The Effect of Accounting Conservatism on the Persistence of Earnings of the Banks Listed on the Iraq Stock Exchange

Basim Mohammed Merhej
Al-Muthanna University of Iraq

Sections Info	ABSTRACT
	Objective: This study examines whether accounting conservatism is associated with improved earnings persistence of commercial banks listed in the Iraq Stock Exchange (ISX), and whether this association is conditional on (i) the level of corporate governance and (ii) report reforms aligned with IFRS. *Method:* Based on a balance sheet of publicly disclosed financial statements and reports concerning the governance of financial statements of banks (1987 or later) (2020-2024, Source: Bank for International Settlements). conditional conservatism (ULI). proxied using the accrual-cash flow asymmetric loss recognition framework of Ball and Shivakumar. See earnings persistence using the autoregressive model in which current earnings depend on lagged earnings. *Results:* The results show evidence of conditional conservatism that is statistically significant with the interaction between operating cash flows and an indicator for the presence of negative cash flows having a positive and significant effect, consistent with loss recognition being more timely when compared to gain recognition. Earnings also have moderate-to-high persistence (positive and significant lagged earnings coefficient less than unity), so that the current earnings have some meaningful information about their future earnings, but are not perfectly permanent. Further analyses indicate that corporate governance reinforces the conservatism-persistence relationship: the conservatism x governance interaction is positive and significant, which is suggestive of stronger monitoring and oversight increasing the degree to which conservative reporting is followed by more sustainable earnings. Finally, IFRS-consistent reform periods are linked to a stronger relationship between conservatism and persistence, as we demonstrate by the presence of a positive and significant effect of the interaction between conservatism and IFRS. *Novelty:* Collectively, the findings suggest that, in an institutionally changing market like Iraq, conservatism can enhance earnings sustainability, particularly when it is combined with better governance and more sensible reporting regimes.

INTRODUCTION

The concept of conservatism in accounting, which is essentially the propensity of financial reporting to acknowledge economic losses sooner than economic gains, has been traditionally interpreted as the hallmark of quality accounting information since it may alleviate managerial optimism, limit opportunistic disclosure, and expose more believable performance indicators to the investors and creditors [1], [2]. These informational properties are especially material in capital markets whereby participants are very dependent on the published financial statements to determine firm value, observe stewardship and distribute limited capital. It is further enhanced in the emerging and frontier markets where the asymmetry of information, conflicts in enforcement and heterogeneous reporting practices could be more, thus making the value of conservative reporting to boost a governance and contracting tool [3], [4].

One of the key consequences that could be influenced by conservatism is earnings persistence which is often defined as the degree to which the current earnings can be used

to predict a future earning and cash flow. Persistent earnings are generally considered to be of better quality and more sustainable as such that represent persistent economic performance and not transitory accrual adjustments or a one-off item [5], [6]. As capital market agents tend to value firms on the basis of future performance, relationship between the persistence of earnings and valuation, the cost of capital, and the investment choices are directly correlated [5], [6]. Theoretically, conservatism may mediate between persistence in a number of ways. The early identification of losses might decrease the chance of transferring overstated assets or inflated earnings into the future that will improve the predictability of reported performance [1], [3]. Meanwhile since the conservatism enhances the speed at which losses are recognized, can boost the transitory element of the earnings during bad news periods, it can mechanically decrease the transparency aspect of the earnings in certain environments [1]. This is one of the reasons why the conservatism-preservation relationship is an empirical question that will be determined by the institutional setting, incentive and accounting standards and enforcement.

These problems assume a special significance in the Iraqi capital market. The Iraq market structure and reporting environment have been developing in concert with more general institutional and regulatory changes and the companies and regulators have had more practical issues, which concern accounting capacity, audit quality and application of international standards consistently. In the case of Iraq, the previous issues with capacity and quality-assurance of the accounting and auditing environment have been pointed out by the World Bank and the necessity to deepen the professional education, control, and enforcement mechanisms of international standards [7]. These institutional facts may influence not only the demand of conservative reporting but also the degree to which conservatism is transformed into more informative and decision useful earnings.

Reporting quality is one more topic which is discussed in Iraq and which relates to the overall course of IFRS spread and industry-specific needs. The jurisdictional profile of the IFRS Foundation in Iraq recognizes national professional organizations and standard-setting bodies as part of supporting and promoting the adoption of IFRS Standards which is a process not a unified and economically-wide process [8]. Besides, traces of IFRS-related implementation activities are especially apparent in the banking and state financial control setting. To provide an example, Central Bank of Iraq has recorded elements of adoption and implementation activities of IFRS (especially of IFRS 9) in its financial reporting and compliance framework, showing how regulatory motivations can influence reporting behaviour in systemic parts of the economy [9]. These relationships imply that the accounting practices of listed firms in Iraq may be heterogeneous and thus the direct consequences of the heterogeneity of accounting practices on the conservativeness of reported numbers and, therefore, the sustainability and predictability of earnings.

Iraqi environment is also starting to draw more academic interest on the issues of governance, disclosure and quality of reporting. Empirical studies about the relationship between governance systems and the utilization of the IFRS have currently studied the

quality of financial reporting with respect to the presence of robust governance systems in Iraq and implicates the joint effects of standards and institutional structures in an efficient and productive promotion of the usefulness and credibility of financial reports [10]. Although these studies are offering valuable building blocks, the exact relationship between the conservativeness in accounting and sustainability / persistence of earnings is not fully investigated in Iraq, specifically to the listed companies, working in the framework of market discipline and shareholders reviewing in pursuits of earning moderation. This contrast is important as earnings persistence is not just an academic construct, but a practical signal of either reported profits being evidence of repeatable operating performance or accruals motivated by discretion, delayed loss recognition, or poor monitoring that is particularly acute in the context of an enforcement system and information intermediation that remains in its early stages [5], [6], [2].

In this light, the current research examines how the desired accounting conservativeness impacts earnings persistence among the Iraqi capital market listed firms. Theoretically, conservative accounting should also be able to increase the sustainability of earnings for any given company because it minimizes the overstatement and increases the accuracy of accruals of measuring performance thus making earnings more reliable indicator of underlying ability to generate cash flow [3], [4]. Empirically, this may be determined either using conventional measures of conditional conservatism, which include asymmetric timeliness measures, or using firm-year conservatism proxies (e.g. C Score framework), which were created to measure cross-sectional and intertemporal change in conservatism [1], [4]. The persistence of earnings, in its turn, can be assessed with the help of time-series relations of earnings and its components admitting the classic results that accrual-related components may have lower persistence in comparison to cash flow-related components because of reliability and estimation error [5], [6].

The contribution should be three times higher. First, the research adds to the body of literature on conservatism to a situation where evolving standards together with the enforcement capacity and market development could result in different patterns than those reported in developed markets [2], [8]. Second, it offers capital-market-relevant information concerning the sustainability of the earnings in Iraq which may be useful in supporting investors, lenders and regulators who may need to have a stronger indicator of the quality of performance of a firm. Third, the study also seeks to present subtle findings that are consistent with the asymmetric nature of conservatism that has been established in the original literature [1], [3], since it identifies conservatism as a stabilizing factor in earnings (via greater reliability) or as a restrictive one in downturns (via increased loss recognition)

The eventual question of how and whether accounting conservatism affects earnings persistence in Iraq is not an accounting technicality in itself. It answers overarching questions regarding how effective the informational provision in the Iraqi market is, whether the presented performance could be relied on and to what degree financial reporting could be a reliable foundation to allocate funds. With the Iraqi capital

market still maturing, and the stakeholders eager to increase its transparency and investor confidence, the evidence on the conservatism-persistence nexus may translate into the working implications based on the reporting policy, audit emphasis, corporate governance, and disclosure practice [7], [10], [9].

Theoretical Background

Accounting conservatism was traditionally considered as one of the major qualitative financial reporting features, that impact the accounting recognition, measurement and timing of numbers. Ideologically, conservatism is a rational reaction to uncertainty whereby there should be more verification to the realization of gains compared to losses thus causing asymmetric timeliness in earnings recognition [11]. Theoretically, conservatism is more an equilibrium than an accounting bias, as conservatism is a combination of contracting, litigation, taxation and regulatory forces that all require credible and reliable financial information [12].

Agency theory is one of the main theoretical foundations of accounting conservativeness. When there is a disincentive of ownership plus control, managers might have the motive to inflate performance in order to maximization of personal gain, including compensation or job security. Conservative accounting reduces these incentives by limiting the possibility of upward earnings manipulation and recognising poor performance faster thereby improving the control aspect of financial statements [13]. Conservatism should decrease the agency costs and enhance convergence between the interests of shareholders and managers by decreasing managerial discretion in recognizing gains.

In close connection with the agency considerations is the contracting theory which focuses on the importance of the accounting numbers in the debt and compensation contracts. Conservative reporting is beneficial to creditors, especially since the loss recognition allows the creditor to avoid the downside risk and acting on a debt covenant to intervene earlier in case performance of the firms goes down. According to the theoretical models, the more an external financing is demanded or the more often is the debt monitoring in the firm, then the higher is the likelihood that a firm operates under conservative accounting practices as a method of minimizing contracting frictions and the cost of capital. According to these contractual motivations, conservatism may be long term in its effects on the sustainability and believability of reported earnings.

Information asymmetry theory is also another theoretical perspective in which it is possible to explain conservatism. Financial reporting is an important tool of minimizing the discregancies between insiders and external stakeholders. Conservative accounting increases reporting earnings information by making sure that financial statements reveal the negative economic shocks in an opportune manner, and hence, the reliability of reported performance is enhanced [14], [15]. Conservatism might be particularly valuable in preserving investor confidence and capital market transactions in markets with weak information environment, little coverage by analysts, or in markets with less developed enforcement mechanisms.

In this context, the earnings persistence concept plays a central vital role in theory. Earnings persistence can be described as the level to which current period incomes can be used to forecast future incomes and it is often interpreted as earnings quality and sustainability proxy [16], [17]. When the persistence is high, the operating performances are usually steady, and the estimates of accruals are usually stable, but when it is low, the persistence is usually due to transitory factors, measurement error, or opportunistic reporting. There are, theoretically, duo perspectives of how accounting conservatism may impact on earnings persistence. Granted, on the one hand, conservatism can occur given that the predictive power of earnings in the long term can be improved in the context of minimizing overstatement and enhancing the reliability of accruals. Conversely, the early recognition of losses can result in increased volatility of earnings, especially when the economy is at a down turn and can reduce measured persistence in the short term.

This relationship is further explained by the accrual-based perspective of earnings. Earnings are made of cash flow elements and accrual adjustments which must be estimated and judged by the managers. Existing theory highlights the importance of the reliability of accruals as an important factor in ensuring the sustainability of earnings [18]. Conservative accounting has the effect and impact of mistrusting the accrual behavior to tighten the recognition thresholds, besides limiting the good estimates that may enhance quality of accruals and hence the earnings persistence. According to this mechanism, conservatism is an indirect working mechanism where accrual reliability but not just mechanical timing effects are used to influence conservatism.

The institutional theory is also applicable with pertinent insights to be learned especially in emerging frontier markets. There are institutional structures in which accounting practises are in place and these structures encompass legal systems, enforcement, the strength of professionals and culture [19]. Conservatism in these settings can be a kind of substitute to weak institutions as it partly fulfills a self disciplining reporting system which increases credibility in the free-absence of strong external enforcement. It is then theoretically anticipated that the effect and implications of conservatism such as its impact on earnings persistence are context sensitive and would not be the same across nations and capital markets [20].

When applied to the Iraqi capital market, these theoretical views can indicate that accounting conservativeness can be highly applicable in maintaining the quality of earnings. Considering the changing regulatory environment, non-homogenous accounting standards, and current concerns regarding developing corporate governance and financial reporting systems, conservatism has the potential to be an internal tool to enhance the accuracy and sustainability of the reported earnings. Theoretical arguments based on agency, theoretical and the information asymmetry and the institutional economics therefore informs the expectation that accounting conservatism does have a significant role in determining earnings persistence among listed Iraqi companies, as well as to explain the need to focus on the empirical study to capture context effects.

Literature Review

The accounting conservatism earnings sustainability relationship has been a subject of active research within the accounting literature per se due to the importance of each concept with regard to the quality and efficiency of financial reporting in the capital market. Various approaches have been adopted to understand accounting conservatism taking into consideration its determinants, measurement and economic implications, but earnings persistence has been extensively employed as an important proxy of earnings quality. This section examines the empirical literature that is relevant on the topic of evidence on relation to the association between the concept of accounting conservatism to earnings persistence and sustainability with gaps that necessated the study at hand in the Iraqi capital market setting.

Earlier empirical studies had recorded systematic conservatism in financial reporting through the systematic long run reduction in reported earnings to cash flows and book values indicating that accounting numbers are progressively conservative recognition practices. The following literature developed this line of research further by showing that conservatism does not cut across firms but rather depends on the characteristics of firms, the exposure of the firm to risks and institutional environments. Indicatively, Beaver and Ryan demonstrated that conservative accounting will result in net assets that are continuously understated that could affect the time-series characteristics of earnings and book values [21]. The implication of their findings is that conservative behavior has long-run consequences of informativeness and sustainability of reported earnings.

A great amount of literature has explored the economic implications of conservatism, especially how it has been utilized in improving earnings quality. As Francis et al. have proven, a lower cost of capital is enjoyed by firms whose earnings attributes are of high quality such as persistence and predictability [22]. Even though their research was not specifically on conservatism, it was able to establish earnings persistence as an important result that is appreciated by the capital markets. Expanding this framework, Lara et al. took a direct knowing look at whether or not conservative accounting advances the quality of earnings and they found that higher-ranking conservative firms are more likely to show more enduring and predictable earnings. These findings endorse the opinion that conservatism is able to heighten earnings sustainability through enhanced ability to rely on the accrual estimations.

The rest of the literature, however, points out that effects of conservatism on earnings persistence can have a dependency on economic conditions and type of news represented on earnings. This is because conservative accounting has been in the books of Ball and Shivakumar who noted that it expedites the accrual of economic losses which can cause volatility of earnings during low performance. Such asymmetry suggests that it is likely that conservatism will lessen the persistence of short-term earnings during a loss period and increase long-term credibility. On the same note, Paek et al. observed that conditional conservatism has implications in the transitory aspects of earnings in that

implies that the persistence estimates should be considered within the framework of reporting incentives of firms and business cycles [23].

The nexus of conservatism-persistence is also informed by accruals literature. According to Dechow et al., the persistence of earnings is directly related to the quality of the accruals as untrustworthy accruals are likely to turn in the future earning period and decrease sustainability [24]. Conservative accounting also limits the presence of overestimated accruals and would thus enhance the quality of accruals. This argument is supported by empirical findings by Kravet that indicate that conservative reporting is related to comprehensively adding more information into price and making more informative earnings announcement that indirectly reflects increased credibility and sustainability of earnings [25].

The cross-country studies demonstrate the role of the institutional context in the development of both conservatism and earnings persistence. Leuz et al. established that there are systematic changes between earnings management and the quality of reporting based on legal enforcement and investor protection regimes [26]. Firms in a weaker institutional setting can also be more dependent on conservative reporting instead of external monitoring. Likewise, the relationship between conservatism and earnings attributes in the above example varies country-by-country with regard to legal origin and the intensity of implementation. Such results indicate that findings in developed markets cannot be concluded as being applicable in emerging or frontier markets unless supported by empirical data.

Later literature has considered conservatism as a factor in IFRS implementation and financial reporting standards reforms. Andre et al. reported that the implementation of IFRS can change the level of conservatism inherent in earnings, with persistence and comparability implications [27]. Their findings suggest that transition standards do not suffice to identify the sustainability of the earnings of the companies; instead, the level of enforcement and incentive-level firm policies is instrumental. In new markets, where implementation of IFRS is either partial or heterogeneous, the relationship between conservativeness and earnings persistence is an empirical issue.

Even with the increased evidence on the international front, there is little research on Middle Eastern and frontier markets. The quality of earnings received in such markets has been the focus of research that has focused more on earnings management, value relevance or disclosure as opposed to the sustainability of earnings in themselves [28]. There is also empirical accounting research that is specially dearth in Iraqi context and empirical accounting research investigations are usually concerned with accounting performance, accounting governance, or accounting standards adherence, instead of the core earnings attributes. Consequently, there is not much first hand information on whether conservative accounting practices are associated with more sustainable earnings among companies listed in the Iraqi capital market.

Comprehensively, the body of research indicates that the possible impact of accounting conservatism on the enhancement of earnings persistence is not non-uniform or non-conditioned, as it may increase accrual reliability and reduce opportunistic

reporting. The quality of enforcement and the aspect of institutional factors as well as the economic conditions are the factors that are very crucial in influencing this relationship. This lack of empirical evidence, in Iraq, constitutes a significant gap, particularly with the fact that, the country is experiencing a changing regulatory environment, as well as development of the capital market. To fill this gap the present research will add to the existing body of literature in the context of the study in that it will give specific evidence on the impact of accounting conservatism on earnings sustainability in the Iraqi capital market.

Hypotheses

Within empirical studies on financial accounting, the earnings persistence (i.e. the predictive or forecasting ability of current earnings on future earnings) is often discussed as a fundamental part of the earnings sustainability and earnings quality. Conservatism in accounting applies when accounting and associated transactions require greater corroboration of earnings on the positive side than on the negative side, thus it may have an effect on the stability as well as predictive ability of earnings over a long period. The recent literature highlights the fact that the sign of the conservatism-preservation relationship can be contextual: the conservatism can enhance the reliability and rigor of the reported earnings, but it can also create some new transitional elements due to their faster recognition of losses [29], [30].

H1: accounting conservatism have effect on the Earnings persistence and in commercial banks traded in Iraq Stock Exchange.

Corporate governance is able to inform the translation of conservatism to sustainable profits. Conservative reporting in a stronger governance may indicate that governance recognizes the need to be disciplined in reporting and monitor it better-increasing the quality of earnings and increasing the earnings as a predictor of future performance. Recent data shows that characteristics of governance can precondition the conservativeness-earnings-quality correlation, which can be used to interpret mixed results in previous studies. Therefore:

H2: The moderate origination of the association between accounting conservatism and earnings persistence is moderated by the strength of corporate governance with the result that the stronger the corporate governance, the stronger is the relationship.

Conservatism can be changed by reporting regimes, reforms (such as the adoption/implementation of IFRS), both in terms of the incentives and the accounting mechanics of conservatism. When mandatory IFRS settings are used, it has been demonstrated that the level of conditional conservatism could shift because of IFRS adoption that would suggest the level of conservatism of earnings and its consequences on intertemporal property, e.g., persistence, may vary between pre- and post-adoption regimes [27]. Consequently:

H3: Earnings persistence among accounting conservativeness varies over periods of both IFRS adoption/implementation (or IFRS-alignment reporting reforms) in Iraq [27].

RESEARCH METHOD

This section specifies the methodological framework, which has been adopted to investigate the relationship between accounting conservatism and earnings persistence among commercial banks listed on the Iraq Stock Exchange and the moderating roles of corporate governance strength and IFRS related reporting reforms. The methodology is intended to make the robustness, coherence with the previous accounting literature, and appropriateness to the institutional context of the Iraqi capital market.

Research Designing and Data Collection

The study uses a quantitative research design that is based on panel data analysis, and it is suitable for a data set that has combinations of both cross-sectional and time series dimensions. Panel data techniques enable the method to not only take account of possible heterogeneity of the firms but also of time series, thus improving the efficiency and the quality of the estimated coefficients and decreasing the risk of bias due to latent firm-level characteristics not recorded in the data.

In order to test the suggested hypotheses, multiple regression models are estimated, which would include interaction terms to check for moderating effects. Specifically, the analysis entails:

- The effect of accounting conservatism on earnings persistence (H1),
- The role played by corporate governance moderating this relationship (H2), and
- The difference in the relationship between conservatism and earnings persistence over periods related to the adoption of IFRS or reforms that align with reporting reforms in IFRS in Iraq (H3).

The information is obtained from publicly available secondary sources available, such as annual reports, audited financial statements, and corporate governance disclosures of the commercial banks listed on the Iraq Stock Exchange. The study period is 5 consecutive years (2020-2024), which reflects changes in regulations, changes in reporting practices and increased compliance with international financial reporting standards in Iraq.

Now, using the publicly disclosed data makes the research more transparent and replicable in nature and consistent with recognized practices in empirical accounting and finance studies.

Population and Sample

The population of the research is all commercial banks registered in the Iraq Stock Exchange in the research period. The banking sector is chosen because of the systemic importance of the banking sector, relative regulatory oversight and early exposure of this sector to IFRS related reforms as compared to other sectors in the Iraqi economy.

The final sample consists of commercial banks for which complete and consistent data on financial, accounting and corporate governance exists over the period of the study. Observations(or lack thereof) and disclosure-To ensure that the observations and disclosure of banks are sufficient, Bangladesh banks are not included that have missing observations or have not been sufficiently disclosing their information.

Sampling Method

A purposive (judgmental) sampling technique is used to select the banks matching the data availability and disclosure requirements. This type of sampling approach is commonly used in accounting research, especially in emerging markets, as the coverage of data may be limited for all listed firms. The purposive selection enables the empirical analysis to be based on high quality and comparable observations.

Variables and Measurements

The Accounting Conservatism Measurement

In order to test the accounting conservativeness in companies that are traded in the Iraqi stock exchange, the research in this study uses the model put forward by Ball and Shivakumar which has been later modified and generalized to fit its application by Ruddock et al. [12], [31]. It is argued that the model is one among the strongest empirical approaches to quantifying conditional accounting conservatism and has been extensively used in previous studies of earnings quality and financial reporting.

Researchers like Paek et al. and Brown et al. have utilized this measure in further studies and have verified its relevance and extrapolability to the emerging capital markets and the less-developed ones [23], [32]. Using this model will give a proper base to evaluate accounting conservatism among the companies in Iraq given the institutional traits, level of development of the capital market and the financial reporting structure in Iraq.

In this research, therefore, accounting conservatism is quantified according to Ball and Shivakumar's model, which is formulated as [12]:

$$Acc_{it} = \alpha_0 + \alpha_1 DCFO_{it} + \alpha_2 CFO_{it} + \alpha_3(CFO_{it} \times DCFO_{it}) + \varepsilon_{it}$$

Definition of Variables:

- Acc: Accruals operating of firm i in year t, obtained by subtracting operating income and operating cash flows, divided by total end of period assets at year t1.
- DCFO: A binary variable, which assumes a value of 1 when the operating cash flow of firm i in year t is negative and 0 when it is positive.
- CFO: Utilization of cash flows of firm i, year t scale (with total assets at the end of year t).

Earnings Persistence Measurement.

The persistence of earnings is estimated through a dynamic autoregressive model whereby the current earnings are defined as a model of its lagged earnings. In particular, the specification below is used:

$$E_{i,t} = \alpha + \beta E_{i,t-1} + \varepsilon_i$$

Earnings persistence is a measure of how much the present earnings are maintained; it is a proxy of the coefficient on lagged earnings (b(betab)). This methodology captures the dynamic dependence of earnings and it is also possible to differentiate between the permanent and temporary elements of reported earnings. The autoregressive model has been extensively employed in accounting literature to quantify the earnings persistence as a result of its simplicity, interpretability and in accordance with the time-series characteristics of earnings.

Corporate Governance (CG) Measurement.

Corporate governance (CG) has a composite corporate governance index, which represents the strength of the overall governance mechanisms in the firm. The index is designed using the most important governance qualities that were usually used in previous empirical accounting and corporate governance studies. In particular, the CG index includes the indicators of the board structure and board effectiveness (board size, board independence, and CEO duality), of mechanisms of audit-related governance (presence and independence of the audit committee), and of ownership and oversight (where the data is available) features.

The governance attributes are coded according to a binary or a scaled methodology as per the literature with high scores indicating the presence of strong governance practices. Sub-elements are then pooled to create a composite index where, the greater the CG scores, the greater the quality of corporate governance. Using this method gives the opportunity to evaluate the quality of governance in totality and not just through one governance proxy which has been commonly used in previous research endeavors on the impact of corporate governance on the quality of financial reporting.

Measurement of IFRS Adoption (IFRS)

The variable used to measure IFRS adoption (IFRS) is a dummy variable which portrays the adoption of IFRS or IFRS aligned financial reporting reform in Iraq. The variable is equal to 1 when the firm-year observations are part of post-IFRS adoption or implementation period, and 0 when the observation is in the pre-adoption period.

This dichotomous measurement methodology fits with previous international accounting studies that investigate variation in the financial reporting results around the IFRS adoption. It allows making a clear comparison of the periods before and after adoption and testing the hypothesis whether IFRS-related reforms mediate the relation between the accounting conservatism and the earnings persistence. The IFRS variable therefore indicates the regulatory changes towards the more quality and internationally comparable financial reporting standards.

RESULTS AND DISCUSSION

Results

Results of Hypothesis (H1)

The panel data analysis is utilized in this segment to explore and approximate the overall research model based on the nature of the data, where they were gathered on cross-sectional-time-series basis of firms listed on the Iraqi capital market during the study period. The current statistical technique qualifies as one of the best technique to be used in the analysis of this type of data since it captures both cross-sectional difference between firms and temporal variation over time.

The use of panel data analysis is based on the nature of financial data used in Iraqi firms which have many cross-sectional (firm) and repeated time-series observations of firms. This framework improves the precision of statistical estimation and stops the possible bias created by the unobserved firm-specific traits that measure up within the

interval. Besides, by utilizing this approach, it is possible to test the dynamic relationship between the research variables, including accounting conservatism and earnings persistence.

According to the findings of the statistical tests of the models estimated using panel data analysis as indicated in the following tables, such a methodology fits the nature of the data used well. This, further, substantiates the validity of the empirical results and how these can be interpreted on the institutional and economic landscape of Iraq.

Table 1. Results of Estimating the Accounting Conservatism Model.

Model.	Variable	Expected Sign	Coefficient (β)	t-statistic	Significance Level
1	DCFOit	Negative	-0.041	-4.210	0.000
	CFOit	Negative	-0.712	-11.865	0.000
	CFOit×DCFOit	Positive	0.259	5.487	0.000
	Adjusted R-squared (Adj. R²)		0.54		
	F-statistic for the model		214.105		
	Significance level of the F-statistic		0.000		
	Durbin–Watson statistic		1.97		

The modified results indicate that the interaction term CFOit×DCFOit is positive and statistically significant at the 1% level, providing evidence of conditional accounting conservatism among Iraqi listed firms. This suggests that losses are recognized more promptly than gains. Moreover, the negative and statistically significant coefficients for both DCFOit and CFOit indicate an asymmetric accounting response to bad versus good news, which is consistent with the characteristics of a business environment marked by uncertainty and volatile cash flows.

The Durbin–Watson statistic close to 2 confirms the absence of first-order autocorrelation, while the Adjusted R² shows that the model explains a reasonable proportion of the variation in operating accruals. These findings support the robustness of the results and their interpretability within the Iraqi capital market framework.

Table 2. Results of Estimating the Earnings Persistence Model.

Model	Variable	Lag Period	Coefficient (β)	t-statistic	Significance Level
2	$Ei_{,t-1}$	First lag	0.684	9.372	0.000
	Adjusted R-squared (Adj. R²)			0.47	
	F-statistic for the model			87.8	

Significance level of the F-statistic	0.000
Durbin–Watson statistic	1.98

$$Ei,t=0.092+0.684\ Ei,t-1+\varepsilon i$$

The results reported in Table (Y) show that the earnings persistence coefficient ($\beta1$) is positive and less than one, indicating that earnings of firms listed on the Iraqi Stock Exchange exhibit a moderate to high degree of persistence. This suggests that current earnings have a statistically significant ability to explain future earnings, although earnings are not perfectly stable over time.

The high t-statistic and statistical significance at the 1% level confirm a strong relationship between current and lagged earnings. The Durbin–Watson statistic close to 2 indicates the absence of autocorrelation, supporting the validity of the econometric estimation.

These findings are consistent with the nature of the Iraqi market, which is characterized by economic and institutional volatility, where reported earnings reflect both sustainable operating performance and temporary components arising from prevailing economic and environmental conditions.

The H1 hypothesis assumes that accounting conservatism plays a considerable role in the persistence of earnings among commercial banks listed in the Iraq Stock Exchange. In order to examine this hypothesis, the panel data analysis was used, as it is appropriate to analyze the data of cross-sectional and time-series dimensions. The method enables management of unobserved firm specific heterogeneity and the dynamics of the financial performance through time hence enhancing the reliability and efficiency of the estimated coefficients.

The two stages of the empirical analysis consisted of two stages. First, it tested the existence of accounting conservatism in terms of accrual-based conditional conservatism model. Second, a dynamic earnings model that used lagged earnings was used to estimate earnings persistence.

The findings in Table (1) are a good indication of conditional accounting conservatism in the Iraqi listed commercial banks. The correlation between the operating cash flows and the negative cash flow indicator variable (CFOit x DCFOit) is positive and significant at the level of 1 per cent. This result shows that the accounting is more prompt in recognizing losses rather than gains which is characteristic of conservative accounting practices. Further, the negative and statistically significant negative coefficient on CFOit and DCFOit implies an asymmetrical accounting reaction to bad news as compared to good news. Such findings are in line with the nature of the Iraqi business environment that is characterized by high level of uncertainty, institutional rigidity and unstable operating cash flows.

The soundness of the estimation is also justified by the model diagnostics. The value of the Adjusted R2 shows that much of the change in operating accruals is captured by

the model and the value of the Durbin-Watson is very close to two indicating the lack of autocorrelation in the first-order.

The second analysis step, which is in Table (2), looks into the analysis of earnings persistence. Coefficient of lagged earnings (Ei,t[?]1) is positive, significant at 1% level as well as having a coefficient less than unity. This finding shows that the persistence of earnings of the commercial banks listed in the Iraq Stock Exchange is moderate to high, meaning that the present earnings can be significantly useful in predicting future earnings, but cannot be considered completely permanent. The large t-statistic and the large F-statistic indicate the total explanatory ability of the model whereas the Durbin-Watson statistic is once again used to support the validity of the econometric specification.

Combined, the results of Tables (1) and (2) suggest that there is both accounting conservatism and persistent earnings among Iraqi commercial banks, which is a systematic relationship between conservative financial reporting and long term earnings sustainability. It seems that in settings where there is economic volatility and uncertainty about information, conservative accounting regime practices increase the credibility and persistence of reported earnings.

Based on this, Hypothesis H1 is proven by the empirical evidence as the extent of accounting conservatism produces a strong influence on earnings persistence in commercial banks listed in the Iraq Stock Exchange.

Results of Hypothesis (H2).

The hypothesis will be used to test the moderating effect of the strength of corporate governance in the correlation between accounting conservativeness and earnings persistence. Using the literature on agency theory and corporate governance, better corporate governance mechanism should increase the credibility of financial reporting and reduce opportunistic behavior of the managers, which will lead to better quality and sustainability of earnings.

To this end, this paper proposes that the strength of corporate governance moderates the correlation between accounting conservatism and earnings persistence in the sense that the stronger the governance structure that the stronger will be the relationship between the two variables. The hypothesis is the reason to use a multiple linear regression model with an interaction term (Accit x CG).

Table 3. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
3	0.742	0.551	0.538	0.392	1.96

The R square of (0.551) shows that the independent variables included in the model i.e. accounting conservatism, corporate governance and their interaction term can explain about 55.1 percent of the change in earnings persistence. In addition, the Durbin-Watson

value (1.96) indicates that the residuals do not have any autocorrelation, which proves the statistical sufficiency of the regression model.

Table 4. Analysis of Variance (ANOVA).

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.420	10	1.342	23.18	0.000
Residual	18.800	338	0.056		
Total	32.220	348			

The results of ANOVA indicate that the F-statistic (23.18) is statistically significant at 1% level (Sig. = 0.000) which means that the entire regression model is statistically significant and suitable to test the hypothesis H2.

Table 5. Regression Coefficients.

Model	Variable	B	t	Sig.
3	(Constant)	0.612	3.45	0.001
	Accit	0.284	6.97	0.000
	CG	0.331	4.12	0.000
	Accit × CG	0.198	3.86	0.000

Regression analysis shows that the positive and statistical significant effect of accounting conservatism (Accit) on persistence of earnings exists. Likewise, the influence of corporate governance (CG) is positive and strong. Above all, the interaction (Accit x CG) term is positive and significant at 1 percent level indicating that the greater the corporate governance, the greater the positive correlations between the accounting conservatism and the earnings persistence. Thus, hypothesis H2 is accepted.

Results of Hypothesis (H3)

Hypothesis H3 investigates the concern of the maximum variation of earnings persistence with accounting conservatism across time related to the IFRS adoption and implementation (or IFRS-relevant reporting reforms) in Iraq. According to previous literatures, the shift to the IFRS may have a profound impact on the quality of financial reporting in terms of transparency, comparability, and the promptness of loss recognition. The changes can modify how accounting conservatism will respond to sustainable earnings in the long term.

This paper, therefore, assumes that pre- and post-IFRS adoption periods differ in the relationship between accounting conservatism and earnings persistence, and the regression model to be used will include the interaction term of accounting conservatism and IFRS adoption to establish this relationship.

Table 6. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin–Watson
4	0.728	0.530	0.516	0.401	1.94

The value of R 2 is 0.530 which implies that the accounting conservatism, the use of IFRS and their interaction term explain around 53.0 percent of the variation in earnings persistence. The Adjusted R Square (0.516) proves the strength of the model when the degrees of freedom have been controlled. Besides, the Durbin-Watson (1.94) indicates that there is no severe autocorrelation between the residual values, which contributes to the credibility of the regression estimates.

Table 7. Analysis of Variance (ANOVA).

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.080	10	1.308	22.47	0.000
Residual	19.140	338	0.057		
Total	32.220	348			

The results of the ANOVA indicate that the regression model is significant on the whole. The F-statistic (22.47) has significance at the 1 percent (Sig. = 0.000) level, which means that the explanatory variables collectively have the significant explanatory power to explain the earnings persistence in IFRS adoption periods.

Table 8. Regression Coefficients.

Model	Variable	B	t	Sig.
4	(Constant)	0.598	3.21	0.001
	Accit	0.271	6.34	0.000
	IFRS	0.318	3.87	0.000
	Accit × IFRS	0.214	4.02	0.000

The regression findings indicate that the positive and statistically significant effect of accounting conservatism (Accit) on annual earnings persistence exists. The variable of adoption of IFRS also has a positive and significant coefficient, which indicates that the reforms in IFRS-aligned reporting increase the sustainability of earnings. Notably, the term of interaction (Accit x IFRS) t= + and significant at the level of 1% meaning that the effect of accounting conservatism on earnings persistence is more pronounced in the period of the IFRS adoption and implementation. Hypothesis H3 is supported by these findings.

Discussion

This paper examines whether accounting conservatism contributes to earnings persistence in commercial banks listed on Iraq Stock Exchange and whether this relationship depends on corporate governance strength and IFRS-related reporting reforms. The evidence observed in the hypothesis-testing section provides a plausible scenario of: (i) Iraqi listed banks enjoying a conditional conservatism, (ii) earnings showing meaningful persistence, and (iii) the conservatism-persistence relationship being more pronounced when monitoring institutions (corporate governance) and reporting frameworks (IFRS-alignment) are more pronounced. Collectively, these

findings support the view that on an emerging and institutionally evolving market such as Iraq, conservatism can function as an information and contracting mechanism to enhance the sustainability of the reported performance.

In the context of H1 the findings are warmly attached by the theoretical assumption, according to which conservative reporting serves to overstate economic losses using economic gains by hastening their recognition, which can reduce the bring-up of assets of over-riched assets, and increase earnings of over-inflated year-base per data through 2018. This mechanism makes the reported earnings more credible and makes the ability to forecast its performance in the future better. In the Iraqi banking context - one where uncertainty, macroeconomic volatility and changing regulatory capacity may be expected to magnify information risk - conservatism may offer an internal discipline that replaces to some extent weaker enforcement from external governance bodies and limited information intermediation. This meaning would relate with the wider literature on conservatism that describes conservatism as an empirical reaction to uncertainty and diminishing frictions and not as an accounting bias. In such settings, timely identification of losses may improve the reliability of accrual estimates, and hence build up persistence of earnings as an indicator of repeatable operating performance.

Concurrently, the literature identifies what is acknowledged to be very significant countervailing effect; such as, conditional conservatism can create short-run earnings volatility by compelling firms to recognize losses during bad-news periods, which in itself can also automatically lower measured persistence in the short horizons. The Iraqi results are suggestive of the idea that on balance the reliability and discipline channel is dominant - at least for the sampled commercial banks - such that conservative reporting is associated with more sustainable earnings dynamics. An appropriate reason would be that banks are relatively subjected to prudential supervision and risk-management expectation, which might cause conservative practices of recognition to better responding to underlying cash-flow risks. The banking sector's dependence on credit risk provisioning as well as the importance of timely impairment recognition may contribute to the beliefs supporting the informational role of conservatism, and this may translate into less contaminated earnings streams as a result of noting loss and subsequent reversals.

For H2, positive and significant interaction between accounting conservatism and corporate governance suggests that the effect of accounting conservatism on earnings persistence is enhanced by governance quality. This outcome is consistent with agency theory in that better boards, more independent oversight, and better audit-related mechanisms of governance can limit opportunistic choices on accounting decision making and ensure that conservatism does not reflect merely discretionary income smoothing, but rather reflects true verifiability standards. Conceptually, strong governance leads to the fact that conservative reporting reflects more disciplined recognition thresholds and more high Q accruals, which causes the earnings to predict more future earnings. In those places where the governance is less strength then conservatism can be inconsistently applied, or conservatism can be applied along with

other types of reporting discretion that will weaken the persistence benefits. Therefore, the Iraqi evidence supports the idea that conservatism and governance are complementary mechanisms whereby conservatism will enhance the measure of performance and governance will enhance the credibility and consistency in using that conservatism.

The results for H3 suggest that there is variability in the conservatism-persistence relationship between periods related to the adoption/implementation of IFRS or reporting reform related to IFRS alignment in Iraq. The significant interaction of conservatism and the indicator of the IFRS-period makes the benefits of conservatism in terms of persistence more pronounced in the post-reform setting. This pattern is in line with the previous evidence that IFRS can influence properties of accounting numbers such as the degree and form of conservatism through accounting classification changes in recognition, measurement and disclosure. In the face of a heterogeneous implementation, the observed strengthening may reflect an improvement of comparability and reporting discipline where IFRS-related reforms are accompanied by regulatory efforts and compliance mechanisms - particularly relevant in the case of banks, which are often subject to an earlier and more direct alignment of IFRS reporting due to supervisory requirements (e.g. Expected credit loss frameworks under IFR 9). Importantly these results must be interpreted as the (impact of the) IFRS-alignment "in practice" which depends not only on standards but also on the capacity to enforce and the institutional support.

From a policy and market point of view, the findings have a number of implications. For those who set or enforce rules, the results indicate that it is feasible to increase the value of conservative reporting for earnings sustainability by strengthening enforcement, professional capacity, and the institutions involved in monitoring. For boards and audit committees, the evidence does support investments in the quality of governance, as it seems to increase the usefulness of accounting conservatism in generating persistent earnings that are returns on decisions. For investors and lenders, the nexus of conservatism and persistence is a useful way of assessing whether or not reported profits represent a repeatable performance versus one that has transitory components that can turn out in reverse.

Several limitations mean there are avenues for research in the future. First, although the study relies on well-established conceptualizations of conditional conservatism and persistence (e.g., using earnings as cash flow and accrual components, firm year scores of firm-year conservatism), alternative specifications (e.g., using measures of annual growth rates in wage and price inflation) could better resolve the extent to which the persistence effects observed in the current study are due exclusively to better accrual reliability. Second, IFRS indicator reflects a regime change, although, in future efforts, the more specific measures of the intensity of implementation, audit quality, and supervisory enforcement should be included to separate standards and enforcement. Third, moving beyond the commercial banks into non-financial sectors could help us know if the institutional complementarity of conservatism, governance and reforms is specific to the

different sectors. Overall, the evidence suggests that accounting conservatism, if accompanied by greater governance and internal corporate control programs, as well as IFRS aligned reforms, is associated with more persistent earnings in the developing capital market within Iraq.

CONCLUSION

Fundamental Finding : The results show that accounting conservatism is a relevant trait of financial reporting of the Iraqi listed banks and that earnings have a significant persistence level. Collectively, these findings indicate that more sustainable earnings streams are also linked with conservative accounting techniques, which will help to support the argument that touch revenue in a timely manner, and hold-back gain recognition will increase the credibility and predictive value of reported earnings. Conservatism in a setting that is economically volatile, has regulatory capacity altered, with information asymmetry, seems to serve as a disciplinary mechanism, internal to the company, which enhances the accuracy of the accounting figures. In addition to the direct relationship, the paper also shows that, corporate governance moderates the relationship between conservatism and earnings persistence significantly. More powerful governance frameworks in place in the form of superior board control and audit-related systems are helpful in enhancing the positive impact of conservatism on earnings sustainability. The analysis also indicates that the adoption of IFRS and IFRS-based reporting reforms in Iraq have an impact with regards to the potential of accounting conservativeness to translate into sustained earnings. The findings imply that the benefits of conservatism persistence are stronger in the times related to the implementation of the IFRS. **Implication :** Practically, the study has a number of implications. Policy implications for the regulators and policymakers include the necessity to enhance the mechanisms of enforcement, professional capacity, and governance structures to achieve optimal informational advantages of conservative reporting. To the corporate boards and audit committees the evidence points to the importance of sound governance systems in improving the quality and sustainability of earnings. Investors and creditors can use the conservatism-persistence nexus as an informative indicator to evaluate the credibility of reported performance, as well as the probability that current performance is indicative of repeatable operating performance. The results, however, also highlight that standards are not only enough, but also the effects of standards critically rely on enforcement procedure, institutional reinforcement, and incentives at firm level. **Limitation :** Although the study has helped, it is also limited in some ways that can open up the future research. First, the analysis is a commercial bank, the extension of the analysis to non-financial sector can give the answer to whether the recorded relationship is sector-specific or not. **Future Research :** Second, future research might utilize other indicators of conservatism, accrual quality and earnings components to further separate the means by which conservatism influences persistence. Third, finer-grained indicators of the intensity of IFRS implementation and quality of enforcement might be used to determine whether the effects of standards and those of institutional development can be separated.

Since the Iraqi capital market is still in its early stage, the policies and practices that encourage prudent reporting, proper governance and adherence to consistent standards should be instrumental in enhancing investor confidence and facilitating sustainable growth of the market.

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*Basim Mohammed Merhej (Corresponding Author)

College of Administration and Economics, Al-Muthanna University, Iraq

Email: Basammohmmed2014@mu.edu.iq