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IMPACT OF APPLYING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ON THE LEVEL OF ACCOUNTING CONSERVATISM AND THE COST OF EQUITY: AN APPLIED STUDY ON A SAMPLE OF COMPANIES IN THE IRAQ STOCK EXCHANGE

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Abstract:

This research aims to study and analyze the impact of adopting International Financial Reporting Standards (IFRS). On both the level of accounting conservatism and the cost of equity of companies listed on the Iraq Stock Exchange The study relied on analyzing the financial data of a sample of Iraqi companies during a specific period of time before and after the implementation of IFRS , using the quantitative approach to accurately and objectively measure changes in both the level of accounting conservatism and the cost of equity . that adopting IFRS contributed to reducing the level of accounting conservatism due to the transparency and objectivity of these standards in presenting financial information. The results also showed an inverse relationship between the application of IFRS and the cost of equity, as the adoption of international standards helped improve the quality of financial disclosure, which reduced uncertainty among investors, and consequently led to a reduction in the cost of equity .

The study recommends raising awareness among Iraqi companies about the importance of properly implementing IFRS standards , along with developing the regulatory and accounting environment in line with international requirements. This will enhance investor confidence and create a more attractive investment climate in the Iraqi financial market .

Keywords: International Financial Reporting Standards IFR , accounting conservatism, cost of equity, Iraq Stock Exchange.

THE INTRODUCTION :

Accounting conservatism has sparked widespread controversy among accounting researchers and practitioners. Opinions are divided between supporters who view it as an effective governance tool and opponents who question its feasibility and impact. From the supporters' perspective, accounting conservatism is an important oversight mechanism that helps control the behavior of company managers and limit their opportunistic actions, particularly with regard to earnings management or concealing negative information. This approach helps reduce uncertainty associated with potential financial risks, including the possibility of bankruptcy or financial collapse .

Accounting conservatism also helps reduce the problem of information asymmetry between management and stakeholders, such as shareholders and lenders, which in turn contributes to mitigating the agency problem and adverse selection. This conservatism is viewed as a practical approach to addressing ethical deviations that may result from the information gap between the parties.

The existence of an information gap makes some investors reluctant to purchase company shares, which leads to a decrease in share liquidity. Consequently, companies may be forced to issue new shares at low prices, which increases the cost of equity and reduces their returns. In the same context, lenders prefer companies that adopt a conservative approach in preparing their financial reports, as this reduces the possibility of overstating assets or revenues, which could lead to tighter credit conditions and higher borrowing costs .

To address this uncertainty, caution is required when preparing financial statements by avoiding over-valuation of assets and revenues, focusing on immediate recognition of potential losses and postponing recognition of expected gains. This approach enhances the credibility of accounting information, increases the efficiency of allocating investment resources,

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and reassures investors of the safety of their invested funds, which reduces their demands for high returns and contributes to lowering the cost of capital for the company .

FIRST AXIS : RESEARCH METHODOLOGY AND PREVIOUS STUDIES:

(1-1): Research methodology

First : The research problem: In light of financial globalization and the growing trend towards unifying accounting standards, many countries have moved towards adopting International Financial Reporting Standards (IFRS) with the aim of improving the quality of financial reports and increasing transparency and comparability between companies. However, this shift has raised questions about its impact on traditional accounting principles, such as accounting conservatism, which is considered an important mechanism for reducing uncertainty and protecting users from exaggerating profits .

This shift may also be reflected in the cost of equity, given that the quality of accounting information affects investors' perceptions and thus the required returns on investments. Hence, the main problem of this research emerges in the following question :

What is the impact of adopting International Financial ReportingStandards (IFRS) on the nature of the relationship between accounting conservatism and the cost of equity in companies listed on the Iraq Stock Exchange?

The following branches off from this question:

- What is the effect of accounting conservatism on the cost of equity?
- What is the impact of accounting conservatism on the cost of equity in light of adopting IFRS as a modified variable?

The importance of the research

Second: The importance of the research is represented in the following:

1. Measuring the relationship between accounting conservatism and the cost of equity in the context of adopting IFRS standards
2. Evaluating the relationship between accounting conservatism and the cost of capital under IFRS , a relationship that has not received sufficient attention from academics in general, especially in the Iraq Stock Exchange.

Therefore, the research derives its importance from its contribution to studying and testing the impact of adopting IFRS on the relationship between accounting conservatism and the cost of equity. Moreover, the practical importance of the research comes from its efforts to provide applied evidence based on the reality of the Iraq Stock Exchange regarding the nature of the relationship between accounting conservatism and the cost of equity, and to verify the extent to which this relationship is affected by adopting IFRS .

Third- Research objectives:

The main objective of this research is to test the impact of adopting International Financial Reporting Standards (IFRS) on the relationship between accounting conservatism and the cost of equity in companies listed on the Iraq Stock Exchange. From this goal the following is derived:

- Testing the impact of accounting conservatism on the cost of equity.
- Testing the impact of accounting conservatism on the cost of equity in the context of adopting IFRS as a moderating variable.

Fourth: Research hypothesis: .

Research hypotheses can be identified as follows:

1. The first main hypothesis: There is no statistically significant correlation between the impact of adopting International Financial Reporting Standards (IFRS) on both accounting conservatism and the cost of equity . The following sub-hypotheses emerge from this conclusion :

✓ There is no statistically significant correlation between the adoption of International Financial Reporting Standards (IFRS) and accounting conservatism .

✓ There is no statistically significant correlation. The impact of adopting International Financial Reporting Standards (IFRS) on the cost of equity

2. The second main hypothesis: There is no significant impact of adopting International Financial Reporting Standards (IFRS) on both accounting conservatism and the cost of equity . The following sub-hypotheses emerge from this :

✓ There is no significant impact of adopting International Financial Reporting Standards (IFRS) on the level of accounting conservatism .

✓ There is no significant impact of adopting International Financial Reporting Standards (IFRS) on the cost of equity.

✓

Fifth: Research limits:

1- Spatial limits: It is limited to a group of companies in the Iraq Stock Exchange.
2- Time limits: The time limits are for the period (10/1/2024 to 4/1/2025)

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Sixth: Research method :

The research relied on both the deductive and inductive approaches, as the deductive approach was adopted in reviewing the literature of previous studies from Arab and foreign writings and periodicals related to the research topic in writing the theoretical framework of the research and using the inductive approach to explore and explain the nature of the relationship between the study variables.

(1-2): Previous studies:

First: A study by Muthanna Rokan Jassim (2020) on the impact of applying International Financial Reporting Standards (IFRS) on the level of accounting conservatism, by analyzing a sample of companies listed on the Iraq Stock Exchange .

The study aimed to verify the extent to which the degree of conservatism in the financial statements of Iraqi companies listed on the Iraq Stock Exchange can be reduced through the adoption of International Financial Reporting Standards (IFRS). The sample consisted of 10 Iraqi banks listed on the Iraq Stock Exchange for the period from 2012 to 20177. The research was based on a main hypothesis that accounting standards significantly affect the degree of conservatism in the balance sheet and income statement. It was found that financial reporting standards have a significant negative impact on conservatism in the balance sheet only. As for conservatism in the income statement, IFRS has no significant impact. The researcher recommends adhering to a neutral approach when preparing accounting information

Second: Study Daniel Zeghal (2016) Zouhour Lahmar & On the impact of adopting international financial reporting standards on accounting conservatism in the European Union

This study aims to analyze the impact of mandatory adoption of international financial standards on accounting conservatism in a sample of 15 European countries observed from 2000 to 2010. We analyze both conditional and unconditional conservatism, respectively, by timely recognition of bad news compared to timely recognition of good news and discretionary accumulation.

The empirical study found a significant reduction in accounting conservatism during the period of adoption of international financial standards. This reduction is influenced by the prevailing accounting model in a given country. Furthermore, the study shows a narrowing of the gap between the two accounting models in the period following the adoption of international financial standards.

The results obtained may be relevant to many decision makers such as investors, standard setters, the International Federation of Certified Public Accountants, European Union countries, and also to those wishing to adopt international standards.

Third: Jian Zhang's study (2011), The impact of adopting international financial reporting standards on accounting conservatism: A New Zealand perspective .

This study investigates whether IFRS adoption has a positive impact on earnings quality as represented by accounting conservatism in New Zealand. The results show conditional conservatism for both the pre- and post- IFRS adoption periods . Furthermore, accounting conservatism increases after IFRS adoption in New Zealand. Finally, accounting conservatism improves for mandatory adopters but not for voluntary adopters after IFRS adoption . Thus, the overall results indicate that IFRS adoption in New Zealand has a positive impact on earnings quality, which is in sharp contrast to the results of previous studies/research in New Zealand.

This study contributes in several ways. First, it extends the empirical inference on the accounting impact of IFRS adoption by providing specific evidence on accounting conservatism in New Zealand. Second, my investigation differentiates the impact of IFRS on voluntary adopters from mandatory adopters. Finally, previous studies in New Zealand are limited in time and typically have financial data for only one year after mandatory IFRS adoption . By contrast.

Fourth: A study by Amina Hafsa and Abbas Farhat (2019) on the impact of applying International Financial Reporting Standards (IFRS) on evaluating the financial performance of institutions listed on the stock exchange .

The study aimed to measure and analyze the impact of applying International Financial Reporting Standards (IAS/IFRS). To evaluate the financial performance of listed companies, through a case study of the Biopharm Group listed on the Algerian Stock Exchange in 2019.

The researchers adopted an analytical approach to study the theoretical relationship between the research variables, in addition to a case study approach to analyze the content of the group's financial statements. The study concluded that the implementation of international financial reporting standards positively impacts financial return and overall financial performance by providing high-quality financial information that reflects the true financial position of the organization, which helps shareholders make appropriate decisions .

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Fifth: Study by Daniel Zeghal & Zouhour Lahmar (2016 The impact of adopting International Financial Reporting Standards on accounting conservatism in the European Union.

This research aims to analyze the impact of the mandatory adoption of International Financial Reporting Standards (IFRS) on accounting conservatism. The empirical study was conducted on a sample of 15 European countries over the period from 2000 to 2010. We analyzed both conditional and unconditional conservatism, measured by the speed of recognizing bad news compared to good news (conditional conservatism) and discretionary adjustments (unconditional conservatism). The study results revealed a significant decline in accounting conservatism during the IFRS adoption period. This decline is influenced by the prevailing accounting model in each country. The study also shows a narrowing of the gap between the two different accounting models after the adoption of IFRS.

Axis II: The conceptual framework of International Financial Reporting Standards (IFRS)

(2-1): The concept of international financial reporting standards:

International Accounting Standards (IASs) are a set of standards issued by the International Accounting Standards Committee (IASC), which was established in 1973 with the aim of enhancing the comparability of business operations globally and increasing transparency and credibility in financial reporting .

In 2001, the International Accounting Standards Board (IASB) was established to replace the former IASC and is responsible for issuing standards, including International Financial Reporting Standards (IFRSs).

Hence, the term IFRSs has two different meanings :

- Narrow meaning : Refers to a new numbering of standards in order to distinguish them from old standards .
- Broad or comprehensive meaning : It represents an evolution and expansion of accounting and financial reporting concepts and also includes interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRSI). (Abdoun and Hamdan, 2019: 3)

It is defined as an activity aimed at serving the needs of external users who lack the authority and permission to determine the financial information they require from the economic entity. Therefore, they must use the information provided to them by management (Al-Amiri, 2003: 45).

Some consider financial reporting to be external disclosure or reporting , focusing on providing general financial reports to meet the general needs of external users who cannot directly access their private information from the reporting unit. (Abbas Yahya Al-Tamimi, 2018: 543)

The European Financial Reporting Advisory Group has defined the concept of international accounting standards based on its own objectives, which seek to provide a basis for assessing the financial position and performance of an economic entity .

These standards focus on explaining how an economic entity generates funds and how capital providers receive appropriate returns for the resources they invest. They also outline the entity's exposure to risks and the mechanisms it uses to mitigate those risks .

Therefore, the International Financial Reporting Standards (IFRS) consist of :

- International Accounting Standards (IAS)
- SIC Interpretations
- International Financial Reporting Standards (IFRS)
- IFRIC Interpretations

All of them are issued by the International Accounting Standards Board (IASB). The IFRS Foundation , which was established in 2000, is the body responsible for supervising all aspects related to the standards except for the process of developing them themselves. The Foundation supervises the work of the International Accounting Standards Board and operates under the supervision of the Oversight Committee .

The idea behind establishing this institution is for the Council's members to focus solely on formulating accounting standards, without being concerned with administrative and organizational aspects, to ensure the quality and independence of the standards development process(Deloitte, 2015, 15)

(2-2): The importance of international financial reporting standards:

The application of accounting standards contributes significantly to enhancing the efficiency and objectivity of the accounting system's outputs . Objective accounting measurement cannot be achieved without an integrated theoretical framework that guides the application process. In the absence of these standards, accounting chaos may prevail, as the methods for handling the same accounting transactions differ from one accountant to another, leading to inconsistent results.

These gaps may open the way for some accountants to exploit the system for fraud or manipulation, which weakens the fairness and credibility of accounting information and negatively affects users' confidence in it . (Al-Sufi, 2006: 63)

This and the International Financial Reporting Standards (IFRS) contribute In enhancing transparency by improving international comparability and raising the quality of financial information Which helps investors and all market participants to make informed economic decisions. This is evident through :

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- Enhancing accountability by bridging the information gap between investors (capital providers) and the entities that manage these funds .
- Providing reliable financial information that is used globally Which enables management to be held accountable effectively .
- Providing data of great importance to regulatory and supervisory authorities in various countries around the world .
- Contributing to economic efficiency by helping investors identify opportunities and risks globally and thus improve capital allocation.
- Using a single, reliable accounting language reduces the cost of capital and lowers international reporting costs for companies.

The motivation behind international convergence in accounting standards is to facilitate the free flow of capital, allowing investors in the United States, for example, to finance businesses in China or any other country. Moreover, the issuance of accounting standards aims to reduce effort and personal judgment in professional matters and reduce differences in accounting practices for similar circumstances (Abdul Aoun and Hamdan, 2019:3)

In addition, as disclosures become standardized, small investors are likely to find themselves in a better position relative to investment professionals. The comprehensiveness and understanding of IFRS allows them to make informed trading decisions. Adopting IFRS leads to cost savings for multinational companies by simplifying the standardization process and eliminating many of the discrepancies previously encountered. (Nour Abdel Salam Khalil, 2022: 22)

(2-3): Determinants of applying International Financial Reporting Standards

Despite the great importance of implementing international accounting standards and the many advantages they provide However, its implementation is not without some restrictions and challenges. Which can be summarized in the following points (Amina Hafsa, 2019 : 274)

- Difficulty of global comprehensive application and This is due to the differences in cultural, economic and political environments between countries, which makes it difficult to standardize implementation worldwide .
- Multiple alternatives in measurement and disclosure where International accounting standards provide multiple options in measurement and disclosure rules. This may lead to variations in application methods among accountants. It weakens the comparability of financial statements .
- Differences in levels of education and qualification In developed countries , standards are often easily applied due to the availability of qualified personnel. While the difficulty of understanding and applying it constitutes a major challenge in developing countries due to the low level of professional qualification .

Despite these and other obstacles, numerous solutions and guidelines have been put forward to address the challenges, by developing accounting policies and methods to facilitate implementation and overcome difficulties in various accounting environments .

Axis III: The conceptual framework for accounting conservatism and property rights

(3-1): The concept and advantages of accounting conservatism

First: The concept of accounting conservatism: defined by (Givoey & Hany, 2000: 122)

A method of choosing between accounting alternatives by selecting and disclosing the lowest values for assets and revenues and the highest values for expenses. Accounting conservatism can also be interpreted as the accountant's tendency to seek a higher degree of verification to recognize good news compared to bad news in the financial statements. According to this interpretation, earnings are affected by bad news more quickly than they respond to good news.

Based on the above, it is understood that accounting conservatism is a principle that requires recording potential losses and recognizing them in the financial statements, even in the presence of weak or moderate evidence. While profits are not recognized until they are actually realized and there is strong evidence to confirm their occurrence .

And so Accounting conservatism can be interpreted as the tendency of an accountant to adopt a higher degree of verification when dealing with positive news (such as earnings). Compared to what is used when dealing with negative news (such as losses) This reflects professional caution aimed at avoiding exaggeration in presenting financial performance .

This concept does not mean reducing the real value of the company's assets and revenues. It does not mean that it is only used in difficult situations surrounded by doubt and ambiguity.

Second: Advantages and disadvantages of accounting conservatism: Opinions varied between those who support and oppose accounting conservatism. Some of the advantages can be summarized as follows: (Al-Najjar, 2013: 183)

1. Imposing conservative accounting policies helps in managing earnings. Reducing information risks and agency risks Especially during financial crises.

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2. Financial reports characterized by conservatism provide signals to users that the accounting information disclosed is of high quality. Therefore Companies with high levels of conservatism in their financial reporting are therefore less vulnerable to the risk of their stock prices falling .
3. It contributes to protecting the accounts of potential creditors. Which reduces the cost of debt and also contributes to mitigating various risks within the project. Including the risk of bankruptcy.

Despite the positives that reservation offers However, there are flaws that reflect the opposing view of reservation, including the following: Belqawi, 2009:346

1. Since accounting conservatism reflects the accountant's point of view Therefore , it leads to financial disclosure that shows lack of neutrality, distortions and possible concealment. Therefore The use of accounting conservatism is inconsistent with the qualitative characteristics of accounting information . like Honest representation , impartiality in writing, disclosing and understanding financial statements
2. Deliberate understatement and reduction of current period revenues and profits leads to accumulation and inflation in the data of subsequent periods.

In the context of the advantages and disadvantages of conservatism, it can be said that anything that is not neutral is considered unethical. Almost everyone agrees that conservatism primarily serves the interests of creditors because it helps enhance the value of a company's cash assets when the interest of one group outweighs that of another. Accounting information becomes misleading, and despite the benefits provided by conservative practices, the resulting negatives can be even more devastating. This is evidenced by the extent of the damage caused by the recent global financial crisis due to the use of accounting practices that adopted a non-conservative approach to measuring period income. These effects are reflected in stock prices, resulting in the market value of companies not reflecting their true worth.

On the other hand, adhering to a conservative approach will ultimately lead to the same result. Therefore, the Accounting Standards Board emphasized the need for information preparers to be neutral and ensure that the information is appropriate for all parties without favoring the interests of one group of users over another. Thus, the issue of making conservative decisions shifted from information preparers to users of accounting information.

(3-2): Types and measures of accounting conservatism

First: Types of accounting conservatism

Accounting conservatism is divided into two types:

1. Conditional reservation : also known as a posteriori or news-based reservation . Refers to the reduction in the value of net assets in the accounting records when negative or undesirable events occur. Without increasing those values when positive events occur. A common example of this type of conservatism is using the lower of cost or market value when valuing inventory. And recognizing the decline in the value of long-term assets, whether tangible or intangible . (Ryan, 2006: 271)

According to this concept of accounting conservatism, recognition of bad news is given priority over good news, and this approach is also known as earnings conservatism. This means that this type of reservation depends on the occurrence of certain events. The method of processing them is determined in advance by the company in accordance with its accounting policies.

2. Unconditional reservation : also known as prior reservation or non-reliance on news. It consists of choosing pre-existing accounting policies to deal with assets and liabilities. Which leads to a reduction in the book value compared to the market value of net assets over the life of these assets or liabilities An example of this type of conservatism is adopting a specific method for depreciating fixed assets that exceeds the normal depreciation level. Also, using historical cost accounting to recognize internally generated projects that have a positive net present value. As expenses rather than capitalizing them in the financial statements .

This type of conservatism involves the company's commitment from the outset to recognize the book value of net assets at a value lower than the expected market value over the life of the asset. Examples of this type include the immediate recognition of research and development expenses for internally generated intangible assets and the depreciation of property and equipment faster than their economic depreciation. (Nazim Shaalan Jabbar, 2017: 111)

Both concepts of conservatism lead to a decrease in asset values, but they differ in their ability to convey good information through financial statements. Immediate recognition of losses leads to a conditional decrease based on the type of news, while the application of conservative accounting methods leads to a decrease through a systematic allocation of the cost over the productive life of the asset without reflecting good information about changes in asset values.

Second: Models for measuring accounting conservatism

Accounting literature has focused on measuring accounting conservatism based on the idea that accounting conservatism generally understates the book value of stocks relative to their market value and income relative to operating cash flows. The following measures of conservatism will be used:

1. Asymmetric Earnings Timing Model

This model measures the relationship between earnings and stock returns based on how quickly accounting earnings respond to bad news compared to good news.
This is done by formulating a regression equation using the least squares method, with accounting profits as the dependent variable and stock returns as the independent variables.
Positive stock returns are considered a proxy for good news, while negative returns are considered a proxy for bad news.
The greater the degree of variability in profit recognition, the lower the value of net assets.
This measure is called asymmetric earnings timing because accounting conservatism reflects bad news in earnings more quickly than good news. The greater the asymmetric timing, the greater the degree of conservatism. (Saad El-Din, 2014: 235)
This model highlights the importance of understanding how news and information impact earnings reports, reflecting the market's response to changes in economic conditions.

2. Total Entitlements Form:

According to this model, total accruals are measured by calculating operating income before extraordinary items, adding depreciation, then deducting operating cash flows, after which the result is divided by total assets. (Al-Desouki, 2021: 630)
This model can be expressed in the following formula:
{Total Accruals} = {(Operating Income + Depreciation} - Operating Cash Flows} × -1 / {Total Assets}}
- **Operating income**: represents the profit generated from the company's core activity.
- **Depreciation**: It is added because it reflects the cost of fixed assets.
- **Operating cash flows**: They are discounted because they represent money leaving the company.

This model helps analyze how efficiently management uses assets to generate profits.
It is considered a measure of financial evaluation as it indicates the company's ability to generate benefits compared to total assets.
It enhances understanding of the relationship between operational performance and available financial resources.

3. Negative entitlements model:

This model is based on the relationship between accruals and cash flows from operating activities, using negative non-operating accruals and the rate of accumulation of these accruals as an indicator of accounting conservatism in the financial statements.
This measure is based on the assumption that accounting conservatism leads to the emergence of negative non-operating accruals. This occurs because conservatism leads to the recognition of expected losses early, while delaying the recognition of expected gains. Givol & Hayn , 2000: (290)
As this pattern continues, the company's level of non-operating accruals becomes negative over time.

4. Model of the relationship between the market value and the book value of equity

This model is based on measuring accounting conservatism in two waysbased on the assumption that accounting conservatism is the reason for the difference between the market value of equity and its book value.

1. When the market value of equity exceeds its book value by more than one, this is considered an indication of conservative accounting practices
2. The second method involves calculating the ratio of the book value of equity to its market value. If the ratio is less than one, this is evidence of the application of accounting conservatism (Almaleeh, 2000: 130) .

These methods highlight the relationship between market perceptions and the underlying accounting practices reflected in the financial statements.

(3-3): Motives for applying accounting conservatism:

Regarding the motivations for applying accounting conservatism, several factors encourage companies to adopt conservative accounting policies. These motivations can be classified into contractual motivations related to the relationship between shareholders and management, on the one hand,and the relationship between shareholders and creditors, on the other.
Regarding the contractual motives associated with the relationship between shareholders and management, accounting conservatism helps mitigate opportunistic management behavior related to earnings management and concealing bad news, which maximizes their rewards at the expense of capital holders. This reduces potential losses resulting from information asymmetries between shareholders and management, thus mitigating the agency problem and enabling shareholders to better assess the company's future performance and closely monitor the actions of managers.
As for the contractual motives between shareholders and creditors accounting conservatism reduces the problem of information asymmetry between lenders and borrowers by providing warning signals about the company's performance

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and recognizing losses in a timely manner. This protects lenders from lending risks and allows them to monitor the company's financial indicators, which enhances their ability to monitor and evaluate the company's financial performance. It also reassures lenders that these contracts are not violated. This may lead lenders to lower interest rates on loans, thus reducing the cost of borrowing (Hamad, 2018: 323).

As for legal motives, accounting conservatism helps reduce the risk of lawsuits and compensation that a company may face if it overstates its financial position by placing high valuations on earnings and net assets (Abdul Rahim, 2021: 340).

(3-4): The conceptual framework for the cost of equity:

(3-4-1): The concept of the cost of equity:

Equity represents the source of financing provided by shareholders in exchange for returns such as dividends. It is a common financial indicator used by analysts to assess a company's financial position. Equity is calculated as the difference between a company's total assets and its total liabilities. It is also defined as the value returned to shareholders after all of a company's assets are liquidated and all of its financial obligations are paid .

It can be expressed as the rate of return that shareholders wish to obtain from their investments in the company, which includes the return from dividends on common shares, while preferred shares receive a fixed percentage of dividends paid periodically, depending on the type of share, whether it is cumulative or non-cumulative. The cost of the share is calculated using the following equation: Rp = D/P0 (Iman Muhammad Saad, 2023: 315)

Where Rp is the cost of preferred stock.

D Fixed dividend distributions

P0 Market price of preferred stock

To determine the cost of equity based on the expected return on investments given current risk levels, common measurement models are used.

(3-4-2): Models for determining the cost of equity:

These models are based on two main approaches to measuring the cost of equity. The first approach relies on prior estimation of this cost based on financial analysts' earnings forecasts, while the second approach focuses on stock returns. These models include the following:

1. Capital Asset Pricing Model (CAPM): This model is based on the balance between return and risk and aims to calculate the minimum expected return on invested funds to compensate the shareholder for systematic risk, which is the general risk that may affect the expected return. This is measured using the beta coefficient, which indicates the sensitivity of stock return volatility relative to the market portfolio return (i.e., the stock price index). The return is measured using the following regression equation. (Jones and Lumby, 2003) :

$$RE = RF + \beta E\ (Rm - RF$$

where :

Re : Expected return on company shares

Rf risk-free interest rate It means investing money in a field that is not exposed to risks, such as the returns on government securities with a fixed maturity date, such as treasury bills and bonds.

βE is the beta coefficient of the company's shares , which is the risk premium measured by the difference between the market return and the risk-free return.

Rm expected market returns for stocks

This model is criticized because it is limited to differences in the cost of equity between firms based on differences in beta coefficient, ignoring the effect of other risk elements such as estimation risk, which reduces its suitability for measuring cost.

2. Fama -French model : This model assumes that the expected rate of return depends on three elements of risk: market return, company size, and market value rate. The content of this model is expressed by the following equation: (Iman Muhammad Saad al-Din, 2023: 319)

$$rt = RFt + \beta 1\ (Rm - RF)t + \beta 2\ SMBt + \beta 3\ HMLt$$

rt) represents the expected return on stocks in period (t) expresses the market return for period (t) and SMB indicates the size of the company in period t and the ratio of book value to market value in period t . This model has been used in many applied studies, either as is or after modifying it by adding some variables representing market risks affecting stock returns.

3. Models based on accounting profits: These include the following : (Gebhardt et al., 2001:150)

a. Price-to-Earnings (P/E) Model: This metric links the closing price of a stock to the expected total earnings per share. A higher P/E ratio indicates a lower cost of capital, as investors are willing to pay more for lower earnings.

B. b. Realized Return Model: This model focuses on realized returns subsequently as an unbiased indicator of the cost of equity, assuming an efficient financial market (meaning that the market value of the stock equals its fair value). It is calculated as an average of monthly returns over a fiscal year, representing the required market return,

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especially when calculated for a large sample of companies, excluding observations with negative return values. Many applied studies have applied accounting earnings models to measure the cost of equity. A negative P/E ratio (for a company/year) is often excluded due to its difficulty in interpretation, which leads to a lower rate for some unprofitable companies.

Fourth axis: the practical aspect

This part of the study presents the research methodology. In order to achieve this goal, the researchers will discuss the research community and the study sample, the procedures used in the applied study, the statistical methods used, and the results of testing the study hypotheses, as follows:

1. Research community and sample

The applied aspect of the study aims to test the main hypotheses of the study by using data obtained from the Iraqi Stock Exchange for companies http://www.isx-iq.net/isxportal/portal/companyGuideList.html listed in the following table:

T	Company Name	Years of study
1	**Baghdad Iraq Company for Public Transport and Investments**	**2023 – 2016**
2	**Iraqi Carpets and Furnishings Company**	**2023 – 2016**
3	**Baghdad Soft Drinks Company**	**2023 – 2016**
4	**Baghdad Packaging Materials Manufacturing Company**	**2023 – 2016**
5	**Modern Sewing Company**	**2023 – 2016**
6	**Al-Kindi Company for the Production of Veterinary Vaccines and Medicines**	**2023 – 2016**

Table No. (1) Study samples

From the previous table the following is clear:

The researchers relied on collecting data on the study variables for seven consecutive years, starting from 2016 and ending in 2023. The researchers extracted and collected the financial data from the income statement and the financial position statement of the above companies.

2. Legal correlation coefficients table

Canonical Function	Correlation	Eigenvalue	Wilks Lambda	F	Number DF	Denom DF	Sig.
1.0	**1.0**	**4503599627370495.0**	**0.0**	**98537660.213**	**15.0**	**94.26**	**0.0**
2.0	**1.0**	**15501.251**	**0.0**	**1105.145**	**8.0**	**70.0**	**0.0**
3.0	**0.208**	**0.045**	**0.957**	**0.545**	**3.0**	**36.0**	**0.655**

Table No. (2)

The table above shows the results of the legal correlation coefficients between the set of independent variables (capital structure, accounting conservatism, and equity) and the dependent variables (net income, company size, company capital, total assets, financial leverage, and return on assets).

The first and second canonical functions show perfect canonical correlation coefficients (1.000), with a very strong statistical significance (Sig. = 0.000), indicating the existence of strong relationships between the two groups. In contrast, the third function shows a weak correlation (0.208) and is not statistically significant (Sig. = 0.655), indicating its lack of explanatory significance.

3. Standardized coefficients of independent variables

variable	Function 1	Function 2	Function 3
Capital structure	**-0.146**	**-0.278**	**1.0**
accounting conservatism	**-1.05**	**0.001**	**0.0**
intellectual property rights	**0.0**	**-1.038**	**-0.328**

The table above illustrates the relative impact of the independent variables on each legal function. It is evident that "capital structure" contributes strongly to the third legal function, while "accounting conservatism" exhibits a clear negative impact on the first function, and "owner's equity" contributes significantly to the second function.

4. Standardized coefficients for dependent variables

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variable	Function 1	Function 2	Function 3
net income	0.547	-0.005	0.0
Company size	1.759	-0.155	0.0
Total assets	-2.254	-0.881	0.0
Financial leverage	-0.017	-0.277	1.0
Return on assets	-0.917	-0.001	0.0

The values in the table above reflect the contribution of each dependent variable to shaping legal functions. The high standardized correlation of "firm size" and "total assets" with the first function indicates their significant influence on the structure of the first legal relationship, while "financial leverage" exhibits an exclusive influence on the third legal function.

5. Legal loadings of independent variables

variable	Leverage function	Function related to total assets and equity	Function related to firm size and net income
Capital structure	0.0	0.0	1.0
accounting conservatism	-0.952	0.301	-0.055
intellectual property rights	-0.268	-0.963	-0.001

Legal loadings demonstrate the extent to which the independent variables are related to the legal functions. Capital structure appears to be strongly related to the third legal function, while equity is one of the most important variables in the second function, and accounting conservatism has a significant inverse effect on the first function.

6. Legal loadings of dependent variables

variable	Leverage function	Function related to total assets and equity	Function related to firm size and net income
net income	0.155	-0.804	-0.254
Company size	0.074	-0.946	-0.281
Total assets	-0.264	-0.964	-0.015
Financial leverage	0.0	0.0	1.0
Return on assets	-0.819	-0.075	-0.061

The loadings in the table above show the contribution of each dependent variable to the legal functions. We note that "total assets" and "firm size" have a strong negative relationship with the second function, while "financial leverage" represents the pivotal component of the third legal function, showing that each function is related to specific sets of variables.

7. Cross-loadings of independent variables

variable	Leverage function	Function related to total assets and equity	Function related to firm size and net income
Capital structure	0.0	0.0	1.0
accounting conservatism	-0.198	0.301	-0.055
intellectual property rights	-0.268	-0.963	0.0

The cross-loadings in the table above reflect the extent to which the independent variables are related to the legal functions, taking the legal correlation coefficient into account. Capital structure is prominent in the third function, equity in the second, and accounting conservatism appears moderately in the first.

8- Cross-loadings of dependent variables

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variable	Leverage function	Function related to total assets and equity	Function related to firm size and net income
net income	0.032	-0.804	-0.254
Company size	0.015	-0.946	-0.281
Total assets	-0.003	-0.964	-0.015
Financial leverage	0.0	0.0	1.0
Return on assets	-0.171	-0.075	-0.061

The cross-loadings of the dependent variables in the table above show how each of these variables contributes to the legal functions. "Financial leverage" appears strongly in the third function, while "firm size" and "total assets" dominate the second function, and "net income" exhibits a moderate loading in the first function.

9- Explained variance ratios

Legal function	Set 1 explains same	Set 1 explains Set 2	Set 2 explains same	Set 2 explains Set 1
Associated function Company size Net income	0.358	0.358	0.243	0.243
Associated function Total assets and property rights	0.34	0.34	0.495	0.495
Leverage function	0.302	0.013	0.14	0.006

The table above shows the percentage of variance explained by each canonical function within and across groups. The first and second functions explain a significant percentage of the variance (35.8% and 34.0%) in both the independent and dependent variables, reflecting their explanatory power. The third function, however, explains a very small percentage of the variance across groups (1.3%), making it of limited statistical significance.

CONCLUSIONS AND RECOMMENDATIONS:

First: Conclusions: This research aimed to study and analyze the impact of accounting conservatism as an independent variable on the cost of equity as a dependent variable, in addition to testing the role of adopting International Financial Reporting Standards (IFRS) as a moderating variable that affects the relationship between accounting conservatism and the cost of equity. Through the study, the researchers reached a set of important results, which shed light on the nature of the relationship between these variables and how the cost of equity is affected by the level of accounting conservatism in light of the application of international standards. The research reached the following results:

A. Conclusions of the theoretical aspect :

1. Implementing International Financial Reporting Standards (IFRS) To reduce the level of accounting conservatism This is because these standards are based on the principle of fair value and transparency in presenting financial information. Instead of the traditional conservative approach that favors caution in recognizing profits and a tendency to recognize losses early.
2. IFRS standards enhance transparency Comparability and accounting disclosure Which directly contributes to raising the quality of financial statements. External users can Especially investors To make more accurate economic decisions based on reliable information.
3. IFRS implementation contributes to reducing the cost of equity. This is due to the improvement in the level of confidence among investors in the published financial information. In addition to the low degree of risks associated with uncertainty in financial data and reports.
4. The voluntary or mandatory implementation of IFRS standards has increased investor confidence in financial markets, which has had a positive impact on companies by improving their opportunities to obtain financing at lower costs, as a result of reduced risks and enhanced financial transparency.

B. Conclusions of the practical side

The results from the canonical correlation analysis indicate that there are two main patterns of relationships between the independent and dependent variables, as follows:

1. The first legal function is essentially related to the variables of size and income, which indicates that capital structure and accounting conservatism play an important role in influencing the key performance indicators.

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2. The second legal function reflects a financial dimension based on total assets and equity, while the third function, despite including financial leverage as a key component, its overall explanatory contribution remains weak.

Second: Recommendations:

The researchers recommend focusing on the first and second functions when constructing explanatory and predictive models, given the significant statistical and moral interpretation they provide.

1. Work on issuing legislation and establishing appropriate controls and mechanisms to ensure effective oversight of the performance of company managements, with the aim of limiting negative information withholding practices and reducing information asymmetry and uncertainty, thus contributing to enhancing investor confidence and reducing the cost of capital.
2. The Financial Regulatory Authority must require companies to apply an appropriate level of accounting conservatism ,such that such conservatism is not exaggerated, and companies must disclose the level of conservatism practices followed, which contributes to enhancing companies' continuity and protecting their entities, especially in light of economic crises.
3. The importance of compliance with international financial reporting standards Affirmation of (IFRS) By all parties involved in accounting work, including: professional bodies, stock markets, government agencies, companies, and end users of financial reports.
4. Encouraging companies, especially in developing countries, to adopt IFRS standards early , as this will help reduce the information gap and improve the quality of financial statements, which will positively impact the cost of equity and enhance investor confidence.
5. Preparing training and awareness programs for accountants and auditors. It aims to enhance understanding of the relationship between accounting conservatism and IFRS standards , and to ensure their correct application that reflects the true financial reality of companies.
6. The importance of conducting continuous field studies To evaluate and analyze the actual impact of applying IFRS standards on the level of accounting conservatism over time, and in multiple environments and markets, especially in light of local and global economic changes.

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