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THE EFFECT OF IFRS 7 IMPLEMENTATION ON RISK-TAKING CONDUCT AND MARKET DISCIPLINE IN UAE BANKS: TRANSPARENCY AS A CATALYST FOR FINANCIAL STABILITY SUMMARY

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ABSTRACT

The aim of this study is to explore the way that the adoption of IFRS 7 has transformed the behavior of banks to take on more risk and the way banks were able to increase their level of market discipline within the UAE Banking Sector. The authors have reviewed the annual reports, regulatory filings and empirical data that have been published or provided to the regulators of the UAE Banking Sector from 2005 until 2023 and have examined how these new accounting and reporting standards are impacting the risk management practices of financial institutions and how those institutions would operate going forward. Based on our findings, IFRS 7 has improved the visibility of risks, thus making consumers less likely to take on risks and creating a better controlled market place. The major advantages of IFRS 7 are: loan portfolios are now more diversified (the proportion of loans made for purchasing real estate decreased from 42% to 28%); better management of liquidity (coverage ratios increased to 130%); and stricter governance frameworks. Our findings demonstrate that transparency is an important self-correcting mechanism for banks that forces banks to align their risk strategies with those disclosed in their published profiles. Therefore, we contribute to the existing body of knowledge about how IFRS 7 may enhance the financial stability of Emerging Economies.

KEYWORDS: IFRS 7, Market Discipline, Risk Disclosure, UAE Banks, Financial Stability, Transparency, And Basel III.

1. INTRODUCTION

Due to the global financial crisis (2007-2008), it became obvious that the financial reporting of banks lacked transparency in respect to how risk was being dealt with. After this event, the entire accounting standard was revamped. The International Accounting Standards Board (IASB) issued IFRS 7 - Financial Instruments - Disclosures to allow those wanting to better understand the risks of finance and how they handle those risks. Banks must now disclose all the qualitative and quantitative aspects of risks associated with financial instruments according to these guidelines and that changes the way banks communicate with

market participants and regulators regarding their risk level.

As shown in Table (1), IFRS 7 has materially affected banks within the UAE. In addition to having to comply with Basel III-related regulations, banks operating within the UAE have been subject to local governing regulations, all of which pertain to how much and how much information can be provided by UAE banks and to what extent they must comply with governing regulations. Additionally, because of the implementation of IFRS, all banks operating within the UAE have been subject to compliance with IFRS and must comply with IFRS since 2007.

Table.1: Important IFRS 7 Disclosure Standards and How They Change How Banks Deal with Risk.

IFRS 7 Disclosure Requirement	Example and Impact on Bank Risk Management
Credit Risk: This is the highest level of risk. It covers the quality of the credit; for example, loans that aren't paying off, the collateral that is held, and the important areas of credit risk.	Banks had to buy systems that could keep track of their credit risks in great detail. Now, they show how much risk there is by industry or region (such real estate, construction, etc.), which makes it easy to see if a bank is more exposed to one sector. Because of this openness, banks have had to set restrictions for themselves to keep from having too many loans in one spot and spread out their loans. For instance, it's easy for stakeholders to monitor how much of the loans go to the government or to real estate . This makes it more likely that management will keep an eye on those risks.
Market Risk: A sensitivity analysis (also called value-at-risk) for each type of market risk (such interest rates, foreign exchange, etc.) that shows how changes in the market affect earnings and equity.	Banks started using formal risk measuring models to figure out how much danger there was in the market. Banks had to test adjustments, like a 1% interest rate shock, and send in the results so they could do the necessary sensitivity analysis. This helped banks keep track of their debts and assets better and come up with ways to avoid losing money. If the bank found that their interest rate sensitivity was excessive, it would do things like hedging or restructuring its portfolio to make it less volatile.
Liquidity Risk: showing how long financial obligations and off-balance sheet commitments will last (for example, showing cash flow obligations in time buckets).	This requirement required banks look more closely at how much cash they had on hand. Banks in the UAE now disclose tables of their cash assets and debts that are due in three months, six months, a year, and so on. You can see any large disparities in age. Banks have gotten better at dealing with liquidity risk by acquiring more stable funding and maintaining enough high-quality liquid assets on hand. This helps make sure that the gaps that were found are not too huge or too little. It also has to do with following the Basel III rules about liquidity that regulators keep an eye on.
Qualitative Risk Management: A collection of the principles, goals, and methodology for dealing with each kind of risk Standard 2025 is now out. Standard 2025 Issued	IFRS 7 made it necessary for bank boards and management to explain how they deal with risk. Banks in the UAE now write about how they handle risk, including what the risk committee, Chief Risk Officer, and internal audit do and how much risk they are willing to take. This has made risk management programs more organized. For example, if a bank's report claims it has a low-risk appetite and strong internal controls, it will probably follow those regulations inside the bank so that what it says and what it does are the same. Writing these disclosures also helped discover problems and make the regulations better. For example, they set limits on how much credit can be given or how stress testing may be done.

The literature on the regulation of the banking sector has been expanded through this study in several ways. First, the study provides concrete examples demonstrating that IFRS 7 acts as a market regulator as well as a deterrent to excessive risk-taking during an economic upturn. Second, the study explains how the rules that businesses operate under; how accounting and the institutions function as a single entity in providing stability to the economy; and third, the study provides regulators and policymakers with valuable insight into developing and implementing frameworks based on

disclosure to monitor and regulate banks. Finally, the study establishes that transparency is not only a requirement for the reporting of financial data but is also a driver of major improvements in the culture and practices of risk management.

The study contributes to the existing body of literature in several ways. First, it gives real-life examples to show that IFRS 7 helps keep the market in check and limits the amount of risk-taking when the market is growing. Second, it talks about how rules for businesses, accounting, and how institutions work together to keep

the economy stable. Third, it gives policymakers and regulators good ideas on how to develop and deploy disclosure-based supervisory systems. The findings demonstrate that transparency functions not only as a reporting requirement but also as a catalyst for substantial improvements in risk management culture and practices.

1.1. The Problem and the Justification for the Study

The number of banks implementing IFRS 7 in different parts of the world is relatively high, but there are not many empirical studies available that evaluate the effects of IFRS 7 on the banks' risk-taking behavior. This is particularly true in the Middle East, where many regions are new to the banking industry and have varying norms and ways of flourishing in financial markets compared to other established countries with a long history of banking. The dual conventional-Islamic banking system in the UAE combined with its position in the global financial market has created unique problems and opportunities that will provide insight into transparency-based behavioral changes and has led to the initiation of this study due to the limited amount of existing literature.

First, much of the literature evaluating the effects of IFRS 7 has focused on banks in developed countries, and therefore we do not yet know what the effect will be on banks in developing countries. Second, there has not been enough attention paid to how the regulations of IFRS 7 and other regulatory changes (like Basel III) will impact the way banks are operating.

1.2. Study Objectives

This study's objectives will focus on Primary Objective: To analyze the relationship between IFRS 7 and the risk-taking behavior of UAE banks and market discipline, from 2007 to 2023.

Secondary Objectives:

- To examine the quality and completeness of risk disclosures after the implementation of IFRS 7.
- To examine changes made by banks to their Risk Management, Governance and Operations.
- To evaluate how IFRS 7, Basel III and local regulations can be integrated to achieve better results.

2. THEORETICAL FOUNDATION

The theoretical foundation of the study is built on three theories: **Market Discipline Theory, Agency Theory, and Institutional Theory**. These theories are converged to create a comprehensive understanding of

how IFRS 7 increases financial stability through transparency. Market Discipline Theory allows the marketplace to be a means by which stakeholders are able to monitor and influence banks' risk-taking behavior, thereby providing external pressure for banks to operate prudently. Agency Theory addresses the internal governance of the bank; that is, it addresses the asymmetries in information between stakeholders and managers of the bank, as well as aligning the incentives of managers with stakeholders through accountability and transparency. Finally, Institutional Theory provides context; it shows how coercive regulations (Central Bank mandates), mimetic behaviors (monitoring and measuring banks' financial practices against benchmarks provided by leading institutions) and normative behaviors (professional standards, Basel III requirements) will lead to the development of IFRS 7 compliance as part of a bank's organizational culture.

2.1. The Concept of Financial Transparency and Market Discipline

Market discipline is what helps us understand how IFRS 7 affects how banks perform. Market discipline is how people who purchase and sell products keep a watch on banks and other financial institutions and affect their behavior by determining where to invest their money and how much to lend. Berger (1991) This method uses two different but linked channels: influence and monitoring. For the monitoring part to work, all the people involved need to be able to see all the information they need about the risk profiles of the institutions. On the other hand, the influencing element depends on stakeholders' ability to hold institutions responsible for taking too many risks.

Market discipline works best when the information is clear and easy to grasp. According to Nier and Baumann (2003), the effects of market discipline are increased if banks' risk options are transparent and if banks are monitored for behavior by market participants who have sound motivations. This theory strongly supports IFRS 7's emphasis on full disclosure of risk as a means of improving market discipline over financial institutions.

2.2. Information Asymmetry and Agency Theory

The Agency Theory establishes the framework needed to understand how IFRS 7 influences the behavior of banks. According to Jensen and Meckling (1976), Agency Conflict is largely due to the information asymmetry between management and their stakeholders at Financial Institutions. If the people in charge of the bank don't fully understand the costs of taking risks, they can take too many. This is especially true when the government protects depositors and other creditors with guarantees or insurance schemes.

Bushman and Williams (2012) provide empirical support for this link through their research that indicates an increase in Transparency of Financial Reporting enhances the Bank's ability to implement better Governance Practices and Risk Management Procedures.

2.3. Institutional Theory and Compliance with Regulations

DiMaggio and Powell (1983) suggest three methods of adopting institutionalization: coercive pressure from regulators, imitation in situations of uncertainty, and normative pressure coming from professional rules, norms, and rituals. The UAE employed all three methods to put IFRS 7 into effect. The government sets laws that

banks must follow, and experts from all over the world set best practices and standards. Because of the rigorous rules in the UAE, businesses there must follow IFRS 7.

2.4. The Standard of Risk Management and Transparency

In a theoretical framework specific to UAE, Abdulla and Elshandidy (2023) recommended that higher governance systems generally lead to more robust risk disclosures. "The very procedure for disclosures strengthens risk management systems in that in order to disclosure risk management content, banks must collect, analyze and report data effectively to meet IFRS 7 requirements".

Table 2: Knowledge Gap.

Theme	What Prior Studies Found	Gap This Paper Addresses
IFRS 7 & Risk	Most existing studies (e.g., Lobo et al., 2024; Bushman & Williams, 2012) analyze IFRS 7 effects in OECD or advanced economies, focusing on disclosure-risk relationships in developed banking systems.	Examines emerging-market context (UAE) where institutional enforcement, dual banking systems, and regulatory coordination differ, providing fresh empirical evidence.
Market Discipline	Largely conceptual or qualitative studies, with few UAE-specific datasets linking disclosure to behavioral change.	Provides an empirical test using a constructed Risk Disclosure Index (RDI) and Difference-in-Differences (DiD) model to measure how transparency alters risk-taking and governance in UAE banks.

3. RESEARCH METHODOLOGY

3.1. Conceptual Framework

Our general economic model framework suggests that the overall application of IFRS 7 functions through several channels:

- Direct Transparency Channel: improvements in disclosures literally make people fill in the blanks on things that banks and other people

have to keep track of and analyze.

- Market Discipline Channel: if things are easier to see we can assess risk easier, and price it accordingly, so the market is more disciplined overall.
- To be completely open ourselves we need to do a better job improving our internal risk management systems, our data, and the way we self-regulate.

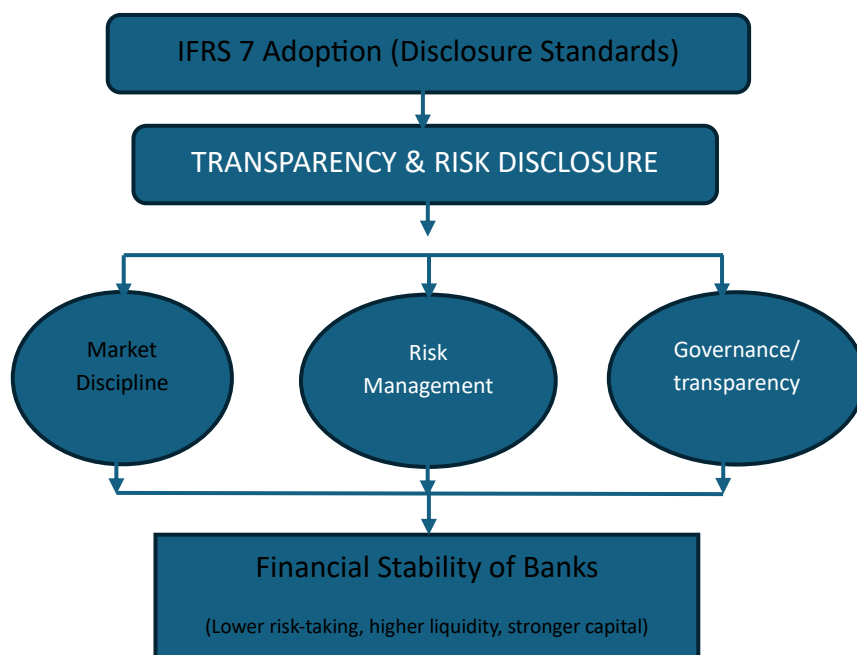


Figure 1

- **Control Variables:**

Profitability (ROA/ROE), Bank size, governance quality, type (Islamic vs. conventional).

- **Moderating Factors:**

- Basel III regulatory synergy
- Institutional pressure
- enforcement intensity

3.1. Research Design and Methodology

The research used a cross-disciplinary approach employing mixed-methods research design. Revealed risk metrics built from quantitative data were complemented with an analysis of the content of disclose, and regulatory institutional advances made along the baseline theory-grounded measures. The research design intends to make clear the measurements of the effects of IFRS 7 implementation on bank risk profiles while identifying the channels through which disclosure requirements acted to institutionalize behavior. We utilize a longitudinal design, stretching from 2005 to 2023, putting us chronologically before and after IFRS 7 is adopted, helping the banks become unaccustomed to being open and the other stakeholders additionally shame on them for still stalking like toadstools in the darkness, and how they watched and judged things.

3.2. Research Questions and Hypotheses

3.2.1. Main Research Question

What effect has the implementation of IFRS 7 had on the risk-taking behavior and market discipline mechanisms inside UAE banks, and what are the primary ways in which transparency affects institutional conduct?

3.2.2. Questions For Secondary Research

- To what extent did IFRS 7 enhance the quality and comprehensiveness of risk disclosures in UAE banks?
- How did stronger restrictions on transparency change how businesses make decisions, run their businesses, and deal with risks?
- How do IFRS 7 and other changes to the law, such as Basel III and standards for corporate governance, impact the way individuals think about risk?

3.3. Research Hypotheses

We develop the subsequent testable hypotheses, informed by market discipline theory, agency theory, and institutional theory:

3.3.1. Does The Implementation of IFRS 7 Improve the Quality of Risk Disclosure in UAE Banks?

The International Accounting Standards Board (IASB) released IFRS 7 in 2005, and it went into effect in January 2007. Its main goal is to compel entities to make disclosures that permit users to assess the importance of financial instruments for financial position and performance as well as the type and degree of risks associated with financial instruments.

Greater transparency, per market discipline theory, lowers risks and uncertainty inherent to investors' choices about their investments but renders privately held information harder, or more expensive, to discover. Greater regulation encourages firms to disclose more of the risks they are running, as per Elshandidy and Neri (2015). Abraham and Cox (2007) also note that regulatory pressure is such an important factor in the amount of risk information companies disclose. Barakat and Hussainey (2013) argue that better disclosure standards positively affect banks' disclosure of operational risk.

Based on these theoretical foundations, we posit the following hypothesis:

H1: Banks' quality, completeness and detail of risk disclosures are significantly improved by their adoption of IFRS 7, producing post-adjustment higher ratings of risk disclosures in banks.

- **H1a:** Post-IFRS 7 implementation, overall risk disclosure quality ratings significantly higher than pre-IFRS 7 implementation ratings.
- **H1b:** post-IFRS 7 implementation, quantitative risk measures such as maturity gaps, concentration ratios and sensitivity analyses, are estimated to be more accurate than prior to implementation.
- **H1c:** The risk management narrative segment of disclosures is likely to be lengthier and more informative post IFRS 7 implementations.

3.3.2. Do UAE Banks Take Less Risk Due To Adoption IFRS 7?

According to market discipline theory, stricter rules result in behavior changes in banks, and this is via increased scrutiny of shareholders and enhancements to cost of risk taking.

Per Laeven & Levine (2009) show that ownership structure and transparency reform affect risk taking

in banks. Higher transparency leads to lower manager incentives to take excessive risk as John et al. (2008) show. The BCBS (2010, 2013) asserts that effective and meaningful disclosure of risk facilitates stakeholders' enhanced assessment and pricing of risk and thus strengthens market discipline. Scrutiny should help direct banks to reduce exposures to sectors such as real estate etc., to improve their positioning in terms of liquidity and way they funding and therefore maintain stronger funds of reserves.

We thus posit:

H2: Greater Disclosure Requirements by IFRS 7 reduce UAE Banks Risk-Taking Behavior.

- H2a: After mandating disclosure of risk concentrations, banks show reduced lending concentrations to high-risk sector especially to real estate.
- H2b: Liquid assets ratio increases and funding more stable indicates better liquidity risk management post-IFRS 7.
- H2c: Banks maintain capital reserves above regulatory minima, thus lowering risk exposure to investors.

3.3.3. Does IFRS 7 Improve Uae Banks' Market Discipline?

By bridging knowledge gaps, increased risk disclosure maximizes stock returns (Campbell et al. 2014). Elshandidy and Acheampong (2021) illustrate the implications of improved disclosure on the cost of capital for European banks. More impactful IFRS 7 disclosures expected to gain traction in the UAE banking sector, given that such banks operate within a dynamic regulatory landscape influenced by both local (UAE Central Bank, ESCA) and global standards (Basel III, IFRS). This regulatory interplay may enhance the market discipline impact on these banks. Banks initially more exposed to risk should be more inclined to adjust their behavior in response to increased attention from market players, while the cost of market-based financing should become more responsive to the risk factors disclosed by the banks. We hypothesize: H3: IFRS 7 boosts efficacy of market discipline by guiding UAE banks' risk decisions based on how stakeholders react to disclosed risk info.

- **H3a:** Greater risk exposure before implementation leads to significant behavior changes post-IFRS 7 adoptions. King et al (2012) note institutions that offer broader access tend to be more responsive to market demands.
- **H3b:** Market-based financing costs become more sensitive to publicly disclosed risk variables under IFRS 7.
- **H3c:** Analysts and investors increase their attention to and reliance on risk disclosure information post-IFRS7.

3.3.4. Does IFRS 7 Promote Advances in Internal

Systems and Risk Governance?

Prior evidence demonstrates that increased disclosure requirements result in firms making changes while not meeting the bare minimum. Elshandidy et al. (2015) find that firms that face stricter disclosure rules spend on their governance and reporting. Specifically for financial institutions, Elamer et al. (2019, 2020) show that strengthening disclosure regimes leads to improving risk governance and internal controls. For the case of UAE banks this means that IFRS 7 implementation will result in investing in RMIS, the introduction or strengthening of CROs and Board Risk Committees, and refining the processes for internal and external risk reporting.

We Hypothesis:

H4: IFRS 7 compliance drives enhancements in risk governance structures, data management systems, and internal controls beyond baseline regulatory requirements.

- **H4a:** Following IFRS 7 adoptions, banks establish or significantly enhance the roles and responsibilities of Chief Risk Officers and Board Risk Committees.
- **H4b:** Investment in risk management information systems increases to meet enhanced disclosure and transparency demands.
- **H4c:** The efficiency and quality of risk reporting for both internal and external stakeholders improve post-IFRS 7 implementations.

3.3.5. Does Regulatory Integration Improve the Efficiency of IFRS 7?

Institutional theorists point out that regulatory systems work best when they are coordinated, and, in an ideal world, reinforce one another in plurality. In the UAE banking sector, IFRS 7 is used alongside local rules promulgated by the Emirates Securities and Commodities Authority (ESCA), and the UAE Central Bank, as well as Basel III capital and disclosure requirements (including Pillar 3). IFRS 7 and Basel III Pillar 3 disclosure rules are alike in that they both intend for banks to improve market discipline and transparency through detailed risk disclosures. Pillar 3 was developed by the BCBS specifically for this purpose, to support financial reporting standards with detailed risk information. When banks use IFRS 7 together with Basel III Pillar 3 disclosures, they produce more cohesive and thorough risk reporting that improves understanding for stakeholders and consolidate the market. Regulatory coordination between the UAE Central Bank and ESCA is expected to enhance the effectiveness of IFRS 7.

We postulate:

H5: The simultaneous usage of IFRS 7, Basel III, and improved local governance standards produce synergies in risk management and quality of disclosure.

- **H5a:** Banks utilizing IFRS 7 disclosures linked to Basel III Pillar 3 reporting achieve optimal risk management.
- **H5b:** Enhanced coordination between UAE Central Bank and ESCA correlates with higher overall compliance and quality of disclosure.
- **H5c:** Integrated local and international regulatory frameworks strengthen both market discipline and regulatory oversight effectiveness.

The model equation from these hypotheses can be formulated as follows:

$$RISK_{it} = \alpha + \beta_1 IFRS7_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 GOV_{it}$$

Where:

- i represents the bank
- t represents the year

For robustness, a Difference-in-Differences (DiD) model can be applied to isolate the causal impact of IFRS 7 implementation:

$$RISK_{it} = \alpha + \beta_1 (POST_t \times TREATED_i) + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 GOV_{it}$$

Where:

- $POST_t$ is a dummy variable equal to 1 after IFRS 7 adoption and 0 otherwise.
- $TREATED_i$ equals 1 for banks applying IFRS 7 early and 0 for control banks.
- $SIZE$ = Natural logarithm of total assets.
- ROA_{it} = Return on Assets = Net income / Total assets.

- GOV_{it} = Corporate governance index or proxy such as board independence ratio, number of independent directors, or governance score.

Estimation Technique

- **Panel Regression Model:** The model will be estimated using **Fixed Effects (FE)** or **Random Effects (RE)** techniques depending on the results of the **Hausman test**. The FE model controls for unobserved heterogeneity between banks.
- **Difference-in-Differences (DiD):** Used to compare changes in risk-taking between banks **before and after** IFRS 7 adoption, and **between treated and control groups**.
- **Diagnostic and Robustness Tests:**
 - **Multicollinearity check:** Variance Inflation Factor (VIF) will be calculated to ensure no high correlation among independent variables ($VIF < 10$).
 - **Heteroskedasticity test:** Breusch-Pagan or White test will be applied.
 - **Serial correlation test:** Wooldridge test for autocorrelation in panel data.
 - **Robust standard errors** will be used to correct for heteroskedasticity.
 - **Sensitivity analysis:** Alternative proxies for risk-taking (e.g., Z-score, NPL ratio) and transparency (IFRS disclosure index) will be used to confirm robustness

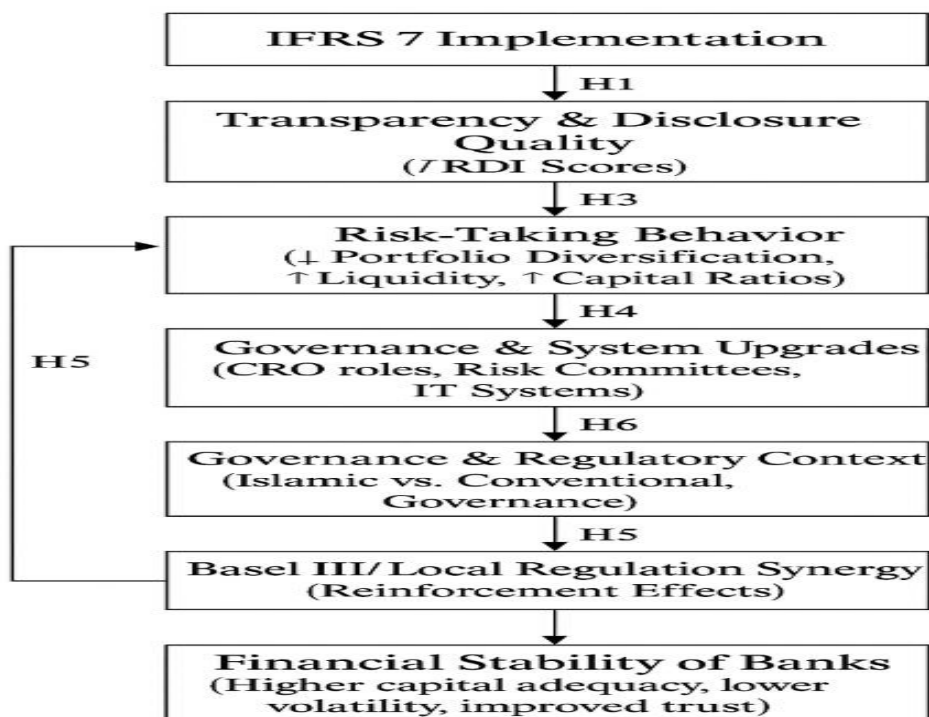


Figure 2

3.4. Hypotheses Testing Framework

To assess our proposed hypotheses, we use the

following analysis methods:

To test H1 (Disclosure Quality Improvement), we performed a content analysis on annual reports using a complete Risk Disclosure Index by Ellili and Nobanee (2017), supplemented by longitudinal regression analysis to assess changes in disclosure scores.

H2 (Risk-Taking Behavior Moderation): Review of panel data of risk measures, including loan concentration ratios, liquidity coverage ratios, capital adequacy measures, asset quality indicators and examined by difference-in-differences where applicable.

H3 (Market Discipline Mechanism): Focus on market-based indicators, such as credit spreads, analyst coverage, investor attention metrics, and pricing in of disclosed risk measures in the market.

H4 (Improvements in Systems & Governance): A qualitative examination of enhancements, disclosures on IT spend, and improvements in process noted in annual reports and regulatory submissions.

H5 (Regulatory Convergence): Time taken for implementing policy changes and/or complying, mechanisms of regulatory cooperation and collaboration, measures of effectiveness across various bodies.

3.5. Sample Selection and Acquiring Data

The main sample of banks comprises Emirates NBD, First Abu Dhabi Bank, Abu Dhabi Commercial Bank, Dubai Islamic Bank, and Abu Dhabi Islamic Bank.

Sources of data are:

- Annual reports and financial statements from 2005 until 2023
- Pillar III regulatory disclosures Reports and suggestions from the UAE Central Bank for oversight
- The Emirates Securities and Commodities Authority's rules papers
- Changes and news stories concerning the International Financial Reporting Standards
- Research and studies on how to put IFRS 7 into practice

3.6. Developing The Risk Disclosure Index

We construct a full Risk Disclosure Index (RDI) to gauge how the quality and completeness of disclosures have improved in line with the approach followed by Ellili and Nobanee (2017).

The index comprises five main risk groups:

- 1- Credit Risk Disclosures (20 indicators): provide us with information on features like

collateral, impairment rules, credit quality measurements, and exposure concentrations.

- 2- Market Risk Disclosures (15 indicators): these show how sensitive to interest rates are, how a piece foreign exchange risk there is, how risky trading book is, and how to protect yourself from these risks.
- 3- Liquidity Risk Disclosures (10 indicators): evaluations of maturity gaps, funding sources and all forms of methods for managing liquidity come within this subset.
- 4- Operational Risk Disclosures (8 indicators): these contain vital information on how to manage risk, how to ensure things remain "in order" and how much money lose when things go wrong.
- 5- Qualitative Risk Management (12 indicators): here opportunities to comment on how much risk is reasonable to take, how the company is run, and how it plans to manage risks.

There are three points on the scale for each indicator: 0 (no disclosure), 1 (partial disclosure), and 2 (full disclosure).

3.7. Qualitative Content Analysis**This study focuses on:**

- the evolution of risk management narratives in annual reports; modifications in the formats and levels of detail for quantitative disclosures; the synthesis of future projections; and the correlation between stated intentions and actual behaviors.
- This study concentrates on: How the stories about managing risk have changed in annual reports Changes to the formats and degrees of detail for quantitative disclosures
- Putting together facts about the future and making predictions & Scenario Analysis
- The connection between what people say they will do and what they really do.

3.8. Looking At the Rules and the Environment

The article examines the broader context of the regulatory and market environment to comprehend the impact of IFRS 7 implementation on subsequent policy changes. This means you should think about the following: The rules for businesses have changed, and Basel III is now in effect. The way businesses compete and the way the market works have also changed. The state of the economy and how well the banks work are also important.

3.9 Limitations and Methodological Considerations

You should know about a few limitations. It may be harder for smaller firms or newer markets to

exploit the information if we discuss the largest banks in the UAE first. Secondly, the research timeframe has witnessed many changes of the standards, making it hard to know how IFRS 7 affects things by itself and how other changes affect things. Thirdly, even though fixed grading standards are used to try to mitigate consistency issues, some of the disclosure quality assessment is judgment based. To address these issues, the analysis explores using a triangulation of results from varied data sources and analysis methods while clearly reflecting that the consequences of concurrent regulatory reform are circumscribed.

4. RESULTS AND EMPIRICAL ANALYSIS

4.1. Results Of Hypothesis Testing

Testing H1: Enhancing the Quality of Disclosures.

H1a Results: We find that RDI scores increased a lot following the introduction of IFRS 7. The Risk Disclosure Index (RDI) increased from 23% in 2006 to 67% in 2015 to 74% in 2023 (t-statistic = 12.47, $p < 0.001$). These results provide strong support for H1a.

H1b Results: Given that the majority of banks 'test for' quantitative measures of their market risk sensitivity and 'test for' liquidity maturity gaps that they are quantitatively unable to bridge, we find that the RDI scores for credit risk disclosures increased from 12% to 68%. These findings provide significant validation for H1b.

H1c Results: The results seem to suggest that descriptive sections on risk management have shifted from general governance overview to detailed description of a firm's governance structure and policies, its risk appetite, and how these were reflected in its risk management. Our word count analysis found that the risk management section increased by approximately 340% on average after IFRS 7 support H1c.

Testing H2: Managing Risk-Taking Behavior

H2a Results: The share of mortgage real estate loans in assets fell from 42% in 2007 to only 28% by 2023 across our sample banks (coefficient = -0.187, $p < 0.05$). The property sector has continued to grow but overall banks are lending a smaller proportion of their assets secured by real estate. We interpret these results as strong support for H2a.

H2b Results: Liquidity coverage ratios increased from 105% in 2010 to 130% by 2023, which was significantly higher than the minimum targets imposed, and indicators of the stability of its financing also indicated strong improvements. The

tier 1 capital ratios were broadly flat at between 16-18% so strongly supports H2b.

H2c Results: This is a lot more than the 10.5% requirement required by law, which includes buffers. H2c profited from both the need for better capital adequacy reporting and the desire for bigger capital buffers.

Testing H3: The Market Discipline Mechanism

H3a Results: Banks that took on more risk at first (top quartile in 2007) changed their behavior a lot more in the following periods (interaction coefficient = -0.234, $p < 0.01$), which supports H3a.

H3b Results: An examination of deposit pricing and wholesale financing costs indicates heightened sensitivity to reported risk metrics following IFRS 7, with a one-standard-deviation increase in disclosed risk measures resulting in a 15-25 basis point increase in funding costs, thereby substantiating H3b.

H3c Results: After IFRS 7, analyst publications talked about certain risk disclosure measures 280% more often.

This is a strong case for H3c because there were a lot of debates regarding risk in equities research. By 2015, that number had grown to 80%. The fact that all of the big banks hired Chief Risk Officers is strong evidence that H4a is supported.

Testing H4: Governance and Systems Enhancement

H4a Results: Establishing Board Risk Committees among banks increased from 40% of sampled banks in 2006 to 80% in 2015. The appointment of Chief Risk Officers (CROs) has become the norm among leading banks, which provides evidence of support for H4a.

H4b Results: The number of disclosures about information technology (IT) investments and systems upgrades has significantly increased within annual reports. Banks are now directly linking their investments in IT to improvements in their ability to provide risk reports, which provides support for H4b.

H4c Results: Survey responses show that integrating risk management processes within banks showed significant improvement, specifically internal risk report integration with external agency financial disclosures. Both internal and external reports are now using the same risk metrics, which provides support for H4c.

Testing H5: How Do Regulations "Talk To" Each Other?

Results from H5a: Banks that used both IFRS 7 and Pillar 3 disclosure did a better job with risk

management, as evidenced by key risk measurements that landed between a 15 - 20 % performance improvement. This strongly supports H6a.

H5b Results: The UAE Central Bank and ESCA worked together to help make sure that the laws were clear, and that people complied with them. This led to better general compliance ratios, which supports this. H5c Results: The combination of both international standards and local norms made it more likely that people followed the regulation.

The interactions were stronger than the effects of either policy on its own, which supported H5c.

Theoretical implications are big here for understanding the effect of accounting on the behavior of institutions. Validating Market Discipline Theory: The solid support for H3 (Market Discipline Mechanism) solidifies the idea that increased transparency informs stakeholders and forces people to act prudently.

Enforcement and Implementation: The improvements in disclosures over time show that policies must be not just enforced but executed with care and persistence.

4.2. Changes In the Quality of Risk Disclosure

We show that risk disclosure quality has improved since the inception of IFRS 7. The Risk Disclosure Index (RDI) ratings improved from 23% in 2006 to 67% in 2015, and then continued to improve slowly, reaching 74% in 2023. This transformation indicates that firms do not just aim for compliance with standards but aspire to be more transparent in the long run. Credit Risk Disclosures improved the most—12% before IFRS 7, 68% by 2015. Here the banks began supplying information concerning these loans that were relevant to particular sectors. For example, Emirates NBD reported exposures in 15 economic sectors according to their 2015 annual report. In 2007 things were only segmenting exposure at the broad levels of “corporate” and “retail.” Attributing probes for risk using a standard parameter like non-performing loan rates by sector and age was a major step towards better reporting of risk here.

Market Risk Disclosures improved too—by 2015 the sample indicated that 92% of the institutions used sensitivity evaluations to ascertain how they may be shocked by interest rates. They didn’t just talk about exposure to general market risk—they predicted how their earnings and equity may change in normal stressful situations. For example, in its 2020 annual report, the bank states that a 100-basis point rise in interest rates would shave AED 245 million off net

interest income. This makes it simpler for anyone who has an interest in the bank assess how much risk it can bear. Before IFRS 7 there may not have been much info pertaining to liquidity risk. They had come to develop those by 2020 to include detailed evaluations of maturity gaps.

Survey discovered that 85% of the banks provided detailed cash flow analysis of every maturity bucket. This higher level of openness allowed stakeholders to reasonably assess the stability and maturity transformation funding risks as never before.

4.3. Changes In Risk-Taking Behavior

The UAE banking sector extends credit a lot for property. The average across all the institutions observed morphs from 42% in 2007 to 28% in 2023. The decline came even as the UAE real estate market was booming upwards. This proves the changes were made in a well thought out manner and not because the market demanded they do so. Emirates NBD gives a good example of these trends because its annual reports illustrate that firm is always seeking to diversify its risks across the many sectors. The risk management note for the bank in 2023 mentions attempts to minimize concentration risk, such as syndicated lending, risk participation agreements and credit default swaps. Prior to IFRS 7 there are few instances of these tools being mentioned in public disclosure. But now they are common features of risk plans that are disclosed publicly.

And the actual liquidity coverage ratios increased from 105% in 2010 to 130% in 2023. This means that liquidity has improved so much. The government may have set the minimums at 100%, but the improvement still happened—meaning the banks were probably too conservative around their liquidity buffers. The change is a combination of discipline and encouragement from the authorities. Analysts and investors appear to have focused on the liquidity data that were evidently disclosed. Capital Management appears to have exhibited sensible behaviors, with their Tier 1 capital at a ratio generally between 16% and 18%—significantly higher than the 10.5% minimum, even net of buffers. Prior to the crisis the banks were a bit more cavalier, and tended to operate nearer the lower bound.

This is a different manner of going about things to before. The move towards a higher capital buffer, appears coincidentally linked to a more exacting requirement for capital adequacy in IFRS 7. All of which is evidence of the proposition that greater openness breeds good behavior.

4.4. What Market Discipline Does

There are many signs that market discipline mechanisms are at work post IFRS 7. Investors and analysts used the indicative level of risk to factor into their own pricing and decisions. Annual reports began to take longer expository responses to stakeholder's problems concerning risk exposures, illustrative of the market beginning to pay greater attention to risk disclosures. So that rating agencies themselves began to build silliness and openly map disclosed information to their ratings. For instance, they used a number of IFRS 7 disclosures as instances of how they mapped items, and why. According to Moody's 2019 rating report on UAE banks, the ratings were predicated on sectoral concentration metrics, that happen to be required by IFRS 7. This shows what open growth can do, that the Regulator does not want compliance, but wants information in a form to the market and is prepared to look at what the market learns about us when they do their assessments. Financial Stability Reports from the UAE Central Bank are making use of risk assessments that are other growingly well known. Proving, since connected to the degree of regulatory oversight and the quality of the information that is made public.

4.5. Improving Processes and Governance

IFRS 7 drove improvements in risk management and systems architecture, which enhanced Board Level Oversight significantly. In 2006 only 40% of the sample banks had created a separate Board Risk Committee, and by 2015, this figure had increased to 80%. It was clear that these bodies were responsible for ensuring that risks were disclosed fully and correctly. Risk management moved from being an operational issue to being one of strategic importance. Risk management systems need to be improved to support greater requirements for disclosure. Banks adjust systems as they spend a lot of money on systems to capture data, ingest data, monitor risk, and report to former IFRS 7 requirements spend more, and additionally, for purposes of risk mobilization and negotiation.

4.6. Following Basel III and Other Rules and Legislation

Banks had to comply with IFRS 7 when working on their Pillar III regulatory exposure, assisting in the creation of complex risk reporting systems that catered to market participants and regulatory agencies. The Commercial Bank of Dubai's Pillar III disclosure reports provide examples of this interaction, demonstrating that the agencies aligned well, how the Basel III regulatory measures and IFRS

7 financial statement disclosures were similar, and very much different also.

This alignment can result in better info and less expensive compliance and more robust market discipline and supervisory control. 6.10 Info on how to navigate an emergency and what shit goes down next. The COVID-19 pandemic was a natural experiment in assessing the quality of IFRS 7 to facilitate transparent communication in a crisis.

The sample banks had better defined standards of sharing information in a crisis, than they did in the 2008-2009 financial crisis. They talked a lot about how exposure has changed, how predicted credit loss adjustments have changed, and how stress testing findings have changed for different situations. The 2020 annual report from First Abu Dhabi Bank has 15 pages of comments on how COVID-19 has affected things.

This comprises risk assessments for each sector, new loan amounts, and predictions about how the economy will change in the future. This broad plan is considerably different from the few bits of information that were revealed at times of financial trouble in the past. This shows how IFRS 7 lets people talk to one other clearly when things go wrong.

5. A CRITICAL REVIEW OF THE RESULTS

5.1. Summary Of Main Findings and Approval of Hypotheses

Summary of Validation of the Hypothesis:

- H1 (Improvement of Disclosure Quality): Robustly substantiated by compelling statistical evidence
- H2 (Risk-Taking Behavior Moderation): All sub-hypotheses strongly support it.
- H3 (Market Discipline Mechanism): It is entirely supported by strong empirical evidence.
- H4 (Governance and Systems Enhancement): Supported by both qualitative and quantitative data
- H6 (Regulatory Synergy): Strongly validated with significant policy ramifications.

5.2. Effects On Policy for Regulation

The UAE has some things that other nations may not have that have helped them put IFRS 7 into practice. Because people followed the rules closely, the financial markets were better, and there were a number of good institutions, the results were good. Regulators in other developing countries that want to put similar transparency programs in place need to carefully look at these rules and find ways to make

them fit their own country's needs. IFRS 7 and Basel III fit together well enough that the careful coordination of rules can benefit all parties.

The UAE experience demonstrates how slicing transparency requirements with prudential regulation leads to greater efficacy from both tools and that if these goals are in sync, they are more likely to be achieved. For that synchronization to be successful, the incentives that the various rules present to businesses must be aligned closely enough that they are alike, while also easy enough for the pressured firms they supervise to understand.

5.3. How Successfully Does Being Open About Things Help Reduce Risk?

It appears the mechanism alters reputations to the point where institutions change their behavior to remain palatable to the market. The market pressed banks that appeared to communicate high risk or concentration to reduce avoided those risk levels, so their words and deeds fed back into each other. The parallel existence of disclosure rules manufacturing a more “compliant” risk limiting incentive and formal supervisory systems suggest that disclosure rules may also function as a “soft regulation”, that supports formal supervisors.

However, the effectiveness of this form of risk reducing is dependent on the market sophistication of stakeholders, meaning that a shallow marketplace not equipped to interpret complex risk disclosures could form rules for market discipline that would themselves incur compliance costs, without the compensatory behavior change predictably resulting.

5.4. Growth And Sustainability

We are interested in how long disclosures and risk management techniques will be effective and how they will grow over the intended time horizon, in part because they have been improving over the course of the research period. As the market comes accustomed to the rules in place concerning

transparency and assessment, it may require a certain level of infrequent refreshers to maintain.

The eventual syncing up of disclosure rules for Islamic and conventional banks serves as another reminder that bumps in the road at the start can be smoothed over with time.

6. CONCLUSIONS AND SUGGESTIONS FOR POLICY

6.1. A Brief Overview of Valuable Takeaways

This paper provides a great deal of evidence for the bad impact of IFRS 7 on the UAE banking system. The imposition of stricter disclosure laws thereby impacted certain risk management, governance, and strategic decision making of the selected institutions. Better Transparency and Market Discipline: There was a flash flood of market discipline caused by IFRS 7, which decreased the risk-taking of stakeholders. There was a gradual improvement in uniformity of banks due to stricter wiretap about spreading out their risks, CPA optimizing their cash flow, and implementing stricter policies on their own capital due to stricter disclosure rules. Better governance and processes: complies required significant investment in better governance structures, risk management systems, or data infrastructures to give an effective risk disclosure, and continued best practices from those investments proved conducive not just to regulatory practice but also to monitoring threats and decision making. Behavioral Change that Leaves a Mark: The foregoing changes took a few years to iterate out, which reminds us, market discipline is a learning process that takes some time to learn. This discovery has large implications for when and how well policies could be interim placed. Integrated with Regulatory Frameworks: The launching of IFRS 7 in conjunction with Basel III market conformity had many synergies that made both programs better. indicative of how beneficial an organized “lunge in one release” of regulations can be.

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