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Disclosure of Debt Instruments in Accordance With The Requirements of The Seventh International Financial Reporting Standard (IFRS7)

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ABSTRACT

The research sought to discover the application and disclosure extent of the debt instruments within the Iraqi's commercial private banks in accordance with the seventh international financial reporting standard, by using the descriptive analytical approach building a questionnaire form with the aim of testing the research hypothesis. The research hypothesized that the private Iraqi commercial banks did not apply the principles of the international reporting standard, specifically the Seventh financial standard regarding debt instruments disclosure. The research reached a main conclusion, which is that the Iraqi private commercial banks disclose the amounts recorded in the statement of financial position or the notes for loans and investments held to maturity, and this conclusion was met with a recommendation for the Iraqi commercial private banks to disclose the loans and investments held to maturity and to expand the disclosure of them and their subsidiaries, if any, due to the transparency it provides in the presentation of the financial position statement.

Keywords: *credit facilities, bonds, financial statements, commercial banks.*

INTRODUCTION

According to many prior studies International Accounting Standards are often considered effective solutions to major problems faced by economic units. Therefore, when international standards are issued, they are a supporter and in the event that they are applied correctly to the workflow in a sound and discreet manner, they reduce risks and these risks are banking risks resulting from debt instruments. And the fact that banks are one of the large economic units that are the backbone of the economy of any country, thus there is no doubt that they have a great role in the application of international standards through the problems and risks they are exposed to which require extensive studies and result in accounting standards, the latest of which is the seventh international financial reporting standard.

Since the nature of the bank's work and its dependence on employing the sources of its funds in debt instruments of different durations, the greatest risks facing the bank stem from debt instruments. Therefore, the seventh international standard was clear in the way of disclosing these financial instruments where banks ensure that risks arising from the acquisition of these financial assets are reduced to the least possible. The banking sector in general is part of an economic environment and it exercises its tasks according to different laws in different countries and different circumstances. Therefore, the adoption of these standards by the banking system may vary in timing and the degree of commitment of the banking system to these standards also varies, but the two of them do not differ that these The standards will be applied and adhered to by the banking system in most countries of the world sooner or later.

Research Problem

During the period of preparing and implementing the seventh international standard, the Iraqi banking system faced many problems and difficulties that could affect the possibility of adopting this standard in Iraq. Most of the Iraqi private commercial banks were established after the US occupation of Iraq in 2003, so the research problem can be formulated by the following question:

Did the Iraqi banking system disclose debt instruments in accordance with the Seventh International Financial Reporting Standard (IFRS7)?

Research Aims

1. Discovering the extent of the application of the Iraqi commercial private banks to disclose debt

instruments in accordance with the seventh international standard.

2. Clarify the importance of disclosing debt instruments for the beneficiaries of the financial statements.
3. Reaching the role of the supervisory authorities on the Iraqi banking sector in their follow-up to display the banking financial statements.

Research Importance

The research used the descriptive-analytical method through a survey of the opinions of the banks in the research sample, and this will contribute to reaching real results about the disclosure of debt instruments, in addition, the research will prepare supervisory material for the authorities responsible for the Iraqi banking system in the event of a default in the application of the international financial reporting standard The seventh (IFRS7), and the research will also contribute to urging banks to quickly adopt the disclosure of debt instruments in the event that their financial reports lack that.

Research Hypothesis

The research was based on one hypothesis that states that ((the private Iraqi commercial banks did not apply the principles of the seventh international financial reporting standard with regard to debt instruments)).

What are the debt instruments of the banking sector?

First - the concept of debt instruments and their types:

International Accounting Standards, through its Council, define financial instruments as a contract that results in a financial asset for a particular economic unit and a financial liability for another institution. In this regard, the word “contract” refers to arrangements between one or more parties, in which the parties have little choice to avoid fulfillment. The contract is legally enforceable (Al-Qadi and Hamdan, 2007:231).

One of the financial instruments is debt instruments, which are a paper or electronic commitment that enables the issuing party to collect funds by promising to repay the lender in accordance with the terms of the contract. These instruments also provide a means for market participants to easily transfer ownership of debt obligations from one party to another. Debt is legal, enforceable evidence of financial debt and a promise to repay the principal amount in a timely manner, plus any interest (Trott, 2009, p460)).

Debt instruments also express any asset to receive cash or another financial asset from another economic unit, or to exchange financial assets with another economic unit under conditions that may likely be in the interest of the economic unit that owns the financial instrument (Abdel-Aal, 2003:13).

Debt instruments are generally divided into:

1. Credit facilities: are those services that the bank performs by providing financing ceilings, i.e. giving credit facilities to economic units and individuals in the community, such as loans, provided that the beneficiary pledges to return those funds with their interest and within a certain period of time. These credit facilities are subject to a set of factors influencing the Determined either in terms of the bank's ability to grant these facilities, or in terms of the ability of the economic unit or the individual to obtain these facilities (Al-Shallal et al., 2020: 92).

2. Bonds: Bonds are considered one of the capital market tools and differ from other tools with characteristics that distinguish them from others and include types that vary in source, period and impact (Al-Shdeifat, 2006: 106).

Bonds are also known as a negotiable instrument in the form of a loan issued by the economic unit or the government. As for the bond holder, he is considered a creditor to the issuer of the bond and has the right to credit and is not considered a partner unlike stockholders, and gives the holder according to it a fixed annual interest and has the right to recover its value after a certain period (Abdul Latif) 132) The bond is distinguished from the traditional loan in that the former has a high flexibility in liquidity, in addition to that, it achieves capital gains through trading operations (Al-Shibawi, 2016: 24).

Second . Disclosure of debt instruments according to the requirements of the seventh International Financial Reporting Standard (IFRS7):

The ongoing and ongoing development in economic activity and the spread of freedom of movement in capital around the world contributed significantly to the emergence of new financial instruments through which the volume of executed economic operations increased, urging international accounting institutions and bodies to lay the foundations and rules for the disclosure of these tools. Suitability, which is a basic characteristic of the accounting information presented in financial reports Therefore, the seventh International Financial Reporting Standard (IFRS7) was issued in order to disclose the risks arising from dealing with financial instruments, including debt instruments. It also canceled the international standard

IAS30 that relates to disclosure in the financial statements of banks and similar economic units, thus restricting all disclosures of financial instruments together (Sabihi, 2011:89).

Third . Disclosure of debt instruments in the statement of financial position according to the requirements of the seventh International Financial Reporting Standard (IFRS7):

The book value of all debt instruments must be disclosed either on the face of the balance sheet or the statement of financial position (Humaidat and Abu Nassar, 2016: 724).

1. Debt instruments at fair value through comprehensive income in accordance with the International Financial Reporting Standard (IFRS9).

2. Debt instruments at amortized cost under the International Financial Reporting Standard (IFRS9).

Fourthly . Requirements for disclosing debt instruments at fair value through profit and loss:

If the economic unit labels a debt instrument or group of debt instruments to be measured at fair value through profit and loss, which otherwise would have been measured at fair value through comprehensive income or exhaustive cost, it must disclose (Foucusifrs, 2021).

1. The maximum exposure of a financial asset to credit risk at the end of the reporting period

2. The amount by which any credit derivatives or similar instruments are reduced to reduce the maximum exposure to credit risk

3. The amount of change during the period and collectively in the fair value of debt instruments attributable to changes in credit risk

v. Disclosure requirements in the statement of income and equity:

The economic unit must disclose the items of income, expense, profit and loss either on the face of the financial statements or in the notes as follows (Humaidat, 2014: 514_515):

1. Available-for-sale financial assets with the amount of profit or loss recognized directly in equity

2. Held-to-Maturity Investments

3. Loans and receivables

4. Impairment Loss Amount (Expected Credit Loss)

Analysis of the disclosure of debt instruments at the Iraqi commercial private banks:

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

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

3 . Analysis of the questionnaire form:

A. The severity of the response to the disclosure of debt instruments according to the seventh international standard:

Table (1) The severity of the response to the disclosure of debt instruments according to the seventh international standard

N.	**Sentence**	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
1	Disclosure of the true amount of money lent by banks is a very important matter.	82	41	46	26	14
		39%	*20%*	*22%*	*12%*	*7%*
2	The Bank discloses the amounts recorded in the statement of financial position or in the notes for loans and investments held to maturity	83	39	47	25	15
		40%	*19%*	*22%*	*12%*	*7%*
3	The maximum exposure to credit risk arising from holding loans is disclosed at the date of the financial statements if the bank classifies the loan at fair value.	86	42	37	30	14
		41%	*20%*	*18%*	*14%*	*7%*
4	The Bank discloses the amount of the change in fair value and cumulatively if the Bank classifies the loan at fair value.	85	36	35	34	19
		41%	*17%*	*17%*	*16%*	*9%*
5	With regard to the payable loans recognized	86	38	41	26	18

	when preparing the date of preparing the report, the bank is obligated to disclose cases of non-fulfillment during the period in the amount of the principal or interest and the book value of the outstanding loans that were not fulfilled on the date of preparing the report.	*41%*	*18%*	*20%*	*12%*	*9%*
6	The bank is obligated to disclose the net gains and losses for investments held to maturity (bonds and loans).	88	40	41	21	19
		42%	*19%*	*20%*	*10%*	*9%*
7	Dividing the debts owed to the bank to customers according to the quality of credit will contribute to preparing for facing the risks of those debts.	83	37	34	33	22
		40%	*18%*	*16%*	*16%*	*11%*
8	Dividing the debts owed to the bank to customers according to the quality of credit will contribute to preparing for facing the risks of those debts.	86	36	36	26	25
		41%	*17%*	*17%*	*12%*	*12%*
9	There are loans granted to other banks that are considered debt instruments.	85	42	30	27	25
		41%	*20%*	*14%*	*13%*	*12%*
10	Loans granted by the general administration or the main branch of other branches of the bank are not debt instruments.	86	37	35	28	23
		41%	*18%*	*17%*	*13%*	*11%*
11	The receivables account is not considered among the debt instruments as it is a credit outside the normal activity of the bank.	86	37	28	35	23
		41%	*18%*	*13%*	*17%*	*11%*
12	The bank discloses in the financial statements the profits of recovering the impairment losses for the financial instruments represented by the bonds.	87	40	33	22	27
		42%	*19%*	*16%*	*11%*	*13%*
13	The Bank classifies financial assets within the category of financial assets measured at amortized cost when they meet the conditions for choosing a business model and selecting	84	37	41	28	19
		40%	*18%*	*20%*	*13%*	*9%*

	cash flow characteristics.					
Source: Prepared by the researcher based on the questionnaire.						

It is clear from Table (1) that the severity of the answer to the axis of financial instruments tended towards (strongly agreed and agreed), as the total of the two answers to all the questions of the axis was greater than 50%, and the maximum was for the third, sixth and twelfth questions, as they reached 61%, whose texts were, respectively ((they are Disclosure of the maximum exposure to credit risk resulting from retaining loans at the date of the financial statements if the bank classifies the loan at fair value) and ((the bank is obligated to disclose net gains and losses for investments held to maturity - bonds and loans-)) and ((the bank discloses In the financial statements about the profits of recovering the losses of the impairment for the financial instruments represented by the bonds).

A. Descriptive statistics for the disclosure of debt instruments according to the seventh international standard:

Table (2) Descriptive statistics for the disclosure of debt instruments according to the seventh international standard

N.	Sentence	Arithmetic mean	standard deviation	Variation coefficient	Relative importance
1	Disclosure of the true amount of money lent by banks is .a very important matter	3.72	1.282	34.46	1
2	The Bank discloses the amounts recorded in the statement of financial position or in the notes for loans and investments held to maturity	3.72	1.294	34.78	2

3	The maximum exposure to credit risk arising from holding loans is disclosed at the date of the financial .statements if the bank classifies the loan at fair value	3.75	1.307	34.85	3
4	The Bank discloses the amount of the change in fair value and cumulatively if the Bank classifies the loan at .fair value	3.64	1.387	38.10	7
5	With regard to the payable loans recognized when preparing the date of preparing the report, the bank is obligated to disclose cases of non-fulfillment during the period in the amount of the principal or interest and the book value of the outstanding loans that were not fulfilled on the date of preparing the report	3.71	1.343	36.20	5
6	The bank is obligated to disclose the net gains and losses .for investments held to maturity (bonds and loans)	3.75	1.336	35.63	4
7	Dividing the debts owed to the bank to customers according to the quality of credit will contribute to .preparing for facing the risks of those debts	3.60	1.411	39.19	11
8	Debt instruments in the banking sector are divided into .loans and bonds	3.63	1.425	39.26	13
9	There are loans granted to other banks that are .considered debt instruments	3.65	1.424	39.01	9

10	Loans granted by the general administration or the main branch of other branches of the bank are not debt .instruments	3.65	1.410	38.63	8
11	The receivables account is not considered among the debt instruments as it is a credit outside the normal .activity of the bank	3.61	1.437	39.81	13
12	The bank discloses in the financial statements the profits of recovering the impairment losses for the financial .instruments represented by the bonds	3.66	1.433	39.15	10
13	The Bank classifies financial assets within the category of financial assets measured at amortized cost when they meet the conditions for choosing a business model and .selecting cash flow characteristics	3.67	1.360	37.06	6
Source: Prepared by the researcher based on the questionnaire.					

Question No. (1) obtained the lowest coefficient of variation, which amounted to 34.46, which resulted in obtaining a high arithmetic mean of 3.72 and the lowest standard deviation of 1.282, which qualified it to be the most important question among the paragraphs of the debt instruments axis, as shown in Table (2).

B. The correlation coefficient for disclosing debt instruments according to the seventh international standard:

Table (3) Correlation coefficient between debt instruments disclosure questions according to the seventh international standard and the total score for the axis

N.	Sentence	correlation coefficient
1	.Disclosure of the true amount of money lent by banks is a very important matter	0.916

2	The Bank discloses the amounts recorded in the statement of financial position or in the notes for loans and investments held to maturity	0.923
3	The maximum exposure to credit risk arising from holding loans is disclosed at the .date of the financial statements if the bank classifies the loan at fair value	0.919
4	The Bank discloses the amount of the change in fair value and cumulatively if the .Bank classifies the loan at fair value	0.911
5	With regard to the payable loans recognized when preparing the date of preparing the report, the bank is obligated to disclose cases of non-fulfillment during the period in the amount of the principal or interest and the book value of the .outstanding loans that were not fulfilled on the date of preparing the report	0.910
6	The bank is obligated to disclose the net gains and losses for investments held to .maturity (bonds and loans)	0.897
7	Dividing the debts owed to the bank to customers according to the quality of credit .will contribute to preparing for facing the risks of those debts	0.926
8	.Debt instruments in the banking sector are divided into loans and bonds	0.895
9	.There are loans granted to other banks that are considered debt instruments	0.908
10	Loans granted by the general administration or the main branch of other branches of .the bank are not debt instruments	0.910
11	The receivables account is not considered among the debt instruments as it is a .credit outside the normal activity of the bank	0.908
12	The bank discloses in the financial statements the profits of recovering the .impairment losses for the financial instruments represented by the bonds	0.883

13	The Bank classifies financial assets within the category of financial assets measured at amortized cost when they meet the conditions for choosing a business model and .selecting cash flow characteristics	0.913
Source: Prepared by the researcher based on the questionnaire.		

Question No. (7), which states ((dividing the bank's owed debts on customers according to the quality of credit will contribute to preparing to face the risks of those debts)) obtained the highest correlation coefficient between it and the total degree of the axis, as it reached (0.926), while the lowest correlation coefficient was obtained Question No. (12) which states ((The bank discloses in the financial statements about the profits of recovering the losses of the impairment in relation to the financial instruments represented by bonds)) and amounting to (0.883), meaning that all the problems of the axis were statistically high correlation coefficients and this indicates that they obtain internal honesty, and that the questions of the axis are capable On the measurement of what is set for the future, as shown in Table No. (3).

C. Stability factor for disclosing debt instruments according to the seventh international standard:

Table (4) Stability coefficient between debt instruments disclosure questions according to the seventh international standard and the total score for the axis

N.	**Sentence**	**stability coefficient**
1	Disclosure of the true amount of money lent by banks is a very important matter.	0.981
2	The Bank discloses the amounts recorded in the statement of financial position or in the notes for loans and investments held to maturity	0.981
3	The maximum exposure to credit risk arising from holding loans is disclosed at the date of the financial statements if the bank classifies the loan at fair value.	0.981

4	The Bank discloses the amount of the change in fair value and cumulatively if the Bank classifies the loan at fair value.	0.981
5	With regard to the payable loans recognized when preparing the date of preparing the report, the bank is obligated to disclose cases of non-fulfillment during the period in the amount of the principal or interest and the book value of the outstanding loans that were not fulfilled on the date of preparing the report.	0.981
6	The bank is obligated to disclose the net gains and losses for investments held to maturity (bonds and loans).	0.981
7	Dividing the debts owed to the bank to customers according to the quality of credit will contribute to preparing for facing the risks of those debts.	0.980
8	Debt instruments in the banking sector are divided into loans and bonds.	0.981
9	There are loans granted to other banks that are considered debt instruments.	0.981
10	Loans granted by the general administration or the main branch of other branches of the bank are not debt instruments.	0.981
11	The receivables account is not considered among the debt instruments as it is a credit outside the normal activity of the bank.	0.981
12	The bank discloses in the financial statements the profits of recovering the impairment losses for the financial instruments represented by the bonds.	0.981
13	The Bank classifies financial assets within the category of financial assets measured at amortized cost when they meet the conditions for choosing a business model and selecting cash flow characteristics.	0.981
Alpha – Cronbach		0.982
Source: Prepared by the researcher based on the questionnaire.		

It is clear from Table (4) that the stability coefficient for all debt instruments axis questions is less than Cörnbach's alpha coefficient of 0.982, which is greater than the standard rate of the coefficient of 0.6, and thus, the questions of the axis contributed to the stability of the axis, meaning that if the questions are repeated, they will give the same results.

RESEARCH RESULTS:

- **Conclusions:-**

1. The private Iraqi commercial banks disclose the amounts recorded in the statement of financial position or the notes for loans and investments held to maturity.

2. The private Iraqi commercial banks do not disclose in the financial statements the profits of recovering expected credit losses for the financial instruments represented by bonds.

3. Financial assets are classified under the category of financial assets measured at amortized cost when they meet the conditions of the business model test and the cash flow characteristics test.

4. The seventh International Financial Reporting Standard (IFRS7) for the disclosure of financial instruments did not distinguish that short-term bonds do not

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need to be subject to the test for impairment (expected credit losses), as their maturity is one year, unlike medium-term and long-term bonds, as their maturity is more, undergoing additional test of impairment in the value of investments is needed, as the risk of holding them is higher.

- **Recommendations:**

1. Urging private Iraqi commercial banks to disclose loans and investments held until maturity and to expand their disclosure and their subsidiaries, if any, due to the transparency that this provides in the presentation of the statement of financial position.

2. The necessity for the supervisory authorities represented by the Central Bank of Iraq and the Iraqi Securities Commission to invite private Iraqi commercial banks to disclose the expected credit losses because of the prior information they contain for users of financial statements in banks.

3. It is important that the work of Iraqi commercial banks conform to international standards, and the responsibility for following up on this conformity lies with the supervisory authorities

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