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The Advantages and the Challenges of Adopting IFRS into UAE Stock Market

Ihab Alsaqqa[1] & Nedal Sawan[2]

[1] School of Business, LJMU, United Kingdom

[2] Liverpool Business School, United Kingdom

Correspondence: Ihab Alsaqqa, School of Business, LJMU, United Kingdom. E-mail: ihabsaqqa@hotmail.com

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Abstract

This paper aims to assess the benefits gained and the challenges experienced by companies listed on the UAE stock market following the introduction of IFRS. Since the announcement by the European Union to adopt IFRS by listed companies, many countries have followed suit, hoping to gain competitive edge in attracting the Foreign Direct Investment to boost their economic growth. This study focuses on examining the advantages and challenges faced by companies listed on the UAE stock market listed companies as a result of adopting IFRS. The framework used in this analysis will be based on the identification and assessment of key drivers influencing companies listed on the UAE stock market. To what extent are these factors internal or external to the financial sector, but which have a direct bearing on the overall economic environment? The views and perceptions of the Chief Financial Officers' (CFOs) for Dubai and Abu Dhabi listed companies, financial analysts of the financial statements in the two listed companies and auditors will be analysed.

Methodology: Questionnaires were used as the main method of data collection. Questionnaire were distributed in both Dubai and Abu Dhabi markets, The data obtained through the questionnaires have been imported into software for analysis, namely, the Statistical Package for the Social Sciences (SPSS).

Findings: The results clearly show that the benefits of adopting IFRSs in UAE inevitably far outweigh the difficulties and costs. The findings also reveal that adoption of IFRSs in UAE stock markets has improved the overall standard of the quality of financial reporting, which help in attracting investors to invest in the UAE stock markets. However, many respondents were still apprehensive that effective and professional financial reporting decisions will be affected by the level of education of accounting users, the methods provided by some IFRSs, and the inadequate enforcement mechanisms.

Keywords: IFRS, advantage, accounting standards, challenge, UAE

1. Introduction

Over the last decade, a trend has emerged within academic papers related to accountancy termed 'value-relevance' literature (Hopkins, et. al., 2008; Aboody, et., al. 2002; Ball, et. al., 2006). These publications have considered the empirical relationship between particular accounting numbers and stock market values (or changes in values) (Susan, 2011). The main purpose of their studies was either to assess the use of accounting numbers, or their proposed use (Boone, 2002). Taken from the point of view of information economics, accountancy and financial reporting can be seen as being vitally important to the efficient running of a capital market (Chen, et. al., 2001). Such an investor-oriented information usefulness perspective has been adopted by major accounting standard setting bodies, such as the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (Susan, 2011), which have specifically stated that the primary purpose of accounting is to meet the needs of capital markets (FASB and IASB, 2006). Consequently, the relationship between stock markets and accounting numbers has been the focus of considerable attention and it likely to be one of the most popular issues in the literature for accountancy and finance (Bao, et. al., 1999; Beaver, 2002; Stiglitz, 2002).

With this application of IFRSs, there is an expectation that there would be a significant influence upon the measurement and disclosure of financial statement components (Holger, 2006; Luzi, et. al., 2008), in particular the income statement, the cash flow statement and the balance sheet (Stickney, et. al., 2007; Hung and

Subramanyam, 2007). Amendments to the basis of measurement and disclosure are expected to have an influence upon a company's financial performance (Andre et. al., 2008), the movement of share prices and the volume of shares traded (Omran and Painton, 2004).

2. Purpose of the Study

Many emerging economies have begun to adopt the International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). This measure from different developing countries was a reaction as well as a reflection of the announcement in 2002 by EU countries to adopt the IFRSs in all European listed companies by 2005. Although some researchers refer to the advantages of adopting IFRSs in the developing countries such as increasing FDI (Halbouni, 2005 and Tyrrall et al., 2007); others are concerned about the debate of such adoption due to the diversity in the cultural and environmental factors among countries which would be detrimental to the adoption advantages (Briston, 1990 and Larson, 1993). The United Arab Emirates (UAE) is one of the developing countries for which these standards could be either advantageous or detrimental to economic growth. Therefore, the main purpose of this paper is to investigate the main impact and challenges of adopting the IFRSs in both Abu Dhabi exchange market (ADX) and Dubai Financial Market (DFM).

3. Literature Review

3.1 Background of the UAE

The United Arab Emirates is a small country in the Middle East region that lies upon the coast of the Arabian Gulf. It is a federation of seven Emirates that vary greatly in size and economic capability. These are Abu Dhabi, Dubai, Sharjah, Umm Alqowen, Ajman, Ras Alkheimah and Fujairah and each of these emirates (states) has a high degree of independence within the political system of the UAE, having their own local government and ruler (The World Factbook, 2006). The rulers of the emirates joined forces to form the Supreme Council or Ruler, and this body is basically responsible for the appointment of the prime minister and the cabinet. The ruler of Abu Dhabi is, traditionally, the president of the UAE and the prime minister holds the position of the Prime Minister (Emirates business website, 2010).

Over the last three decades and in particular the last decade, the UAE has experienced an economic boom, with economic policies that have taken the country from one of the least developed in the world to one that is one of the strongest for attracting capital (United Arab Emirates, 2010). Its natural resources, particularly oil and natural gas have been exploited to such an extent that the revenues have helped a rapid, radical development of the UAE, without the expected transition through hypothetical development stages experienced by most industrialised countries.

Although there are somewhat limited opportunities for foreign firms operating in the UAE, the fairness and political stability of the legal system within the country keeps it as an attractive political market for foreign investors. The variety of products and services introduced to the country through globalization, and the benefit of a strong workforce from all over the world, have been major assets for economic development (Shihab, 2007). With an economic policy focussed on enhancing the import and export of all products to and from the UAE, there are no trading barriers for imported goods with 75% of its imports re-exported for profit (Ahmed, 2007). The huge wealth of the country means there has been no need to borrow funds from the IMF or World Bank. Indeed, the UAE had a balance of payments trade surplus of over 100 billion dirham in 2007 because of the construction and real estate markets (Roumathi, 2009). In the past year, the official reserves account for the UAE has increased by over 50 billion (Global Investment House, 2010).

3.2 The Growth of Accounting Standards in the UAE over the Period

For dominant nation-states, in pursuit of "intentional politics and policies" to enhance their wealth, the financial health of global financial markets is considered important (Arnold and Sikka, 2001). It is also considered important to emerging economies and developing countries that seek to acquire wealth through the adoption of business practices that are globalized such as a set of accounting standards (Harris, 2002). There is a promise of "transparent, comparable and consistent financial information" that can guide investors to making "optimal investment decisions" because of the convergence of many national Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRSs) (Fontes et, 2005; Jacob and Madu 2004). There has been recognition within developing countries for the need to participate in the opportunities offered by globalization (United Nations General Assembly, 2004). As such, they have led the way in the adoption of IFRSs (IAS Plus, 2006).

3.3 The Accounting Standards

Walton and Aerts (2009) indicate that financial accounting is based on some assumptions, rules and agreements which are known as Generally Accepted Accounting Principles (GAAP). These principles vary from country to country due to the differences in their economic environments. However, the International Accounting Standards Board's efforts to make their standards popular internationally, and harmonise the accounting standards among countries which adopt such international standards have paid off. One feature of the international standards is the accounting information which provides better management and control activities to the global activities (Iqbal, 2002). Nobes and Parker (2000) argue that the main reason of adopting the International Accounting Standards is the rise of multinational firms which require international accounting standards to reveal their performance. In addition, they argue that International Accounting Standards provides better harmonisation wherein many previous researches have tried to study ways of compatibility of accounting standards among countries. However, the international standards have faced many problems which include diversity in current accounting.

Roberts et al. (2005) claim that the accounting system refers to complicated processes which is influenced by many factors in order to present the required outcomes. Nobes (1998) argues that economic and institutional differences are the main reasons for the diversity between accounting systems. However, Gray (1988) states that cultural differences based on Hofstede's model are the main cause of such difference between the accounting system (Chanchani and Willett, 2004). Moreover, Radebaugh et al., (2006) indicate that the variation among countries is affected by the outcomes' needed in these countries. Thus the differences between accounting standards are mainly caused by the differences in the environmental factors and the needs of the different accounting systems. These differences are not between developed and emerging economic, but are also between the countries that share a similar culture. Figure 1 indicates the different environmental factors that affect accounting systems which was presented by Radebaugh and Gray (2002).

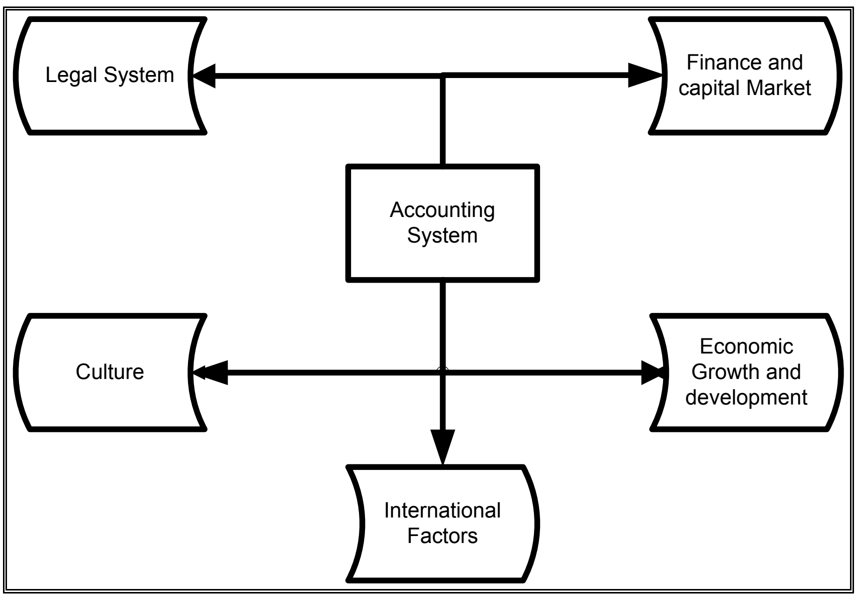

Figure 1. Factors that influence the accounting systems

Source: Radebaugh and Gray, (2002).

The first factor that influences the accounting system is the legal system. While the legal system in European countries is divided into common law and code law (Alexander et al., 2007); the legal system in Arab countries is more influenced by Islamic regulation. The second factor concerns the sources of finance which is considered as a strong factor that affects the accounting system (Roberts et al., 2005). While researchers have considered a variety of individuals and organisations as providers of finance (Roberts et al., 2005); they consider banks, shareholders and governments as the most common providers of finance (Alexander et al., 2007). Alfredson et. al., (2005) state that the World Bank and International Monetary Fund (IMF) play key roles in the developing countries wherein they provide them with loans and funds. Thus Annisette (2004) states that both World Bank and IMF put pressure on such developing countries to adopt IFRSs within their accounting systems. Moreover, Tyrall et al. (2007) point out that adoption of IFRSs has become a condition for Kazakhstan in order to obtain loans.

The third factor is cultural environment which has a significant influence on accounting system (Doupnik and Salter, 1995). The Hofstede's model (1980) is one of the most widely used theories to identify the dimension of culture which includes the high and low power distance dimension; high and low uncertainty avoidance dimension; individualism and collectivism dimension; and masculinity and femininity dimension. Gray's theory (1988) has identified how these dimensions influence the accounting system. Power distance indicates the way that culture handles variations in position, wherein the higher power distance countries such as Asian countries and Latin Europe have stronger hierarchical organisations. Gray's (1988) theory also indicates that Uncertainty avoidance culture indicates the level of accepting ambiguous situations wherein uncertainty avoidance culture seeks highly social structural systems (Baydoun and Willett, 1995). Individualism indicates that the society members' interaction and individual interest are prioritised over the community interests. Finally, the masculinity/femininity dimension indicates he gender's impact within the community.

Finally, the economic development and growth is a significant factor that influences the accounting system. According to Arpan and Radebaugh (1985), the level of government involvement in the economic sector is the main factor that influences their economic system, which in turn affect the accounting system used. Thus they indicate that economic system can be divided into three categories; the first category is communist which gives the government a complete control of economic operations and make almost all decisions. Thus in such economies the government is the only user of accounting systems which mainly aims to promote government systems (Al-Hajji, 2003). The second category is the Market-capitalist economy where the individuals own and control the main economic activities. The third category is the market socialist economy where the private sector is the main owner of the economic sector, however the government have designed a large number of regulations (Arpan and Radebaugh, 1985).

3.4 Developed Economies and IFRSs

Haller and Walton (2003) indicate that the standardisation is the way of using single accounting rules, while harmonisation is the way of reducing the differences between accounting systems that will help to improve the comparability of financial results in different countries (Radebaugh et al., 2006). Harmonising the accounting standards is motivated by many factors such as the growth of FDI, growth of financial markets and development of MNCs (Gray, 1988).

Whittington (2005) indicates that the adoption of IFRSs in European economies was the idea since 1973 when the International Accounting Standards Committee (IASC) was established. However, by 2000 the IASC had approved a set of standards. In 2001 the FASB stated to issue the IFRSs which are mandatory to be adopted at most international stock exchanges except the USA which announced its desire to adopt the IFRS by 2014 (IFRS website, 2010). Walton and Aerts (2009) indicate that European Commission in 1995 has acknowledged the inadequacy of financial statements directives. Thus, in 2002, the European Commission announced that all EU listed firms should use the IASB standards by or before 2005. Moreover, Yu (2006) has indicated that the EU Commission realised that IFRSs are the most suitable standards for the international community, particularly after the introduction of multinational companies.

Choi and Levich (1991) state that the single set of accounting standards allow for comparison of financial statements between countries. Thus, potential investors are able to compare financial reports that are prepared under the same standards (Larson, 1993). Tyrrall et. al. (2007) argue that the single set of accounting Standards allows the positive movement of capital across borders and also reduces the preparation cost of financial statements. Ashraf and Ghani (2005) point out that adopting the IFRS in the developing countries will improve the quality of standards as well as reduce the expense and time of preparing the financial statements. They also argue that adopting the international standards will increase the efficiency of financial statements in the stock markets which would become more understandable.

On the other hand, Nobes and Parker (2006) stress that although harmonising the accounting Standards would introduce many benefits; there are many elements that should be involved when harmonising the accounting Standards such as culture, economic and political systems that are different not just between the developed and developing countries, but also between countries that may share similar characteristics, these elements could be considered as barriers of adopting the harmonisation system. While the IASB considers the needs of the European countries, developing countries have also specific needs which may not be considered by the IASB

(Kosonboov, 2004). In addition, Yapa (2003) indicates that one of the elements that might be considered as an obstacle to harmonising accounting standards is the professional accounting bodies, wherein the IASB requires a strong effort to implement the accounting standards effectively. Furthermore, the IASB is using the fair value method in evaluating assets and liabilities such as IASs 40 and 41. Kosonboov (2004) argues that the aim of using fair value is to provide users with the opportunity to make decisions about the different assets and liabilities. However, many of the developing countries are not able to obtain fair value due to the absence of asset market valuation, which could reduce the reliability of comparing it with historical cost (Kosonboov, 2004).

3.5 Accounting in Developing Countries

The World Bank (2002) defines the developing countries as those countries that have low and middle incomes. As was discussed above, the differences between countries' accounting Standards are caused by the economic and political differences (Nobes, 1998). Moreover, other studies indicate that cultural differences, based on Hofstede's Model, are the main reasons for accounting differences (Salter and Niswander, 1995; Chanchani and Willett, 2004). In addition, Chamisa (2000) indicates that the accounting needs of countries are the main drive shaping the accounting standards in countries, thus he states that emerging economies have a bigger variety of economic and social factors than developed countries. For example Zeghal and Mhedhbi (2006) indicate that education is one of the significant factors that affects the accounting standards. They indicate that many developing countries base their accounting education system on one of the developed countries such as UK and USA. Moreover, Yapa (2003) indicates that many of the developing countries such as Malaysia and Indonesia were invaded by lifestyles and education systems of developed countries, which, in many cases, incapable of producing the accounting needs of these countries. Perera (1989a) argues that the information produced by developed countries' accounting standards will not provide useful information to make decisions in developing countries.

The other factor which affects the accounting system in the developing countries is the lack of accounting professionals in these countries, which is due to the weaknesses or inadequate standard in the accounting education. Culture is also another factor that influences the accounting systems in developing countries, wherein Hofstede's Model was the main cultural framework used to discuss the effect of culture on accounting system (Chow et al., 1995). They found that adopting accounting standards of a country might not be suitable to another country due to the cultural differences. Gray (1988) argues that the culture of developing countries is collectivist which has a low level of accounting professionalism. In addition, Gray (1988) indicates that the developing countries possess a strong degree of uncertainty avoidance and power distance significance. This might influence the level of information and discloser in these countries (Kantor et al., 1995). Consequently, external auditors may face difficulties to obtain information needed, particularly the bad information that may harm firms (Arpan and Radebaugh, 1985). Kantor et. al., (1995) point out that Arab countries have similar characteristics such as religion, culture and legal systems. Hofstede (1980) indicates that Arab countries have large power distance, high masculinity and high uncertainty avoidance. However, the Arab countries are different in their accounting systems, for example while Saudi Arabia has its own accounting standards, other Gulf countries including the UAE use US GAAP (Abd-Elsalam and Weetman, 2003). Zeghal and Mhedhbi (2006) argue that developing countries which are affected by Anglo-American culture are more likely to be successful tin adopting IFRS.

Another factor that affects accounting standards in developing countries is economic growth. Cooke and Wallace (1990) indicate that accounting standards has a strong relationship with the environmental factors including economic growth. In addition, Sedaghat et. al. (1994) refer to the positive relationship between economic growth and accounting information in developing countries. Governments in many developing countries intervene in economic activities due to the political structure in such countries. The degree of government involvement in the country's economy would affect the accounting standards, for example if the government is the main user of the accounting information, then this would affect the accounting standards used in this country (Zeghal and Mhedhbi, 2006). The accounting disclosure may also be influenced by the legal disclosure standards (Kantor et al., 1995).

The World Bank (2002) states that many Arab countries such as Egypt is ranked as low income, while others classified as high income such as the Gulf countries. However Kantor et. al. (1995) state that the majority of Arab countries have economically inefficient stock markets, which suggests that the accounting systems in the Arab countries aims simply to achieve the governments' needs. However, some of the Arab countries have started to change the nature of their system in order to increase the efficiency of their stock market (Zeghal and Mhedhbi, 2006). The developing countries that have FDI are more likely to consider the adoption of IFRSs than those countries that are not. This is due to the need of satisfying the foreign investors who have invested in such countries in order to maximise their shareholders' wealth (Chamisa, 2000).

The legal system in the developing countries is another factor that influences accounting systems, wherein some developing countries are affected by the legal systems of developed countries. However, the legal system in most of the Arab countries is influenced by the Islamic religion. Therefore, their accounting system requires specific needs that are different from those in other developing countries where religion does not have a direct bearing on their accounting system and where there is a clear separation between State and religion. The source of finance is another important factor that influences the accounting systems in developing countries, as Nobes (1998) points out that the difference in finance providers in countries may lead to differences in their accounting systems. He states that the source of finance might be internal such as banks, governments and family or it could be externally such as shareholders, FDI, and IMF. Nobes stresses that most of the developing countries including UAE are based on internal finance providers which require timely and frequent accounting information. The development of the stock market in UAE, however, it has become important to have external finance providers that require greater disclosure to the public in order to improve the trade volume of their stock market (Tyrrall et al., 2007). It is important to mention here that both the World Bank and the IMF require the adoption of IFRSs in order to provide funds to the developing countries (Karim, 2001).

3.6 The Adoption of IFRSs by Developing Countries

Whittington (2005) indicates that the main motivator for adopting IFRSs is the need of international language of accountancy and the needs of internationalisation of capital markets. Frey and Chandler (2007) point out that IFRS enable the comparison of financial statements between firms in the same field, even if they were operating in different markets. Moreover, countries such as UAE which does not have national accounting standards, would facilitate and rapidly improve their accounting practice which would enable them to gain access to global capital (Whittington, 2005).

Frey and Chandler (2007) suggest that adopting IFRS in developing countries would save time and the effort for these countries setting their own standards. Moreover, the adoption of IFRSs would lead to improve the quality of accounting which will, in turn, increase competitiveness (Saudagaran and Diga, 2003). The adoption of IFRS in some developing countries, therefore, has become mandatory due to the external pressure or the influence of the international organisations such as the IMF and the World Bank (Hooper and Morris, 2004). Sucher and Alexander (2004) point out that the International accounting firms (IAFs) play a significant role in developing countries to motivate them to adopt IFRSs in order to list their firms internationally.

However, religion is one of the environmental factors that should be investigated in order to find out the effect of adopting IFRSs to UAE. Some Arab countries are mainly affected by Islamic law which is not always easily compatible with IFRSs. Therefore, many issues in the Islamic countries have to be considered when adopting IFRSs (Irvine and Lucas, 2006).

According to Saudagaran and Diga (2000), developing countries adopt IFRSs for the purpose of becoming acceptable in the international market. However, they do not aim to make fundamental changes to their political and economic strategies which could be necessary to adopt the IFRS more efficiently (Hussain et al., 2002). Many organisations both national and international wish to adopt IFRSs that provide them with the ability to achieve the acceptability of the financial report.

Abd-Elsalam (1999) states that Egypt has adopted IASs in its financial standards in 1993. However in 1996 the Egyptian accounting board began to issue national standards. In June 2003 the Gulf Co-Operation Council Accounting and Auditing Organisation (GCCAAP) agreed to adopt the IFRS into their listed firms (Al-Shammari, 2005). All of the GCC members, except Saudi Arabia, do not have their own accounting standards, thus it was logical for the members to accept IFRSs. Irvine and Lucas (2006) argue that UAE required its listed firms to prepare their financial statements under IFRSs on or before 2005.

3.7 Users of Financial Statements

Alexander et al. (2007) argue that users of Financial Statements vary between countries according to their needs, they stated that users could include investors, employers, suppliers, customers and governments. For example, Saemann (1999) states that investors require all information that would help them to make their decision, while lenders are required information which makes them satisfied to lend money to these companies. Moreover, Alexander et. al. (2007) argues that users of the financial statements require the full disclosure of the required information before making their decisions (Kosonboov, 2004). Therefore, any country requires to increase the external stakeholders would be useful to increase the level of disclosure (Kwok, 2005).

Researchers argue that academics have high influence on the accounting standards theories which could be considered as the inputs of the accounting standards choices (Tandy and Wilburn, 1996). However, McLeay et. al., (2000) indicate that the level of academic influence on accounting standards setting may vary between countries, for example the influence of academics in US is limited (Tandy and Wilburn, 1996), while academic impact in other countries (developing and developed) have more influence on the setting of accounting standards (McLeay et. al., 2000).

Auditors are another type of financial statements users that might have influence in the accounting standards. For example Deegan & Unerman (2006) state that auditors prefer the international accounting standards which decrease the auditing risk. Adopting IFRSs is considered as an advantage over the local accounting standards wherein it would it reducing the cost of training staff (McLeay et al., 2000). Yu (2006) states that a conflict between auditors and preparers could result in more disclosure.

Hill et. al. (2002) stress that management is the first and main user of financial statement, thus managers apply a strong influence on the setting of accounting standards (Ang et al., 2000). Georgiou et. al., (2005) indicate that the US large firms have higher influence on accounting standards. Georgiou (2002) indicates that corporations would try to affect the accounting methods which control their income. Deegan and Unerman (2006) indicate that corporations want to avoid the employee demands such as wage increases.

Finally, Governments are considered as a significant user of financial statements wherein they are interested in the businesses' activities due to the impact of the businesses operation in the allocation of resources. Governments will oblige some information to be disclosed in the business financial statements in order to set their taxation policies and other needs of the governments (Alexander et al., 2007). Brown and Tarca (2001) indicate that control of governments on the accounting setters vary between countries according to the level of independence of the accounting bodies. Kaler (2002) refers that government in the developing countries exercise a huge amount of influence on the accounting standards setters.

4. Methodology

4.1 Research Methods and Design

The purpose of this paper is to discuss the challenges, benefits and the level of suitability of adopting IFRSs into the UAE stock exchange ADX and DFM. Therefore, this paper investigates the significance and the scale of the differences between users of financial statements in regards to the impact of adopting IFRSs into their decision making and the disclosure level. Firstly, the paper aims to assess the different opinions of Banking sector, preparers of financial statements, investors and external auditors regarding the adoption of IFRS in both ADX and DFM. Secondly, it aims to examine the level of awareness of the IFRSs and its main differences between US GAAP and IFRSs in regards to the level of disclosure and fair value standard. Thirdly, the study aims to find out to what extent the UAE culture affects the suitability of adopting IFRSs in the UAE stock markets.

4.2 Data Collection

Questionnaires are the primary data collection method for this study. According to Easterby-Smith et.al (2008), questionnaires are very widely used in the large scale investigation of opinions and perceptions of employees, which is the case for this study. The main dilemma with questionnaires is that they often seem to be an easy way of obtaining a large quantity of information quickly, while this is not principally true as any lapse can detrimentally hinder the validity of the information.

All questionnaire items must be composed in simply understood words to ensure that the meaning is clear for different candidates. Accordingly, when designing the survey questions, the researcher has to avoid detailed subjects related to theoretical literature from an academic point of view and technical aspects, such as complicated processing, that respondents may not able to follow and new techniques, that respondents may not be aware of. The sample of this study consists of 245 questionnaires which were used to achieve the main findings. The study has used 20 respondents from the Banking sector, 131 respondents from other listed firms, 45 respondents from external auditors and 49 respondents from financial analysts.

5. Findings

5.1 Perception of Respondents

The intention of this section is to address the question of *"What are the needs of users of accounting information in UAE?"* this is by giving two different perceptions of the users and preparers of accounting information from the questionnaires.

Table 1 shows the different range of views from the banking preparers in relation to the significant users of their financial statements. It was agreed by the respondents that the first six user groups represent the main users of financial statements. The first three groups, which are ‘Institutional Investors’ (freq is 89%), ‘Central Bank of UAE’ (freq. is 87%) and ‘Government’ (freq. is 86%) had a high level of agreement from the Banking respondents for being the majority of users of their financial statements. The results, however, do not show a significant difference between the banking sample in DFM and ADX (t-test significance = .29).

Table 1. Significant users of FR at banking sector

N	Groups of users	Mean	S.D	Level of Disagreement %	level of Agreement %	t-test
1	Institutional Investors	4.5	0.761	0	89	.181
2	Central Bank of UAE	4.43	0.755	0	87	.315
3	Government	4.43	0.755	0	86	.421
4	Financial analyst	4.21	0.804	0	79	.225
5	Individual investors	4	0.682	0	77	.182
6	Creditors	3.86	0.949	7.2	64	.091
7	Academics	3.29	0.725	7.2	29	.055
8	Customers	3.07	0.996	21.2	28	.266
9	Employees	3.07	1.073	28.4	27	.187
10	Suppliers	2.79	1.052	35.8	23	.113

The respondents to the questionnaire from the banking sector were asked to what extent do their financial reports (which were prepared based on IFRSs) meet the users’ needs. The results of table 2 also shows that the respondents agreed that the financial statements that were prepared under IFRSs meet the general needs of the main users of these statements. In particular, the respondents agreed that the major user groups (‘Institutional Investors’ (mean, 4.37), ‘Individual Investors’ (mean, 4.22) and ‘government’ (mean, 4.15)) were served appropriately by the financial statements prepared under IFRSs. On the other hand, the results show that the respondents from DFM banking sector have a higher mean of satisfaction in respondents from ADX banking sector wherein the Mann-Whitney test shows that a major difference between the both groups (Sig = .042).

Table 2. Perceptions about users that may be served by IFRSs

N	Groups of users	Mean	S.D	Level of Disagreement %	level of Agreement %
1	Institutional investors	4.37	0.633	0	94
2	Individual investors	4.22	0.698	0	85
3	Academics in accounting fields	4.15	0.667	0	85
4	Government	4.15	0.767	0	78
5	Financial analyst	4	0.669	0	78
6	Creditors	4	0.669	0	78
7	Central Bank of UAE	3.78	0.894	0	48
8	Employees	3.65	0.843	7.2	56
9	Suppliers	3.55	0.856	7.2	44
10	Customers	3.5	0.856	14.2	57

Even though the preparers understood that the second major user of their financial statements was the Central Bank of UAE, Table 6.5 clearly indicates that under IFRSs, the needs of the user might not be fully met by financial statements (mean is 3.78 and agreement level was less than 50%). Furthermore the results of t-test reveal that the respondents from the ADX banking sector have a greater level of disagreement than those in DFM at a significant level (sig =.005).

Respondents to the questionnaires were also asked (from an Islamic financial perspective) about the elements that are essential for disclosure in financial reporting. Table 3 clearly indicates the issues that should be highlighted in financial reporting to ensure that UAE users make decisions that are in line with the values of Islam (Zakat). The respondents were asked to acknowledge their views as to whether these issues were highlighted in financial statements. Respondents disagreed that the financial statements of banking sectors under the IFRSs did not include such information. This is further highlighted in table 3 where it shows that the level of disagreement is above the level of agreement, wherein the results indicate that 43% of banking sector respondents disagreed with the statement that 'IFRSs provide a full disclosure of relevant information to Zakat' while 22% agree with the same statement. Moreover, the results indicate that 45% of banking sector respondents disagreed with the statement that 'financial instruments not related to interest'. However, respondents were more agreed (62%) to statement that 'information that helps to calculate zakat' than those who disagreed (22%).

The result of Mann-Whitney test indicates that there were higher disagreements from the respondents from DFM in the importance of disclosure of issues in financial reporting to solve Islamic issues than those of the ADX's respondents (sig = .042). These results reveal that the importance of Islamic issues are more important to the respondents in ADX than those in DFM, where the greater number of stakeholders in Abu Dhabi are from Islamic background. On the other hand, the results of the ANOVA test shows that the respondents that had higher level of work experience have higher agreement about the level of disclosure under IFRSs to the Islamic issues in both stock markets (sig = 0.003), in which some respondents dispute the fact that the Islamic Zakat should be paid at a fair rate in accordance to their wealth not at a minimal rate.

Table 3. Sections should be included in balance sheets

No	Statements	Mean	S.D	Level of Disagreement %	level of Agreement %
1	full disclosure of the relevant information to help in making decision	2.56	1.265	43	22
2	financial instruments not related to interest	2.87	1.493	45	35
3	information that helps to calculate Zakat	3.09	1.21	22	62
4	disclosure of interest paid	2.76	1.352	38	23

5.2 Other Listed Company

Table 4 evidently shows the views of respondents of a number of listed companies in UAE in regard to the majority of users of financial statements. It was generally agreed that the initial ten groups represent the main users, as they gave a high level of agreement. Additionally, it was believed by the respondents that the first four groups represented the majority of the users of the financial statements, as they showed a substantial agreement level of 80%. The groups are known as {Institutional investors (level of agreement 95, Financial analyst, (94.2), Central Bank of UAE (92.4), and Creditors (83)}.

Table 4. Significant users of FR for other listed companies

N	Groups of users	Mean	S.D	Level of Disagreement (%)	level of Agreement %
1	Institutional investors	4.78	0.415	0	95
2	Financial analyst	4.57	0.505	0	94.2
3	Central Bank of UAE	4.43	0.883	8.1	92.4
4	Creditors	4.55	0.778	0	83
5	Individual investors	4.18	0.743	0	79.5
6	Academics in accounting fields	3.77	1.1576	12.9	64.2
7	Government	3.59	1.531	27	64.1
8	Customers	3.39	1.094	33.4	58.5
9	Suppliers	3.32	1.282	33.8	57.2
10	Employees	3.24	1.081	29.7	42.5

Table 5 shows that the Institutional Investors, Suppliers, Creditors and Financial analyst, the most significant users which got the information required that are provided through their financial statements prepared under IFRS. The respondents gave these two groups higher means grading as well as obtaining higher agreement level of 80% or more compared to the other groups of users that were graded with a much lower mean score.

Table 5. Perceptions about users that may be served by IFRS

N	Groups of users	Mean	S.D	Level of Disagreement %	level of Agreement %
1	Institutional investors	4.55	0.722	0	88.4
2	suppliers	4.5	0.781	0	87.5
3	Creditors	4.47	0.932	8.2	86.8
4	Financial analyst	4.43	0.857	5.7	86.3
5	employees	4.33	0.922	7.3	84.5
6	Customers	4.3	0.815	0	83.9
7	Academics in accounting fields	4.27	0.919	5.8	83.7
8	Individual investors	3.91	1.033	13.7	82.9
9	Central Bank of UAE	3.85	1.021	18.9	55.7
10	Government	3.81	1.051	8.33	54.7

Table 6 indicates that respondents from other listed firms agreed that information provided under IFRSs help users to calculate Zakat (89.1%). 52.2% of the respondents have also indicate that financial statements under IFRS provide full disclosure of the relevant information that would help users in making decisions, however there is a major number of respondents (45%) disagree with this statement, wherein they believe that IFRS still need to improve the level of disclosure to help making decisions.

Table 6. Sections should be included in balance sheets

No	Statements	Mean	S.D	Level of Disagreement %	level of Agreement %
1	full disclosure of the relevant information to help in making decision	2.56	1.451	45	52.2
2	financial instruments not related to interest	2.67	1.341	55	22.5
3	information that helps to calculate Zakat	4.19	1.114	7.2	89.1
4	disclosure of interest paid	2.76	1.254	52.1	25.4

5.3 Users

The questionnaire respondents from users clearly indicated that 59.5% of respondents tended to agree that the financial statements under the IFRSs met the users' needs (see table 7).

Table 7. View of financial analysts regarding the IFRSs

No	Statements	Mean	S.D	Level of Disagreement %	level of Agreement %
1	To what extent do you agree that information disclosed in their financial statement under IFRS meet your needs?	3.61	0.524	22.6	59.5
2	to what extent do you agree that information disclosed in their financial statement under US GAAP meet your needs	2.55	0.685	41.7	24.9

The second question was in relation to their views with regards to the effectiveness of the financial statements that were prepared under US GAAP. The results indicate that 41.7% of respondents still disagreed with the fact that the financial statements that were prepared under US GAAP revealed details that can actually meet the needs of the users. Their perceptions were supported with the following comments for example: companies that were listed in the UAE do not tend to reveal what they show in financial statements in addition to the lack of transparency. It was further highlighted in their comments that the Board of Directors' rewards and ownership were also not openly revealed.

5.4 External Auditors

The perceptions of 45 respondents of external auditors were asked to express their views in relation to financial statements and their jobs as auditors. Table 8 clearly shows that there were 25 respondents (55.6% from the total auditor respondents) that actually chose financial statements that were done under IFRSs, whereas 15 (33.3%) chose the financial reports under US GAAP. A further 3 respondents (6.7%) said that they did not see a difference between the two set of standards.

Table 8. Auditors view regarding the comparison between US GAAP and IFRSs

	Which of the following FS do you think it is easier to audit	Frequency	%
1	No Answer	2	4.4
2	Financial statement prepared under US GAAP	15	33.3
3	Financial statement prepared under IFRSs	25	55.6
4	No difference	3	6.7
	Total	45	100.0

The Mann Whitney test results clearly indicate that the Abu Dhabi auditors are more satisfied with the performance of the IFRSs than those who run in Dubai markets (sig = 0.048). Furthermore the ANOVA results show that the auditors that have more than 9 years of work experience feel more confident to handle both standards, than other auditors with 5 years or less work experience (sig = 0.001). Further, the test indicate that auditors from the big four are more likely to be satisfied about preparing the financial statements under IFRS than those auditors who work within local auditing firms (sig = .045).

5.5 Users of Financial Reporting in UAE

The literature review clearly indicates that financial reporting should be presented with appropriate information to assist users to make their decisions (Albu, et. al., 2011). This intention remains the aim of the IASB (IASB, 2009). Many researchers believe that investors and creditors are the key users of financial reporting (Tan, 2005). While in accordance with an Islamic accountability framework in an Islamic society, this may not necessarily be the case as users including those in society should be acknowledged, and because of this, it is critical that such accounting information should be disclosed to the whole society (Lewis, 2001). Additionally, details and information that is not in the favour of firms should also be revealed (Napier, 2007).

The main users of the UAE are "Institutional Investors and Financial Analysts", "International Chamber of Commerce in UAE" (ICC), "Creditors", "Individual Investors", "Government", and "Academics in the accounting field". These users have been identified through the findings of this study as the main users of financial statements in both ADX and DFM. It was found, however, that accounting preparers (both in ADX and DFM) do not believe that the society of UAE is a main user of financial reporting, it was reported that only two of the questionnaires respondents (one from banking sector and one from construction sector) stated that Emirati's society signify one of these major users. The results of the study show that listed companies in the UAE do not consider the interests of their society are very important when making their decisions, wherein establishing Corporate Social Responsibility has becoming very essential in the developed countries (Hopkins, 2007).

5.6 Difficulties and Challenges Caused by Implementing IFRSs

This section of the paper intends to answer the question "*What would be the challenges and difficulties of applying IFRSs in the UAE?*" This research question was raised to obtain the view or both the users and preparers of accounting information within the questionnaires surveys. Table 9 indicates that 34 respondents (23.4%) state that *"Lack of qualified personnel and knowledge of IFRSs"* as the main problem has faced the listed companies and decision makers when the adoption of IFRSs was on place in 2005. Additionally, this difficulty was also ranked as the highest problem facing the listed companies in both stock markets. Lack of knowledge and understanding of complex standards was the second important problem of the adoption (27 respondents, 18.6%). This was ranked as the second highest important difficulty of adopting the IFRSs in UAE.

Table 9. Overall problems and costs of the transition to IFRSs

problems and cost	Frequency	%	Rank
Lack of qualified personnel and knowledge of IFRSs	57	23.4	1
Lack of knowledge and understanding of complicated standards	46	18.6	2
Lack of professional specialists	29	11.7	3
fair value issues	22	9.0	4
changes to computer software systems	20	8.3	5
Other problems and costs	17	6.9	6
Comparability with earlier financial reporting	19	7.6	7
training of accounting staff	15	6.2	8
language issues	13	5.5	9
readiness of management and the management community for disclosure	7	2.8	10
Total	245	100	

5.7 Cultural Issues

In his study about the Arab culture Hofstede (1980) highlighted the dimensions of the UAE culture as a homogeneous community, speaking the same language. The Hofstede's analysis indicates that the UAE is a Muslim faith culture in which religion plays a large role in people's lives. The main dimensions of UAE culture, alike to other Arab countries, are the Uncertainty Avoidance Index (UAI) and Large Power Distance Index (PDI). The society of UAE is expected to have a "caste system" which indicates that people are more likely to push the upward mobility in making decisions. In addition, Hofstede indicates that such societies are more likely to follow rules, regulations, and controls for the purpose of reducing the level of uncertainty. With the combination of these two dimensions, UAE is more likely to have leaders with virtually ultimate power and authority, the people in power are those who can develop and reinforce regulations. Further to these two dimensions, the Masculinity Index (MAS) which points out the limited rights of women in the Arab countries and Individualism (IDV) are also ranked as high dimensions in the Hofstede's analysis of UAE culture. Therefore, this discussion will be based on Hofstede's dimensions which has been used by many researchers such as Gray (1988) and (Albu, et. al., 2011).

The findings of this study clearly reveal the impact and influence of local culture on the adoptionof IFRSs. Respondents mentioned that language issue is the main cultural obstacle of adopting the IFRSs (70 respondents), followed by Zakat requirements (45 respondents) and Lack of accounting knowledge (35 respondents) (see table 10). Moreover, 15 respondents stated that IFRSs might also clash with the Emirati's pride and 14 of them mentioned to other culture issues such as the system of government are the main obstacles of adopting IFRSs. Nevertheless, ANOVA test indicates that respondents from banking sector consider the Zakat requirements as the main obstacle of adopting IFRSs more than the other respondents (sig 0.021), the Muslim cultural issues tend to be one of the main obstacles of adopting IFRSs as the Emirati people do not accept the word "Interest" within the financial statements due to the requirements of Islamic religion.

Table 10. Overall views of cultural barriers to adopt IFRSs

Culture issues	Freq	Rank
Zakat requirements	45	1
None	10	2
language issues	70	3
UAE Pride	15	4
Unsuitability of some IFRSs procedures to the environment in UAE	7	5
Lack of accounting knowledge on part of the financial statement users	35	6
other cultural issues	14	7
Total	196	

5.8 The Changes in Emirati Culture

Within the UAE Islam embodies the religion of the country and it is of course different from the Anglo-Saxon culture where IFRSs were first developed. Recently the levels of cultural influences within the UAE have substantially increased and the union of many different cultures has assisted in the adoption of IFRSs (Irvine and Lucas, 2006). It seems that this control has formed a new culture within UAE. The Western culture has influenced the modern Emirati culture and this result can be seen predominantly in the younger generations in UAE, which in turn, influence the culture of Emirati society, as it changes the way they dress and the way they speak, and attitudes of people (Bilal, 2010).

It is suggested by this study that economic considerations may overrule cultural, religious and educational needs. The role of education may assist in the transfer of some of the characteristics of certain developed countries where capital plays the primary role and in many cases affect rulings. Furthermore, UAE adopted IFRSs initially without considering their cultural factors, which is fundamentally influenced by the Islamic values. Respondents from the banking sector (8 out of 20 bank respondents) have stated that they have branches outside the UAE, with the aim of entering international markets. They assumed that they fulfilled the needs of local users in the UAE.

Many researchers have established and encouraged rapport with countries where English is the primary language and the adoption of IFRSs (Abedelsalam & Weetman, 2003). Chamisa (2000) and Andre et. al., (2008) states that countries where Western culture exists the adoption of IFRSs is relatively easy. The results have shown that (80%) of respondents did not state language as being a barrier and a problem, and only the minority of respondents (5.5%) agreed that language was an issue. Participants who stated that language was a problem were generally from local auditing firms (8 respondents) or the CFOs of small listed companies (6 respondents). One understanding of this could be that accountants and auditors in the Big Four and the banking sector have received a good training and majority of them speak ‘good’ English. This is different to local accounting offices that do not have enough funds to train their staff with the updated standards, and as a result find IFRSs to be an issue to deal with. In addition, it could also be recommended that language is not necessarily a matter of concern because of the issue of an Arabic translation of the IFRSs by the IASB in 2010 even though the Arabic version is late. This indicates that language issues implicated in the adoption of IFRSs in UAE will have a significant influence on local auditing firms, and small listed companies.

5.9 Motivation of Adopting IFRSs

It is clearly indicated in Table 11 that users that responded showed a higher level of agreement (80.2%) with UAE accountant and auditors association’s decision to use IFRSs as an alternative to the US GAAP.

Table 11. UAE accountant and auditors association’s decision

	mean	SD	level of disagreement	level of agreement	sig
to what extent do you agree with UAE's AAA decision of adopting IFRSs	4.32	0.785	0	80.2	0.23

The respondents were also questioned about the reasons behind moving towards IFRSs. The strongest motivation by the respondents was their belief that the IFRSs are more comprehensive than US GAAP (22% of all motivations), along with the comparison of the financial reporting of listed companies with that of foreign companies (18%). Another motivation was providing information about issues relating to financial position, performance and cash flow of an entity, which is helpful when making economic decisions to a wide range of users outside and inside of UAE (16%). The UAE joining the World Trade Organisation (WTO) was also seen as a motivation by respondents (14%). Lastly the intention to give international credibility to banks’ financial statements by the Central Bank of UAE was also seen as a motivation (10%).

Table 12. Perceptions of questionnaire respondents of the motivations for IFRS adoption

Motivations factors	%
IFRSs are more comprehensive	22%
Comparability with international companies	18%
More transparency	16%
UAE joining the WTO	14%
International credibility of banks’ financial statements	10%
Some international companies have subsidiary companies in UAE	7%
To break down the dependency on US GAAP	5%
Adherence only	4%
Combination of international concepts after the EU has changed to IFRSs rather local GAAP	4%
Total	100%

5.10 Benefits of Implementing IFRSs

The results from questionnaire show that the positive implementation in the UAE of the IFRSs would subsequently improve the quality of financial reporting. Table 13 indicates that a further 81% of the respondents understood that adopting the IFRSs would assist in improving the comparability of financial reporting within countries, around 77% of respondents believed that the reliability of financial reporting would be improved, and a further 73% for understanding and 71% for relevance of financial reporting would be improved when adopting the IFRSs.

Table 13. The quality of financial reporting based on IFRSs

	mean	SD	level of disagreement	level of agreement	sig
Relevance	3.8	0.971	15	71	0.09
Reliability	4.09	0.733	2	77	0.59
Comparability	4.14	0.756	1	81	0.45
Understandability	3.95	0.835	5.8	73	0.14

* indicates the statistically significant differences of responses between respondent groups at the 5%.

Finally, the respondents assumed that the listed companies in the two stock markets can enter international markets whilst also having a chance to increase their capital through the quotation of their shares on other foreign stock markets. Whilst also believing that by adopting the IFRSs would also assist the facilitation of conveying knowledge transfers of accounting ideas and experiences back and forth from the UAE.

5.11 The Comparison between US GAAP and IFRSs

This section intends to answer the following questions; '*What are the perceptions of respondents about the main differences between US GAAP and IFRSs*?'. Table 14 shows that the overall views of the respondents were in favour of the IFRSs adoption over the use of US GAAP by listed companies on the two stock markets (level of agreement, 64%). Furthermore, there was no major difference between the mean answers that were given from the sample groups in the two stock markets (sig, 0.5). A similar perception was held by all respondents that IFRSs usually is better than US GAAP, and supported their application in UAE (mean, 3.52). It is also understood by respondents that even though the needs of developed countries were to apply the IFRSs; it also can still serve users in developing countries (mean, 2.35). It is also understood that even with the use of US GAAP in the UAE listed firms; there was a need to adopt IFRSs in the UAE to improve the quality of the financial statements (level of agreement, 61%). The respondents disagree with the statement 'there is no need to adopt IFRSs in UAE as US GAAP is enough', wherein the level of agreement was only (19%).

Table 14. Perceptions on the impartiality of IFRSs

Statements	Mean	SD	level of disagreement	level of agreement	sig
IFRSs are usually better than US GAAP and it would be preferable to apply	3.87	0.696	11	64	0.5
all IFRSs are suitable for the UAE stock markets	3.52	0.843	26	61	0.48
IFRSs were established to meet users' needs in developed countries which would not capable on UAE	2.35	0.785	56	20	0.73
there is no need to adopt IFRSs in UAE as US GAAP is enough	2.15	0.798	59	19	0.41

* indicates the statistically significant differences of responses between respondent groups at the 5%.

The view of respondents on the fair value and cost within the UAE being the main difference between US GAAP and IFRSs (this is shown in table 15). It is further suggested by the respondent that property investment should be measured by fair value (level of agreement, 61% with mean of 3.87). They also stated that by measuring investments by fair value would provide accurate and helpful advice for making economic decisions (level of agreement, 63% with mean of 4.16). A few of the respondents gave their reason for using fair value method for calculating Zakat (level of agreement 63% with mean of 3.85). a very few agreed with the statement that 'investment property should be measured by historical cost method' (20%, with mean of 2.19).

Table 15. Perceptions of fair value and historical cost in UAE

Statements	mean	SD	level of disagreement	level of agreement	sig
investment property should measured by fair value method	3.87	0.815	21	61	0.15
investment property should be measured by historical cost method	2.19	0.806	62	20	0.07*
use of fair value measurement in investment property provides useful and accurate information for economic decision making	4.16	0.675	7	63	0.53
fair value is better method to calculate Zakat	3.85	1.092	7	63	0.55

* indicates the statistically significant differences of responses between respondent groups at the 5%.

The respondents were also asked about the timings of IFRSs adoption. Table 16 shows that respondents were agreed that adopting IFRSs in 2005 was the right time (65.7%), while only (25.3%) of the respondents stated that IFRSs should have been adopted earlier. Only 8.3% of respondents believed that the implementation of IFRSs in UAE was too soon, 0.9% stated that IFRSs should not be adopted in the UAE at all.

Table 16. Perceptions regarding the timing of IFRSs adoption

	Banking sector		Other listed firms		external auditors		financial analysts		total	
	Fr	%	Fr	%	Fr	%	Fr	%	Fr	%
No response	3	15.0	17	12.98	2	4.4	4	8.2	26	10.8
IFRSs should be adopted in earlier time	5	25.0	36	27.5	11	24.4	10	20.4	62	25.3
It is too early to implement IFRSs in 2005	4	20.0	12	9.16	2	4.4	2	4.1	20	8.3
It is good time to adopt IFRSs in 2005	8	40.0	65	49.62	29	64.2	33	67.3	112	65.7
IFRSs should not be adopted in UAE	0	0.0	1	0.74	1	2.2	0	0.0	2	0.9
Total	20	100	131	100	45	100	49	100	245	100

5.12 The Use of Fair Value

The findings suggest that most respondents approved the benefits of fair value over historical cost. Even though majority of them were worried about the fair value measurement of assets within UAE when adopting IFRSs. It was agreed by them that the historical cost would enhance the current Emirati environment for a number of reasons. Firstly, beginning with the amount of economic growth that has an impact on establishing fair value within UAE, as there is no mention for the charge or market for these assets apart from the stock market in UAE. Secondly, it is indicated by the respondents of listed company that it is difficult to depend on fair value to make a decision. Thirdly, there is no measurement of fair value in UAE because there is no functioning market, no certified people to carry out the valuation and no persons to manage the measurement methods. However, an auditor respondent suggested that although management of fair value is significantly favoured as it provides dependable information to the users. The majority of resources do not have an active market and it is difficult to determine fair value, in which historical cost must be used in UAE market.

It has been mentioned that fair value figures to some extent can be reliable and mistaken for decision-making reasons even with the existence of the stock markets, The reason is that even though the markets are very large in comparison to those of some other Arab countries, recent research has established that, like in most developing countries, it is not efficient (Onour, 2004). For that reason, the ADX and DFM are still developing and the majority of user respondents understood that the cost of shares in most listed companies might not represent the true fair value of the companies' shares. The reason is that some fundamental elements of the Emirati culture control most individual investors in ADX, which is different in regards to DFM, as the culture in Abu Dhabi is one that follows others and even proceeds in accordance to hearsay, which could also enhance or reduce some companies' shares without looking at their fair price. The culture in Abu Dhabi stresses the joining of groups and asking others about any issue, as Hofstede (1980) stated Arab countries as being resiliently collectivist; then again, from time to time these groups do not have considerable knowledge or experience of the stock market. This is different in Dubai's culture as large numbers of people are from other countries and with their own beliefs and examination when they make their decisions.

On the whole, the findings highlight that there is a general agreement on the benefits of using fair value in UAE. Though, many respondents (9% respondents) were worried about fair value measurement because of the lack of measuring methods available including the non-existence of an active market for the greater part of assets and the lack of skilled and qualified valuers and any strong regulatory body. Consequently, the majority of the respondent recommended that the abovementioned issues must be highlighted and resolved. Appropriate guidelines need to be provided to calculate fair value, and the information systems must be enhanced in order to help in the stipulation of consistent information about assets to facilitate correct decisions being made.

It is worth noting here that the IFRS has announced a new standard (IFRS13) in middle of May 2011 which aims to require the use of fair value measurement. The standard will be effective from 1st of January 2013. The standard has set a framework for measuring fair value and requires disclosures regarding the fair value measurements. The standard does not require items to be measured at fair value unless stated in other IFRS standards. This standard was part of the communication between the IASB and the FASB (IFRS website, 2011)

5.13 Increasing the Level of Disclosure

The majority of respondents (59.5% of the respondents) believed that the changeover to IFRSs has improved disclosure levels and indicating that IFRSs has reacted positively to the demands of users. It is also understood that from 2005, financial reporting under IFRSs developed into more transparency and featured more disclosure than in what it did the year before in 2004. This was linked to modifications and enhancements to IFRSs. Good practice in disclosure has already been seen. For example, in IFRS 7, the disclosures in relation to the financial instruments improved. Enhanced disclosure was also stated as an advantage in adopting IFRSs in UAE, principally for shareholders and investors. Whilst, a number of respondents (42.8% of total respondents), from Banking sector and External auditors tended to agree that increasing the levels of disclosure even more was good, but that could misinform readers that may have trouble understanding the reports.

Other companies that are listed on ADX may not necessarily favour the improvement in disclosure as it may lead to disadvantages for them in some cases. Some companies tend to keep undisclosed information that could influence their investors' confidence. This may be the situation in ADX as most companies are fundamentally family-owned (Chang and Khumawala, 1994); Levels of disclosure may be reduced for this reason. It could be highlighted that improving the level of disclosure could add to the growing accountability of companies this could then result in companies in ADX discharging their own accountability to users more than they may currently do so. Also by improving the level of disclosure may also influence the decision made by accounting users. This is not necessarily the case in DFM, wherein the greater part of listed firms are owned by non-Emiratis who only own a small quantity of shares, therefore disclosure is more essential when investing within DFM and ADX who interested in a family businesses.

6. Conclusion

This paper examined the effects of converting from US GAAP to International Financial Report Standards IFRSs in both Abu Dhabi and Dubai stock markets. The study also investigated the level of awareness about the new standards by its users such as Chief Executives, External Auditors, and Investors.

However, the study assessed the advantages and challenges of harmonisation of financial standards. While researchers such as Ball (2005) indicates that the integration between the financial standards would help investors to easily compare between different markets, found that IASs adoption had significantly decreased return on equity, return on assets and asset turnover due to the book value of equity and the total assets being relatively larger under the IASs. On the other hand, Beuren, et. al., (2008) argue that this step would be more costly than the benefits of harmonising the accounting standards.

Fontes, et. al. (2005) claim that the capital raised by companies, comes directly from the public, and there is a presumption that investors rely on information that is in the public domain. As a result of this, there is a tendency towards a high standard of the disclosure needs of shareholders, both existing and prospective ones, determining the rules of accounting. Within the literature related to accounting, many researchers such as Ampofo and Sellani (2005) and Illiano and Thornton (2007) state the distinction between two sets of standards of accounting used in preparing the financial statements namely: the US Generally Accepted Accounting Principles (GAAP) which are mainly used in the United States and the International Financial Reporting Standards (IFRSs) which have been issued since 2001.

It appears from the overall findings that over 90% of respondents agreed that the adoption of IFRSs would be beneficial to UAE. 89% of respondents agreed that financial reporting would improve relevancy, reliability, comparability, understandability and as a result both foreign investment and investor confidence would increase. However, around 19% of the participants disagreed that the adoption of IFRSs would improve the quality of financial reporting of listed companies. The results also suggest that although the US GAAP provides as much disclosure as IFRSs; IFRSs provide more disclosure in general than US GAAP and cover most cases in detail. This result is associated with the questionnaire results that confirmed that the level of disclosure has increased compared to US GAAP, which is consistent with the Sharia requirement of full disclosure (Napier, 2007). However, some participants suggest that the level of disclosure in the UAE may be affected by political influence and the effort of accounting preparers to guard their own self-interests by trying to reduce the costs which greater disclosure may incur. This may be particularly true in view of the weak regulatory and enforcement mechanism in place. As a result, users may not find the information that they require, which would be reflected in their ability to make decisions.

Regarding the usefulness of adopting IFRSs in the context of decision making, it appears from the findings that there is overall agreement that financial reporting based on IFRSs may be useful for decision-making. As with the adoption of IFRSs, the results suggest that the quality of financial reporting and level of disclosure will improve. However, some respondents suggest that decision usefulness is influenced by the weakness of the enforcement body. Moreover, these respondents think that decision usefulness is also influenced by the strong lobbying of accounting regulators and preparers. In addition, it is affected by the education levels of users and their lack of knowledge of IFRSs. Therefore, they think that even after the adoption of IFRSs, this objective may still be questionable.

On the other hand, the study found many problems occurred due to the adoption of IFRSs. The findings suggest that the adoption of IFRSs will be associated with some difficulties and costs for some companies on both stock markets. However, the results indicate that these problems and costs may apply more to small companies and local accounting firms rather than the Big Four, for whom the adoption of IFRSs will be advantageous. The results suggest that one problem is accountants' unfamiliarity with the use of professional judgement.

It may be suggested that some dimensions of Hofstede (1980) & Gray (1988), such as high power distance and high levels of statutory control and secrecy, may dominate some accounting practices at present, in addition to the weakness of accounting education, contribute to exacerbating this problem related to the adoption of IFRSs. It suggests that accounting users may find decision-making difficult, as their ability to do so may be affected by professional judgement or the lack thereof. Another problem may arise from the use of fair value. Although most participants agreed on the advantages of fair value over historical cost, this is inconsistent with the questionnaire results. They expressed their concern about the use of fair value measurements, as currently there is a lack of an active market, a lack of suitably qualified individuals and a weak regulatory body.

This raises questions regarding the benefit of the content of current sessions to increasing knowledge of IFRSs among accountants. The findings also suggest that the challenges of materials on IFRSs also contribute to creating this problem. The results suggest that training accounting staff will be the main expense other listed companies will incur, although this will be a way in which listed companies will increase their knowledge of IFRSs. Furthermore, the findings suggest that alternative methods of IFRSs may present a problem, as there are some IFRSs which may limit the compatibility that the IASB is attempting to achieve through accounting harmonisation. Some participants mentioned, as an example, that some standards allow use of fair value or historical cost. Moreover, more than one method can be used to measure the cost of inventory. However, some of the participants in this study suggested that alternative methods may be advantageous, as it would become possible to choose methods appropriate to the UAE environment while at the same time achieving accounting harmonisation.

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