities in a fast developing capital market within the industrialising Kuwaiti economy (KSE, 2011). The Kuwaiti Capital Market Authority was established in 2010, for the purpose of enhancing the transparency in the market and overseeing KSE activities. The new regulatory body's bylaws have been issued early in 2011.

3.4 Saudi Arabia: Saudi stock market is considered embryonic (Al-Razeen and Karbhari, 2004) as it was established in 1985 (Al-Razeen and Karbhari, 2007). The capital market is regulated by the Saudi Arabian Monetary Agency (SAMA) that issues rules and regulations that control and supervise the Saudi Stock Exchange (Naser and Nuseibeh, 2003). The Saudi Arabian Capital Market Authority (SACMA) was established in 2003, where it became in charge of controlling the Saudi Stock Exchange instead of SAMA (Hussainey and Al-Nodel, 2008).

3.5 UAE: In the UAE, there are two stock markets: Abu Dhabi Securities Market and Dubai Financial Market, which were inaugurated in 2000 under the supervision of the Emirates Securities and Commodities Authority (SCA). Both markets work on facilitating the fair, efficiently and transparent trading of public companies' securities (Aljifri and Khasharmeh, 2006). Even though the two stock markets are relatively small and new, since 2003, they have become more active, gained strength, thus enlarged in terms of the number of listed companies, market capitalisation, market participants, and initial public offerings (Aljifri, 2008).

3.6 Bahrain: Bahrain Stock Exchange (BSE) is considered one of the oldest in the region as it was established in 1987. BSE was one of the first in the Gulf to allow listing of foreign companies in GCC countries' stock exchanges. BSE has the following main objectives: enhancing and developing the country's economy through developing the securities market, protecting investors, overseeing securities' trading organisation and regulations, spreading investment awareness in the society and encouraging savings, and providing the required finances that support economic and social development in the country (BSE, 1987). The Central Bank of Bahrain is the capital market's regulatory body that governs banks as well as listed companies (Al-Ajmi, 2009).

Tables 3 and 4 represent the number of listed companies on each of the countries' stock exchanges and the market capitalisation of each, respectively. The maximum number of domestic listed companies in 2011 was in Kuwait, while the minimum number

was in Qatar for the same year as shown in Table 3. Table 4 indicates that the highest market capitalisation of listed companies was in Saudi in 2011, whereas the least was in Bahrain.

Table 3. Number of domestic listed companies

Country \ Year	2007	2008	2009	2010	2011
Bahrain	43	45	49	44	44
Kuwait	181	202	207	215	206
Oman	120	122	120	119	136
Qatar	40	42	48	43	42
Saudi	111	127	135	146	150
UAE	90	96	95	101	104

Source: WDI, the World Bank (2013)

Table 4. Market Capitalisation of listed companies (current '2013' USD)

Country \ Year	2007	2008	2009	2010	2011
Bahrain	28	21	17	20	17
Kuwait	188	107	96	120	101
Oman	23	15	17	20	20
Qatar	95	76	88	124	125
Saudi	515	246	319	353	339
UAE	225	98	110	105	94

Source: WDI, the World Bank (2013) - No data was available for 2012 (Approximated to the nearest billion)

4. Laws and enforcement mechanisms

4.1 Qatar: In Qatar, listed companies' financial reporting is governed by Company Law (11/1981 amended 5/2002) and Qatar Exchange (QE), formerly Doha Securities Market (14/1995). The company law comprises general principles of financial reporting, where the content and format of the financial statements are not specified; however, it only requires preparing an annual report, balance sheet, and profit and loss statement (QE, 2002; Shammari, 2005). The company law requires companies to keep proper books of accounts, prepare and submit audited annual financial statements to their shareholders reflecting "true and fair value" of the companies, where no definition of the terms "true and fair value" is provided (Hossain and Hammami, 2009).

Unlike the rapidly growing economy in Qatar, the accounting system has remained in its early stages. The increased number of foreign banks in Qatar that adopt voluntarily the IAS/IFRS has allowed the Central Bank of Qatar to let all banks, investment and financial companies adopt the IAS/IFRS (Al-Qahtani, 2005). In addition, as a condition for listing, companies must have prepared their financial statements for the preceding three years in accordance with IAS/IFRS (QE, 2010). Qatar has established a scientific association for accountants (Hossain and Hammami, 2009). However, no professional bodies are in charge of developing and setting generally accepted accounting standards. Other than banks,

unlisted companies are not required to follow specific accounting standards (Alattar and Al-Khater, 2007).

4.2 Oman: Oman Commercial Companies Law (4/1974) and the Capital Market Law (80/1998) are the main governing laws in the Omani stock market. The Companies law requires companies to maintain records of operations and prepare balance sheets and profit and loss statement according to recognised generally accepted accounting principles (Oman Chamber of Commerce and Industry, 1974). However, the law does not specify the type of standards to be adopted. The Central Bank of Oman governs regulations of all banks, where it is mandatory that all banks in Oman are required to adopt the IAS/IFRS (Hussain *et al.*, 2002) in addition to all listed companies (Al-Qahtani, 2005). There are no professional financial accounting bodies in Oman; however, there is an Institute of Cost and Management Accountants (ICMA) that was established in 2008.

4.3 Kuwait: In Kuwait, listed companies' financial reporting is governed by the Company Law (15/1960) and its amendments, the Stock Exchange Law (1983), and the Ministerial Resolution (18/1990). Similar to Qatar, the Kuwaiti company law requires companies to keep proper books of accounts, prepare and submit audited annual financial statements to their shareholders, comprising balance sheet, and profit and loss statements reflecting "true and fair value" of the

companies, where no definition of the terms “true and fair value” is provided (Al-Shammari 2008; Al-Shammari and Al-Sultan, 2010). Moreover, the law does not identify the accounting standards that companies need to adopt in preparing their statements. However, the Kuwaiti Ministerial Resolution has been issued to improve information disclosure; it requires all Kuwaiti companies to comply with the IFRS starting from the fiscal year 1991 (Naser *et al.*, 2003; Al-Qahtani, 2005; Al-Shammari, 2008; Al-Shammari and Al-Sultan, 2010).

The Kuwaiti Stock Exchange (KSE) Law requires listed companies to follow certain accounting regulations issued by the Ministry of Commerce and Industry in order to be listed. If companies are listed and do not follow them, they are subject to delisting or ceasing (Al-Shammari and Al-Sultan, 2010). Companies seeking listing on KSE must publish their audited annual reports of the preceding two years revealing an acceptable financial structure as well as operating profits. However, the board of KSE has the right to impose additional requirements for companies that want to be listed (Al-Shammari and Al-Sultan, 2010).

The only professional accounting body in Kuwait is the Kuwait Accounting and Auditing Association. It was established in 1973. The association can only provide advice and recommendations to the government when requested. Its major role is delivering courses in financial statement analysis and accounting standards. However, it has neither power nor authority to enforce compliance with accounting standards or regulate the profession (Al-Shammari, 2008; Al-Shammari and Al-Sultan, 2010).

4.4 Saudi Arabia: Saudi Arabia has three laws that regulate its accounting practices: the Company Law, the Accountancy Law, and the Income Tax and Zakat Law (Naser and Nuseibeh, 2003). The Company Law was issued in 1965; it includes the basic formation details for all companies, such as minimum required capital, registration procedures, and number of partners and directors. The law requires companies to prepare balance sheets, profit and loss accounts, and reports on the companies’ operations and financial positions. Listed companies shall apply the Company Law (Naser and Nuseibeh, 2003; Hussainey and Al-Nodel, 2008). The accounting profession was first regulated by the Accountancy Law. It was first issued in 1974 then replaced in 1991 and is currently in effect. The law sets the auditing standards and comprises registration conditions and procedures, and chartered accountant’s obligations. The Income Tax and Zakat Law dates back to 1950 and is also in effect. Zakat is a religious tax imposed, based on the Islamic religion, on capital and earnings (Naser and Nuseibeh, 2003).

The first Saudi professional accounting body was established in 1992: the Saudi Organisation for Certified Public Accountants (Alsaeed, 2006). The Saudi Organisation for Certified Public Accountants (SOCPA) aims to promote the accounting and auditing profession and all matters that might lead to the development of the accounting profession and upgrading its status (Al-Razeen and Karbhari, 2004; Al-Qahtani, 2005; Alsaeed, 2006). This means that the accounting profession in Saudi Arabia started to be properly regulated only in the 1990s (Al-Razeen and Karbhari, 2004; Alsaeed, 2006). SOCPA issued an accounting standard that listed companies had to adopt. Issuance of accounting and auditing standards is also the responsibility of SOCPA. Moreover, its role includes public accountants’ qualifications (Naser and Nuseibeh, 2003; Alsaeed, 2006).

4.5 UAE: The UAE has three regulatory bodies issuing three sets of legislations for its financial reporting: the Ministry of Economy and Planning, the Central Bank, and Emirates Securities and Commodities Authority (Aljifri and Hussainey, 2007; Hassan, 2009). First, the UAE Commercial Companies Law (8/1984) issued by the Ministry of Economy and Planning governs listed companies’ - other than banks- preparation of financial reports (Hassan, 2009). Listed companies are required to prepare balance sheets, income statements, cash flow statements, statements of changes in equity, and the notes to accounts (Aljifri and Hussainey, 2007). All companies operating in the UAE have to keep records of their operations and prepare “true and fair” financial statements to be presented to the state and federal authorities (Aljifri and Khasharmeh, 2006). Second, the Central Bank governs banks and financial institutions’ regulations and requires them to adopt the IFRS (Aljifri and Khasharmeh, 2006; Hassan, 2009); however, non-financial institutions are not obliged to adopt them (Aljifri, 2008). Third, the Emirates Securities and Commodities Authority developed the corporate governance code in 2007 that was amended and replaced by the new code in 2009 (Hassan, 2009).

In the UAE, the Accountants and Auditors Association (AAA) is the official body representing the accounting profession in the country (Aljifri and Hussainey, 2007; Aljifri, 2008). It was established to develop international best accounting practices in the country (Aljifri and Khasharmeh, 2006); thus, it recommends adopting the IAS/IFRS (Hassan, 2009). Moreover, the UAE established the Institute of Internal Auditors that spreads the importance of corporate governance through publishing newsletters and organising conferences and seminars (Hassan, 2009). Hassan (2009) argues that the big international auditing firms have dominated the accounting profession in the UAE.

4.6 Bahrain: In Bahrain, the Commercial Companies Law of 1975 was amended in 1980 and in 2001. It requires limited liability companies to prepare balance sheets, income statements, cash flow statements, and statements of retained earnings (Al-Qahtani, 2005; Al-Ajmi, 2009). However, similar to other GCC countries, the act does not specify certain accounting standards to be followed (Joshi and Wakil, 2004; Joshi *et al.*, 2008). The Central Bank of Bahrain governs banks and listed companies (Al-Ajmi, 2009). In 2001, it became mandatory for listed companies to comply with the IFRS (Joshi *et al.*, 2008; Al-Ajmi, 2009).

Bahrain Accountants Association was established in 1972. Its role was only to conduct seminars; however, currently its role includes providing recommendations and comments to other regulatory institutions in Bahrain as well. In addition, it provides seminars, public lectures and trainings that aim to improve the profession. However, the association does not have any power or authority to enforce any requirements related to the profession (Joshi and Wakil, 2004; Al-Ajmi, 2009).

5. Conclusion

This paper analysed the possible factors affecting disclosure practices in the GCC including economic conditions, nature of capital markets, and laws and enforcement mechanisms. Future research addressing disclosure practices should take into account the nature and uniqueness of the GCC environment. Policy makers and regulators should enforce laws and regulations that can lead to higher levels of disclosure practices that would affect investment opportunities in return; thus, help recovering and attracting more investments and capital in the GCC. This can be achieved through continuous training and education of preparers of the annual reports to disclose information that can help investors take their decisions. Also, severe punishments must be applied on violators if laws are to be issued. Furthermore, efforts must be exerted by the capital market authorities in the GCC to spread the awareness and importance of disclosure practices to the companies as well as to the whole region. Also, international developments on improving transparency and disclosure of corporate financial reporting as well as the role of transparent financial reporting in attracting both strategic and portfolio foreign investments could also be presented.

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