



Article

Does Governance Affect Compliance with IFRS 7?

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Abstract: Although there has been considerable research on the impact of corporate governance on corporate voluntary disclosure, empirical evidence on how governance affects compliance with mandatory disclosure requirements is limited. We contribute to governance and disclosure literature by examining the impact of corporate governance on compliance with IFRS 7 for the banking sector in Gulf Cooperation Council (GCC). We use a self-constructed disclosure index to measure compliance with IFRS 7. We use regression analyses to examine the impact of board characteristics, audit committee characteristics and ownership structure on compliance with IFRS 7. Using a sample of 335 bank-year observations for GCC listed banks over the period 2011–2017, we report evidence that corporate governance variables affect compliance with IFRS 7. However, the significance of these variables depends on the type of the regression model used. Our findings suggest that governance matters for mandatory disclosure requirements. So to improve the level of compliance, regulators, official authorities, and policymakers should intensify their efforts toward improving corporate governance codes, following up their implementation and enhancing the enforcement mechanisms.

Keywords: corporate governance; IFRS 7 compliance; GCC



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1. Introduction

Prior research attributes the low level of compliance with International Financial Reporting Standards (IFRS) to the absence of adequate enforcement regulations (Alfaraih 2009; Al Mutawaa and Hewaidy 2010; Al-Shammari 2011; Alanezi and Albuloushi 2011; Tsalavoutas 2011; Al-Jabri and Hussain 2012; Bova and Pereira 2012; Santos et al. 2013). The literature also shows that corporate governance (CG) is a significant enforcement mechanism in IFRS implementation (Al-Akra et al. 2010; Abdul Rahman and Hamdan 2017; Al-Sartawi et al. 2016; Ebrahim and Fattah 2015; Juhmani 2017). In this paper, we are interested in IFRS 7 Financial Instruments: Disclosures. This standards requires banks to make several disclosures about the significance of financial instruments for the financial position and the financial performance of the entity concerned, and the nature and extend of risks to which the entity is exposed in relation to financial instruments, both in quantitative and qualitative terms (Melville 2017). The goal of the paper is to examine the impact of corporate governance mechanisms on the compliance with IFRS 7 standard. Our research question is: “Does corporate governance mechanisms affect the compliance levels of IFRS 7 standard by banks in Gulf Cooperation Council (GCC)”? Despite growing awareness of the significant role of governance in GCC, especially in improving disclosure and compliance with regulations, it is still in its early stages and faces challenges with enforcement mechanisms (Swedan and Ahmed 2019). Thus, our paper offers a novel contribution to governance and IFRS literature by providing the first empirical evidence on the impact of corporate governance mechanisms on the compliance with IFRS 7 standard.

We are motivated to focus on IFRS 7 in the GCC banking sector for several reasons. First, the six GCC countries are economically strong (oil-exporting countries) and have

cultural and political situations distinct from other countries. Second, the banking sector plays an important role in supporting the growth of diversified activities in the GCC region and it represents the largest sector relative to other sectors (Hamdan). Third, as in many other countries, the banking sector in GCC is more regulated than non-financial sectors and therefore is more likely to comply with disclosure requirements (Al Lawati and Hussainey 2021). Fourth, we focus on IFRS 7 as financial instruments are pervasive more in the banking sector. Prior research shows that financial instruments are one of the most important tools that the banking sector is dealing with (Allini et al. 2019).

The paper is structured as follows: Section 2 reviews the literature and develops the research hypotheses. Section 3 discusses the research design. Section 4 reports our empirical findings. Section 5 discusses the findings. Section 6 concludes.

2. Literature Review and Hypotheses Development

Corporate governance is defined as “the system by which companies are directed or controlled” (Huse 2007, p. 15). Corporate governance mechanisms have received considerable attention in accounting research and have been considered to be key drivers for IFRS adoption. A considerable number of papers focused on the impact of corporate governance on the level of compliance with IFRS in general (Al-Akra et al. 2010; Alanezi and Albuloushi 2011; Alfrah 2016; Almaqtari 2019; Bagudo et al. 2018; Juhmani 2017; Mbir et al. 2020) and not a single standard per se, and in particular IFRS 7. A few studies explored the drivers of financial instruments compliance. For example, Adznan and Nelson (2014) found that external and internal audit committee independence and audit fees have a positive impact on the level of MFRS 7 compliance, while board attributes (board independence and board expertise) have no impact. Lopes and Rodrigues (2007) did not find an impact of board independence on the level of compliance with IAS 32 and IAS 39 in Portugal. In contrast, Tauringana and Chithambo (2016) found a positive effect of board independence on compliance with IFRS 7 in Malawi. Similar results are confirmed by Agyei-Mensah (2017) in that the level of compliance with IFRS 7 of 30 Ghanaian firms were affected by board independence and institutional ownership. Tahat et al. (2017) found that board independence and the existence of an audit committee have a positive impact on IFRS 7 compliance. Finally, Nahar et al. (2020) found that board size, independence and the existence of risk committees increase levels of mandatory risk disclosure. The current study complements this literature by examining the impact of corporate governance on IFRS 7 compliance in GCC.

One of the gaps of prior research on determinants of IFRS compliance is that most of these studies (Abdul Rahman and Hamdan 2017; Al-Akra et al. 2010; Alanezi and Albuloushi 2011; Alfrah 2016; Al-Sartawi et al. 2016; Bagudo et al. 2018; Bova and Pereira 2012; Ebrahim and Fattah 2015; Istiningrum 2020; Juhmani 2017; Mbir et al. 2020; Sanni et al. 2020; Sarea and Nesuf 2013; Uyar et al. 2016) test a single country to reach their results, which makes it difficult to generalize the results for other countries. Another gap is that limited corporate governance mechanisms have been used in the literature. For example, studies have concentrated on the board and ownership characteristics (Abdul Rahman and Hamdan 2017; Al-Akra et al. 2010; Alanezi and Albuloushi 2011; Alfrah and Almutawa 2017; Ebrahim and Fattah 2015), audit committee and ownership characteristics (Alanezi et al. 2012), board and audit committee characteristics (Adznan and Nelson 2014; Al-Sartawi et al. 2016), board characteristics (Alfrah 2016), and board, audit and ownership characteristics (Agyei-Mensah 2017; Juhmani 2017; Tahat et al. 2017). The current study fills these gaps.

This study examines the impact of several corporate governance mechanisms, including: board attributes (board size, board independence, board meeting frequency), the audit committee (AC) attributes (AC size, AC independence, AC meeting frequency), and ownership attributes (blockholder, governmental, institutional) and their effects on the degree of compliance.

- Board size

One of the fundamentals of corporate governance determinants is the size of the board of directors. Along with the many tasks of the board, it is an important link between management and the interests of the owners. In fact, an optimal number of directors has not yet been set. Literature has addressed the size of the board in two respects. The first trend is in favor of increasing the number of members on the board of directors. It assumes that a larger board leads to more diversity of knowledge and gives a greater chance of exchanging different experiences and information. It also helps to increase the effectiveness of the board's work and facilitates monitoring of performance related to compliance with regulations and standards. Accordingly, this interpretation is based on resource dependency theory (Al-Janadi et al. 2013; Almaqtari 2019). On the other hand, and from the perspective of agency theory, opponents argue that a larger board of directors would weaken the communication between members and may also slow the making of urgent decisions, which may weaken the effectiveness of the board's work and increase the costs of monitoring (Al-Akra et al. 2010; Bae et al. 2018).

The results of studies related to this factor are varied—some of which show a positive impact of board size on the degree of compliance with IFRS (Al-Akra et al. 2010; Alfraih 2016; Bagudo et al. 2018; Mnif and Znazen 2020), a negative impact (Alfraih and Almutawa 2017), while others show no significant impact on the degree of compliance with IFRS (Agyei-Mensah 2017; Almaqtari 2019; Ebrahim and Fattah 2015; Juhmani 2017; Zango et al. 2015). Based on the above discussion, we hypothesize that:

Hypothesis 1 (H1). *There is an association between board size and the extent to which banks comply with IFRS 7 mandatory disclosure.*

- Board independence

Good corporate governance may include the proper composition of the board of directors. That composition includes executives (no separation between owners and management) or non-executives/independent (separation between owners and management) (Abdul Rahman and Hamdan 2017; Ebrahim and Fattah 2015). The independence of the board of directors has been debated in terms of what independence concept is and how it affects the effectiveness and performance of management. Under the umbrella of agency theory, it is expected that the existence of independent members (outsiders) will improve the level of supervision over the management and help to make appropriate decisions and increase the interdependence between internal and external parties, thus reducing agency problems (Bae et al. 2018; Bagudo et al. 2018; Ebrahim and Fattah 2015; Juhmani 2017). In addition, the independence of directors can enhance, to some extent, the shareholders' confidence by increasing the transparency in corporate outputs (annual reports) and integrity in the preparation of such reports. This, in turn, enhances the quality of disclosure and the level of compliance with mandatory applicable standards requirements (Ebrahim and Fattah 2015; Mnif and Znazen 2020; Tahat et al. 2017; Tauringana and Chithambo 2016). Several studies provided a significant positive correlation between both the degree of compliance with IFRS and the independence of the board (Agyei-Mensah 2017; Almaqtari 2019; Bagudo et al. 2018; Juhmani 2017; Mnif and Znazen 2020; Tahat et al. 2017; Tauringana and Chithambo 2016).

However, the other side of this factor is based on stewardship theory, which enhances the role of 'centralized' inside-directors to improve work effectiveness and performance. Since those directors are sufficiently aware of the company information and tasks and the performance of its employees, this consequently helps to reinforce their commitment toward regulations and to follow up on compliance with laws and standards. Moreover, such independence in the board may not be achieved fully 'in reality', and therefore may not lead to the achievement of those expected benefits (Amara et al. 2013; Wahba 2015).

The lack of studies that investigate the relationship between the degree of compliance with the disclosure requirements of financial instruments (IFRS 7) and board independence in GCC countries leads to the need to study this relationship. Additionally, the difference

in results from previous studies makes it difficult to predict a certain direction for this relationship. Accordingly, we hypothesize that:

Hypothesis 2 (H2). *There is an association between board independence and the extent to which banks comply with IFRS 7 mandatory disclosure.*

- Board meeting frequency

Researchers consider that frequency of board meetings is a good indicator to increase the board's effectiveness. The more active a board is in conducting meetings, the more refined the supervisory functions of the board. This can also help to discuss the problems of the company, find appropriate solutions, and increase the efficiency of the company (Almaqtari 2019; Bagudo et al. 2018; Chen and Rezaee 2012; Ishak et al. 2017; Ojeka et al. 2019; Rouhou et al. 2015; Zango et al. 2015). These meetings reflect the role of the agent (management), and his keenness to discuss and monitor the issues of the company would improve performance—thus eliminating agency problems (agency theory) (Bae et al. 2018; Almaqtari 2019; Eluyela et al. 2018; Katmon and Farooque 2017). Several studies examine the impact of frequent board meetings on several aspects, such as earnings management (Katmon and Farooque 2017), accuracy of prediction (Karamanou and Vafeas 2005; Rouhou et al. 2015), audit report lag (Ahmed and Che-Ahmad 2016), the performance of banks and their progress (Eluyela et al. 2018; Khan et al. 2019), and quality of financial disclosure (Chen and Rezaee 2012; Ishak et al. 2017; Rouhou et al. 2015). With regard to compliance with IFRS, very few studies have addressed the effects of this factor. Abdullah (2011), Chen and Rezaee (2012), and Kent and Stewart (2008) find that board meetings contribute to increased compliance with regulations and IFRS disclosure requirements.

Despite the importance of holding regular meetings of the board of directors, there is some controversy about its shortcomings such as the effort and expense, plus it is time consuming (Almaqtari 2019). This, in turn, can affect the resources a company allocates toward increasing performance effectiveness, and may not rationalize the use of those resources properly (resource dependency theory). Additionally, it may not have a tangible effect, such as the study of Ojeka et al. (2019) which proves that there was no effect of the frequency of board meetings on compliance with the requirements of IFRS 7 in 14 listed banks in Nigeria. On the other hand, Bagudo et al. (2018) demonstrate that the frequency of board meetings has a negative impact on the degree of compliance with the disclosure requirements in IFRS. Based on the above, we hypothesize that:

Hypothesis 3 (H3). *There is an association between board meetings frequency and the extent to which banks comply with IFRS 7 mandatory disclosure.*

2.1. Internal Audit Committee (AC) Characteristics

2.1.1. Audit Committee Size

Audit committee is another important supplement to good governance. The efficiency of the audit committee may include the size of the committee, its independence, its existence, and its periodic meetings. In the literature, there is no agreement on the optimal number of audit committee members, but in general it is agreed that there should be at least three (Almaqtari 2019; Elzahar and Hussainey 2012; Juhmani 2017). From the standpoint of agency theory, it can be argued that the size of the audit committee may increase the level of internal control, integrity in work, the degree of compliance with laws, and solve various problems faced by the company (Bae et al. 2018). This, in turn, will reduce potential agency costs and problems. In addition, if the audit committee comprises a variety of experts who have high qualifications, this will increase the effectiveness of the committee and assist by increasing the monitoring system over financial reporting practices and transparency of disclosure (in the case of larger committee sizes). Another trend believes that with a large number of members who do not have the suitable requirements and great experience to deal with the work professionally will not benefit or support the committee's work, and

this may indirectly waste company resources (Almaqtari 2019; Bagudo et al. 2018; Juhmani 2017; Katmon and Farooque 2017; Krismiaji 2019).

Some studies tested the impact of audit committee size on different areas of a firm's work, such as earnings management (Katmon and Farooque 2017) and quality of risk disclosure (Elzahar and Hussainey 2012), and neither study found an impact. On the other hand, some researchers are interested in studying the impact of this factor on the extent of corporate disclosure, especially the level of compliance with IFRS. Abdullah (2011), Bagudo et al. (2018), Almaqtari (2019), and Krismiaji (2019) found a positive relationship between the size of the audit committee and the degree of compliance with IFRS. Conversely, Affes and Makni-Fourati (2019), Juhmani (2017), Agyei-Mensah (2019b), and Mnif and Znazen (2020) did not find any significant relationship between this variable and compliance with IFRS. Based on these discussions, we hypothesize that:

Hypothesis 4 (H4). *There is an association between audit committee size and the extent to which banks comply with IFRS 7 mandatory disclosure.*

2.1.2. Audit Committee Independence

While the audit committee is a committee of the board of directors, it contributes significantly to the efficiency of business supervision and risk management in an organization. In order for this committee to fulfill its responsibilities at the required level, it should be independent as far as possible from administrative pressures and be unbiased (Abdul Rahman and Hamdan 2017; Agyei-Mensah 2019a; Sellami and Fendri 2017). This independence ensures the members of the audit committee are unrelated to financial or personal relationships with the company or its executives, and therefore includes non-executive members (Ishak et al. 2017). In fact, the concept of independence and its application vary from one country to another, depending on each country's corporate governance code. One of the features of audit committee independence is to increase the level of control, which reduces the incidence of fraud and errors in work, raises the quality of financial reporting, and controls compliance with the required standards. All of this would be in line with the agency's concept, which reduces the gap between owners and management and increases transparency in disclosure (Almaqtari 2019; Juhmani 2017).

Some studies have shown that there is indeed a significant positive relationship between audit committee independence and the level of compliance with IFRS (Adznan and Nelson 2014; Agyei-Mensah 2019a; Juhmani 2017; Krismiaji 2019; Sellami and Fendri 2017; Mnif and Znazen 2020). However, there are also other studies that do not find any effect of this determinant over the degree of compliance, such as Abdul Rahman and Hamdan (2017), Agyei-Mensah (2017), Bagudo et al. (2018), and Almaqtari (2019). Given these conflicting results in the literature, we set the following hypothesis:

Hypothesis 5 (H5). *There is an association between audit committee independence and the extent to which banks comply with IFRS 7 mandatory disclosure.*

2.1.3. Audit Committee Meeting Frequency

According to the companies' law related to each country of the GCC, there is no specific number of such meetings that should be conducted by the audit committee, but the majority of countries suggest that meetings should take place at least four times a year (Shehata 2015). There is a clear link in the literature between the frequency of audit committee meetings and the effectiveness of its work. Committee meetings are considered one of the proxies of diligence that reflect the activity of the committee and are a good indicator of its keenness to provide the highest levels of supervision. Accordingly, the independent intelligent audit committee conducts regular meetings during the year and its members are keen to attend and discuss important and urgent problems. In addition, members meet in order to identify management risks and carry out the committee's responsibilities as required. Indeed, the topics discussed in the meetings include those

relating to financial reporting, preparation of financial statements, and quality of disclosure (Agyei-Mensah 2019a; Almaqtari 2019; Bagudo et al. 2018; Hoitash et al. 2009; Katmon and Farooque 2017; Sellami and Fendri 2017).

From the agency perspective, strengthening the level of the internal control system will support compliance with accounting standards (Bagudo et al. 2018). Although few studies have addressed this determinant, it has been shown to be a good determinant that helps to raise the level of disclosure and to increase compliance with IFRS (Ettredge et al. 2011; Alkurdi et al. 2019; Zango 2019). Conversely, several studies could not identify any significant association between the degree of compliance with IFRS and frequent audit committee meetings (Agyei-Mensah 2019a; Almaqtari 2019; Bagudo et al. 2018; Ernawati and Aryani 2019; Mnif and Znazen 2020; Sellami and Fendri 2017). Based on these discussions, we hypothesize that:

Hypothesis 6 (H6). *There is an association between audit committee meetings and the extent to which banks comply with IFRS 7 mandatory disclosure.*

2.2. Ownership Characteristics

2.2.1. Blockholder Ownership

Blockholder ownership refers to the concept of centralization of ownership (not dispersed), and they are usually the major shareholders (owning 5% or more). Through collecting the study data, it is clear that blockholder ownership is very common in the GCC countries, which is consistent with comments made by Grassa and Chakroun (2016). Blockholder ownership may contribute to reducing agency costs by supporting managers' control procedures and reducing differences in interests between owners and agents. They help to maintain their investments and improve the company's performance. However, they may cause the phenomenon of information asymmetry, because they will have priority in obtaining company information from internal sources. This could limit the disclosure of adequate and important information in the annual reports (Al-Hussain and Johnson 2009; Grassa and Chakroun 2016; Tessema 2019).

On the other hand, the proportion of major shareholders may be considered financially beneficial (finance theory)¹. They have a strong incentive to bear any financial burden for increasing the level of monitoring. They provide monitoring equivalent to owner control rather than regular managerial control. Thus, those shareholders provide a common public benefit: for the company, for the small shareholders, and for themselves as well. Accordingly, blockholder ownership would help to improve the quality of disclosure, increase transparency in annual reports, and raise the level of compliance with regulations and standards (Alfraih 2018).

The results of previous studies are varied in the issue of the relationship between blockholder ownership and the degree of compliance with standards and disclosure.

Grassa and Chakroun (2016) find that the proportion of major shareholders decreases the corporate governance disclosures in the GCC banks. Alfraih (2018) finds that there is a positive relationship between blockholder ownership and the disclosure of intellectual capital in Kuwait. Juhmani (2017), Abdul Rahman and Hamdan (2017), and Agyei-Mensah (2017); however, could not find any correlation between this factor and the level of compliance and disclosure in Bahrain, Malaysia and Ghana respectively. Consequently, we hypothesize that:

Hypothesis 7 (H7). *There is an association between blockholder ownership and the extent to which banks comply with IFRS 7 mandatory disclosure.*

2.2.2. Governmental Ownership

Governmental ownership is often expressed by the percentage of shares owned by the government in institutions. It might be one of the indicators of governance quality if it is joined by other factors related to the country's laws and business environment. It is also

considered a good governance mechanism if it meets the interests of the firm's investors and other stakeholders in satisfaction by complying with regulations and improving the quality of disclosure. This increases the confidence of stakeholders and maintains the 'legitimacy' of these organizations and their continuity. In addition, the companies that the government owns can have greater opportunities to obtain government financial funds, which helps to improve the companies' performance and compliance with accounting standards (Al-Akra et al. 2010; Alfraih and Almutawa 2017; Ebrahim and Fattah 2015). Alfraih and Almutawa (2017) found that governmental ownership increases the proportion of voluntary disclosure in Kuwaiti companies. Additionally, Elamer et al. (2019) found that government and family ownership improve the risk disclosure of banks in MENA countries.

On the other hand, there is another trend that believes that governmental ownership does not help in solving agency problems. While the government has the power to select the directors of the board, regardless of their qualifications and professional experience, the efficiency of the firm can be negatively affected. This creates the problem of monitoring those governmental directors and their compliance with the laws due to their lack of awareness of the importance of compliance in order to improve disclosure practices, in addition to individuals' confidence in the government-owned companies (of which they are implicit shareholders) which makes compliance costs higher than non-compliance. Moreover, the government can obtain the information it needs at any time directly from the company or indirectly from any other source, along with easy access to government financial funds, which weakens the corporate governance mechanism and the level of oversight. All of this leads to a weakening of pressure on companies owned by the government toward complying with mandatory disclosure and lowering the level of enforcement of laws and regulations toward their adherence to accounting standards (Alfraih 2018; Al-Janadi et al. 2013). Thus, Al-Janadi et al. (2013), Ebrahim and Abdel Ebrahim and Fattah (2015), and Alotaibi and Hussainey (2016) confirm this view by finding a negative relationship between the level of disclosure and governmental ownership in companies. In contrast, Al-Akra et al. (2010), Juhmani (2017), and Alfraih (2018) could not prove a relevant association between governmental ownership and the compliance level with IFRS 7.

Based on the above discussion, we hypothesize that:

Hypothesis 8 (H8). *There is an association between governmental ownership and the extent to which banks comply with IFRS 7 mandatory disclosure.*

2.2.3. Institutional Ownership

Institutional ownership is one part of the ownership structures that have been included in disclosure studies. This variable reflects the percentage of institutions owning shares in companies, which may affect their level of disclosure. From the point of view of agency theory, institutional shareholders assume companies comply with the rules and meet the required level of disclosure. Consequently, they are considered to be one of the corporate governance mechanisms that monitor and control the performance and discipline of managers and coordination between the interests of all stakeholders (Bae et al. 2018). This leads to a reduction in the agency's problems and an increase in the level of disclosure in the annual reports (Agyei-Mensah 2017; Alnabsha et al. 2018; Grassa and Chakroun 2016; Tessema 2019).

A wide range of previous studies indicate that there is a positive relationship between both institutional ownership and financial disclosure. [Khodadadi et al. \(2010\)](#) find that institutional ownership increases the level of voluntary disclosure in Iran. Sarea and Al [Sarea and Nesuf \(2013\)](#) clarify that institutional ownership improves compliance with IAS 21 in Bahrain. Similarly, [Elghaffar et al. \(2019\)](#) found an increase in the level of risk disclosure in Egyptian banks, and Ebrahim and Abdel [Ebrahim and Fattah \(2015\)](#) an increase in the level of compliance with the requirements of IAS 12 in Egyptian companies. Moreover, [Alnaas and Rashid \(2019\)](#) demonstrate that compliance with IFRS in companies in North African countries (Morocco, Tunisia, Egypt) is positively affected by institutional ownership.

From an adverse viewpoint, institutional ownership may limit the degree of compliance with standards and the required level of disclosure as institutional investors may not care for the future vision and value of companies and, instead, are focusing on the present profits and positions (competing theory). They accordingly do not give much attention to monitoring managers and their behaviors or follow the work progress and systems in the company. Consequently, they have little inclination toward complying with the requirements of disclosure or even understanding the important future goals of the company ([Tessema 2019](#)). [Collett and Dedman \(2010\)](#) find a negative association between institutional ownership and the level of disclosure of share price movements by firms in the UK. Additionally, institutional ownership reduces the disclosure of internal control systems in EU firms ([Michelon et al. 2009](#)). Furthermore, some studies do not identify any important relationship between institutional ownership and level of disclosure, but the direction of the relationship suggests negativity between the two variables ([Agyei-Mensah 2017](#); [Al-Sartawi 2018](#); [Yusuf et al. 2018](#)). Therefore, we hypothesize that:

Hypothesis 9 (H9). *There is an association between institutional ownership and the extent to which banks comply with IFRS 7 mandatory disclosure.*

3. Research Design

3.1. Study Sample and Data Collection

The main focus of this study is to identify the effects of corporate governance (CG) determinants on the degree of compliance with IFRS 7. Thus, several criteria have been set in place to achieve the desired research objectives. First, the study sample includes the six GCC countries, which have a similar systemic and cultural base. The sample of the study includes 335 observations of 48 banks listed in the GCC markets from 2011 (the effective date of the last update of the standard by the IASB in 2010) until 2017 (the most recent data at the time of the study). Data collected from different sources including the official banks' websites, capital market websites from each country, Datastream; Bloomberg and banks' annual reports. Table 1 shows the number of observations in our study.

Table 1. Selected sample.

GCC	All Listed Banks	Not Meeting Criteria	Selected Banks	2011	2012	2013	2014	2015	2016	2017	Total Obs.
Saudi	12	0	12	12	12	12	12	12	12	12	84
Kuwait	12	2	10	9	10	10	10	10	10	10	69
Oman	8	2	6	6	6	6	6	6	6	6	42
Qatar	9	4	5	5	5	5	5	5	5	5	35
Bahrain	15	10	5	5	5	5	5	5	5	5	35
UAE	25	15	10	10	10	10	10	10	10	10	70
Total	81	33	48	47	48	48	48	48	48	48	335

3.1.1. The Study Model

To investigate the different relationships between corporate governance determinants on one side and level of compliance with IFRS 7 disclosure requirements on the other, the following model has been employed:

$$D.Index_{it} = \beta_0 + \beta_1 B.SIZE_{jt} + \beta_2 B.INDP_{jt} + \beta_3 B.MEET_{jt} + \beta_4 A.SIZE_{jt} + \beta_5 A.INDP_{jt} + \beta_6 A.MEET_{jt} + \beta_7 BK.OWN_{jt} + \beta_8 GV.OWN_{jt} + \beta_9 IS.OWN_{jt} + \sum Controls + \varepsilon_{jt}$$

where:

- D.Index: the score of disclosure index
- B.SIZE: board size measured by the total number of directors on the board.
- B.INDP: board independence measured by the proportion of independent directors in the board.
- B.MEET: board meeting frequency measured by the number of board meetings per year.
- A.SIZE: audit committee size measured by the number of audit committee members.
- A.INDP: audit committee independence measured by the proportion of independent members in audit committee.
- A.MEET: audit committee meeting frequency measured by the number of meetings held by audit committee members per year.
- BK.OWN: blockholder ownership measured by the proportion of shares owned by substantial shareholders (5% or more).
- GV.OWN: governmental ownership measured by the proportion of shares owned by governmental institutions.
- IS.OWN: institutional ownership measured by the proportion of shares owned by financial institutions.
- Controls:
- firm size (F.SIZE): The natural logarithm of firms' total assets
- firm age (F.AGE): The number of years since foundation
- profitability (PROF): Return on equity: net income/shareholders' equity
- leverage (LEVR): Total liabilities/ shareholders' equity (debt to equity ratio)
- liquidity (LIQD): The total of loans to deposits
- complexity (CMPX): The number of subsidiaries of the firm in the year
- year dummies (YEARS)
- country dummies (COUNT).
- ε = Error term

3.1.2. The Dependent Variable (Compliance Index)

Literature on the compliance issue shows that the most common instrument employed in measuring the compliance level is by index (Al-Akra et al. 2010; Alsaeed 2006; Al-Shammari et al. 2008; Lopes and Rodrigues 2007). This index can be self-constructed or developed based on different sources, such as previous studies or trusted entities such as the indices used in Big Four auditing companies. Since this study measures the degree of compliance with the disclosure requirements of IFRS 7 for all listed GCC banks, we use the self-constructed index of Yamani and Hussainey (2021) which built based on the standard requirements, and it consists of 76 disclosure items. These items include the latest updates of the standard in 2010 and became effective mandatorily in 2011. The construction of this index is mainly based on IFRS 7 standard. The Cooke's method is used for scoring the index (dichotomous approach) due it being the most common method adopted in compliance research (Tsalavoutas et al. 2010) and its suitability for the purposes of the current study. In this method, we use unweighted dichotomous approach, where we give a disclosure item a score of 1 if this item is disclosed in the annual report and 0 otherwise. Table 2 shows our disclosure index (more details are given in Yamani and Hussainey 2021). Our compliance

score is calculated as a ratio of the total of all applicable items disclosed by a company to the maximum possible number of disclosure items that should be disclosed (Equation (1)).

$$C_j = \frac{T = \sum_{i=1}^n d_i}{M = \sum_{i=1}^m d_i} \quad (1)$$

where (C_j) is the total compliance score for each bank (j), (T) is the total number of items disclosed (d_i) by bank (j), (M) is the maximum number of applicable disclosure items for bank (j) and (d_i) = 1 if item (i) is disclosed, 0 otherwise; m is the maximum number of items.

Table 2. The IFRS 7 disclosure index.

No.	Title
SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE	
Statement of financial position	
Categories of financial assets and financial liabilities	
Carrying amounts of each of the following categories shall be disclosed either in the statement of financial position or in the notes:	
1.	Financial assets measured at fair value through profit or loss—designated
2.	Financial liabilities at fair value through profit or loss—designated
3.	Financial liabilities at fair value through profit or loss—held for trading
4.	Financial assets measured at amortized cost
5.	Financial liabilities measured at amortized cost
6.	Financial assets measured at fair value through other comprehensive income
7.	Investments in equity instruments at fair value through other comprehensive income—designated
Reclassification	
8.	Date and amount of reclassification
9.	Qualitative description of the change its effect on the entity's financial statements
Offsetting financial assets and financial liabilities	
10.	Offsetting disclosures information for all recognized financial instruments
Collateral	
11.	Financial assets pledged as collateral
12.	Terms and conditions relating to pledge
Compound financial instruments with multiple embedded derivatives	
13.	Instrument that contains both a liability and an equity component the instrument has multiple embedded derivatives
Defaults and breaches	
14.	Any defaults and breaches during the period of principal, interest, sinking fund, or redemption terms of those loans payable
Statement of income: Items of income, expense, gains or losses—Other comprehensive income	
15.	Net gains/losses on by classes of financial instruments at fair value (designated or held for trading)
16.	Net gains/losses on financial liabilities and financial assets measured at amortized cost
17.	Total interest revenue and total interest expense
18.	Fee income and expense
19.	Gain/loss arising from derecognition of financial assets measured at amortized cost

Table 2. Cont.

No.	Title
Other disclosures	
Accounting policies	
20.	Recognition and measurement for financial assets and financial liabilities designation
21.	The nature of financial assets measured at fair value through profit or loss—designated
22.	Terms and conditions for financial assets and financial liabilities designation
23.	Terms and conditions of impairment about financial instruments
Hedge accounting	
24.	An entity's risk management strategy and how it is applied to manage risk
25.	How the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows
26.	Description of the hedging instruments that are used to hedge risk exposures
27.	Gains/losses on hedge ineffectiveness associated with financial instrument
Cash flow hedges (CFH)/hedge of a net investment in a foreign operation	
28.	Forecast transaction for which hedge accounting had been used
29.	Carrying amount of the hedging instruments (financial assets separately from financial liabilities)
30.	The change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness for the period
31.	Gains/losses of CFH recognized in other comprehensive income
Fair value hedges (FVH)	
32.	Carrying amount of the hedging instruments (financial assets separately from financial liabilities)
33.	The change in fair value of the hedged item used as the basis for recognizing hedge ineffectiveness for the period
34.	Gains/losses of FVH
Fair value	
35.	Fair value for each class of financial assets and financial liabilities
36.	Comparable carrying amounts
37.	Measurement methods and assumptions
38.	Information if fair value cannot be recognized or measured
39.	Changes in fair value of financial instruments
NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS	
Credit risk	
40.	Exposure to risk and how they arise—Qualitative information
41.	Objectives, policies and processes for managing the risk and the methods used to measure the risk
42.	Summary quantitative data: exposure to risk at the reporting date
43.	Concentrations of credit risk if not apparent from summary quantitative data and sensitivity analysis
44.	Amount of maximum exposure to credit risk (before deducting value collateral)
45.	A description of collateral held as security and other credit enhancements security and credit-impaired at the reporting date
46.	A summary of credit risk rating grades that shows credit quality of financial instruments by asset class
47.	Allowance account for credit losses—qualitative information
48.	Allowance account for credit losses—quantitative information (changes in the loss allowance during the period)

Table 2. Cont.

No.	Title
49.	Allowance account for credit losses—information about financial instruments for which credit-impaired/not credit-impaired
50.	Nature and carrying amount of assets obtained by taking possession of collateral it holds as security or calling on other credit enhancements
51.	Policies for disposing assets or use of it in its operations when the assets are not readily convertible into cash
Liquidity risk	
52.	Exposure to risk and how they arise—Qualitative information
53.	Objectives, policies and processes for managing the risk and the methods used to measure the risk
54.	Maturity analysis for financial liabilities that show the remaining contractual maturities
Market risk—interest rate risk	
55.	Exposure to risk and how they arise—Qualitative information
56.	Objectives, policies and processes for managing the risk and the methods used to measure the risk
57.	Summary quantitative data: exposure to risk at the reporting date
58.	Concentrations of interest rate risk if not apparent from summary quantitative data and sensitivity analysis
59.	Interest rate sensitivity analysis showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date
60.	Methods and assumptions used in preparing the sensitivity analysis
Market risk—currency risk	
61.	Exposure to risk and how they arise—Qualitative information
62.	Objectives, policies and processes for managing the risk and the methods used to measure the risk
63.	Summary quantitative data: exposure to risk at the reporting date
64.	Concentrations of currency risk if not apparent from summary quantitative data and sensitivity analysis
65.	Currency risk sensitivity analysis showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date
66.	Methods and assumptions used in preparing the sensitivity analysis
Market risk—other price risk	
67.	Exposure to risk and how they arise—Qualitative information
68.	Objectives, policies and processes for managing the risk and the methods used to measure the risk
69.	Summary quantitative data: exposure to risk at the reporting date
70.	Concentrations of other price risk if not apparent from summary quantitative data and sensitivity analysis
71.	Other price risk sensitivity analysis showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date
72.	Methods and assumptions used in preparing the sensitivity analysis
TRANSFERS OF FINANCIAL ASSETS	
73.	An entity shall provide the required disclosures for all transferred financial assets that are derecognition/not derecognized:
74.	The nature of the transferred financial assets
75.	The nature of the risks, rewards and liabilities associated with the transferred financial assets
76.	The carrying amounts of the transferred assets and the associated liabilities
77.	The gain or loss recognized at the date of transfer of the assets

Source: Yamani and Hussainey 2021.

3.1.3. The Independent Variables (Corporate Governance Determinants)

This study identifies the association between different corporate governance mechanisms and the compliance level with IFRS 7 in banks. Therefore, several corporate governance determinants were selected to achieve the desired results. These determinants are board size, board independence, board meeting frequency, audit committee size, audit committee independence, audit committee meeting frequency, blockholder ownership, governmental ownership, and institutional ownership.

3.1.4. The Control Variables

To examine the relationship between the dependent and independent variables, a range of control variables are included that would affect the dependent variable. This in order to address any potential endogeneity problems relating to omitted variables, we employ a set of firm-related factors to control for the studied associations (Wooldridge 2010). These control variables are selected based on the previous literature (Agyei-Mensah 2017; Gerged et al. 2021). These variables are bank size, profitability, leverage, liquidity, age, complexity, year dummies, and the country of domicile (country dummies).

4. Empirical Findings

Table 3 shows the descriptive analysis. It shows that none of the banks in the selected sample show full compliance with IFRS 7. The highest degree of compliance is 96%, and the lowest degree of compliance is 47%. The mean of the level of compliance for all banks is around 78.7%, with a standard deviation of 0.12 which shows that the data are symmetric around the mean of the variable.

Table 3. Descriptive Statistics.

Variable	Mean	Std. Dev.	Median	Min	Max
DIndex	0.787	0.12	0.80	0.47	0.96
BSIZE	9.2	1.375	9	5	12
BINDP	0.574	0.265	0.56	0	1
BMEET	7.036	2.501	6	2	12
ASIZE	3.651	0.789	3	2	5
AINDP	0.718	0.277	0.75	0	1
AMEET	5.645	1.842	5	2	11
BKOWN	0.531	0.207	0.54	0.05	0.903
GVOWN	0.259	0.197	0.22	0	0.793
ISOWN	0.376	0.223	0.36	0	0.891
FSize	32,480.243	36,637.583	20,554.98	794.1	245,639
FAGE	34.663	16.505	36	2	69
PROF	0.119	0.053	0.12	−0.156	0.242
LEVR	0.139	0.092	0.13	0	0.382
LIQD	0.956	0.181	0.94	0.471	1.449
CMPX	3.681	3.368	3	0	11

The maximum board and audit committee sizes are 12 and 5, the minimum are 5 and 2, and the mean are 9 and 4, respectively. For the independence ratio, board and audit committee show similar results: for both the maximum is 100%, which is a good indicator of independence—however, both show non-independence (0) as a minimum ratio of the independence. In addition, both show means of over 50% of independence: board (57%) and audit committee (72%). For the frequency of board and audit committee meetings, they demonstrate similar results as well. The maximum number of meetings for the board is 12, the minimum is 2, and the mean is 7. Similarly, the largest number of meetings held by the audit committee during the year is 11, the lowest is 2, and the mean is 6 meetings. The mean blockholder ownership is 0.53, while the mean governmental ownership is 0.25. Institutional ownership has a percentage of 38% (mean). Both governmental and institutional ownership have zero as a minimum value for some banks.

The maximum value of assets (size) is 245,639 million USD, minimum asset value is 794.1, and the mean is 32,480.24. In addition, the age of the GCC banks included in the sample ranged between 2 and 69 years, with a mean of 35 years. Return on average equity, which reflects profitability, has a maximum value of 0.242, a minimum value of -0.156 , a standard deviation value of 0.05. Compared with liquidity, leverage has the lowest average with 13.9%, and this means that leverage in the banks tends to be low. In contrast, liquidity reflects a good ratio with a mean of 0.956, a maximum of 1.440, a minimum of 0.471 and a standard deviation of 0.181. Finally, the maximum number of subsidiaries (complexity) of the banks is 11, the minimum is 0, the mean is 3.681, the standard deviation is 3.368.

Tables 4 and 5 show the correlation and the variance inflation factor (VIF) results for the dependent and independent variables. This will help checking whether there is any potential sign of Collinearity. The results suggest that multicollinearity does not appear to be a concern in explaining the regression results.

Table 6 shows the regression results of the full model that includes all explanatory variables. Based on the results of the running model 1, we find that all audit committee related variables and governmental ownership percentage are positively related with the compliance level with IFRS 7. We also find that board meeting is negatively associated with the compliance level with IFRS 7.

We use the Durbin–Wu–Hausman (DWH) test to detect the possible incidence of endogeneity issues of individual regressors. As our independent variables should not be correlated with the residuals. The findings of DWH tests suggest that the governance variables are exogenous rather than endogenous. Therefore, DWH tests suggest that endogeneity seemed not to be a major concern in the results of models and we can rely on the results of OLS.

Table 7 shows the results of running the analysis for the three categories of explanatory variables separately. The results are consistent with the results presented previously in the full model, except for the audit committee meeting, where we find a significant negative association with the compliance level with IFRS 7 when only including audit committee related variables.

Following this, we employ a two-step dynamic GMM regression model as a robustness check to address the potential endogeneity issue arising from reverse causality association between governance variables and compliance level with IFRS 7 and also to ensure that the findings of the full model and for each category models were not severely affected by the potential concerns of endogeneity problems (Blundell and Bond 1998). Table 8 shows the results of running GMM models for the three categories of explanatory variables separately.

Table 4. Pairwise correlations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1) DIndex	1.000															
(2) BSIZE	0.176 *	1.000														
(3) BINDP	−0.157 *	−0.022	1.000													
(4) BMEET	−0.263 *	−0.031	0.245 *	1.000												
(5) ASIZE	0.245 *	0.338 *	−0.022	0.022	1.000											
(6) AINDP	0.219 *	0.222 *	0.121 *	−0.201 *	0.213 *	1.000										
(7) AMEET	−0.019	0.170 *	0.143 *	0.433 *	0.032	0.037	1.000									
(8) BKOWN	0.118 *	0.113 *	0.102	−0.052	0.238 *	0.203 *	−0.071	1.000								
(9) GVOWN	0.313 *	0.071	−0.292 *	−0.067	0.173 *	−0.116 *	−0.117 *	0.193 *	1.000							
(10) ISOWN	0.098	−0.028	−0.012	−0.162 *	−0.043	0.189 *	−0.049	0.710 *	0.018	1.000						
(11) FSize	0.031	0.043	−0.165 *	−0.159 *	0.084	0.021	0.069	0.062	0.214 *	0.176 *	1.000					
(12) FAGE	0.174 *	0.294 *	0.113 *	0.075	0.099	−0.030	0.148 *	0.030	−0.020	0.165 *	0.239 *	1.000				
(13) PROF	0.330 *	0.312 *	−0.080	−0.254 *	0.286 *	0.209 *	0.004	0.082	0.224 *	0.066	0.256 *	0.149 *	1.000			
(14) LEVR	−0.185 *	−0.261 *	0.014	0.277 *	−0.209 *	−0.407 *	0.108 *	−0.034	−0.038	0.060	0.143 *	−0.021	−0.276 *	1.000		
(15) LIQD	−0.244 *	−0.225 *	0.142 *	0.132 *	−0.175 *	−0.204 *	0.112 *	−0.015	−0.157 *	−0.040	0.080	−0.198 *	−0.254 *	0.589 *	1.000	
(16) CMPX	0.131 *	0.074	−0.256 *	−0.122 *	0.058	−0.104	0.059	−0.137 *	0.282 *	−0.047	0.567 *	0.073	0.154 *	0.109 *	0.013	1.000

* $p < 0.05$.

Table 5. Variance inflation factor.

	VIF	1/VIF
BKOWN	3.057	0.327
ISOWN	2.946	0.339
LEVR	2.068	0.483
FSize	1.843	0.543
LIQD	1.817	0.55
CMPX	1.715	0.583
BMEET	1.657	0.604
AINDP	1.473	0.679
BSIZE	1.457	0.686
GVOWN	1.443	0.693
FAGE	1.427	0.701
ASIZE	1.423	0.703
PROF	1.413	0.708
AMEET	1.403	0.713
BINDP	1.345	0.744
Mean VIF	1.766	.

Table 6. Regression results of full model.

VARIABLES	(1)	(2)	(3)
	OLS	2SLS	GMM
L. DIndex			0.546 *** (0.0903)
BSIZE	−0.00396 (0.00497)	−0.00714 (0.00606)	−0.00147 (0.00246)
BINDP	−0.0251 (0.0246)	−0.0253 (0.0289)	0.00723 (0.0139)
BMEET	−0.0119 *** (0.00297)	−0.0161 *** (0.00435)	0.000674 (0.000972)
ASIZE	0.0198 ** (0.00861)	0.0265 *** (0.00915)	−0.00311 (0.00330)
AINDP	0.0792 *** (0.0248)	0.0685 ** (0.0266)	5.37×10^{-5} (0.00869)
AMEET	0.00696 * (0.00367)	0.00936 ** (0.00424)	0.00192 * (0.00112)
BKOWN	0.000762 (0.0476)	−0.00297 (0.0519)	0.000170 (0.0311)
GVOWN	0.160 *** (0.0343)	0.160 *** (0.0366)	0.0378 (0.0471)
ISOWN	−0.00125 (0.0436)	0.00411 (0.0475)	−0.0213 (0.0289)
FSize	−0.0240 (0.0208)	−0.0440 * (0.0229)	−0.0382 ** (0.0194)
FAGE	0.00134 *** (0.000429)	0.00155 *** (0.000456)	0.00295 *** (0.00110)
PROF	0.303 ** (0.127)	0.288 ** (0.137)	−0.0734 * (0.0390)
LEVR	0.104 (0.0886)	0.121 (0.0975)	0.0981 ** (0.0440)
LIQD	−0.0701 * (0.0418)	−0.0649 (0.0469)	−0.0437 ** (0.0211)
CMPX	0.00144 (0.00250)	0.00313 (0.00263)	−0.00442 *** (0.00161)
Constant	0.779 *** (0.0960)	0.876 *** (0.114)	0.478 *** (0.0960)
Year dummies	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes
Observations	335	287	287
R-squared	0.291	0.303	
Durbin (score) $\chi^2(3) =$		1.20454 ($p = 0.7519$)	
Wu-Hausman $F(3,268) =$		0.376514 ($p = 0.7700$)	

Standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 7. Regression results of the three categories separately.

VARIABLES	Board Characteristics (1)	Audit Committee Characteristics (2)	Ownership Structure (3)
BSIZE	0.00320 (0.00487)		
BINDP	−0.0368 (0.0246)		
BMEET	−0.00831 *** (0.00271)		
FSIZELOG	0.00591 (0.0207)	0.00505 (0.0207)	0.0133 (0.0206)
FAGE	0.000868 ** (0.000433)	0.000746 * (0.000414)	0.000757 * (0.000405)
PROF	0.464 *** (0.131)	0.458 *** (0.129)	0.441 *** (0.127)
LEVR	0.00403 (0.0879)	0.0431 (0.0890)	−0.0952 (0.0835)
LIQD	−0.0840 * (0.0431)	−0.0902 ** (0.0425)	−0.0591 (0.0427)
CMPX	0.00115 (0.00251)	0.00316 (0.00250)	0.000221 (0.00257)
ASIZE		0.0183 ** (0.00810)	
AINDP		0.0645 *** (0.0247)	
AMEET		−0.0126 ** (0.00334)	
BKOWN			0.00926 (0.0439)
GVOWN			0.145 *** (0.0340)
ISOWN			0.0235 (0.0405)
Constant	0.802 *** (0.0992)	0.655 *** (0.0845)	0.669 *** (0.0820)
Year dummies	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes
R-squared	0.193	0.191	0.211

The significance levels (two-tail test) are: * = 10%, ** = 5%, *** = 1%.

Table 8. GMM models for the three categories of explanatory variables separately.

VARIABLES	Board Characteristics (1)	Audit Committee Characteristics (2)	Ownership Structure (3)
L.DIndex	0.572 *** (0.0919)	0.578 *** (0.0905)	0.554 *** (0.0889)
BSIZE	−0.00216 (0.00239)		
BINDP	0.00558 (0.0124)		
BMEET	−0.00117 ** (0.000947)		
FSIZELOG	−0.0350 * (0.0193)	−0.0391 ** (0.0187)	−0.0413 ** (0.0188)

Table 8. Cont.

	Board Characteristics (1)	Audit Committee Characteristics (2)	Ownership Structure (3)
FAGE	0.00276 ** (0.00110)	0.00272 ** (0.00109)	0.00293 *** (0.00109)
PROF	−0.0776 ** (0.0383)	−0.0807 ** (0.0363)	−0.101 *** (0.0360)
LEVR	0.118 *** (0.0426)	0.102 ** (0.0433)	0.129 *** (0.0422)
LIQD	−0.0462 ** (0.0210)	−0.0454 ** (0.0210)	−0.0448 ** (0.0209)
CMPX	−0.00451 *** (0.00159)	−0.00424 *** (0.00157)	−0.00452 *** (0.00159)
ASIZE		−0.00322 (0.00329)	
AINDP		−0.000790 (0.00775)	
AMEET		−0.00241 ** (0.00108)	
BKOWN			0.0231 ** (0.0297)
GVOWN			0.0340 (0.0461)
ISOWN			−0.0346 (0.0279)
Constant	0.456 *** (0.0964)	0.462 *** (0.0946)	0.480 *** (0.0956)
Year dummies	Yes	Yes	Yes
Country dummies	Yes	Yes	Yes
Observations	287	287	287
Number of id	48	48	48

The significance levels (two-tail test) are: * = 10%, ** = 5%, *** = 1%.

5. Discussion

It seems that board meeting has a negative association with compliance level with IFRS 7. Even though most previous studies evidenced a positive impact of board size (Al-Akra et al. 2010; Alfraih 2016; Bagudo et al. 2018), Alfraih and Almutawa (2017) found a negative impact; that is, a small board size can enhance the commitment process with the standard regulation, and this also is consistent with agency theory (Bae et al. 2018). In addition, board independence confirms the perspective of stewardship theory, and shares the signs of this relationship with Adznan and Nelson (2014) and Elzahar et al. (2015) who find a negative sign of board independence, regardless of its significance. This indicates that companies in developing countries may tend more toward confidentiality and may conceal important information from independent directors, which hinders them from performing their responsibilities properly. Moreover, the independence of directors might be merely an external image (unreal) in order for companies to gain the trust and respect of shareholders. This, in turn, affects monitoring procedures and the efficiency of management to control compliance with accounting standards (Ebrahim and Fattah 2015). For board meeting frequency, Abdullah (2011) and Chen and Rezaee (2012) found a positive impact, unlike Bagudo et al. (2018) who found a negative effect of board meetings on compliance with IFRS in Nigeria. This result is in line with the perspective of the theory of resource dependence. In sum, the results only confirm the third hypothesis of the study (H3), and find a negative impact.

In addition, the results of the current study point to the important role that the audit committee plays in GCC banks, and its effective role in influencing the degree of compliance, especially with IFRS 7. This is because the size of the audit committee affects positively and significantly, in agreement with Abdullah (2011), Bagudo et al. (2018), Almaqtari (2019), and

Krismiaji (2019). Furthermore, the independence of the audit committee also increases the level of compliance with IFRS 7, consistent with Adznan and Nelson (2014), Juhmani (2017), Sellami and Fendri (2017), Agyei-Mensah (2019a), and Krismiaji (2019). Moreover, the frequency of the audit committee meetings also positively affects compliance, in agreement with studies conducted by Ettredge et al. (2011) and Alkurdi et al. (2019). These three variables (audit committee size, independence, meetings) are in line with agency theory in terms of improving the efficiency of the company's business and commitment to the standards, and the role they play in the Gulf banks. Hence, it can be said that the three study hypotheses (H4, H5, H6) are accepted.

For the ownership structure, only governmental ownership shows a significant positive impact on the level of compliance. Moreover, governmental ownership shows a significant positive association with IFRS 7 compliance. The concept of centralization of ownership and government participation in the GCC countries is widespread, which can make the government's role more effective in adhering to standards in these environments (agreeing with legitimacy theory). This result supports the findings of Elamer et al. (2019) who emphasize the effective role of governmental ownership to improve risk disclosure in MENA countries. For institutional ownership, due to the limited vision of the institutional investors for the near present in the GCC countries, they are not eager to improve compliance or follow specific procedures. Therefore, their competition to maximize profits in a short time can make institutional ownership one of the factors that impedes compliance with accounting standards. Therefore, it might be that institutional ownership does not improve compliance with IFRS 7 in the study sample—on the contrary, it limits this compliance. This negative direction agrees with several studies, such as Collett and Dedman (2010), Michelon et al. (2009), and Yusuf et al. (2018). Thus, it can be concluded that H8 is accepted. Lastly, some of the control variables show significant associations with the compliance level.

6. Conclusions

In this study, emphasis is placed on identifying the possible role of corporate governance (CG) determinants in the compliance level with IFRS 7. In total, 335 observations of the sample GCC banks were tested from 2011 to 2017. Three CG categories were tested: board characteristics, audit committee, and ownership, in addition to inserting a group of the banks' attributes (size, age, profitability, leverage, liquidity, complexity) as control variables. The findings show that only H3, H4, H5, H6, and H8 have been accepted. The board number of meetings has a negative impact on the compliance degree, consistent with resource dependence theory, respectively. In the same vein, governmental ownership shows a positive impact on the compliance degree. Furthermore, the other predictors (AC size, AC independence, number of AC meetings) have a positive impact on the compliance degree.

This study includes some practical implications on several parties: professional practitioners, auditors, and preparers of financial statements. They can improve compliance with IFRS in general and with IFRS 7 specifically by covering the required elements in the standards. Additionally, the results can help the regulatory and official authorities and policymakers in the country to develop regulations and intensify their efforts toward strengthening corporate governance systems, reviewing codes and following up their implementation. In addition, the findings provide more empirical evidence on the application of IFRS 7 from the reality of developing countries and from one of the most important sectors (the banking sector). This would support the efforts of the IASB toward accounting harmonization around the world.

We focus our analysis on IFRS 7 as a type of risk disclosure. Further research could consider testing the impact of governance on voluntary and mandatory risk disclosure. It would be interesting to examine whether certain governance mechanisms impact one more than the other. Although Elshandidy et al. (2013) examined the impact of board independence, ownership structure and audit environment on mandatory and voluntary

disclosure, researchers could contribute to disclosure literature by considering the impact of other governance mechanisms on voluntary and mandatory risk disclosure.

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Notes

- ¹ An aspect of finance theory discusses strategic planning associated with investors and owners' decisions. It trusts investor vision through the accounting bias of the real and expected value of the investment and the hedging strategies taken in the event of a risk. As accounting and finance are considered part of the economy, they address the aspect of understanding the operating and financing decisions of organisations. This theory provides a new lens for analysing corporate governance in institutions, especially those with a high concentration of ownership (Myers 1984; Negash 2013).

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