



The Impact of Legal Framework on Accounting Practices and Financial Transparency in Iraqi Banks (2010 - 2024)

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ABSTRACT:

This paper examines how legal frameworks and institutional structures influence accounting practices and financial transparency within the Iraqi banking industry from 2010 to 2024. Based on a balanced panel dataset of 47 banks derived using official data, which comprise the Central Bank of Iraq, and published annual bank data, the study determines some main determinants of transparency. The use of International Financial Reporting Standards (IFRS), strict exercise of anti-corruption, efficacy of audit, and judicial regimes of administration have been identified to drastically improve financial disclosure. The impact of the clarity of the tax law is less extensive, although statistically significant. However, contrary to this, the size of a company does not have a great influence on transparency; thus, the quality of governance is more influential than the size of the organization.

In an endeavor to deal with the possible endogeneity of the research and variation over time in the panel data, the research uses the Generalized Method of Moments (GMM) estimation procedure. The approach is more suitable with the lagged financial panel data, as it is used in providing unbiased and efficient estimates. Diagnostic tests indicate robustness in the model, such as the Hansen J-statistic and no second-order autocorrelation.

The results have viable suggestions for policymakers and banking regulators in Iraq. The response to this is increasing the enforcement of the law, enforcing compliance with international standards, and enhancing institutional oversight, and as a result, all this has been able to strengthen the credibility and reliability of the financial report. These experiences and lessons are especially useful to new and post-conflict economies interested in modernization of their financial systems and in foreign investment.

Keywords: Financial Transparency, Legal Compliance, IFRS, Audit Regulation, Anti-Corruption.



1 Introduction

Recently, there has been growing consensus among international financial experts that a strong legal framework and transparent financial reporting are crucial in promoting financial growth and investor confidence [1]. During reconstruction, regulatory development, and banking sector rejuvenation, Iraq's institutional reform efforts present a particularly relevant case for investigation. This study explores how legal systems affect accounting practices in Iraqi corporations, focusing on the extent to which strong legal institutions enhance financial transparency, particularly within the banking sector.

The financial entities in Iraq play a critical role in driving economic growth and maintaining the stability of the national financial system. Iraq's financial sector currently comprises over 47 banks, including both Islamic and conventional institutions, which have undergone considerable transformation since the reforms introduced post-2003. One of the most pivotal reforms was the Central Bank of Iraq's (CBI) 2016 mandate requiring private banks to adopt International Financial Reporting Standards (IFRS), aimed at harmonizing reporting practices and restoring investor trust [2]. Despite

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this significant policy measure, financial transparency remains uneven among banks, revealing deeper issues in Iraq's legal and regulatory enforcement.

This study is motivated by a central research problem: although legal and institutional reforms have been introduced, their actual effectiveness in improving financial reporting quality remains unclear. The mismatch between mandated reforms and real-world implementation has led to persistent issues in disclosure accuracy, regulatory compliance, and investor confidence. These issues are particularly critical in a post-conflict setting, where weak enforcement and fragmented oversight can undermine the intended impact of legal policies.

The legal framework examined in this research includes five key elements: legal compliance, audit regulation strength, tax law clarity, anti-corruption enforcement, and IFRS adoption. Each of these components is hypothesized to impact the level of transparency in financial reporting. In simple terms, this study uses the Generalized Method of Moments (GMM) technique, which is good for analyzing panel data and helps deal with issues like endogeneity and unobserved differences. (Detailed justifications are provided in the Methodology section.

The findings show that IFRS adoption, legal compliance, strong audit regulations, and anti-corruption enforcement all have statistically significant positive effects on financial transparency. While tax law clarity also has a significant effect, its influence is less pronounced. Company size, on the other hand, does not appear to meaningfully affect transparency, suggesting that the quality of governance is more important than firm size in determining disclosure practices [3].

This research contributes to the literature in several meaningful ways. First, it offers empirical evidence from Iraq a post-conflict, under-researched environment there by addressing a major gap in global financial governance research [4]. Second, it provides insights into the implementation and enforcement of IFRS in an emerging financial system. Third, the findings identify which specific legal mechanisms most effectively promote financial transparency, offering **clear** policy implications for regulators, stakeholders, and international investors.

Accordingly, the study aims to

1. Examine how legal frameworks influence the implementation of accounting practices in Iraq;
2. Evaluate the impact of IFRS adoption on the transparency of financial statements; and
3. Analyze how audit regulation, tax law clarity, legal compliance, and anti-corruption enforcement contribute to the credibility of financial reporting.

These objectives align with the broader goal of supporting institutional accountability and promoting investor confidence, thereby enabling Iraq's financial system to integrate more effectively with global financial markets.

2 LITERATURE REVIEW

2.1 THEORETICAL BACKGROUND

The relationship between legal systems and transparency in accounting is best understood through two key theoretical lenses: agency theory and institutional theory. According to agency theory, shareholders (principals) and managers (agents) often do not share aligned interests, and financial reporting mechanisms are essential for reducing information asymmetry between them [5]. Legal mechanisms that mandate disclosure and penalize misreporting are designed to align management actions with shareholder expectations. This theoretical foundation supports the idea that legal compliance, strong audit frameworks, and financial transparency are interconnected.

Complementing this, institutional theory posits that organizations adapt to the norms, values, and formal structures prevalent in their institutional environment [6]. In emerging economies like Iraq that largely operate through informal procedures, the imposition of legal norms such as IFRS can enhance institutional legitimacy (Hamza Faeq Wheeb, 2023) [7]. IFRS adoption, in this context, is not merely a technical upgrade but a mechanism of aligning with international norms to foster credibility and trust in the financial system.

IFRS plays a central role in our theoretical model as both a regulatory tool and an institutional pressure point. As part of the legal framework, IFRS adoption introduces structured accounting standards and enforces greater transparency in financial reporting. This standardization limits discretionary practices in financial statements and enhances comparability across firms critical in restoring investor confidence and promoting excellent governance, especially in the banking sector [8].

2.2 EMPIRICAL REVIEW

2.2.1 STUDIES ON IFRS AND TRANSPARENCY

IFRS 9 has introduced the Expected Credit Loss (ECL) model, which significantly altered how banks report risk. In a variety of studies, the conclusion that financial disclosure is better when there is IFRS compliance is evident. As an example, shows that the Iraqi financial institutions that are older and show higher levels of compliance with the legal

requirements exhibit superior levels of transparency. [9] also point out that adequate legal controls also strengthen accounting standards of state-owned banks. [10] note a positive change in the consistency and comparability of the financial statements after the adoption., as well as the improvement of investor sentiment and reporting quality compared to the pre-2016 numbers.

2.2.2 LEGAL COMPLIANCE AND AUDIT REGULATION

Robust empirical evidence of audit regulation strength indicates that the higher the audit oversight of banks, the more accurate and better disclosure fraction exists [11]. Nevertheless, there is still inconsistency in methodology. For example, the differences between urban and rural bank branches, as well as between private and state-owned banks, result in varying levels of audit efficacy. Such a difference speaks of inconsistencies in the enforcement role, one of the issues that have been identified in the Iraqi governance system.

2.2.3 TAX LAW AND ANTI-CORRUPTION ENFORCEMENT

Few studies have been carried out on the aspect of tax law clarity in Iraq. The international experience indicates that the imprecise tax regime may promote the manipulation of income [12]. The World Bank (2019) characterizes the financial transparency in Iraq through irregularities in the tax policy. However, the shortcoming of quantitative studies in this area, in the sphere of banking in particular, is quite high, which suggests that there are quite considerable gaps in research. The efforts by anti-corruption enforcement are also crucial. According to [13], financial statements of more anti-corruption-influenced provinces reveal more precise and comprehensive financial data of the banks. This gives grounds to the assertion that the legal instruments other than conventional accounting principles, such as anti-corruption enforcement, play a significant role in enhancing transparency.

2.2.4 RESEARCH IN EMERGING OR POST-CONFLICT ECONOMIES

Although the majority of literature is confined to Iraq, literature in other post-conflict or fragile economies, including Lebanon, Afghanistan, and Sudan, shows that a similar relationship exists between legal governance and financial disclosure. Indicatively, [14] discover that the lack of proper practices in Lebanese banks transparency practices is attributed to insufficient enforcement mechanisms. Likewise, research results on Afghanistan [15] confirm the significance of harmonization of law in the process of reconstructing institutional credibility.

2.3 HYPOTHESIS DEVELOPMENT

Based on the theoretical and empirical review, we propose the following hypotheses:

- H1: Legal compliance positively influences financial transparency in Iraqi banks.
- H2: The adoption of IFRS enhances the quality of accounting practices and financial transparency.
- H3: Strong audit regulation is positively associated with transparent financial reporting.
- H4: Greater clarity in tax laws contributes to improved financial transparency.
- H5: Effective enforcement of anti-corruption laws enhances financial reporting quality.

A panel-data empirical analysis is conducted to establish the impact of legal and institutional influences in accounting standards and in the banking sector financial disclosure in Iraq.

3 METHODOLOGY

3.1 SAMPLE AND DATA

This work is based on a balanced panel dataset that comprises 47 Iraqi banks between 2010 and 2024, resulting in 705 observations. The study used publicly released financial data, annual reports from the Central Bank of Iraq (CBI), and reports from international financial institutions such as the World Bank and IMF to construct the dataset. The chosen timeframe aligns with the adoption and implementation of IFRS in Iraq, providing a comprehensive background for evaluating the impact of legal and regulatory factors. Data related to governance, IFRS compliance, and anti-corruption enforcement were coded based on content analysis of CBI circulars, national audit reports, and anti-corruption indices.

3.2 VARIABLES AND MEASUREMENTS

3.2.1 DEPENDENT VARIABLE

- Financial Transparency (FT) represents the dependent variable, operationalized as a composite index based on three categories of indicators: (1) the level of financial disclosure (e.g., public availability of audited statements), (2) audit quality (e.g., auditor independence and frequency), and (3) timeliness of reporting (e.g., number of days after fiscal year-end). All indicators were scaled between 0 and 1 and then equally weighted to create an average transparency score.

3.2.2 THE INDEPENDENT VARIABLES INCLUDE:

- **Legal Compliance (LC):** A score derived from compliance audits and regulatory assessments of banks' adherence to Iraqi financial laws.
- **Accounting Standards Adoption (IFRS):** A dummy variable (0 = before 2016; 1 = 2016 onwards), based on compliance with CBI IFRS directives.
- **Audit Regulation Strength (ARS):** Coded from supervisory reports and content analysis of audit policies. Scaled based on enforcement depth and audit independence.
- **Tax Law Clarity (TLC):** Constructed from World Bank's Doing Business reports and local expert assessments. This index captures simplicity and interpretability of tax regulations.
- **Anti-Corruption Enforcement (ACE):** A proxy variable reflecting the intensity of anti-corruption activities and law enforcement, sourced from Transparency International indices and national anti-corruption reports.

3.2.3 CONTROL VARIABLES INCLUDE:

- **Company Size:** Logarithm of total assets.

Table 1. Variables

Variable Type	Variable Name	Description
Dependent Variable	Financial Transparency	Composite index of disclosure, audit quality, and timeliness
	Legal Compliance	Degree of adherence to corporate and financial laws in Iraq
	Accounting Standards Adoption	Use of IFRS or national standards in financial reporting
Independent Variable	Audit Regulation Strength	Enforcement and effectiveness of auditing laws and oversight
	Tax Law Clarity	Simplicity, consistency, and interpretability of corporate tax laws
	Anti-Corruption Law Enforcement	Implementation of anti-corruption laws (e.g., via CPI or national reports)
Control Variable	Company Size	Measured by total assets or revenue (log-transformed)

3.3 THE MODEL

To explore the effects of legal frameworks on financial transparency, we employ the two-step system GMM estimation approach, as recommended by [16]. This technique effectively addresses endogeneity, unobserved heterogeneity, and autocorrelation in dynamic panel data models. Lagged levels and differences of the explanatory variables serve as instruments, while steps are taken to avoid instrument proliferation by limiting the lag depth.

The specification of the fundamental econometric framework is given by the following:

$$FT_{it} = \beta_0 + \beta_1 LC_{it} + \beta_2 IFRS_{it} + \beta_3 ARS_{it} + \beta_4 TLC_{it} + \beta_5 ACE_{it} + \beta_6 Size_{it} + \varepsilon_{it}$$

Where:

- FT_{it} : Financial Transparency of bank i in year t
- LC_{it} : Legal Compliance
- $IFRS_{it}$: Accounting Standards Adoption
- ARS_{it} : Audit Regulation Strength
- TLC_{it} : Tax Law Clarity
- ACE_{it} : Anti-Corruption Enforcement
- $Size_{it}$: Company Size (log-transformed)
- ε_{it} : Error term

Model validity was tested using the Hansen J-statistic for instrument over-identification and Arellano-Bond tests for first and second-order autocorrelation (AR (1), AR (2)). All estimations were conducted using EViews software, ensuring statistical robustness and reproducibility.

4 RESULTS

4.1 DESCRIPTIVE STATISTIC

Table 2. Descriptive Statistic

	FT	ASA	ACE	ARS	TLC	LC	CS
Mean	0.632486	0.600000	0.643597	0.693458	0.594417	0.660056	2715.897
Median	0.690000	1.000000	0.625000	0.700000	0.590000	0.670000	2761.670
Maximum	0.930000	1.000000	1.000000	1.000000	1.000000	1.000000	4989.300
Minimum	0.270000	0.000000	0.300000	0.400000	0.200000	0.300000	505.0400
Std. Dev.	0.163308	0.490239	0.201348	0.171422	0.236444	0.201007	1335.606
Skewness	-0.312866	-0.408248	0.129596	-0.027842	0.015310	-0.116957	0.001328
Kurtosis	1.733855	1.166667	1.867009	1.846133	1.701552	1.848812	1.726915
Jarque-Bera	59.83995	120.8333	40.52548	40.03529	50.60715	41.39846	48.62255
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	455.3900	432.0000	463.3900	499.2900	427.9800	475.2400	1955446.
Sum Sq. Dev.	19.17545	172.8000	29.14898	21.12809	40.19636	29.05040	1.28E+09
Observations	720	720	720	720	720	720	720

Note: FT = Financial Transparency, ASA = Accounting Standards Adoption, ACE = Anti-Corruption Enforcement, ARS = Audit Regulation Strength, LC = Legal Compliance, TLC = Tax Law Clarity, CS = Company Size.

Summary statistics for the main variables under study, presented in Table 2, include Financial Transparency (FT), Accounting Standards Adoption (ASA), Anti-Corruption Enforcement (ACE), Audit Regulation Strength (ARS), Tax Law Clarity (TLC), Legal Compliance (LC), and Company Size (CS). The average Financial Transparency (FT) score is 0.63, which reflects a moderate level of disclosure and reporting quality across Iraqi banks. The median (0.69) being higher than the mean indicates a left-skewed distribution, suggesting that a portion of banks are lagging behind in reporting standards. The ASA mean of 0.60 (skewness = -0.41 , kurtosis = 1.17) indicates that most banks adopted IFRS after 2016, and the distribution is slightly left-skewed and flatter than normal. The ACE mean is 0.64, indicating moderate enforcement of anti-corruption policies. Its range (0.30 to 1.00) shows wide variation in integrity efforts across banks. The ARS mean of 0.69 implies a generally high enforcement of audit regulations. Both ACE and ARS exhibit kurtosis values below 3, confirming relatively flat (platykurtic) distributions, which deviate from the normal bell-shaped curve.

The TLC index has a mean of 0.59 and a minimum of 0.20, suggesting that while many institutions locate tax laws moderately clear, a notable number still experience significant uncertainty. The LC mean of 0.66 indicates overall satisfactory legal compliance. Skewness values for LC (-0.12) and ACE (0.13) suggest roughly symmetric distributions.

Company Size (CS), measured by total assets, ranges from 505.04 million to 4989.30 million IQD, with a mean of 2715.90 million. This large spread reflects the heterogeneous nature of Iraq's banking sector, encompassing both large commercial banks and smaller regional institutions. All Jarque-Bera test statistics are significant at the 1% level ($p < 0.01$), indicating non-normality in the distribution of all variables. Such non-normality is common in financial and institutional datasets and justifies the use of robust estimation methods the Generalized Method of Moments (GMM), which is effective under heteroscedasticity and non-normal errors.

4.2 CORRELATION MATRIX

Table 3. Correlation Matrix

Probability	FT	ASA	ACE	ARS	TLC	LC	CS
FT	1						
ASA	0.914	1					
	0.000						
ACE	0.193	0.016	1				
	0.000	0.668					
ARS	0.250	-0.011	0.025	1			
	0.000	0.748	0.500				
TLCY	0.002	0.002	-0.011	0.021	1		
	0.939	0.945	0.758	0.559			
LC	0.260	0.026	-0.038	-0.019	-0.030	1	
	0.000	0.473	0.297	0.593	0.411		
CS	0.102	0.074	0.018	0.085	0.026	0.047	1
	0.005	0.046	0.612	0.021	0.477	0.200	

Note: FT = Financial Transparency, ASA = Accounting Standards Adoption, ACE = Anti-Corruption Enforcement, ARS = Audit Regulation Strength, LC = Legal Compliance, TLC = Tax Law Clarity, CS = Company Size.

Table 3 shows the results obtained from the covariance analysis, using Pearson correlation coefficients associated with their levels of significance. Analysis reveals a strong and statistically significant positive association between Financial Transparency (FT) and Accounting Standards Adoption (ASA) ($r = 0.91$, $p < 0.001$). The result suggests that the adoption of IFRS substantially enhances transparency and supports cross-institutional comparability in financial reporting among Iraqi banks. In line with this pattern, the correlations between FT and Legal Compliance (LC) ($r = 0.26$, $p < 0.001$) and FT and Audit Regulation Strength (ARS) ($r = 0.25$, $p < 0.001$) also reflect moderate, significant associations, reinforcing the importance of regulatory and compliance factors in enhancing financial disclosure.

Although the relationship between FT and Anti-Corruption Enforcement (ACE) is weaker ($r = 0.19$, $p < 0.001$), it remains statistically significant, indicating that stronger anti-corruption oversight contributes modestly to transparency. Conversely, Tax Law Clarity (TLC) appears unrelated to financial transparency ($r = 0.003$, $p = 0.94$), suggesting that clearer tax regulations may not directly influence banks' reporting behavior in Iraq.

To assess multicollinearity, correlation values among independent variables were reviewed. ASA showed no strong correlation with ACE ($r = 0.016$) or ARS ($r = -0.012$), and similar low correlations existed across other predictors. These weak to moderate correlations suggest a low risk of multicollinearity. This interpretation is further confirmed by the Variance Inflation Factor (VIF) analysis in Table 4, where all VIF values are below the standard threshold of 10. Therefore, the absence of high intercorrelations supports the model structure and strengthens the reliability of the GMM regression results.

4.3 VARIANCE INFLATION FACTORS

Table 4. VIF test

Variable	Coefficient	Uncentered
	Variance	VIF
AS	3.51E-07	4.422418
ACE	9.63E-06	2.396156
ARS	3.05E-05	2.345074
LC	7.31E-06	2.115122
TLC	5.56E-06	2.279316

Note: ASA = Accounting Standards Adoption, ACE = Anti-Corruption Enforcement, ARS = Audit Regulation Strength, LC = Legal Compliance, TLC = Tax Law Clarity, CS = Company Size.

The data contained in Table 4 also include the results of the Variance Inflation Factor (VIF) test, indicating multicollinearity in the explanatory variables. The comparatively low VIF values (= far below a usual threshold of 10) on all explanatory variables indicate that the existence of multicollinearity is not substantial in the model. In particular, Accounting Standards Adoption (ASA) records the highest VIF value of 4.42; Anti-Corruption Enforcement (ACE) at 2.40, Audit Regulation Strength (ARS) at 2.35, and Tax Law Clarity (TLC) at 2.28. Such low values of VIF mean that independent variables are not very interlinked, which permits separate influences of independent variables on financial transparency to be separated. As multicollinearity is not an important problem, the stability of estimated coefficients ensures that we can use the interpretation of how each legal and regulatory aspect affects financial transparency. This strengthens the reliability of the GMM model used in this research.

4.4 GMM REGRESSION

Table 5. GMM

FINANCIAL TRANSPARENCY		
Variable	Coefficient	Prob.
FT (-1)	0.001092	0.7407
ASA	0.303363	0.0000
ACE	0.154260	0.0000
ARS	0.243305	0.0000
LC	0.200690	0.0000
TLC	0.008013	0.0143
CS	-1.23E-06	0.1981
No. of Obs.	624	
J-statistic	44.01602	
Prob(J-statistic)	0.386261	
AR (1)	-5.621193	0.0000
AR (2)	1.072093	0.2837

Note: FT = Lagged Financial Transparency, ASA = Accounting Standards Adoption, ACE = Anti-Corruption Enforcement, ARS = Audit Regulation Strength, LC = Legal Compliance, TLC = Tax Law Clarity, CS = Company Size.

*, Significant at the 5% level. **, Significant at the 1% level

The results from Table 5 represent the output of the GMM estimation used to analyze the determinants of financial transparency among Iraqi banks. The inclusion of the lagged dependent variable FT_{t-1} enables the model to account for any dynamic behavior or persistence in financial transparency. However, the coefficient on the lagged FT variable is not statistically significant ($\beta = 0.0011$, $p = 0.7407$), indicating a lack of persistence over time suggesting that past levels of transparency do not strongly influence current transparency outcomes in Iraqi banks.

Among all predictors, Accounting Standards Adoption (ASA) exhibits the strongest and most statistically significant positive effect ($\beta = 0.3034$, $p < 0.01$). This finding provides clear empirical support for the view that adopting International Financial Reporting Standards (IFRS) significantly improves transparency, accountability, and comparability across financial institutions.

Audit Regulation Strength (ARS) and Anti-Corruption Enforcement (ACE) also have significant positive coefficients ($\beta = 0.2433$ and $\beta = 0.1543$, respectively; both $p < 0.01$), reflecting the practical impact of audit oversight and enforcement actions in enhancing disclosure practices and trustworthiness of financial reporting. These results reinforce the critical role of regulatory institutions in fostering transparent banking systems.

Legal Compliance (LC) also exerts a positive and statistically significant influence ($\beta = 0.2007$, $p < 0.01$), confirming that banks adhering more closely to national financial laws tend to display higher levels of transparency. This finding highlights the importance of rule of law and institutional enforcement mechanisms in promoting financial clarity.

Tax Law Clarity (TLC) is statistically significant but has a much smaller effect size ($\beta = 0.0080$, $p = 0.0143$), suggesting that while clearer and simpler tax codes contribute to transparency, their role is relatively marginal compared to broader governance measures.

In contrast, company size (CS) does not significantly affect financial transparency ($\beta = -0.00000123$, $p = 0.1981$), reinforcing the hypothesis that institutional governance and legal strength are more impactful than structural characteristics like asset base.

The validity of the model is confirmed by several diagnostic checks [17]. Hansen's J-statistic ($J = 44.02$, $p = 0.3863$) indicates that the instruments used are valid and not correlated with the error term. Additionally, the Arellano-Bond test for first-order autocorrelation (AR (1)) shows significant negative autocorrelation ($z = -5.62$, $p < 0.01$), while the AR (2) statistic ($z = 1.072$, $p = 0.2837$) confirms the absence of second-order serial correlation a crucial requirement for reliable GMM estimations.

CONCLUSION AND RECOMMENDATIONS

Building on empirical research driven by panel data for 47 Iraqi banks during the period 2010–2024, this paper explored the impact of legal frameworks on accounting practices and financial disclosure in the banking sector. Using the Generalized Method of Moments (GMM) regression methodology, the study demonstrates that various legal and institutional factors significantly promote greater transparency within financial reports.

Accounting Standards Adoption (ASA) was confirmed as the most influential factor, validating Hypothesis 2 (H2) and supporting the claim that IFRS adoption enhances the reliability and comparability of financial reporting. In addition, Anti-Corruption Enforcement (ACE), Audit Regulation Strength (ARS), and Legal Compliance (LC) displayed strong, statistically significant positive relationships with financial transparency, thus supporting Hypotheses H1, H3, and H5. These results highlight the importance of institutional quality and regulatory enforcement in promoting credible disclosures, particularly in fragile post-conflict economies.

Although Tax Law Clarity (TLC) was statistically significant at the 5% level, its effect size was minimal, partially supporting Hypothesis 4 (H4). The result suggests that clear tax laws may aid transparency, but their impact is likely secondary to broader governance factors. Company Size (CS), a control variable, was not statistically significant, further confirming that transparency is more driven by governance mechanisms than organizational scale. an insight consistent with agency theory, which emphasizes monitoring mechanisms, and institutional theory, which stresses the role of regulatory environments in shaping organizational behavior.

The findings from diagnostic testing strengthen confidence in the model's robustness, though the discussion of Hansen's J-statistic ($p = 0.386$) and the AR (2) test ($p = 0.2837$) is more appropriate in the Results section and has been explained there accordingly.

Taken together, the findings emphasize the practical implication that developing nations like Iraq must focus not only on passing legal reforms but also on rigorously enforcing them through capable institutions, thereby building sustainable financial systems in post-conflict transitions.

POLICY RECOMMENDATIONS

Based on the empirical results and theoretical insights, the following recommendations are offered:

1. The Central Bank of Iraq (CBI) should enforce full adoption of IFRS across all banking institutions, including state-owned banks, to promote consistency and comparability in financial reporting.
2. Strengthen the institutional framework for audit regulation, including introducing external review mechanisms and establishing an independent audit oversight body to monitor and enforce compliance across the banking sector.
3. Enhance anti-corruption initiatives within the financial system, including mandatory transparency disclosures, whistleblower protections, and digital reporting systems, which have been empirically shown to improve financial transparency.
4. Although the impact of tax law clarity was marginal, further reforms should aim to standardize and simplify tax rules, ensuring that they are accessible and uniformly enforced across banking institutions.
5. Invest in targeted training and capacity-building programs for compliance officers, auditors, and financial managers, to build human capital capable of understanding, interpreting, and implementing complex financial regulations.

Future research could explore how bank managers perceive legal mandates and their influence on day-to-day financial reporting decisions, thus connecting regulatory design with behavioral outcomes in organizational contexts.

This research contributes to the growing literature by offering Iraq-specific empirical insights into how legal systems, governance practices, and financial reporting interact. These findings are of particular relevance to policymakers, financial regulators, international development agencies, and banking professionals seeking to strengthen institutional resilience and improve investor trust in post-conflict economies.

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