

## Disclosure of equity in accordance with the requirements of the seventh International Financial Reporting Standard (IFRS7)

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### Abstract:

The research sought to discover the extent to which the management of private Iraqi commercial banks realized the quantitative and qualitative disclosures about property rights (shares) according to the seventh international financial reporting standard, and proceeded from the problem that (how aware is the management of private commercial banks of the importance of disclosing property rights (shares) according to the requirements of the reporting standard? Seventh International Finance Corporation (IFRS7)? to prove the hypothesis of the research, which stipulated that “commercial banks realize the importance of disclosing property rights (shares) in accordance with the requirements of the Seventh International Financial Reporting Standard (IFRS7),” the descriptive analytical approach was adopted by making a questionnaire for the research sample, which was selected by the cluster sampling method. And 6 Iraqi commercial banks. The research concluded that the disclosure of property rights (shares) is not limited to the banks investing in these tools, but also depends on the financial market, which, if it is efficient, the price of the financial instrument will approach the real price, as the research recommended that the Iraqi commercial private banks publish prices Financial instruments (shares) in their banking reports based on their trading prices in the Iraqi Stock Exchange will enhance disclosure in these reports.

Keywords: financial derivatives, disclosure, financial instruments ,Financial Reporting.

### مستخلص :

سعى البحث اكتشاف مدى ادراك ادارة المصارف العراقية التجارية الخاصة للإفصاحات الكمية والنوعية عن حقوق الملكية (الاسهم) وفق معيار الإبلاغ المالي الدولي السابع ، وانطلق من مشكلة مفاده (ما مدى ادراك ادارة المصارف التجارية الخاصة لاهمية الافصاح عن حقوق الملكية (الاسهم) وفق متطلبات معيار الإبلاغ المالي الدولي السابع (IFRS7)؟ ويهدف اثبات فرضية البحث التي نصت على " تدرك المصارف التجارية اهمية الافصاح عن حقوق الملكية (الاسهم) وفق متطلبات معيار الإبلاغ المالي الدولي السابع (IFRS7)" فقد تم انتهاز المنهج الوصفي التحليلي من خلال عمل استبانة لعينة البحث والتي تم اختيارها عن طريق اسلوب العينة العنقودية وكانت ٦ مصارف تجارية عراقية. وتوصل البحث الى انه ان الافصاح عن حقوق الملكية (الاسهم) لا يقتصر على المصارف المستثمرة في هذه الادوات وانما يعتمد ايضا على السوق المالية التي في حال كانت كفوءة فسوف يقترب سعر الاداة المالية من السعر الحقيقي كما اوصى البحث الى قيام المصارف العراقية التجارية الخاصة بنشر اسعار الادوات المالية (الاسهم) في تقاريرها المصرفية استناد الى اسعار تداولها في سوق العراق للاوراق المالية سوف يعزز الافصاح في هذه التقارير .



### Introduction:

Accounting disclosure is one of the effective tools to achieve the objectives of the basic accounting information system, which is to measure the results of economic events related to economic units and communicate them to users of financial reports. In recent years, there have been significant developments and changes in the money markets. These developments have been accompanied by the emergence of new terms such as fair value, shares available for sale and shares. The lack of transparency in financial and banking transactions resulted in financial crises that led to many collapses in the financial markets. Therefore, it has become the duty of banks to seek to support depositors' confidence by making many required changes in the way they work with regard to disclosure of property rights management and how to manage those risks that result from dealing with property rights and increase their ability to provide quantitative and qualitative disclosures about their exposure to those risks. Whether for the bank's management or for external users, as these users need information about the exposure of economic units to risks, as this information may affect the user's assessment of the financial reports and the financial performance of the economic unit. Therefore, the International Accounting Standards Board issued in 2007 the Seventh International Financial Reporting Standard (IFRS7) the Disclosure Standard for Financial Instruments, which replaced the International Accounting Standard (IAS30) Standard for Disclosure in Banks, if the Board noticed a shortcoming in the previous standard, so it decided that there is a need to amend and improve disclosures, especially disclosures related to property rights (shares), and since the standard is the standard that can Relying on it by giving the financial reports a clearer and more appropriate picture of what those reports reflect, so as not to leave the users of these reports with fundamental questions in terms of their content. Hence the need to apply this international accounting standard so that it is accepted on a global level and that improves the disclosures related to financial instruments, including Property rights, which in turn improves the performance of banks in the systems and procedures in which their financial reports are presented.

### Research problem:

One of the criticisms that economists direct to accountants is the principle of historical cost, so modern accounting terms appeared for measurement instead of historical cost, which is the term fair value, but it seems that there are technical and accounting problems in measuring and disclosing them. Including equity, and one of these standards was the Banking Disclosure Standard (IAS30), but the reason why banks did not apply these standards led to the occurrence of financial crises, including the mortgage crisis, so the Council has been developing standards that disclose financial instruments, including property rights, and so that the information is suitable for users of financial reports and reduces the risks that accompany dealing with property rights. The Standards Council showed us International Accounting Standard Seventh International Financial Reporting (IFRS7) to be helpful and specific to information in terms of disclosure of property rights (shares) by dividing them into shares available for sale and shares for trading, which suit users of financial reports in making their decisions, so the problem can be limited to the following question:



(To what extent is the management of private commercial banks aware of the importance of disclosing property rights (shares) in accordance with the requirements of the Seventh International Financial Reporting Standard (IFRS7)?

**Research importance:**

The research used the descriptive analytical method by making a questionnaire for the research sample, which will contribute to reaching real results about the bank management's perception of the importance of disclosing property rights in accordance with the Seventh International Financial Reporting Standard (IFRS7) in addition to that the research will prepare a control material for the authorities responsible for the device The banker in the event of a failure to implement the seventh international financial reporting standard. The research will also contribute to urging banks to quickly adopt disclosures about property rights (shares) in the event that their financial reports lack financial disclosures.

**Research aims:**

- 1- Presenting and analyzing the problems that accompany work in equity (shares) and disclosing them according to the requirements of the Seventh International Financial Reporting Standard (IFRS7).
- 2- Simplifying as much as possible the issue of disclosing property rights and taking note of its most important aspects because of its complexity, difficulty and complexity, as recognized by various parties.
- 3- Reaching a set of conclusions and recommendations that can contribute to moving towards more purposeful research to find radical solutions to the factors behind the existence of some of the crises facing us in the future.

**Research Hypothesis:**

Commercial banks realize the importance of disclosing ownership rights (shares) in accordance with the requirements of the Seventh International Financial Reporting Standard (IFRS7).

**The concept of equity (shares) and its disclosure according to the requirements of the seventh International Financial Reporting Standard (IFRS7)**

**First: shares**

Money companies issue shares in case of incorporation or capital increase through their economic activity or in the case of legal merger or union or even in the case of purchase as in holding and affiliated companies where these companies are obligated to distribute profits to shareholders in the form of cash dividends or sample (free shares) As the shares represent the rights of shareholders in the economic units that they contributed to their capital, which in turn is divided into two parts: ordinary shares and preferred shares (1).

**1. Ordinary shares:**

Ordinary shares are considered an ownership document that has a nominal, book, and market value and a mystical value, either with regard to the nominal value, which is the value that is recorded when the share is issued on the share document to document the capital account in the accounting documents. Equity rights either market value, it means the price of the share in the market and is affected by supply and demand ( ) and holders of these shares have the following rights.



- A. They have the right to receive the profits of the economic unit after the other rights holders have paid their share (creditors and holders of preferred shares and bonds).
- B . They have the right to obtain a share of the net assets of the economic unit upon liquidation, after fulfilling all other rights.
- C. They have the right to run for the board of directors.
- D. They have the priority right to subscribe to the capital increase shares of the economic unit (1).

## **2. Preferred Stock:**

These are shares that grant their owner, in addition to the normal rights associated with the share, some special advantages, such as priority in obtaining a share of the profit of the economic unit or from the liquidation surplus (2).

Preferred shares differ from common shares in several points, namely:

- a . The return received by the holders of these shares does not change and thus is similar to the bond.
- B . They take precedence in obtaining the periodic profits of the economic unit.
- c. Holders of these shares are usually not allowed to vote except if the economic unit fails to provide the return due to them (3).

## **Second: Disclosure of property rights in accordance with the requirements of the Seventh International Financial Reporting Standard (IFRS7)**

### **1. Disclosure of equity in the statement of financial position (4)**

The book value of each of the following categories of equity must be disclosed either on the face of the balance sheet or in the notes and notes

- a . Financial assets at fair value through profit or loss, with the retained portion (allotted) at fair value in accordance with international standards.
- B . Financial assets at fair value through comprehensive income in accordance with international standards

### **2. Disclosure requirements in the income statement and equity:**

The bank must disclose the items of income, expense, profit and loss either on the face of the financial statements or in the notes as follows:

- a . net gain or loss.
- B . Assets (equity) valued at fair value through profit or loss, with a breakdown of the net profit and loss figure for each of the two types of this category, financial assets at fair value and trading financial assets.
- c. Financial assets (equity) available for sale with a statement of the amount of profit and loss recognized directly in equity ()

## **Analysis of the disclosure of property rights in private Iraqi commercial banks:**

1 . Research Methodology: The research followed the descriptive analytical approach by building a questionnaire form that was developed to serve the objectives of the research. It was distributed to a sample of private Iraqi commercial banks, and the questionnaires were collected and unloaded in the Statistical Package for Social Sciences (SPSS) program, and the required statistical tests were reached.

2 . Questionnaire questionnaire scale: The five-point Likert scale has been chosen, which divides the answers into five levels of strongly agree and strongly disagree.



3 . Analysis of the questionnaire form:

a . Disclosure of equity in accordance with International Financial Reporting Standard 7 (IFRS7)

Disclosure of equity instruments in accordance with International Financial Reporting Standard 7 (IFRS7)

The severity of the response to the disclosure of equity instruments in accordance with the Seventh International Financial Reporting Standard (IFRS7)						
No.	Sentence	Strongly agree	Agree	Partially agree	Disagree	Strongly disagree
١	The concept of the fair value of equity instruments is a modern concept in the Iraqi banking environment, at least from the accounting point of view.	87	42	32	28	20
		42%	20%	15%	13%	10%
٢	The bank discloses the amounts recorded in the statement of financial position or in the notes for financial assets at fair value through profit and loss that are classified as held for trading.	86	38	36	25	24
		41%	18%	17%	12%	11%
٣	The bank discloses the amounts recorded in the statement of financial position or in the notes for financial assets at fair value through comprehensive income that are classified as available for sale.	82	44	43	20	20
		39%	21%	21%	10%	10%
٤	The bank discloses in the financial reports the profits of recovering impairment losses (expected credit losses) in relation to the financial instruments represented by shares.	88	39	37	27	18
		42%	19%	18%	13%	9%
٥	If the bank reclassifies a financial asset as being measured at amortized cost and not at fair value, or vice versa, the bank is obligated to disclose the reclassified amount.	85	40	39	24	21
		41%	19%	19%	11%	10%
٦	When the value of financial assets decreases due to credit losses and the bank records the decrease in a	86	40	40	28	15
		41%	19%	19%	13%	7%



	separate account such as a designated account that is used to record individual decreases or a collective decrease of assets instead of reducing the recorded amount of the asset directly, is the bank obligated to disclose the reconciliation of changes in that account during the period					
٧	The bank is obligated to disclose the net gains or net losses on financial assets at fair value through profit and loss that are classified as held for trading.	89	42	32	24	22
		43%	20%	15%	11%	11%
٨	The bank is obligated to disclose the net gains or net losses on financial assets at fair value through comprehensive income that are recognized in equity and loss and classified as available for sale.	89	39	35	26	20
		43%	19%	17%	12%	10%
٩	Determining the fair value of the financial instrument represented by shares requires the availability of an efficient stock market.	91	41	30	23	24
		44%	20%	14%	11%	11%
١٠	The fair value of shares is calculated on specific bases, such as the asking price.	85	39	35	30	20
		41%	19%	17%	14%	10%
١١	The fluctuation in the price of the financial instrument is taken into account when calculating the fair value of the share.	90	36	37	24	22
		43%	17%	18%	11%	11%
١٢	The carrying amount of equity instruments measured at fair value through profit and loss is disclosed on initial recognition.	83	41	36	25	24
		40%	20%	17%	12%	11%
١٣	Disclosure of equity instruments that do not have a quoted price in the stock market and which can be reliably measured at fair value affects financial reporting.	88	38	35	23	25
		42%	18%	17%	11%	12%
١٤	The bank discloses purchase	85	42	33	27	22



	expenses and commissions for financial assets classified at fair value through profit and loss as period expenses, while measuring all financial assets at cost plus transaction costs of commissions and purchase expenses.	41%	20%	16%	13%	11%
Source: prepared by the researcher based on the questionnaire.						

It is clear from the above table that the intensity of the response to the equity instruments axis tended towards (strongly agreed and agreed), as the sum of the two responses to all questions of the axis was greater than 50%, and the maximum was for the ninth question, which amounted to 64%, which reads: ((Requires determining the fair value of the financial instrument represented by shares Availability of an efficient stock market.

B . Descriptive statistics for the disclosure of property rights according to the seventh international financial reporting standard

Descriptive statistics for the disclosure of equity instruments according to the Seventh International Financial Reporting Standard (IFRS7)					
No.	Sentence	Arithmetic mean	Standard deviation	Difference coefficient	Relative importance
١	The concept of the fair value of equity instruments is a modern concept in the Iraqi banking environment, at least from the accounting point of view.	3.71	1.375	37.06	6
٢	The bank discloses the amounts recorded in the statement of financial position or in the notes for financial assets at fair value through profit and loss that are classified as held for trading.	3.66	1.409	38.50	13
٣	The bank discloses the amounts recorded in the statement of financial position or in the notes for financial assets at fair value through comprehensive income that are classified as available for sale.	3.71	1.329	35.82	2
٤	The bank discloses in the financial reports the profits of	3.73	1.351	36.22	3





	recovering impairment losses (expected credit losses) in relation to the financial instruments represented by shares.				
٥	If the bank reclassifies a financial asset as being measured at amortized cost and not at fair value, or vice versa, the bank is obligated to disclose the reclassified amount.	3.69	1.367	37.05	5
٦	When the value of financial assets decreases due to credit losses and the bank records the decrease in a separate account such as a designated account that is used to record individual decreases or a collective decrease of assets instead of reducing the recorded amount of the asset directly, is the bank obligated to disclose the reconciliation of changes in that account during the period	3.74	1.313	35.11	1
٧	The bank is obligated to disclose the net gains or net losses on financial assets at fair value through profit and loss that are classified as held for trading.	3.73	1.386	37.16	7
٨	The bank is obligated to disclose the net gains or net losses on financial assets at fair value through comprehensive income that are recognized in equity and loss and classified as available for sale.	3.72	1.373	36.91	4





٩	Determining the fair value of the financial instrument represented by shares requires the availability of an efficient stock market.	3.73	1.410	37.80	10
١٠	The fair value of shares is calculated on specific bases, such as the asking price.	3.67	1.381	37.63	9
١١	The fluctuation in the price of the financial instrument is taken into account when calculating the fair value of the share.	3.71	1.392	37.52	8
١٢	The carrying amount of equity instruments measured at fair value through profit and loss is disclosed on initial recognition.	3.64	1.401	38.49	12
١٣	Disclosure of equity instruments that do not have a quoted price in the stock market and which can be reliably measured at fair value affects financial reporting.	3.67	1.417	38.61	14
١٤	The bank discloses purchase expenses and commissions for financial assets classified at fair value through profit and loss as period expenses, while measuring all financial assets at cost plus transaction costs of commissions and purchase expenses.	3.67	1.390	37.87	11
Source: prepared by the researcher based on the questionnaire.					

Question No. (5) obtained the lowest coefficient of difference, as it amounted to 35.11, which resulted in obtaining the highest arithmetic mean, which amounted to 3.74, and the lowest standard deviation, which amounted to 1.313, which qualified it to be the most important question among the paragraphs of the equity instruments axis, as shown in the table above.

c. Correlation coefficient for disclosure of property rights according to the seventh International Financial Reporting Standard (IFRS7)

Disclosure of property rights according to the Seventh International Financial Reporting Standard (IFRS7):



**Correlation coefficient between the questions of disclosure of equity instruments according to the seventh International Financial Reporting Standard (IFRS7) and the total score of the axis**

No.	Sentence	Correlation coefficient
١	The concept of the fair value of equity instruments is a modern concept in the Iraqi banking environment, at least from the accounting point of view.	٠,٨٧٦
٢	The bank discloses the amounts recorded in the statement of financial position or in the notes for financial assets at fair value through profit and loss that are classified as held for trading.	٠,٨٨٨
٣	The bank discloses the amounts recorded in the statement of financial position or in the notes for financial assets at fair value through comprehensive income that are classified as available for sale.	٠,٩١١
٤	The bank discloses in the financial reports the profits of recovering impairment losses (expected credit losses) in relation to the financial instruments represented by shares.	٠,٨٨٦
٥	If the bank reclassifies a financial asset as being measured at amortized cost and not at fair value, or vice versa, the bank is obligated to disclose the reclassified amount.	٠,٨٩٧
٦	When the value of financial assets decreases due to credit losses and the bank records the decrease in a separate account such as a designated account that is used to record individual decreases or a collective decrease of assets instead of reducing the recorded amount of the asset directly, is the bank obligated to disclose the reconciliation of changes in that account during the period	٠,٩١٣



٧	The bank is obligated to disclose the net gains or net losses on financial assets at fair value through profit and loss that are classified as held for trading.	٠.٨٨٣
٨	The bank is obligated to disclose the net gains or net losses on financial assets at fair value through comprehensive income that are recognized in equity and loss and classified as available for sale.	٠.٩٠٠
٩	Determining the fair value of the financial instrument represented by shares requires the availability of an efficient stock market.	٠.٨٧٥
١٠	The fair value of shares is calculated on specific bases, such as the asking price.	٠.٩٠٧
١١	The fluctuation in the price of the financial instrument is taken into account when calculating the fair value of the share.	٠.٨٧٣
١٢	The carrying amount of equity instruments measured at fair value through profit and loss is disclosed on initial recognition.	٠.٩١٢
١٣	Disclosure of equity instruments that do not have a quoted price in the stock market and which can be reliably measured at fair value affects financial reporting.	٠.٨٩٨
١٤	The bank discloses purchase expenses and commissions for financial assets classified at fair value through profit and loss as period expenses, while measuring all financial assets at cost plus transaction costs of commissions and purchase expenses.	٠.٨٧٨

Source: prepared by the researcher based on the questionnaire.

Question No. (6), which reads ((when the value of financial assets decreases due to credit losses and the bank records the decrease in a separate account such as a designated account that is used to record individual decreases or a collective decrease of assets instead of directly decreasing the recorded amount of the asset, is the bank obligated to disclose the conformity of changes in That account during the period)) has the highest correlation coefficient between it and the total score of the axis, as it reached (0.913). As for the lowest correlation coefficient, it was obtained by question No. (11), which states ((The fluctuation in the price of



the financial instrument is taken into account when calculating the fair value of the share )) and the amount is (0.873), meaning that all the questions of the axis had statistically high correlation coefficients, and this indicates that they have internal validity, and that the questions of the axis are able to measure what they were set for, as shown in Table No. above.

### Conclusions:

1. Private commercial banks are obligated to disclose net gains or net losses on financial assets at fair value through profit and loss that are classified as held for trading.
2. Private commercial banks are obligated to disclose net gains or net losses on financial assets at fair value through comprehensive income, recognized in equity and loss, and classified as available for sale.
3. The concept of the fair value of equity instruments is a modern concept in the Iraqi banking environment, at least from the accounting point of view
4. The disclosure of property rights (shares) is not limited to the banks investing in these instruments, but also depends on the financial market, which, if it is efficient, will approach the price of the financial instrument to the real price.

### Recommendations:

1. The banking sector must keep up with modern concepts and their applications regarding fair value and other terms related to property rights, especially since these concepts have been applied in large banks and approved by international boards and bodies.
2. The supervisory authorities, such as the Central Bank, must enhance the work of banks in accordance with international standards, which it provides in terms of guidance and instructions that are in the interest of all authorities.
3. The Iraqi private commercial banks publish the prices of financial instruments (shares) in their banking reports based on their trading prices in the Iraq Stock Exchange, which will enhance disclosure in these reports.

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