Volume: 12, Issue: 3, July-September 2022

INTERNATIONAL JOURNAL OF RESEARCH IN SOCIAL SCIENCES & HUMANITIES

An International Open-Access Peer Reviewed Refereed Journal

Impact Factor: 6.064 E-ISSN : 2249 – 4642 P-ISSN: 2454 - 4671

THE EFFECT OF APPLYING THE CAPITAL ADEQUACY STANDARD ACCORDING TO BASEL III REQUIREMENTS ON THE EARNING QUALITY IN IRAQI PRIVATE BANKS

***Hasanain Salim Rasheed, **Dr Mohammed Abdullah**

*Dept of Accounting, Technical Institute of Management, Middle Technical University, Baghdad, Iraq

**Dept of Accounting, College of Administration and Economics, Baghdad University, Baghdad, Iraq

DOI: http://doi.org/10.37648/ijrssh.v12i03.013

Paper Received:

01 June 2022

Paper Accepted:

04 August 2022

Paper Received After Correction:

05 August 2022

Paper Published:

07 August 2022

How to cite the article: Rasheed H.S., Abdullah M.(2022). The Effect of Applying the Capital Adequacy Standard According to Basel III Requirements on the Earning Quality in Iraqi Private Banks, *International Journal of Research in Social Sciences & Humanities*, Jul-Sep 2022 Vol. 12, Issue 3; 206-222 DOI: http://doi.org/10.37648/ijrssh.v12i03.013

ABSTRACT

This research aims to assess the earning quality after applying capital adequacy according to Basel III decisions in Iraqi private banks, and for the purpose of achieving the objectives of the research, the researcher measured the capital adequacy criterion according to Basel III decisions in the earning quality in Iraqi private banks in terms of earning management (using a model Jones 1991 modified) and in terms of the practice of accounting conservatism) using the market-to-book value model by (Jain & Rezaea 2004).

The researcher reached a set of conclusions, the most important of which is that the capital adequacy standard according to Basel III decisions does not affect the earning quality in terms of the practice of profit management in private Iraqi banks. The Iraqi private, the researcher also presented a set of recommendations, the most important of which is that the Iraqi private banks should take into consideration when practicing a conservative accounting policy when forming allocations and reserves, profits and their quality because this is reflected in the decisions of investors and users of financial statements and reports.

Keywords: *IFRS 9; Earning Quality; earning management; accounting conservatism.*

INTRODUCTION

The recent global changes in the financial and economic fields, especially the financial and economic crises that the world is witnessing today, have led banks to enter into local and international competitions as the institutions responsible for organizing and securing cash in the world, and therefore the banking business has become surrounded by many risks due to the diversity and development of business, banking activities, technology and its technologies. And its methods in the field of risk management, and the capital adequacy criterion and the trends of banks in strengthening and consolidating their financial positions are among the most important modern trends that have known a great development in recent years, if capital adequacy is the final preventive line for banks in the event of any insolvency or economic deterioration, and because Financial crises and the various continuous risks facing banking activities in the world. This has triggered the trends of many countries and banking regulatory bodies to go to establish and standardize banking control systems through the establishment of the Basel Committee in 1988, which worked to develop capital adequacy standards and methods for evaluating the profitability of banks. Whereas, the Basel Committee on Banking Supervision was formed in order to pay attention to the issuance of standards regulating work and the efficiency of banking performance, to which its first standards (capital adequacy) specified the standard of banking efficiency, but it did not help to provide adequate support to the banking system at that time, so the Basel Committee issued a new agreement known as the Basel III Convention In 2010 to achieve banking safety in various aspects, including liquidity risk and capital adequacy standard, which was an amendment to the previous Basel I and Basel II agreements, which worked to increase capital adequacy requirements and enhance its quality in the banking sector to face potential losses, periodic economic fluctuations and financial crises. Accordingly, the research problem can be show as follows: What is the effect of applying the capital adequacy standard according to Basel III decisions on the earning quality in Iraqi private banks?

Importance of Research

The research derives its importance from the following:

1- The application of the capital adequacy standard according to the decisions of Basel III and its role in facing the risks facing private Iraqi banks in light of competition and openness to banking work.

2- The role of profit quality in Iraqi private banks that helps internal and external parties to assess the performance of bank departments and to take investment decisions by investors. of Research.

Aims of Research

The research aims at the following:-

1- Presentation and discussion of the concept of the capital adequacy standard in accordance with the decisions of Basel III.
2- Presenting and discussing the concept and importance of profit quality in Iraqi private banks.
3- Statement of the effect of applying the capital adequacy criterion according to Basel III decisions on the profit quality of Iraqi private banks.

Hypothesis of the Research

The research is based on the following hypotheses:

1- The first main hypothesis:-

H0: There is no impact relationship for the application of the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of Earing Management in Iraqi private banks.

H1: There is a relationship of the impact of capital adequacy according to Basel III on the Earing Quality in terms of the Earing Management in Iraqi private banks. From this emerge the sub-hypotheses

2. The second main hypothesis:-

H0: There is no impact relationship for the application of the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of accounting conservatism in Iraqi private banks.

H1: There is an impact relationship for the application of the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of accounting conservatism in Iraqi private banks

LITERATURE REVIEW

The study (Engelmann& Pham:2019) referred to hypothetical examples in several expected scenarios for the work of a proposed framework for measuring the performance of loans that takes into account all the relevant regulatory rules used to determine the parameters of credit risk. According to Basel III, 2 / IFRS 9 / FASB based on statistical models, and one of the most important conclusions is that calculating LLP according to IFRS9 or FASB is not suitable for calculating expected losses, and accurate measurement of loan performance is not achieved within a year or two, but rather takes into account the whole life .while (Korein & Abotalib,2021) indicated that the formation of capital conservation buffers and financial leverage in accordance with Basel III decisions affects the bank's performance. The results showed that the rise in regulatory leverage and capital protection buffers are linked to reducing the bank's performance. And efficiency and regulatory leverage is highly correlated with a comparison with capital conservation buffers. Thus, the findings are relevant to policy makers in designing measures to be improved in emerging markets. (Ebtisam, Hayat, 2021), which indicated the determination of the impact of capital adequacy according to Basel III decisions on the bank liquidity of a sample of banks, using panel models, and the results showed that both capital adequacy and credit risk measured by non-performing loans and profitability are statistically significant and affect Positively on bank liquidity and thus reflected on the quality of profits. As for the credit risk measured by risk-weighted assets and asset management, it is statistically significant, but it negatively affects bank liquidity. The capital adequacy standard is one of the most important tools used by regulators and bank customers/shareholders to reduce the expected risks faced by banks, especially for international transactions because these rules are mandatory applied by all banks at the international level. The application of these rules will achieve rational management and governance. And that the capital adequacy ratio (CAR) in banks is affected by the quality and size of assets, liquidity, quality of management, credit and risk is the most important variable that explains the variance of capital adequacy (CAR)(Hafez ,El-Ansary,2015).

Basel III

The collapse of the American Lehman Brothers Bank in 2008 was the first spark of the global financial and banking crisis, so it was the global financial crisis, which revealed the weakness of the financial and banking system in major international banks and companies in the United States and extended to include a large number of advanced economies in Europe and Asia. This has motivated analysts to work on analyzing the causes of that crisis, the most important of which was the uncalculated credit expansion and mortgages caused by bad mortgage loans in various countries of the world, so the G20 countries, regulators and central bank officials (GHOS, BCBC) called on 2009 to work on drafting supervisory rules and regulations as well as setting stricter reform and fundamental standards regarding banking capital through the issuance of the Basel III Agreement (Wissam and Muhammad, 2019:202). The Basel III agreement came as a response to the financial crisis in 2008 and the persistence of insufficiency or failure to adhere to Basel II in protecting banks from collapse.

And one of the most important basic problems faced by banks in the financial crisis is their lack of sufficient capital to face risks, which later turned out to have exceeded perceptions before the crisis, and this undoubtedly violates the basic principles of Basel II regarding capital adequacy (Mkhtar, 2017:34). The Basel Committee made broad fundamental amendments to the three pillars (Basel II) in the Basel III Agreement, which obligated banks to fortify themselves to face the financial crises that they may be exposed to in the future (Quli and Nabila, 2020: 22) by strengthening supervision, risk management and liquidity management, in order to Achieving the following goals (Majid & Fatima, 2019: 786):

- Enhancing transparency and disclosure in banks
- B - Improving risk management and governance.
- Working to improve the banks' ability to face future crises by absorbing shocks resulting from financial and economic pressures.

In 2010, the publication of the Basel III Accord was approved by the Group of Governors and Chiefs of Supervision (GHOS), which included the introduction of amendments to capital requirements in addition to the introduction of international standards related to liquidity. These were known as the initial reforms of Basel III, and in 2017, the Basel III reforms were completed, including Regarding the restoration of credibility in the calculation of risk-weighted assets (RWA) (after Basel II failed to do so) and capital ratios. In 2019, the adoption of the new liquidity standards (LCR - NSFR) was completed. It is clear from this that the Basel Committee has worked continuously to develop the supervisory rules and regulations and standards of banking work that contribute to making banks more capable in facing crises and withstanding the shocks they may be exposed to by identifying risks in a more comprehensive way (Akkizidis, 2018:14). The Basel III Agreement aims to achieve a set of main objectives and my mandate (Ayyash and Al-Ayeb, 2018:84):

- Increasing the quality and adequacy of regulatory capital and enhancing coverage of exposure to risks by providing capital adequacy to meet the various risks that the bank may be exposed to.
- Developing and updating the three pillars of the Basel II framework.
- Providing the necessary support through financial leverage that serves as a support for risk-based capital procedures.
- The Basel Committee provides flexibility in the banking sector by strengthening the regulatory capital framework.
- Improving the effectiveness of the supervisory control to face risks by preparing flexible capital adequacy standards and liquidity standards in order to enable the authorities to immunize or be able to face any sudden events to the risks that arise from international economic fluctuations.

Second : Reform aspects and amendments provided by Basel III

The Basel III Agreement provided for a set of amendments that worked to raise and improve the quality of capital in banks in order to enhance their ability to absorb shocks and risks and the strength of banking systems in order to maintain financial and banking stability in the world. Therefore, we will review the most important amendments included in the Basel III Convention, as follows:

Amendments related to the capital base: The Basel III agreement raised the minimum capital requirements and improved its quality in order to increase the banks' ability to face future crises that they may face, as the committee classified the capital into two tranches instead of three, as In the Basel II Agreement and as amendments were made to the components of both tranches (1 + Tier2 Tier) and in accordance with the Basel III agreement, the capital consists of:

First: Tier 1: This tranche consists of (Kawthar, Al-Sadiq, 2018: 18):

1) Core capital CET1 (ordinary shares): It represents the group of basic financial resources of the bank, which was raised from 4% (as it was in the Basel II agreement) to 6% of the risk-weighted financial assets, and the core capital consists of (common shares + profits). (Retained losses) + declared reserves + items of comprehensive income, which include changes in fair value in full + non-controlling interests (minority interests).

2) Additional Tier 1 Capital (AT1): The components of the additional core capital consist of financial instruments that meet the inclusion in the additional core capital and are not included in the rights of ordinary shareholders CET 1 such as the nominal value of the permanent non-accumulating preferred stockholders, and includes Also, share premium, and non-controlling interests (minority rights include the instruments issued by the bank's subsidiaries and in the net business results).

Second: second Tier 2:

It means the funds that provide bonds to the basic capital and that do not arise from the normal banking activity, but are other cash and non-cash resources, and the objective of T2 is to provide capital tools to absorb losses on the basis of the bank's discontinuity. It consists of (financial instruments that meet the conditions of listing within the second tranche and are not included in the first tranche of capital, the issue premium within T2, non-controlling rights that are included within T2 and not within T1, a banking risk reserve of no more than 1.25% of the total Credit risk weighted assets calculated under the standard method.

It is clear from the foregoing that the new agreement (Basel III) provided an amendment to the capital structure through the control or dominance of the basic capital, in particular the subscribed capital and undistributed profits to meet the requirements of the minimum capital without going to the withdrawal of the entire funds of the bank and this gives The freedom to resort to market-exported tools that investors may desire on the one hand, and to a more flexible management of capital on the other hand, so the important thing here is to support and strengthen capital components to face and absorb crises and shocks that the bank may be exposed to. Accordingly, the capital adequacy equation will be after increasing its percentage from 8% as it was in Basel II to 10.5% in the new agreement in accordance with Basel III.

The researcher believes that the Basel III agreement has attempted to reduce the risk of banking crises by strengthening capital and reserves by providing sufficient liquidity with a focus on strengthening standards for managing risks to which the bank is exposed, and therefore this will lead to financial stability and a lower risk of bankruptcy or failure. For banks, the new agreement is based on increasing the international harmony for the application of this agreement and therefore it will be a great challenge for international banks, especially in the current conditions of the competitive market.

The Concept of Earning Quality

There have been many concepts of the earning quality according to the literature and various studies, but the view of the earning quality in accounting thought is represented in two different perspectives (Shaaban, 2021: 107), the first is referred to from the perspective of the benefit of the decision, while the second is from an economic perspective. As the first perspective focuses on the usefulness of decision-making, as he was the first to introduce the concept of profit quality (OGlove), which was written in investment advisory reports that the quality of earnings is what is characterized by continuity, but he did not define a concept of it, and then the American Accounting Standards Board (FASB) used The term profit quality explicitly to describe the implications of current profits to predict them in the future in the standard (132). As for the economic point of view, these two perspectives reflect the earning quality as they are achieved through the extent of convergence between the accounting and economic concept of income based on the concept of capital preservation as an input to measure income.

The researcher believes that the proximity of profits to the economic concept of profit cannot reflect the actual performance of the economic unit, because economic profit expresses the difference between the assets of the beginning and the end of the period at a certain moment and at fair value, but in the case of inflationary conditions, this income does not reflect the performance of the economic unit due to Changing exchange rates, and also does not comply with accounting principles and standards as it depends on fair value rather than historical cost.

The Importance of Earning Quality and Interesting Parties

The financial reports in general, and the financial statements in particular, are considered the most effective in achieving the accounting communication function between the economic unit and its beneficiaries, through which different information about the economic unit is provided, and therefore the decisions of the economic unit are based on profit information depending on the different users of the lists and financial reports. Shareholders view profits as a measure of the performance of managers and granting them rewards, while borrowers rely on profits in order to evaluate their investments through the ability of current profits to predict the continuity of profits in the coming periods, but relying on profits values without taking into account what are the factors that will Reducing the level of earning quality leads to decisions that focus on the quantity of profits and not on their quality.

As the continuation of profits in the future is evidence of their quality, as the low percentage of receivables in profits indicates the quality of profits. Other decisions (Al-Adham, 2014: 28). Among the most important factors that affect the investment decisions of investors, which take the earning quality from several different angles according to the users of the financial statements, as follows (Hassan, 2020: 39):

1. It is considered a basic indicator for evaluating the earning quality in the economic unit, where it is noted that there is a direct relationship between the earning quality and the accounting system and the extent of its commitment to the application of accounting standards.

2. Regulating the relationship between creditors and borrowers and the economic unit in the future by knowing the extent of the economic unit's ability to pay its debts.

3. They represent the most important sources for current and prospective investors in order to assess the performance and risks of the economic unit.

4. It is considered one of the important inputs in the process of making investment decisions and other decisions that are used in predictive studies for the performance of the economic unit.

5. The commitment of the management of the economic unit to achieve profits characterized by high continuity and

good predictive ability, which indicates the existence of a relationship between the earning quality and the management of the economic unit.

RSEEARCH METHODOLOGY

Sample and Data Collection

The research population is represented by the Iraqi private banks listed in the Iraq Stock Exchange, which total (43) banks for the year 2021, including (17 Islamic banks), and (5) private banks have been selected, the percentage of shareholders of companies and international banks is more than 51% as they apply the criteria (CAR according to Basel III) since 2016, which confirms the accuracy of the published annual reports, and these banks (The National Bank of Iraq, the Commercial Bank of Iraq, the Trans-Iraq Bank, Al-Mansour Investment Bank, the Bank of Baghdad).

The Studies and research (Ayash, 2018: 85) (Quli, Nabila, 2020: 25) have relied on the formula for calculating the capital adequacy ratio in accordance with Basel III requirements, which was approved by the BCBS, 2011) in 2011, as follows:

However, the difficulty of obtaining the necessary data from the banks of the research sample to calculate the equation, the researcher relied to determine the first independent variable on the capital adequacy ratio before and after the application of Basel III decisions in the annual reports of the research sample banks for the period (2012-2021) as shown in Table (1).

Table (1)

CAR Percentage										Banks
CAR After Basel III					CAR Before Basel III					
2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	
25%	31%	27%	83%	11%	10%	12%	11%	10%	133%	NBI
60%	74%	53%	66%	6%	73%	26%	22%	12%	114%	TBI
20%	249%	36%	36%	32%	29%	29%	32%	12%	107%	ABB
11%	136%	21%	26%	21%	23%	19%	21%	213%	244%	MBI
34%	29%	64%	13%	16%	89%	64%	58%	55%	59%	BB

And for Measuring the dependent variable (Earing Quality) The dependent variable of this study is the earning quality for the banks of the research sample, and the researcher used the Francis classification to measure the earning quality based on two scales (the practice of profit management and accounting conservatism), as follows:

1. **Measuring the earning quality in terms of the (Jones 1991 modified) model for Earing Management**

Many researchers have relied on different measures to measure the quality of profits, and the scale (Belovary et al, 2005) represents one of the most important measures developed, as it depends on determining the characteristics of accounting profits to measure the quality of profits, and there are many measures adopted by researchers to measure the quality of profits, but from the point of view of The researcher after reviewing the studies and research (Hamdan, 2012: 272) The Jonse 1991 model modified by (Dechow et al, 1995) is It is more accurate and easy to apply to measure the Earning Quality, and it can be calculated according to the following steps:

1. The Total Accruals form (Jones 1991) as amended by (Dechow et al, 2002) to calculate the practice of profit management.

TACC i,t = ONI i,t – OCF i,t ………(1)

TACC i,t / Ai,t-1 = α 0+ β1(1/A i,t)+ β2(ΔREV i,t-ΔREC i,t)/Ai,t-1+β3 PPE i,t/Ai ,t-1+ e i ,t…….(2)

NDACCi,t = β1(1/Ai,t-1)+ β2(ΔREVi,t-ΔRECi,t)/Ai,t-1+β3 PPE i,t/Ai,t-1+e i ,t……… (3)

DACC i,t/ Ai,t-1 =(TACC i,t/ Ai,t-1)-(NDACC i,t/ Ai,t-1).....(5)

2. **Measuring the earning quality in terms of the accounting conservatism model (market value to book value)**

The researcher relied on the model of market value to book value MTB, which was adopted from studies (Jain & Rezaea, 2004 (Chan & Lin 2009) (Hang & Tran 2020) to measure the earning quality in terms of the practice of accounting conservatism for banks before and after the application of the criterion IFRS 9 for the period (2012- 2021), and this measure uses the ratio of the market value to the book value of the share value of the bank to know that the banks are practicing conservative accounting policies by comparing the market value with the book value, where the increase in the market value of the stock refers to the book value of more than one The correct period of time indicates the bank's use of a conservative accounting policy towards the recognition of profits and a higher valuation of financial assets and vice versa. The model is measured through the following equation:

Cons i,t :(MVi,t)/(BVi,t)

whereas :

Cons i,t: the degree of accounting conservatism from (i) at the end of year t().

Market Value (MV i,t): The closing price of a bank's stock in the market from (i) at the end of year(t)

Book Value (BV i,t): The book value per share of the bank from period (i) to the end of the year (t).

The value of the degree of accounting conservatism was calculated for the banks of the research sample, and the following results appeared in the table (2):

Table (2)

Practice of Accounting Conservatism before & after Adoption Basel III												Banks
Mean	Accounting Conservatism after Basel III					Mean	Accounting Conservatism before Basel III					
	2021	2020	2019	2018	2017		2016	2015	2014	2013	2012	
1.15	1.01	1.00	1.66	1.05	1.02	0.88	0.82	0.92	0.83	0.80	1.02	NBI
1.02	1.02	1.05	1.09	1.02	0.93	0.98	0.52	0.46	0.54	1.18	2.22	TBI
0.69	0.93	0.64	0.65	0.63	0.62	0.83	0.62	0.89	0.94	0.83	0.85	ABB
0.55	0.46	0.50	0.60	0.53	0.68	0.84	0.86	0.75	0.70	0.98	0.88	MBI
1.03	1.05	1.02	0.98	1.04	1.04	0.88	0.80	1.09	0.85	0.88	0.79	BB
4.44	0.89	0.84	1.00	0.85	0.86	4.41	0.72	0.82	0.77	0.93	1.15	Mean for all banks

Test of Hypotheses

H0: There is no impact relationship for the application of the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of Earing Management in Iraqi private banks.

H1: There is a relationship of the impact of capital adequacy according to Basel III on the Earing Quality in terms of the Earing Management in Iraqi private banks. From this emerge the sub-hypotheses

To test the validity of this hypothesis (there is no impact relationship to the application of capital adequacy according to Basel III decisions on the Earning Quality in terms of Earning management practice), and accordingly the researcher tested the impact of the independent variable capital adequacy after applying Basel III decisions on the dependent variable (Earning Quality) measured according to (Earning management practice) defined by building the following model:

EQ i,t E.M = β 0+ + β2 CAR basIII + e i,t

whereas :

EQ i,tE.M: Earnings Quality (according to Earnings Management Practice Model**)**

CAR basel III: capital adequacy after the implementation of Basel III decisions

e i,t : random error

It is clear from the table (3) that the results are not statistically significant, as the calculated "F" value reached (0.253), which is not statistically significant at the level of significance (0.05), as the p-value reached (0.773), which is greater than the level of significance (0.05), and this It confirms the absence of statistical significance for the effect of the independent variable (capital adequacy according to the decisions of Basel III on the dependent variable (Earning Quality according to the Earing Management practice scale).

The independent variable and the dependent variable in terms of the practice of profits are low, while the value of the coefficient of determination (R2) equals (2%), and this indicates that the independent variable does not explain the dependent variable, and that (97%) of the changes in the earning quality are caused by other factors. And to make sure that there is no multicollinearity problem, the VIF inflation coefficient was calculated and it was found that its value for the two independent variables is equal, which is

1.014, which indicates the absence of the problem because the value of VIF is less than 10.

Through the results contained in the table (3) of the first main hypothesis, the null hypothesis was accepted, which states (there is no influence relationship to apply the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of Earning management in Iraqi private banks).

Table (3) results of measuring the impact of the capital adequacy standard on the Earing Quality in terms of the practice of Earing management

Earing Quality in terms of the practice of Earing management				
Sig	**F-Value**	**R^2**	**R**	**Variable**
0.778	**0.253**	**0.023**	**0.150**	**Capital Adequacy after Basel IIII**

H0: There is no impact relationship for the application of the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of accounting conservatism in Iraqi private banks.

H1: There is an impact relationship for the application of the capital adequacy criterion in accordance with Basel III on the Earing Quality in terms of the practice of accounting conservatism in Iraqi private banks

To test the validity of this hypothesis (there is no relationship to the effect of applying the capital adequacy standard according to Basel III decisions on the earning quality in terms of the practice of accounting conservatism), and accordingly the researcher tested the effect of the independent (capital adequacy after applying Basel III decisions) on the dependent variable (Earning Quality).) Measured according to the (accounting conservative practice) model defined by building the following model:

EQ i,t CONS = β 0+ + β2 CAR basIII + e i,t

whereas :

EQ i,tCons: the Earning Quality (according to the accounting conservatism exercise model)

CAR basel III: capital adequacy after the implementation of Basel III decisions

e i,t : random error

It is clear to us from the table (4) that the results are statistically significant, as the calculated "F" value reached (12,348), which is statistically significant at a level of significance (0.05), as the p-value reached (0.001) which is less than the level of significance (0.05), and this indicates that There is statistical significance for the effect of the independent variable (capital adequacy according to Basel III decisions) on the dependent variable (Earning Quality according to the accounting conservatism practice scale). The results also showed the value of the correlation coefficient (R) equal to (0.73) and this indicates that the relationship between the independent variable and the dependent variable in terms of Earning Quality is good, while the value of the coefficient of determination (R2) is equal to (53%), and this indicates that the independent variable explains the changes that occur in the dependent variable and that (57%) of the changes in the earning quality are caused by other factors.

To make sure that there is no multi collinearity problem, the variance inflation factor VIF was calculated and its value for the independent variables is equal, which is 1.014, which indicates the absence of the problem the value of VIF is less than 10.

Through the results contained in Table (4) of the second main hypothesis, the null hypothesis was rejected and the alternative hypothesis accepted, which states (there is an impact relationship for the application of capital adequacy according to Basel III on the Earning Quality in terms of the practice of accounting conservatism in private Iraqi banks).

Table (4) of the results of measuring the impact of the capital adequacy standard on the Earning Quality in terms of the practice of accounting conservatism

Earing Quality in terms of the practice of accounting conservatism				
Sig	**F-Value**	**R^2**	**R**	**Variable**
0.778	**0.253**	**0.023**	**0.150**	**Capital Adequacy after Basel IIII**

CONCLUSION

The application of capital adequacy in accordance with the decisions of Basel III did not reduce the practice of earning management and this led to a decrease in the earning quality in the research sample banks, due to its focus on the work of precautionary pillars to protect the bank from pressures, financial crises and economic fluctuations and to maintain the capital base for capital adequacy (Continuous and basic capital. Also, the bank transferring a larger part of the profits towards the reserves instead of distributing them within the profits distributed annually represents the essence of the accounting reservation and this is an indication of the high earning quality.

REFERENCES:

1. Al-Adham, Maysam Jihad, The Impact of Applying Governance Rules on the Quality of Profits - A Field Study on Public Shareholding Industrial Companies, Master's Thesis, Middle East University - College of Business, 2014.
2. Annual reports issued by Al-Mansour Investment Bank for the period from 2012 - 2021.
3. Annual reports issued by the Bank of Baghdad for the period from 2012 - 2021
4. Annual reports issued by the Commercial Bank of Iraq for the period from 2012 - 2021.
5. Annual reports issued by the National Bank of Iraq for the period from 2012 - 2021.
6. Annual reports issued by the Trans-Iraq Investment Bank for the period from 2012 - 2021.
7. Ayyash, Zubair, Al-Ayeb, Sana, Implementing Basel III reforms in Arab banks with reference to Gulf banks (Saudi Arabia, UAE, Bahrain), North African Economics Journal, Vol. 14, No. 18, 2018.
8. Bellovary, Jodi, Don Giacomino, and Michael Akers. “Earnings Quality: It's Time to Measure and Report.” Business Administration, College of Accounting Faculty Research and Publications, 2005
9. Chan, Ann L.-C., Stephen W.J. Lin, and Norman Strong. “Accounting Conservatism and the Cost of Equity Capital: UK Evidence.” Managerial Finance 35, no. 4 (2009). https://doi.org/10.1108/03074350910935821.
10. Dang, Ngoc Hung, and Manh Dung Tran. “Impact of Financial Leverage on Accounting Conservatism Application: the Case of Vietnam.” Custose@gronegócio 16, no. 3 (2020).
11. Dechow, Patricia M., and Catherine M. Schrand. Earnings Quality. Research Foundation of CFA Institute, 2004.
12. Engelmann, Bernd, and Ha Pham. “Measuring the Performance of Bank Loans under Basel II / III and IFRS 9 / CECL.” SSRN Electronic Journal, 2020.
13. Hafez, H. M., & El-Ansary, O. A. (2015). Determinants of capital adequacy ratio: An empirical study on Egyptian banks. Corporate Ownership and Control, 13(1), 1166–1176. https://doi.org/10.22495/cocv13i1c10p4

14. Hamid, Thaer Kamel, Hassan, Wafaa Abdel Amir, The effect of the quality of accounting profits using the sustainability model (profit continuity) and the predictive ability in the continuity of banks - Journal of Accounting and Financial Studies, Volume 15, Issue 52, 2020.
15. Ibtisam, B, Hayat ,N, capital adequacy according to Basel III decisions and its impact on banking liquidity: A standard study of a sample of banks listed in the Saudi financial market using Al-Binal models, Al-Maqirizi Journal of Economic and Financial Studies, Volume 5, Issue 2, 2021.
16. Kawthar, Talhi, Al-Sadiq, Bushnafa, The reality and prospects of applying the financial leverage standard according to the decisions of Basel III Agreement, Journal of Economics, Management and Commercial Sciences, Volume 11, Issue 1, 2018.
17. Korein, S., Abotalib, A., Trojak, M., & Abou-El-Sood, H. (2021). Is capital conservation buffer or regulatory leverage better at Improving Bank Efficiency? the case of an emerging market. *Journal of Humanities and Applied Social Sciences*. https://doi.org/10.1108/jhass-10-2020-0186
18. Lampros, Akkizidis Ioannis Kalyvas. Final Basel Iii Modelling: Implementation, Impact And Implications. Palgrave Macmillan, 2019.
19. Majed, Said, Fatima Zahra, Raqiqiah, reforming the Algerian financial and banking system and the procedures for adapting it according to the control and supervision requirements of the Basel III Committee, Al-Bashaer Economic Journal, Vol. 5, No. 1, 2019.
20. Mokhtar, Boudali, The Impact of Basel III Decisions on the Decision-Making Process to Adjust the Precautionary Standards of the Bank of Algeria, Al-Bashaer Economic Journal, Volume 3, Issue 2, 2017
21. Quli, Muhammad, Nabila, Samaili, Basel III decisions and their applications in the Arab countries as an introduction to achieving financial stability and managing banking crises, Al-Makar Journal for Economic Studies, No. 4, 2020.
22. Rezaee, Z, and Pankaj K. Jain. “The Sarbanes-Oxley Act of 2002 and Accounting Conservatism.” SSRN Electronic Journal, 2004https://doi.org/10.2139/ssrn.554643.
23. Shaaban Ahmed Rand, Dashly, Kamal, Implications of the quality of profits on the operational performance of companies listed on the Damascus Stock Exchange - an applied study, Al-Quds Open University Journal for Administrative and Economic Research, Volume 6, Issue 15, 2021.
24. Wissam, A, Mohamed, B, Towards a commitment to the decisions of the Basel III Committee to Strengthen Supervision in the Algerian Banking System, Al-Bashaer Economic Journal, Volume 6, Issue 1, 2020.