| RESEARCH ARTICLE

The Impact of IFRS 9 Compliance on Financial Statement Outputs: An Exploratory Study of a Sample of Commercial Banks

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| ABSTRACT

The current research aims to adopt Financial Reporting Standards No. (9) using one of the alternatives to accounting measurement (fair value/amortized cost). This approach transforms financial statements into a crucial tool for management to assess financial performance. This application is expected to alter the actual reality of the economic unit, influencing the value of the stock and impacting competitive value in the future. Several statistical tools and equations related to fair value/amortized cost, as outlined in International Accounting Standard 9, were employed. The research yielded several conclusions, with the most significant being that the implementation of the fair value accounting model by the International Financial Reporting Standard (IFRS9) can lead to results that truly reflect the financial performance and position of the research sample, instilling confidence in the financial statement outputs. After identifying the key conclusions, the research provides various recommendations. Foremost among them is the encouragement for banks to adhere to international financial reporting standards, particularly the International Financial Reporting Standard (IFRS9). This recommendation stems from the evident importance of presenting financial statements in a manner that accurately mirrors their actual reality.

1. Introduction

Compliance with international accounting and financial reporting standards has become extremely important for obtaining useful information to make correct and rational decisions, adopting corporate governance, and achieving dimensions of sustainable development in the accounting profession (El Toby et al., 2022; Elkholy, M. A. A. et al., 2020). Consequently, numerous major countries are abandoning their local accounting standards and adopting international accounting and reporting standards. The International Finance Committee is dedicated to preserving the integrity of financial statements and the subsequent results derived from them.

One of the primary reasons for the financial collapse of international banks is the lack of management's knowledge of correct accounting practices, failure to apply control and supervision rules, lack of experience and skill, and a lack of interest in adhering to accounting standards that ensure disclosure and transparency (Sakanga, V. I. et al., 2020). Additionally, accounting information often fails to reflect the true prevailing financial conditions of economic units due to various factors (Abdul Rahman, M. R. C. 2016; Rahma, N. et al., 2022). These include the lack of attention to accounting measurement models, tampering, fraud, accounting errors, hidden internal information, deception, and low ethics in the management of some professional organizations. Financial corruption affecting audit offices, along with imbalances in main financing structures and an inability to generate sufficient cash inflows to meet obligations, further exacerbate the challenges (Kiswanto et al., 2019).

As a consequence, society has lost confidence in administrative, supervisory, and accounting systems, significantly impacting investor decisions in the global stock market and stock exchanges. These collapses have led to a loss of confidence in various financial markets, investor withdrawals, and a lack of trust in accounting and auditing offices due to skepticism about the accuracy of accounting information in reports and financial statements from various institutions.

1.1 Research Problems:

International Financial Reporting Standards encompass numerous principles and rules that must be followed during the preparation of financial statements and reports. These standards have gained international acceptance due to their appropriateness, objectivity, and their commitment to providing a fair and honest disclosure of the financial position of economic units, relying on the outcomes of their activities, be it profit or loss. Therefore, the primary focus of the research problem is to examine the impact of adhering to International Financial Accounting Standard 9 on the financial statement outcomes, utilizing fair value/amortized cost within the research sample.

1.2 Research Objectives:

The research aims to accomplish several objectives, which include:

- Presenting and discussing alternatives to accounting measurement, specifically focusing on the measurement concepts outlined in the International Financial Reporting Standard IFRS9.
- Examining the accounting treatment of financial assets through the lens of fair value/amortized cost, a key methodology within the framework of International Financial Reporting Standard 9.
- Illustrating the impact of measurement in accordance with the International Financial Reporting Standard IFRS9 on business outcomes by applying it to the financial statements of a selected sample of banks.

1.3 Research Importance:

The significance of the current research stems from the critical nature of the topic, specifically in evaluating accounting measurement models for financial assets in alignment with the International Financial Reporting Standard (IFRS9). The research places a strong emphasis on promoting correct accounting practices in both measurement and disclosure procedures, as outlined by the International Accounting Standard IFRS9 concerning financial assets. Additionally, the research explores the consequential impact of these accounting practices on the accurate disclosure of the reality of business results and financial position within local banks.

1.4 Research Hypothesis:

The primary hypothesis underlying the current research posits that there is a positive impact associated with compliance with the International Financial Reporting Standard (IFRS9) in enhancing accounting measurement models concerning the fair value/amortized cost of financial assets. This positive impact is expected to manifest in a manner that reflects positively on the decisions made by users of financial statements.

1.5 Study Approach:

The research adopted an inductive approach in its preparation method, drawing insights from both Arab and foreign scientific sources. Additionally, the study leveraged the expertise of individuals with practical experience in the field.

1.6 Research Limits:

- Spatial Boundaries: The study's spatial boundaries were defined by the Commercial Bank of Baghdad and the affiliated companies. The chosen bank, a prominent commercial bank in Iraq, constituted the research sample. Access to annual financial reports, statements, and final accounts published on the official website of the aforementioned bank facilitated data collection.
- Time Limits: The temporal scope of the research spanned from 2016 to 2020, with a particular focus on the year 2018. This timeframe was selected to encapsulate the study's objectives and establish it as an applied model for subsequent research efforts.

2. Literature Review
2.1 Accounting for Financial Instruments According to the Standard (IFRS9)
2.1.1 The Concept of the Accounting Measurement Process

The two main functions in accounting are measurement and disclosure (Aliahmadi, S. 2023, Hassan, O. A., & Marston, C. 2019, ElHawary, E., & Arafa, I. M. 2018, Alcaide Muñoz, L., et al., 2017, Elbannan, M. A., & Elbannan, M. A. 2014). Accounting measurement is a fundamental and crucial function upon which the second function depends. Moreover, measurement is considered one of the basic scientific assumptions of accounting, given its significance in achieving accounting compatibility. The accounting measurement process entails determining the value associated with each item it encompasses. In presenting financial statements

for credible and transparent information, measurement becomes an essential process for highlighting relationships between characteristics and items to be measured (Voss, G. 2019, Anggraeny, A. S. 2020; Spathis, C. et al., 2002; Hung, D. N et al., 2018). This necessitates choosing an appropriate unit of measurement, with accounting primarily concerned with operations expressible in monetary form, as money serves as the unit of measurement to articulate items in financial statements.

For a property to be measurable, it should possess three main characteristics, according to (Abu Nassar, M., & Hamidat, J. 2008):

   A.   The property must have a relevant attribute.
   B.   This property can be expressed quantitatively.
   C.   Utilizing the financial unit as a basis for quantitative measurement and as a tool for determining financial characteristics.

The measurement function is considered fundamental not only in accounting but also in various natural and social sciences. Despite its long absence in the field of accounting, accountants have recently started addressing the problems associated with accounting measurement. Mattessich is recognized as one of the first accountants to study these problems (Lee, T. A. 2009).

Various definitions of accounting measurement exist, and here are a few examples:

   1.   Measurement generally involves associating numbers with things to express their properties based on natural rules, either discovered directly or indirectly (Matar and Al-Suwaiti, 2004).
   2.   It means specifying numerical values for a specific event or element related to the economic unit, provided that the measurement includes definition and classification processes for this event (Laiqa, 2007).
   3.   According to the American Association of Accountants (AAA) in a report issued in 1966, accounting measurement is defined as relating numbers to the entity's past, current, and future events based on past or ongoing observations according to specific rules (International Accounting Standards Committee, 2001).

Through these definitions, the researcher aims to extract a simplified concept of accounting measurement, which involves assigning a quantitative numerical number to express certain characteristics of things or economic events within the economic unit, using a unit of measurement represented by money.

2.1.2 Accounting Measurement Models
In the pursuit of achieving the primary goal of financial accounting, which is to meet the needs of users for appropriate and reliable information enabling rational economic decisions, a meticulous evaluation becomes crucial (Flayyih H. et al., 2022). This evaluation combines the suitability and reliability of various items within the financial statements, which serve as the direct point of contact between the accounting unit and diverse users with different needs. The evaluation process is integral within various stages of accounting work, starting from defining the concept and conditions for recognizing economic events to documenting the disclosure of various outputs through financial statements.

The significance and complexity of the evaluation process arise from the current lack of a universally applicable model method that can cater to the diverse needs of researchers in the accounting field. Among the accounting measurement alternatives directly related to the application of Financial Reporting Standard 9 is fair value (McDonough R. et al., 2020).

2.1.2.1 Fair Value:
Fair value has multiple definitions, with a significant one provided by the International Accounting Standards Board (IASB), stating that fair value is the value at which an asset can be exchanged or a liability paid between willing and informed parties within the framework of a real exchange process (McDonough, R. et al. 2020, Pandya, A. et al., 2021, Whittington, G. 2014, Shafii, Z., & Rahman, A. R. A. 2016, Hodder, L. D., & Sheneman, A. G. 2022, Kumar, K. A. 2014).

How to Determine Fair Value: Fair value can be determined from various sources based on the recent literature:

   1.   Prices in an active market are considered the best evidence of fair value. The fair value obtained from an active market is deemed the best if it is readily available and organized through the stock exchange, dealer, or broker.
   2.   If the financial instrument is not traded in the financial market during the preparation of financial statements, the price recorded in the last transaction before the statement's date is expressed as fair value, provided there has been no material change in economic conditions. Adjustments to fair value may be made for changes in economic conditions if possible. Financial assets and liabilities without a fair value in an active market may be determined using another valuation method.

2.1.2.2 Amortized Cost Model:

The amortized cost is an evaluation model applicable to financial investments resulting in fixed or determinable payments representing principal and interest. This method is specifically relevant to debt investments. Implementing the amortized cost method requires an analysis of discounted cash flows (Dong M. et al., 2014; Spiceland J. D. et al., 2020).

2.1.3 Accounting for Financial Instruments According to the Standard (IFRS9)

The International Financial Reporting Standard (IFRS9) was introduced to address concerns raised by the G20 about the complexity and inefficiency of the International Accounting Standard (IAS39). A primary issue identified was the delay in recognizing credit losses on loans and other financial instruments, causing challenges for numerous international banks. IFRS9, effective from January 1, 2018, replaced the previous standard and implemented new provisions to enhance efficiency (Gope, A. 2018).

During the global financial crisis of 2007-2008, the delay in recognizing credit losses was identified as a significant shortcoming in existing accounting standards, particularly the "incurred loss" model in International Accounting Standard 39. This model deferred the recognition of credit losses until evidence of a triggering event emerged, limiting the ability of economic units to create reserves for profit support during challenging times. Acknowledging this delay, U.S. financial authorities in 2009 sought to develop a financial reporting model that provides investors with more useful, transparent, and relevant information while simplifying accounting complexities (IASCF, 2009).

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS9, known as "Financial Instruments" (Kvaal, E. et al., 2023). The standard was structured into three phases to facilitate its adoption through a step-by-step approach. The first phase focused on the development, classification, and measurement of financial assets. Subsequently, the second phase addressed impairment, determining loss allowances for financial assets. The third and final phase of the standard centers on hedge accounting. This phased approach was designed to assist financial statement users in navigating the implementation of IFRS9.

2.1.4 Classification of Financial Instruments

According to the International Financial Reporting Standard (IFRS 9), the basis for measuring assets depends on their classification (Saptono, P. B., & Khozen, I. 2021, Ben Ltaief, K., & Moalla, H. 2023). Both financial assets and liabilities are categorized under IFRS 9 based on specific criteria, as outlined by (PWC 2016). As per the Deutsche Bundes report, financial assets are classified according to the business model used for managing them and the contractual cash flow characteristics they exhibit (Deutsche Bank, 2018).

There are three business models available under IFRS 9:

1. **Assets Held for Collection:** Financial assets held for the purpose of collecting contractual cash flows.
2. **Assets Held for Collection and Sale:** Financial assets held for the dual purpose of collecting contractual cash flows and selling financial assets.
3. **Other Assets:** Financial assets either held for trading or not meeting the criteria for being held for collection or held for collection and sale.

A fundamental attribute of the contractual cash flow of a financial asset is that its stipulated terms result in cash flows occurring on specific dates, exclusively comprising payments of the principal amount and the interest on the outstanding principal. The initially recognized fair value of a financial asset might deviate from the contractually stated value, as seen in instances like a bond acquisition or creation at a premium or discount. The term "benefit" is elucidated as "the combined influence of the time value of money and the credit risk associated with the principal amount due over a specified period" (Fernández-Villaverde, J. 2015).

2.2 Applying the Accounting Measurement Model in Accordance with (IFRS9) at the Bank of Baghdad

The Bank of Baghdad commenced its banking operations on February 18, 1992, with a commitment to addressing the needs of the national economy as one of its top priorities. It holds the distinction of being the first licensed bank in Iraq, established following an amendment to Article Five of the Central Bank of Iraq Law. Initially capitalized at 100,000,000 dinars, the Bank of Baghdad was officially listed on the Iraq Stock Exchange on June 15, 2004, with a capital of 5,280,000,000 dinars on that date. Presently, the bank operates through 25 branches strategically distributed across Iraqi governorates and extends its services to countries such as Syria, Jordan, and others.

Up until September 25, 1998, the Bank of Baghdad exclusively engaged in commercial banking activities. However, its service portfolio underwent a significant expansion after the Central Bank of Iraq granted permission for all private banks to practice a full range of banking activities. The pivotal year of 2005 marked a transformative period for the Bank of Baghdad when 49% of its capital came under the ownership of the United Gulf Bank and the Iraq Holding Company, signifying a notable shift in its strategic direction.

2.2.1 Objectives of the Bank of Baghdad

The Bank of Baghdad has set forth several main objectives, encompassing the following:

A. **Provision of Various Banking Services:**
   The bank aims to offer a diverse range of banking services in adherence to prevailing laws and regulations. It seeks to establish extensive cooperation with both private and government banks, operating within the economic and financial policy framework of the Iraqi state.

B. **Expansion of Correspondents and Banking Relationships:**
   The bank endeavors to increase the number of its correspondents and broaden its network by establishing banking relationships focused on delivering top-notch banking services.

C. **Expansion of Banking Services:**
   Increasing the volume of banking services provided by the bank is a key objective. This involves expanding the number of branches to reach and serve a larger customer base.

D. **Achieving Growth Rates:**
   The pursuit of growth rates is vital for the bank's sustained presence in the banking market. Achieving growth is essential for continued competitiveness in financial markets.

E. **Investment of Funds:**
   Investing funds represents a fundamental aspect of the bank's operations. Investments serve as the backbone for generating profits, benefiting both depositors and shareholders.

F. **Attracting and Developing Deposits:**
   Attracting and developing deposits is among the bank's crucial goals, representing the initial phase of the financial intermediation process. This goal ensures the continuous flow of funds and their profitable utilization.

G. **Investment Account Analysis:**
   The research will focus on studying and analyzing the investment account in the Commercial Bank of Baghdad, including the companies and banks in which the Bank of Baghdad invests. This is of particular importance as the investment account plays a key role in achieving financial returns.

The account includes both long and short-term investments categorized into three sub-accounts:

1. Government Sector Investments.
2. Private Sector Investments (Companies and Associations).
3. Investments from the Outside World.

The research will specifically delve into the account of long-term financial investments in the private sector. In 2018, the balance of this account reached 91,059,609 Iraqi dinars. The bank evaluates investments based on the accounting rule of cost or market, whichever is less, with the mentioned amount reflecting historical cost.

3. Methods

To acquire the necessary data and information and fulfill the research objectives, the researcher employed various methods, as outlined below:

3.1 Theoretical Data and Information:

To enhance the theoretical foundation of the research, the researcher extensively consulted numerous Arab and foreign sources. These sources included books, periodicals, articles, accounting research, significant previously published studies, and other documents relevant to the research subject and its aspects. Additionally, the researcher referred to laws, legislation, official documents, and international financial reporting standards. The utilization of the internet was integral to accessing the latest scientific developments related to the research topic.

3.2 Applied Aspect:

For the applied aspect of the research, the researcher leveraged financial reports and conducted personal interviews with individuals possessing experience and expertise within the research sample bank and other local banks listed on the Iraq Stock Exchange. These interviews aimed to gather information applicable to the current research and obtain insights deemed essential for understanding the nuances of dealing with measurement models in different contexts. The researcher adhered to correct procedures within the bounds of the accounting system to enrich the theoretical foundation of the research.

3.3 Measuring Financial Investments
After the classification of financial investments based on the business model, the International Financial Reporting Standard (IFRS9) mandates their measurement at fair value through comprehensive income.

The fair value of long-term investments in the private sector is determined by adopting the cash dividend discount model, commonly known as the Gordon model. This model posits that the fair value of a share is a function of the discounted value of the cash dividend expected in the future. The discounting is done at the rate of return required by the investor to compensate for uncertainties associated with those cash distributions. The Gordon model is widely used in valuing stocks, with dividends serving as the fundamental basis for estimating fair value. Notably, this model is considered suitable for the Iraqi environment, given that its variables can be derived from financial statements.

The fair value per share is measured using this model and is calculated as follows:

$$F.V = \sum_{T-1}^{N} \frac{DT}{(1+R)T} + \frac{PN}{(1+R)N} \tag{1}$$

Whereas:
DT = Dividends per common share for period T.
PN = Current stock price.
 R = The rate of return required by the investor.

Calculation of Dividends per Common Share (DT):
The dividends per common share for period T (DT) are calculated using the equation:

$$DT = \frac{DO}{1+G} \tag{2}$$

Where:
DO represents the current dividend per share, calculated as:

$$DO = \frac{Total\ Cash\ Dividend}{Number\ of\ Shares} \tag{3}$$

G is the growth rate, determined by:

$$G = \left(\frac{Dividend\ of\ Profits\ for\ the\ Current\ Year}{Dividend\ of\ Profits\ for\ the\ Previous\ Year} \right) - 1 \tag{4}$$

Calculation of Required Rate of Return (R):
The required rate of return (R) is calculated using the formula:

$$R = R_f + \beta \left(V_{RM} - R_f \right) \tag{5}$$

Where:
R_f is the risk − free rate of return.
β represents the Beta coefficient.
V_{RM} is the variance of Market Return.

This method of measuring financial investments, based on the Gordon model and the calculation of the required rate of return, provides a comprehensive approach to estimating the fair value of long-term investments in the private sector. The inclusion of growth rates and risk factors enhances the accuracy and relevance of the valuation process within the specific context of the Iraqi environment.

3.4 Financial assets at amortized cost
The financial asset is measured at amortized cost using the effective interest rate method when the following two conditions are met:

A. The financial asset is held within a business model with the objective of preserving the contractual cash flows.
B. The contractual terms of the financial asset result, on specific dates, in cash flows that constitute payments of both the principal amount and the interest on the outstanding principal.

4. Results and Discussion
4.1 Measuring Financial Investments
Based on the Measurement of Financial Investments, our findings are illustrated as follows:

Table 1: Risk-free rates of return.

Year	Risk-Free Rate of Return %
2014	5.14
2015	5.30
2016	4.96
2017	5.73
2018	5.51

Source: General Directorate of Statistics and Research at the Central Bank of Iraq

The beta coefficient is calculated with the following equation:

$$BI = \frac{COV(RS\ RM)}{VRM} \qquad (6)$$

Whereas:
COV(RS RM) = the covariance between stock return and market return.
VRM = Variance Return on Market Portfolio.

The rate of return per share and the market return are determined using the following equations:

$$Rs = \frac{PO - P1 + DIJ}{P1} \qquad (7)$$

Whereas:
RS = stock return.
PO = closing price of the stock.
 P1 = opening price of the stock.
DIJ= Dividends per share.

$$RM = \frac{LI - I}{I} \qquad (8)$$

Whereas:
RM= Market return
LI = current view of the market index.
I = previous viewing of the market index.

Table 2: Extracting the beta coefficient for the shares of companies invested in by the Commercial Bank of Baghdad.

S	Company Address	Cov (Rs, Rm)	Vrm	β
1	Al-Amin Insurance Company	0.00010	0.139733	0.139733
2	Gulf Commercial Bank	0.019569	0.139733	0.139733
3	Al-Amin Real Estate Investments Company	0.000915	0.139733	0.139733
4	Middle East Bank	0.00658	0.139733	0.139733

Source: Prepared by the researcher based on reports from the Iraq Stock Exchange

After employing the Gordon model to derive the three mentioned elements of financial assets, the next step involves extracting the required rate of return for the stock. This is achieved by establishing the relationship between the risk-free rate of return, the variance of the market return for the research sample years, and the beta coefficient for the economic units, as illustrated in Table No. (3). The calculation is performed using equation No. (5).

Table (3) Required rate of return per share.

S	Company	Variance of Market Return VRM	Risk-free rate of return RF	Beta coefficient β	The required rate of return R
1	Al-Amin Insurance Company	0.139733	0.0551	0.000717	0.055160
2	Gulf Commercial Bank	0.139733	0.0551	0.140045	0.056285
3	Al-Amin Real Estate Investments Company	0.139733	0.0551	0.006548	0.055654
4	Middle East Bank	0.139733	0.0551	0.047089	0.051114

Source: Prepared by the researcher based on reports from the Iraq Stock Exchange.

Once the researcher has successfully computed the results of the required return using the (Gordon) model by deducting the cash dividend, the next step involves calculating the dividend for each of the companies in the research sample. This calculation is performed using equation No. (2).

The current dividend per share is determined by dividing the total dividends distributed among the capital shares in the year of distribution. It's noteworthy that the economic units in the research sample adhered to an annual dividend distribution policy. Regarding the growth rate in the dividend, it represents the rate at which the increase or decrease in the dividend can be identified. Financial analysts typically consider determining the growth rate in the dividend per share. The growth rate is extracted using equation No (4).

1. Al-Amin Insurance Company's growth rate = 0/(0) - 1 = 0.
2. Gulf Commercial Bank's growth rate = 0/(0) - 1 = 0.
3. The growth rate of Al-Amin Real Estate Investment Company = 0/(0) - 1 = 0.
4. The growth rate of the Middle East Investment Bank = (959,287,000)/(299,019,000) - 1 = 0.022%.

When examining the growth rate of the dividend for the year 2018 as a model for each of the economic units (Al-Amin Insurance Company, Al-Khaleej Commercial Bank, and Al-Amin Real Estate Investment Company), it is zero. The reason is the absence of profit distribution for both the current and previous years. In contrast, the dividend growth rate for the Middle East Investment Bank was 0.022%. This is due to the bank distributing profits in the current year amounting to (959,257,000) while it distributed profits amounting to (299,019,000) in the previous year.

After extracting the growth rates for the economic units in the research sample, the expected dividend divisor (Dt) for them is calculated as follows:

1. Dividends per common share of Al-Amin Insurance Company = 0/(1 + 0) = 0.
2. Dividends per ordinary share of Khaleej Commercial Bank = (0.06)/(1 + 0) = 0.06.
3. Dividends per common share of Al-Amin Real Estate Investment Company = 0/(1 + 0) = 0.
4. Dividends per common share of the Middle East Investment Bank = (0.25)/(1 + 0.022) = 0.24%.

The current share price (Pn) is the share price announced in the latest trading bulletin for the Iraqi Stock Exchange on 12/31/2018.

After determining the variables of the fair value law mentioned above, it is possible to calculate the fair value per share for the companies in which the Bank of Baghdad invests. Thus, the fair value of the shares of the economic units in the research sample can be determined as follows:

1. **The fair value of Al-Amin Insurance Company shares according to the following equation:**

$$F.V = \sum_{T-1}^{N} \frac{DT}{(1+R)T} + \frac{PN}{(1+R)N} \qquad (9)$$

$$F.V = \sum \frac{0}{(1+0.055160)} + \frac{0.30}{(1+0.055160)} = 0.284317$$

2. **The fair value of Al Khaleej Commercial Bank shares:**

$$F.V = \sum \frac{0.06}{(1+0.056285)} + \frac{0.19}{(1+0.056285)} = 0.236678$$

3. **The fair value of Al-Amin Real Estate Investment Company shares:**

$$F.V = \sum \frac{0}{(1+0.055654)} + \frac{0.83}{(1+0.055654)} = 0.786242$$

4. **The fair value of the shares of the Middle East Investment Bank:**

$$F.V = \sum \frac{0.24}{(1+.051114)} + \frac{0.13}{(1+0.051114)} = 0.352007$$

Table 4: Measuring the fair value of the stock.

S	Company Address	Required rate of return R	Dividends per common share for the period Dt	Common stock price Pn	The fair value of the stock
1.	Al-Amin Insurance Company	0.055160	0	0.30	0.284317
2.	Gulf Commercial Bank	0.056285	0.06	0.19	0.236678
3.	Al-Amin Real Estate Investments Company	0.055654	0	0.83	0.786242
4.	Middle East Bank	0.051114	0.25	0.13	0.352007

Source: Prepared by the researcher based on reports from the Iraq Stock Exchange.

Upon reviewing Table (4), which displays the fair value per share of the companies and banks in which the Bank of Baghdad has investments, it becomes evident that the fair values of the shares are generally lower than the prevailing market prices on the Iraqi Stock Exchange. An exception to this trend is observed in the shares of Gulf Commercial Bank and the Middle East Investment Bank. In these cases, the fair value of the share surpasses its market value by (0.04) and (0.22) dinars, respectively.

As for the companies within the long-term investments of the private sector of the Bank of Baghdad, namely the Iraqi Company for Financing Small and Medium Enterprises, the Iraqi Company for Bank Guarantees, Al-Rafidain Haboob Company, and the Industrial Union Company for Generator Production, these entities will be evaluated based on their historical cost. This evaluation approach is adopted due to the absence of data on the Iraqi Stock Exchange related to these companies. Following the guidelines of the International Financial Reporting Standard (IFRS9), investments are typically assessed at fair values, as illustrated in the following table:

Table 5: Evaluating financial investments at fair value.

S	Company Address	Capital dinar (1)	Number of Shares (2)	Cost in financial statements (dinar) (3)	Cost at fair value (dinar) (4)	The difference (3-4)
1.	Al-Amin Insurance Company	381,900,000	1,833,269,760	1,833,269,760	521,229,758	1,312,040,002
2.	Gulf Commercial Bank	300,000,000	999,515,949	999,515,949	236,563,435	762,952,514
3.	Al-Amin Real Estate Investments Company	696,000,000	754,943,915	754,943,915	593,568,613	161,375,302
4.	Middle East Bank	250,000,000	38,360,518	38,360,518	13,503,170	24,857,348
5.	The Iraqi Company for Financing Small and Medium Enterprises	270,000,000	2,431,100,000	2,431,100,000	2,431,100,000	0
6.	Iraqi Banking Guarantees Company	9,625,578,000	560,712,000	560,712,000	560,712,000	0
7.	Al-Rafidain Cereals Company	170,000,000	766,420,355	766,420,355	360,478,000	405942355

8.	Industrial Union Company for Generator Production	195,000,000	75,000,000	75,000,000	294,456,012	_219456012
	The Total			7,459,322,497	5,011,610,988	2,447,711,509

Source: Prepared by the researcher based on reports from the Iraq Stock Exchange.

In the presented table (5), the fair value of long-term private sector investments has been determined, revealing a difference less than the historical cost at which the investments were evaluated in the financial statements of the Bank of Baghdad on 12/31/2018 by (2,447,711,509) Iraqi dinars (only two billion four hundred and forty-seven million seven hundred and eleven thousand five hundred and nine). The analysis of the table leads the researcher to the conclusion that all these investments are experiencing losses, having been evaluated at less than their actual value.

On 12/31, a settlement entry is confirmed to address this difference. Accordingly, an entry is made, debiting the account of unrealized holding losses for investments held at fair value through other comprehensive income by (2,447,711,509) dinars and crediting the fair value adjustment account for investments held at fair value through other comprehensive income by the same amount. This adjustment represents the fair value adjustment for financial investments, addressing the difference between the book cost and the fair value.

Simultaneously, on the same date, an entry is recorded to close losses in other comprehensive income, debiting the account for items of other comprehensive income and crediting the account for unrealized holding losses for investments held at fair value through other comprehensive income. This entry reflects the adjustment for losses in other comprehensive income.

It's worth noting that investments disclosed at fair value through other comprehensive income may be presented as a separate item from the investments account in the statement of financial position. The ownership rights are charged with the amount of the difference between the book cost and the fair value in other items of other comprehensive income. The long-term financial investments account is maintained as the account is measured at fair value. Changes in the long-term investments account can be elucidated through the partial statement of the investments account, as outlined below:

Table 6: Partial statement of financial investments as of 12/31/2018

Directory number	clause	Investments at book value	Investments at fair value	The difference
152	Long-term financial investments			
1526	Investments held at fair value through other comprehensive income\private sector\companies and associations	7,459,322,497	5,011,610,988	2,447,711,509
153	Short-term financial investments			
1531	Short-term financial investments/ government sector	437,189,802	437,189,802	0
1538	Short-term financial investments / the outside world	11720000000	11720000000	0
	The Total	19616512299	17168800790	2447711509

Source: Prepared by the researcher based on the bank's financial reports.

From the above statement, the researcher observes that, in adherence to the stipulations of the International Financial Reporting Standard (IFRS9), the account for long-term financial investments in the private sector has been reclassified and renamed to "Financial Investments at Fair Value Through Other Comprehensive Income." This account is now presented with a fair value of (5,011,610,988) dinars.

4.2 Financial assets at amortized cost
Financial assets evaluated at amortized cost, including trade and other receivables and profit-making term deposits, are subject to subsequent measurement using the effective interest rate method. This involves adjusting for any impairment in the asset's value if applicable. The amortized cost is computed by taking into account the initial discount or premium at acquisition, along with fees or costs essential to the effective interest rate. The amortization of the effective interest rate is then recognized in the financing income disclosed in the income statement. Furthermore, any losses resulting from impairment are accounted for in the income statement.

Table 7: Partial statement of financial assets at amortized cost as of 12/31/2018 (amounts in thousands of dinars)

Statement	
Financial assets with a fixed rate of return:	
Financial assets available at market prices:	
Government securities at cost	44,393,611
Government treasury bills at cost	41,449,699
Financial assets that do not have market prices	0
Total financial assets with a fixed rate of return	85,843,310

Source: Prepared by the researcher based on the bank's financial reports.

After scrutinizing the accounting treatments recorded in the bank records and comparing them with the research model, the researcher arrived at results consistent with the financial statements presented by the bank in the research sample. The outcomes align with the calculations derived from the congruence of accounting treatments related to items of financial assets measured according to amortized cost.

5. Conclusion and Future Recommendations
The current research has yielded several key conclusions, summarized below, with detailed results available in the full research document:

- **Classification of Long-Term/Private Sector Investments:** The adherence to the International Financial Reporting Standard (IFRS 9) has led to the classification of the bank's long-term/private sector investments, based on the business model, into investments held at fair value through comprehensive income.
- **Fair Value Measurement Impact:** In the practical application of the research, financial instruments were re-measured at fair value in accordance with IFRS 9, resulting in the determination of the fair value of long-term financial investments/private sector with a negative difference of (2,447,711) dinars. This change in fair value exposes the bank to the risks associated with share price fluctuations.
- **Disclosure of Fair Value Changes:** The change in the fair value of financial investments is recognized in the statement of comprehensive income under the heading of changes in fair value through other comprehensive income for disclosure purposes.
- **IFRS 9 Measurement Basis:** The application of IFRS 9 requires that financial instruments be initially measured at fair value. Subsequently, financial instruments are measured based on their classification, either at amortized cost, fair value through profit or loss, or fair value through comprehensive income.
- **Principle of Fair Value in Evaluation:** IFRS 9 relies on the fair value principle for evaluating and measuring investments unless the aim is control and control. This requires the presence of active financial markets for instruments and derivatives to provide necessary information for re-evaluating accounting items and presenting a clear financial position of the economic unit.
- **Fair Value Significance:** Fair value is considered the most useful alternative to historical cost in accounting measurement. It represents a suitable alternative, serving as the basis for transactions and addressing topics in international accounting standards. The principle of fair value enhances the qualitative characteristics of financial information, making it relevant, reliable, and trustworthy when verifying fair value measurement estimates.

In consideration of the findings, the following recommendations are proposed to enhance compliance with the International Financial Reporting Standard (IFRS 9), ultimately fostering positive impacts on the financial performance of banks:

- ❖ **Enhance the Role of Iraqi Accounting Standards Board:**
  - o Activate the role of the Iraqi Accounting Standards Board and explore avenues for legislating new accounting standards or aligning existing standards with international accounting and financial reporting standards (IFRS). This includes resolving conflicts and ensuring harmonization with the local environment.

- ❖ **Update Accounting Systems and Train Accountants:**
  - o Invest in updating accounting processing systems and provide training for bank accountants in the research sample to align their skills with the compliance requirements of IFRS 9.

- ❖ **Proper Classification of Financial Investments:**
  - o Ensure that financial investments, particularly long-term financial investments/private sector investments under the business model, are accurately classified into investments held at fair value through comprehensive income.

❖ **Regular Re-Measurement of Financial Instruments:**
  o Emphasize the regular re-measurement of financial instruments at fair value by adopting the application of IFRS 9 to maintain accuracy and alignment with international standards.

❖ **Uniform Financial Policy for Iraqi Banks:**
  o Advocate for Iraqi banks to uniformly comply with IFRS 9, aligning financial policies with those of foreign banks and emphasizing adherence to international standards in financial matters.

❖ **Support from Iraqi Stock Market:**
  o Encourage the Iraqi stock market to actively support listed companies in adopting international financial reporting standards, particularly those embracing fair value. This approach not only attracts foreign capital but also strengthens investment opportunities.

Implementing these recommendations can contribute to the standardization of financial practices, enhance transparency, and align Iraqi banks with global financial reporting norms, ultimately fostering investor confidence and supporting the growth of the financial sector.

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