



THE APPLICATION OF THE FINANCIAL REPORTING STANDARD IFRS-13 AND ITS IMPACT ON THE POLICY OF DIVIDEND DISTRIBUTION AND TRADING VOLUME (APPLIED STUDY IN THE MIDDLE EAST INVESTMENT BANK)

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Article history:	Abstract:
<p>Received: 1st October 2022 Accepted: 4th November 2022 Published: 6th December 2022</p>	<p>The research aims to show the impact that accounting measurement and disclosure can play according to the principle of fair value under the IFRS-13 Financial Reporting Standard on the policy of profit distribution and trading volume in a way that conforms to the requirements of the contemporary business environment. The research has been applied in the Middle East Investment Bank for the years (2018-2021). Where the cash dividend model was used for the purpose of measuring the fair value in this bank. The research reached a set of conclusions, the most important of which was that there is a possibility to measure the fair value within the cash dividend discount models, the most appropriate model for the Iraqi environment at the present time, for the ease of application of the model, as well as the possibility of obtaining model variables through the final statements of companies in a way that can help improve The policy of distributing profits and trading volume in a way that is consistent with the various environmental changes.</p>

Keywords:

INTRODUCTION:

Economic units use the principle of historical cost in evaluating their assets and liabilities, as the use of this principle represents the actual reality of the event at the time of its occurrence at the moment of exchange. He made the historical cost inappropriate for these circumstances, hence the fair value appeared as an alternative to the historical cost, and the proponents of fair value went to justify its adoption despite the criticism leveled at them by the proponents of the historical cost, and then the fair value, and accordingly the financial reporting standard IFRS-13, which Advocates the use of the fair value principle as an alternative to historical cost, The fair value refers to the amount by which the asset is sold or purchased through a real exchange process between knowledgeable parties willing to exchange away from the conditions of liquidation. trading.

THE FIRST TOPIC: RESEARCH METHODOLOGY

1.1 Research problem:

Iraqi economic units adopt the principle of historical cost in accounting measurement and disclosure processes, knowing that this principle is not appropriate in making decisions related to the policy of

profit distribution and trading volume because of the information it provides, which represents events from the past, and from here the problem of the current research appears in finding the appropriate method to provide information It helps in making rational administrative decisions.

1.2 Research objectives:

The current research aims to show the impact that accounting measurement and disclosure can play according to the principle of fair value under the IFRS-13 Financial Reporting Standard on the policy of profit distribution and trading volume in a way that conforms to the requirements of the contemporary business environment.

1.3 Importance of the research:

The importance of the research lies in the importance of applying the financial reporting standard IFRS-13 and its impact on the policy of profit distribution and trading volume, as this standard came to meet the shortcomings in the historical cost that could not express the financial position of the unit in a reliable way, as the traditional accounting based on Historical cost is unable to meet the requirements of the modern business environment.



1.4 Research hypothesis:

The research is based on the following hypothesis: (The application of the IFRS-13 financial reporting standard can positively affect the dividend policy and trading volume).

1.5 Research Sample:

The research sample is represented by the Middle East Investment Bank for the years (2018-2021) in order to apply the financial reporting standard IFRS-13 and its impact on the profit distribution policy and trading volume in this bank.

The second topic: the theoretical side of the research

2.1 Scope and objectives of IFRS-13:

The efforts that have been made to solve the problem of accounting measurement on the basis of historical cost as it provides reliable accounting information, but there are items that were absent from the financial statements because they were not recognized because they could not be measured reliably. Although the historical cost suffers from several criticisms, it is the most objective basis (Al-Qudah, 2013:13.)

The IFRS 13 standard has been issued, which is considered to include what is stated in the different standards from the fair value, in addition to the important changes included in the standard, which are as follows: (Shamkuts, 2010:11)

1. Establishing a fair value hierarchy, based on three levels of fair value measurement.
2. Adding new disclosures related to the fair value.

IFRS 13 aims to achieve a set of goals, and these goals can be clarified through the following: (Al-Najjar, 2013: 469)

1. Definition of fair value.
2. Establishing a separate framework related to fair value measurement.
3. Requirements for disclosure of fair value measurement.

One of the important reasons that prompted most countries to direct towards the application of international standards is the significant developments in the financial markets in the last two decades. Both companies and investors have gone outside the regional borders. Companies looking for a source of capital went to register in the capital markets outside the borders of their countries In terms of the intensity of savings and investments, as individuals and institutional investors went outside the borders of their countries in search of better investment opportunities (Paea, 2013: 15).

The International Financial Reporting Standards are considered an evolution and a natural extension of the content and content of the accounting standards and interpretations issued and issued, approved and approved by the International Accounting Standards Board and the Standards Interpretation Committee. Objectives of users of financial reporting (Pita, 2006:13.)

2.2 The concept of fair value according to IFRS-13:

The fair value is seen as the exchange value of the asset in a real exchange between willing parties in the transaction; Without this process in cases of liquidation or forced sale, and thus it is the amount expressed in cash or the equivalent of cash by which the ownership of an asset is transferred from a willing seller to a willing buyer (Hammad, 2003: 53).

IFRS-13 has clearly drawn the lines between different views of the appropriate basis of measurement, the difference now not between historical cost and current value but between input values and output values, and between those who wish to measure opportunities for a specific entity and those who prefer to use hypothetical market prices (Whittington, 2008: 155).

Fair value is the amount by which an asset (or liability) can be bought, (loaded) or sold (or settled) in a current transaction between the two parties willing to complete the transaction, i.e. other than a forced sale or liquidation, and thus it is the value that can be received to sell an asset or paid To settle a liability on the measurement date for an orderly transaction between market participants in current market conditions. Financial Reporting Standards, 2013)

The importance of fair value is highlighted in the following: (Al-Najjar, 2013: 469), (Laux & Leuz, 2009: 830).

1. Investors look to financial information from a broad global investment perspective and for this reason it was important to use fair value accounting in order to identify the importance of the interrelationships between fair value accounting and financial markets.
2. The fair value of assets and liabilities reflects the current market conditions, and thus the availability of information in a timely manner, which leads to increased transparency.
3. Fair value accounting plays a role in strengthening transparency in the economy by defining necessary requirements for disclosure and presentation of financial information.
4. The use of the fair value criterion is more appropriate for making decisions and



conducting financial analyzes, and a better basis for forecasting business results and cash flows.

5. The introduction of fair value leads to an increase in financial leverage in times of prosperity, and this in turn leads to an increase in the effectiveness of markets.
6. The application of fair value by taking market indicators into consideration leads to alleviating the severity and repercussions of the financial crisis.

Therefore, the use of fair value will give a better indication of the performance of economic units because it reflects the movements of the value of the investments under their control and thus provides a more objective method for measuring the impact of decisions related to the purchase of investments (Ryan, 2008: 9).

2.3 Fair value measurement according to IFRS-13:

The objective of fair value measurement is to estimate the price that takes place through the process of selling an asset or transferring a liability between market participants at the date of making the fair value measurement under current market conditions. It is the subject of measurement (Shamkuts, 2010:11). There are several ways to measure the fair value, and the cash dividend discount model is one of the best of these models because it is more objective and easy to obtain data. When estimating the fair value of a share, this model assumes that the fair value is a function of the discounted value of the expected cash dividend in the future, which is discounted at a rate The return required by the investor to compensate for the uncertainties of these cash dividends, according to the following formula: 258: 2000 Jones,)

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+k_s)^t} + \frac{P_n}{(1+k_s)^n} \dots\dots\dots (1)$$

Where:

P₀: the fair value of the stock (the real value of the stock)

D_t: dividend per common stock in period t

P_n: the common stock price in period n

K_s: the required rate of return on the common stock by the investor

This model is characterized by a set of characteristics, which can be clarified through the following: (Pita, 2006: 17)

1. The methods and methods used in the model for estimating the fair value are appropriate

and consistent with economic methodologies and financial theories.

2. The evaluation method according to this model works to maximize the use of market inputs and to limit as much as possible the use of private estimates and unclear information.
3. Testing the method and method of evaluation according to this model involves the exercise of judgment by the administration when choosing from the basic principles and theoretical assumptions.

It is clear from the above that estimating the fair value of a particular asset on a particular day using the available information according to specific market conditions and expectations. It is normal for these factors to vary over time, however, these changes in fair value do not indicate that expectations were incorrect when they were estimated, but that changes have occurred.

2.4 The relationship between IFRS-13 and each of the dividend policy and trading volume:

The dividend distribution policy is largely related to the size of the financial needs required to meet the available investment opportunities and the availability of the necessary funding when determining and choosing the rate of dividend distribution to determine the optimal level of budgets and the required funding volume (Matar, 2009: 35).

The policies adopted by each company in the distribution of profits differ, and there is a policy that suits a particular company and it may not suit another company due to the difference and multiplicity of factors, but there must be a necessity for the stability of the distributed profits for the company and the shareholder for the company, this increases the shareholders' confidence in the company. For the shareholder, the stability of profits increases the source of income for him. The most important dividend distribution policies are the following: (Francis, et.al., 2004:6)

1. Fixed distribution amount: here the economic unit pays a certain amount that pays a dividend for each share, and there is stability in paying this amount at the end of each year. This policy is suitable for some shareholders and does not affect the share price.
2. Fixed distribution ratio: here the economic unit determines a fixed percentage of the profits and it is distributed annually to the shareholders. This policy is linked to the rates of rise and fall of profits in the company. This



policy gives the company flexibility to dispose of the rest of the profits.

IFRS 13 has set a set of guidelines for measuring fair value that will improve the dividend policy and trading volume, which can be clarified through the following: (Abu Nassar and Hemeidat, 2013:831)

1. The economic unit must take into consideration the characteristics of the asset or liability for which the present value is to be measured, as taken by market participants in the process of pricing the asset or liability at the measurement date.
2. It is assumed in the process of measuring the present value that the process takes place naturally and regularly and under market conditions on the date of the evaluation process.

Accordingly, IFRS13 addressed many of the weaknesses that permeated the previous standards related to fair value and provided a guideline for measuring fair value. However, fair value accounting remains complex, with mixed methods, and involves a great deal of discretion and personal judgment, and the adoption of disparate measurement bases, which makes the financial statements more volatile (Mingzhe & Huifeng, 2010:15).

The third topic: the practical aspect of the research

3.1 An introduction to the Middle East Investment Bank:

The Iraqi Middle East Investment Bank was established as a joint stock company in 1994. It aims to mobilize national savings and employ them in investment fields and contribute to promoting the country's economic development process in accordance with the state's general policy frameworks in a way that achieves the bank's goals of growth and development. The bank is subject to International Accounting Standard No. (34) of the interim financial reports by issuing quarterly reports in order to assist shareholders and dealers in the capital market to take their investment decisions on objective bases. The bank also owns an investment portfolio that includes the shares of a group of joint-stock companies in order to invest its surplus liquidity. The bank is committed to applying the Iraqi accounting rule No. (14) for accounting for investments, which corresponds to the International Accounting Standard No. (25) issued by the International Standards Committee, which was withdrawn and suspended Implemented by the issuance of the accounting standard No. (39).

3.2 The application of fair value accounting and its impact on the profit distribution policy and trading volume in the Middle East Investment Bank:

In order to apply fair value accounting according to the financial reporting standard IFRS-13 at the Middle East Investment Bank, the net assets of the bank must be determined during the research years, as the net assets during the year 2018 amounted to (267467533) thousand dinars, and for the year 2019 (267290296) thousand dinars, and for the year 2020 (264891189) thousand dinars, and for the year 2021 (265181362) thousand dinars, and the net assets of the Middle East Investment Bank for the years (2018-2021) can be clarified through the following table:

Table (1): Net assets of the Middle East Investment Bank for the years (2018-2021)

No.	Year	Net assets
1	2018	267467533
2	2019	267290296
3	2020	264891189
4	2021	265181362

Source: Prepared by the researcher based on the bank's financial statements.

The statement of property rights (net assets) based on the historical cost of the Middle East Investment Bank for the years (2018-2021) can be explained through the following table:

Table (2): Equity statement (net assets) based on the historical cost of the Middle East Investment Bank for the years (2018-2021)

Details	2018	2019	2020	2021
Paid Capital	25000000	25000000	25000000	25000000
Mandatory reserve	13860094	13864028	13864028	13878537
Other reserves	300133	300133	300133	300133
Bank risk reserve	599192	303277	-	-
Fair value reserve	(7045)	(7045)	(7045)	(7045)
Revolving earnings	2755159	2829903	734073	1009737
Total Equity (Net Assets)	267467533	267290296	264891189	265181362



Source: Prepared by the researcher based on the bank's financial statements.

It is noted from the above table, that the research sample bank relies on the principle of historical cost in evaluating net assets during the research year, as this principle provides information that is inappropriate for decision-making because it does not reflect the current situation of the economic unit, as the total net assets amounted, and if the evaluation was done On the basis of fair value, it will lead to a change in this total, and thus it will be more suitable for current and prospective investors because it shows the true position of net assets. To measure the fair value, the following is followed:

First: Determining the growth rate in the dividend divisor (g): The growth rate in the dividend divisor can be determined according to the following equation: Growth rate in the dividend divisor = (divisor of profits for the current year ÷ dividend divisor for the previous year) -1, and the growth rate can be clarified in Divide the profits of the Middle East Investment Bank for the years (2018-2021) through the following table:

Table (3): Growth rate in the dividend divisor for the Middle East Investment Bank for the years (2018-2021)

Details	2018	2019	2020	2021
Dividend of the current year's profit	(2295243)	87677	(2095830)	290173
Divide the profits of the previous year	578721	(2295243)	87677	(2095830)
Dividend growth rate	-4.97	-1.04	-24.9	-1.14

Source: prepared by the researcher.

It is evident from the above table that the growth rate in the dividend divisor during the years 2018, 2019, 2020, 2021 was (-4.97), (-1.04), (-24.9), (-1.14) respectively, and it is also clear that this growth rate It was negative during the years of research due to the decrease in the level of profits and its volatility during these years.

Second: Determining the expected dividend (Dt): The expected dividend can be determined according to the following equation: Expected dividend = dividend per share (1 + growth rate in the dividend), as the dividend per share comes through dividing the cash dividend. During each year, the number of ordinary shares of the bank during these years, and the

expected dividend for the Middle East Investment Bank for the years (2018-2021) can be clarified through the following table:

Table (4): The expected dividend for the Middle East Investment Bank for the years (2018-2021)

Details	2018	2019	2020	2021
Cash Profit Divider	(2295243)	87677	(2095830)	290173
÷ number of shares	25000000	25000000	25000000	25000000
= Dividend cash earnings per share	-0.009	0.0004	-0.008	0.001
Dividend growth rate	-4.97	-1.04	-24.9	-1.14
Dividend expected earnings per share	0.03573	-0.000016	0.1912	-0.00014

Source: prepared by the researcher.

It is evident from the above table that the expected dividend per share for the years 2018, 2019, 2020, 2021 was (0.03573), (-0.000016), (0.1912), (-0.00014) respectively, and it is also shown through this table that the dividend divisor is Cash during the years 2018 and 2020 was positive, but for the years 2019 and 2021 the dividend per share was negative, due to volatility and the promise of stability in the dividend during the years of research at the Middle East Investment Bank.

Third: Determining the required rate of return (k): The required rate of return in the research sample bank can be determined according to the following equation: Required rate of return = risk-free rate + inflation rates + risk premium, and after reviewing the financial statements of the Middle East Investment Bank during the years From 2018 to 2021, it was found that the required rate of return was (14%) during the research years.

Fourth: Determining the share price in the market (P): The share price in the market represents the price announced in the last trading bulletin in the Iraqi Stock Exchange, and since the price of the ordinary share in the market is in a state of constant change, up and down, so it will be based on the price of Closing at the end of each year of the research, and it was found that the share price of the Middle East Investment Bank during the years 2018, 2019, 2020, 2021 was(0.821), (0.996), (1.215), (1.576) dinars per share, respectively, as it is noted that the price per share was



low during the years 2018 and 2019 due to the conditions that the country went through.

Fifth: Determining the fair value: For the purpose of measuring the fair value of one share in the Middle East Investment Bank, we will apply the following equation:

$$Fv = Pv = \sum_{t=1}^n \frac{Dt}{(1+K)^t} + \frac{Pn}{(1+K)^n}$$

Whereas: Dt = the expected dividend per share, Pn = the common stock price, K = the required rate of return on the common stock. The fair value of the net assets of the Middle East Investment Bank for the years (2018-2021) can be clarified through the following table:

Table (5): The fair value of the net assets of the Middle East Investment Bank for the years (2018-2021)

Details	2018	2019	2020	2021
Dividend expected earnings per share	0.03573	-0.000016	0.1912	-0.00014
Ordinary share price	0.821	0.996	1.215	1.576
Required rate of return	14%	14%	14%	14%
Fair value per share	0.752	0.874	1.234	1.382
Number of Shares	25000000	25000000	25000000	25000000
Fair value of net assets	18800000	21850000	30850000	34550000

Source: Prepared by the researcher.

It is evident from the above table, that the fair value per share during the years 2018, 2019, 2020, 2021 (0.752), (0.874), (1.234), (1.382), respectively, and thus the fair value of the net assets during these years (188,000,000), (218,500,000), (308,500,000), (345,500,000) respectively, and it is clear that the fair value of the share was less than the share price in the market, and this indicates that the share price is exaggerated and this leads to unrealized gains for the share and this is reflected on the investor who owns These shares, i.e. the current investor, but for the prospective investor, he will make a loss if he invests in them because he will invest his money in over-priced shares. Thus, he has to search for shares whose fair value is equal to or more than the market price,

which could affect the profit distribution policy and trading volume in the Middle East Investment Bank.

Fourth topic: conclusions and recommendations

4.1 Conclusions:

1. Fair value is the exchange value of an asset in a real exchange between willing parties in the transaction; Without this process in cases of liquidation or forced sale.
2. The use of fair value will give a better indication of the performance of economic units because it reflects the movements of the value of the investments under its control and thus provides a more objective method for measuring the impact of decisions related to the purchase of investments.
3. The objective of fair value measurement is to estimate the price that takes place through the process of selling an asset or transferring a liability between market participants at the date of making the fair value measurement under current market conditions.
4. The estimation of the fair value of a particular asset on a particular day using the available information according to specific market conditions and expectations. However, these changes do not indicate that the expectations were incorrect when they were estimated, but changes occurred.
5. The application of fair value accounting according to the IFRS-13 Financial Reporting Standard affects the profit distribution policy and trading volume.

4.2 Recommendations:

1. The application of fair value accounting in accordance with the IFRS-13 Financial Reporting Standard because it provides appropriate information that is consistent with the requirements of the contemporary business environment.
2. The necessity of issuing an accounting rule for fair value accounting in a way that is compatible with the requirements of the Iraqi environment, provided that it addresses the methods of measuring it, choosing the appropriate method for the Iraqi environment, and stating the requirements for its disclosure.
3. The necessity for the research sample bank to disclose the dividend distribution policies because it has an impact on investors' decisions, with the need to determine the fair



value per share in lists attached to the final statements.

4. Working on educating users about the importance of fair value accounting and relying on some other indicators for financial analysis.
5. The necessity of accurately identifying the information needs of users and working to meet them accurately by following the international financial reporting standards.

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