



Market Risk Disclosure and Investor Behavior in the Iraq Stock Exchange

Bushra Abbas Jasim^{1*}, Hasna Chaibi²

^{1,2}Department of Accounting, College of Economic Sciences and Management, University of Tunis El Manar, Tunisia

General background: Risk disclosure is critical for strengthening investor confidence and maintaining financial market stability. **Specific background:** In Iraq, the importance of transparency is heightened by political instability and limited investor protection, positioning the Iraq Stock Exchange (ISX) as a compelling context for study. **Knowledge gap:** Most prior research on disclosure and investor response has been conducted in developed or relatively stable emerging markets, leaving the Iraqi setting underexplored and findings inconsistent. **Objective:** This study investigates the effect of market, credit, liquidity, and operational risk disclosures on investor response in ISX-listed banks. **Methods:** A sample of 20 banks from 2015 to 2023 was analyzed, with disclosure levels measured using IFRS 7 and statistical testing conducted through regression models and ANOVA. **Results:** Market risk disclosure shows a significant and positive influence on investor response, stronger than liquidity risk, while credit and operational risk disclosures exhibit weaker effects; banks with higher disclosure levels demonstrate superior ROA, ROE, and market value. **Novelty:** This represents the first comprehensive empirical evidence on Iraqi banks linking multiple risk disclosure categories with investor response over a long period. **Implications:** The findings extend the Efficient Market Hypothesis and Information Asymmetry theory and provide practical guidance for regulators, banks, and policymakers.

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*Correspondence:

Bushra Abbas Jasim

albagdadyabushra82@gmail.com

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INTRODUCTION

The market risk report is a first central step to transparency and healthy CG into ISX especially when its quick economic and political changes in recent years. The need for such disclosure has increased dramatically as an efficient way to provide relevant quantitative and qualitative information related to the possibility of, or frequency and variation in the risk of, securities price changes and the manner in which financial institutions cope with such risks. This, in turn, is a key component of enabling investor confidence and response as the key issue, allowing them to evaluate the risk level of their investments and make informed, rational, and realistic investment decisions.

According to (Exchange, 2023), there was a rise of about 35% in the demand for exposure to market risk disclosures compared to the previous year. This phenomenon clearly highlights the practical urgency of improving disclosure practices in ISX, especially in the 2022–2023 period. This increasing demand reinforces the recent finding on finance literature that there is a strong relationship between the level of transparency and disclosure and the effectiveness of the financial market. This perspective is supported by (Brown & Tarca, 2022), who investigated the influence of transparency on measures of investor confidence in their research on corporate disclosure practices.

Market risk disclosures have a special importance for Iraqi market, where market transparency by listed companies put a great influence on the direction of capital flows, market liquidity and security price. The Iraqi Financial Regulatory Authority's study in 2022 found that firms that had more detailed information on their hedging strategies and on managing interest rate movements enjoyed a 12% stock price increase over a 6-month period, whereas firms that revealed only general information grew by between 0% and 4% (Authority, 2022). These results are in line with the study of (Batten & Vo, 2019) when examining market liquidity and firm value in emerging markets, showing that increased disclosure reduces information asymmetry and enhances stock price discovery.

Theoretically, this research is based on the Efficient Market Hypothesis (EMH) and Information Asymmetry Theory whose proponents argue that the existence of accurate and consumable information is a basic requirement for realizing fair valuation of securities and eliminating channels to gain from private information. (Chen, 2019) stated that the presence of information asymmetry increases price volatility, weakens trading volume, and influences investor confidence. Within this framework, the study contributes to theory testing in an underexplored setting, enriching academic discourse.

This research studies in the context of an investigation of the periodic reports data of Iraqi companies trading in the Iraq Stock Exchange (ISX) during the period 2019 to 2024. The objective of this research is to examine the effect of market, credit, liquidity, and operational risk disclosure on investor response in ISX banks during 2015–2023. Adopted advanced statistical methods like Multiple Linear Regression Analysis and Fixed Effects Models to make the results more statistically significant and robust to support the proposed hypotheses. This

addresses both the empirical gap (few ISX studies, limited risk categories studied, inconsistent findings across markets) and the methodological gap (most prior Iraqi studies are descriptive; this study applies regression on multi-year data).

Similarly, extant literature as documented by (Agarwal & Taffler, 2021) underscores the fact that FRM is found to impact firm value positively in emerging and matured economies. Improving the tendency of risk management strategy disclosure plays an important role in reinforcing the financial status of institutions and makes the investments of such institutions more attractive. Similarly, (Bouri & al., 2021) found that spread of alternative assets' disclosures and risk management acts to reduce market shock and increases the adaptability of investment portfolios.

Empirical studies on market risk disclosure and investor response in Iraq are still very rare, despite their growing importance. Given the above, this paper strives to offer an accurate evaluation concerning the effect of the level of market risk disclosure on investor behavior in the Iraq Stock Exchange, in which it further looks into differences among firms for their size, ownership and sector of investment. The anticipated results are to provide input to implementation of recommendations to joint-stock companies, regulators and other authorities in the context of improving financial reporting standards and increasing levels of corporate compliance. Both are consistent with the strategic plans of the (Iraq, 2024) that highlight the need to modernize the financial market infrastructure and to computerize using the highest possible criteria for transparency and governance.

As a result of the aforementioned review, we can only conclude that enhancing the level of market risk disclosure is not a good-to-have, but a must, for the prosperity and development of Iraq Stock Exchange. It will also increase market ability to draw more local and international investments and help in effectively supporting the country's overall economic development.

Many academics and practical studies, especially in Iraq, have given great attention toward the side of market risk disclosure issue, especially with the significant growth in the Iraqi stock market over the last several years. However, limitations of previous studies remain: empirically, only a few ISX studies exist with inconsistent results, and methodologically, advanced regression models have rarely been applied. Risk disclosure level is now beginning to play an important role toward achieving investor confidence as well as maintaining a stable investment environment.

In this context, (Chaibi, 2018) conducted an analytical study aimed at measuring the extent to which accounting disclosure of research and development expenditures correlates with the market value of French companies after the implementation of IFRS during the period 2005–2015. This study clearly demonstrated that the accounting disclosure method (mandatory or voluntary) influences investor response through its reflection on companies' market value. Based on the study conducted by (Abdul-Hussein, 2020), an escalation in market risk disclosure in particular with regards to disclosures about interest rate changes and fluctuation in foreign exchange rates improves investors' confidence which in turn strengthens

market efficiency, trading volume, and abnormal returns attained.

based on evidence gathered from the University of Baghdad, by applying exact regression technique to the data, supported that the relationship between disclosure indicators and investor response was positively significant. The results showed that the transparent disclosure of financial instruments and stock markets helps investors to reduce uncertainty and make relatively more rational investment decisions. Moreover, the (Commission, 2022) found that the institutions that provided substantial disclosure of their exposure to market risk enjoyed larger trading volumes and more stable stock prices than institutions with low disclosure intensity levels.

Using the data of the companies listed on the Iraq Stock Exchange, showed that more detailed disclosure, especially in times of the financial crisis, is favorable, reducing the reliance upon rumors and enhancing rational trading. This result was confirmed by evidence from an annual report of (Commission, 2023), indicating a significant correlation between the extent of risk disclosure and investor reaction.

The contributions of this research can be summarized as follows: (a) Theoretical contribution: extends EMH and Information Asymmetry theory to Iraq, (b) Methodological contribution: applies multi-model regression under IFRS 7 in a new context, (c) Practical contribution: provides guidance for regulators, policymakers, and banks to enhance disclosure and market stability.

Empirically, it was also found that the Iraqi Investment Bank, which occupied the topmost position on the disclosure index (75.5 points), also recorded an increase on average abnormal return to 1.15%. By comparison the lowest disclosure level was 61.8 points, scored by the Commercial Gulf Bank, where returns decreased and correlation coefficients were weak, thus confirming the negative consequences of non-transparency on the level of investment activity and trading volume (Bank, 2023).

Comparing the results with those of international studies suggests that market risk disclosure is not a phenomenon that is forced by regulation only but is the foundation for improving efficiency of financial markets. (Sudjianto & al., 2010) pointed out that financial risks were addressed effectively with the support of sophisticated statistical models, describing the sustainability of banking systems. Meanwhile, (Bai et al., 2017) stressed the need for the treatment of liquidity imbalances in banks in an integrated risk management framework.

Furthermore, (Tavana et al., 2018) showed that using neural-networks and Bayesian techniques proves to add value on forecasting market response and reminds us of the need for accurate valuation and advanced AI disclosure in banking. In a similar manner, (Fiordelisi et al., 2013) and (Fernando et al., 2015) argue reputational risk as risk of loss of reputation associated with adverse public view of an organization or another party based on its performance or public information about its behaviour. (Dyck et al., 2010) also underscored the importance of disclosure in boosting financial fraud reporting that supports market resilience and the interests of investors.

With the application of AI in the financial industry, the necessity for systematic and accurate disclosure has also grown. (Linthicum, 2017) and (Morris et al., 2017) compared AI's role in providing quicker risk analysis, which in turn enables institutions to disclose information in real-time. Within this framework, (Swankie & Broby, 2019) and (Benlala, 2022) also perceived that AI technologies had made such a great impact on bank risk assessment that financial disclosure standards must be updated to keep up with this technological change and maintain transparency and financial stability.

Moreover, (Tegmark, 2017) in his book Life 3.0 also advocated for congruence of technological revolutions through developing contemporary disclosure standards to protect markets from invisible risks caused by blind trust in machines. Recent works, including those of (Co., 2016) and (Co., 2018), also asserted that providing risk information is significantly related to good corporate governance and the attractiveness of companies for institutional investors.

METHODS

Research Design

This study employs a quantitative archival research design using secondary data from banks listed on the Iraq Stock Exchange (ISX) during 2015–2023. The analysis adopts an explanatory/causal approach with regression-based methods to examine the effect of market risk disclosure on investor response.

Research Sample

The unit of analysis is banks listed on the ISX. The object of study is the relationship between market risk disclosure and investor response. Using purposive sampling, 20 banks were selected based on the completeness and consistency of their financial disclosure reports. This selection ensures diversity in ownership type (state-owned vs. private) and bank size, thereby enhancing the robustness of the results. Table 1 presents the risk disclosure levels of the 20 sample banks across IFRS 7 categories (credit, operational, market, and liquidity risk).

[Table 1. Risk Disclosure Levels of Sample Banks Across IFRS 7 Categories]

Population and Sampling Techniques

The population consists of all banks listed on the Iraq Stock Exchange during 2015–2023. From this population, purposive sampling was applied to select 20 banks that met the data completeness criteria. The study does not involve human respondents; instead, it relies on secondary data from audited financial reports.

Data Collection Techniques and Instruments

Data were collected from audited annual reports of banks, official reports of the (Iraq, 2023), and publications of the Iraqi Securities Commission. Disclosure items were extracted and

coded following IFRS 7 disclosure guidelines.

Measurement of Variables

Variables were measured according to IFRS 7 guidelines and summarized in Table 2. Independent variables include disclosure levels (market, credit, liquidity, operational risk), categorized as high/medium/low. Dependent variables include financial performance (ROA, ROE, profitability ratio) and market value. Control variables include bank size, age, loan-to-deposit ratio, and equity-to-assets ratio.

[Table 2. Measurement of Variables]

Hypothesis Testing Methods / Techniques

The effect of risk disclosure on investor response was tested using regression analysis (simple and multiple), supplemented by ANOVA to compare differences between disclosure levels. Control variables were incorporated into the models, and diagnostic tests such as multicollinearity (VIF) and stability tests were conducted. Data analysis was performed using SPSS and STATA.

RESULTS AND DISCUSSION

Descriptive Statistics

[Table 3. Descriptive Statistics of Variables]

As presented in Table 3, the descriptive statistics summarize the central tendency and variation of the study variables. The average ROA and ROE reflect moderate profitability, while disclosure variables show that market risk disclosure has the highest mean compared to liquidity and operational risks.

Distribution of Banks by Ownership and Disclosure Levels

[Table 4. Distribution of Sample Banks by Ownership and Disclosure Levels]

According to Table 4, disclosure levels differ between ownership types. State-owned banks are more concentrated in the high-disclosure category, while private banks are more evenly distributed across high, medium, and low levels.

Yearly Trends of ROA and ROE

[Table 5. Yearly Trends of ROA and ROE (2015–2023)]

As shown in Table 5, ROA and ROE demonstrate a steady upward trend during 2015–2023. High-disclosure banks consistently maintain above-average performance, whereas low-disclosure banks show more volatility.

Regression Results

[Table 6. Regression Results]

According to Table 6, regression analysis reveals that market risk disclosure has a strong and statistically significant effect on ROA, ROE, and market value. Liquidity risk disclosure is

positive but insignificant, while operational risk disclosure has no significant effect.

ANOVA Results

[Table 7. ANOVA Results: Differences in Performance Across Disclosure Levels]

As indicated in Table 7, ANOVA confirms significant performance differences between high-, medium-, and low-disclosure groups across ROA, ROE, and market value.

Correlation Matrix

[Table 8. Correlation Matrix of Key Variables]

As presented in Table 8, market risk disclosure is positively correlated with ROA, ROE, and market value, while liquidity risk disclosure shows weaker but still significant correlations.

Discussion

Market risk disclosure significantly influences investor response.

According to Table 6 and Table 7, higher market risk disclosure strongly improves ROA, ROE, and market value. This is in line with prior evidence showing that risk disclosure caters to investor sentiment and enhances valuation (Xu, 2025); (Li, 2025); (Wang, 2024). In the Iraqi context, this result reflects investors' prioritization of disclosures on price fluctuations and hedging strategies, similar to findings that textual risk disclosure improves market liquidity in financial (Elshandidy & al., 2024) and that informative disclosure quality strengthens investor confidence (Kohlbeck, 2024).

Liquidity risk disclosure influences investor response.

According to Table 6 and Table 7, liquidity risk disclosure shows positive but weaker coefficients that are not statistically significant, and group differences are smaller compared to market risk. This suggests that while liquidity information matters, it is not decisive for investors in Iraq. A comparable pattern was observed in prior studies, where liquidity disclosures added value but were context-dependent (Marta, 2021); (Histen, 2022). Other research also emphasized that risk disclosure in annual reports helps mitigate default risk but varies in effect across markets (Jin et al., 2024).

Operational risk disclosure influences investor response

According to Table 6, operational risk disclosure has no significant effect and, in some cases, negative coefficients. Descriptive results in Table 3 also show that operational disclosure levels are the lowest on average. Investors may interpret operational incident disclosures as red flags, undermining confidence rather than enhancing it. This finding contrasts with studies that found operational and financial risk disclosures to be value relevant in other (Menezes da Costa Neto, 2023); (Novitasari & Handayani, 2020).

Banks with high disclosure levels outperform those with medium or low level

According to Table 4, Table 5, and Table 7, banks with high

disclosure dominate among state-owned institutions, demonstrate stronger and more stable ROA and ROE growth from 2015–2023, and significantly outperform medium- and low-disclosure banks across performance indicators. This result is consistent with prior international literature highlighting that comprehensive risk disclosure enhances transparency, strengthens investor trust, and stabilizes financial performance (Xu, 2025); (Li, 2025); (Elshandidy & al., 2024).

CONCLUSION

This study demonstrates that higher levels of market risk disclosure significantly enhance investor confidence and improve banks' financial performance, particularly ROA, ROE, and market value. The results further reveal that market risk disclosure exerts a stronger influence on investor response compared to liquidity risk, highlighting the dominant role of transparency in shaping market outcomes. Overall, banks with transparent disclosure practices achieve greater price stability and attract more investment, thereby directly answering the research objective on the link between disclosure and investor behavior in the Iraq Stock Exchange.

From a theoretical perspective, this study extends the Efficient Market Hypothesis and Information Asymmetry Theory to the Iraqi Stock Exchange, showing that disclosure reduces information asymmetry and supports market efficiency in an unstable emerging market context. Academically, it fills an empirical gap by providing evidence from Iraq and enriches the disclosure–investor response literature, while methodologically it contributes through the use of IFRS 7–based disclosure measures and multi-model regression analysis across 2015–2023.

From a practical standpoint, the findings provide insights for regulators, policymakers, and banks to strengthen governance, transparency, and disclosure practices in order to attract both local and foreign investment. Strengthening disclosure frameworks not only enhances investor confidence but also contributes to the stability and long-term development of the Iraqi financial market.

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Table 1 / Risk Disclosure Levels of Sample Banks Across IFRS 7 Categories

Bank	Credit Risk	Operational Risk	Market Risk	Liquidity Risk	Overall Disclosure Level
National Bank	High	Medium	High	High	High
Commercial Bank	Medium	Medium	Medium	High	Medium
Babylon Bank	Low	Low	Medium	Low	Low
Erbil Bank	Medium	Low	Medium	Medium	Medium
Ashur Bank	High	Medium	High	High	High
Union Bank	Medium	Low	Medium	Medium	Medium
Economy Bank	Medium	Medium	Medium	High	Medium
Regional Commercial Bank	Low	Low	Low	Medium	Low
Iraqi Credit Bank	High	High	High	High	High
International Development Bank	High	Medium	High	High	High
Gulf Commercial Bank	Medium	Medium	Medium	Medium	Medium
Middle East Commercial Bank	Medium	Low	Medium	Medium	Medium
North Finance & Investment Bank	Low	Low	Medium	Low	Low
United Investment Bank	Low	Low	Low	Low	Low
Mansour Bank	High	Medium	High	High	High
Mosul Bank	Medium	Low	Medium	Medium	Medium
Baghdad Bank	High	High	High	High	High
Sumer Commercial Bank	Medium	Medium	Medium	Medium	Medium
Across Iraq Bank	Low	Low	Low	Low	Low
Iraqi Investment Bank	High	High	High	High	High

Table 2 / Measurement of Variables

Variable Type	Variable	Indicator / Measurement	Formula / Operational Definition	Source
Independent	Market Risk Disclosure	IFRS 7 disclosure index	High/Medium/Low	IFRS 7, Annual Reports
	Credit Risk Disclosure	NPL ratio, credit exposure	High/Medium/Low	IFRS 7, CBI Reports
	Liquidity Risk Disclosure	Liquidity positions, funding sources	High/Medium/Low	IFRS 7, Bank Reports
	Operational Risk Disclosure	Incident & control disclosure	High/Medium/Low	IFRS 7, Bank Reports
Dependent	ROA	Net income / Total assets	$ROA = \text{Net Income} \div \text{Total Assets} \times 100\%$	Bank Annual Reports
	ROE	Net income / Equity	$ROE = \text{Net Income} \div \text{Equity} \times 100\%$	Bank Annual Reports
	Profitability Ratio	Net profit / Total revenue	$PR = \text{Net Profit} \div \text{Total Revenue} \times 100\%$	Bank Annual Reports
	Market Value	Market cap, turnover	$MV = \text{Price} \times \text{Shares}$; Turnover Ratio	ISX Bulletins
Control	Bank Size	Total assets	$\text{Log}(\text{Total Assets})$	Bank Annual Reports
	Bank Age	Years of operation	Establishment year $\rightarrow$ 2023	Bank Profiles
	LDR	Loan-to-deposit ratio	$LDR = \text{Loans} \div \text{Deposits} \times 100\%$	Bank Annual Reports
	EAR	Equity-to-assets ratio	$EAR = \text{Equity} \div \text{Assets} \times 100\%$	Bank Annual Reports

Table 3 / Descriptive Statistics of Variables

Variable	Mean	SD	Min	Max
ROA	1.75%	0.65	0.7%	3.3%
ROE	11.5%	3.2	7.5%	16.0%
Profitability Ratio	1.08	0.12	0.9	1.3
Market Value (Billion IQD)	510	180	150	850
Market Risk Disclosure	0.68	0.18	0.35	0.85
Liquidity Risk Disclosure	0.55	0.22	0.30	0.80
Operational Risk Disclosure	0.48	0.20	0.25	0.78
Bank Size (log assets)	13.2	0.6	12.0	14.5
Bank Age (years)	18	7	8	35

Table 4 / Distribution of Sample Banks by Ownership and Disclosure Levels

Ownership	High Disclosure	Medium Disclosure	Low Disclosure	Total
State-owned	3	2	0	5
Private	3	7	5	15
Total	6	9	5	20

Table 5 / Yearly Trends of ROA and ROE (2015–2023)

Year	ROA (avg %)	ROE (avg %)
2015	1.3	9.5
2016	1.5	10.0
2017	1.6	10.5
2018	1.7	11.0
2019	1.8	11.4
2020	1.9	11.6
2021	2.0	11.8
2022	2.1	12.1
2023	2.3	12.5

Table 6 / Regression Results

	ROA (β, p)	ROE (β, p)	Market Value (β, p)
Market Risk Disclosure	0.42, 0.001	0.36, 0.003	0.45, 0.000
Liquidity Risk Disclosure	0.12, 0.081	0.09, 0.115	0.10, 0.095
Operational Risk Disclosure	-0.05, 0.412	-0.04, 0.435	-0.06, 0.380
Bank Size (control)	0.15, 0.021	0.18, 0.017	0.22, 0.012
Bank Age (control)	0.08, 0.144	0.05, 0.210	0.07, 0.165

Table 7 / ANOVA Results: Differences in Performance Across Disclosure Levels

Dependent Variable	F-statistic	p-value	Interpretation
ROA	6.85	0.002	Significant difference across groups
ROE	5.42	0.005	Significant difference across groups
Market Value	7.92	0.001	Significant difference across groups

Table 8 / Correlation Matrix of Key Variables

Variable	ROA	ROE	Market Value	Market Risk Disclosure	Liquidity Risk Disclosure
ROA	1	0.72**	0.65**	0.58**	0.30*
ROE	0.72**	1	0.69**	0.55**	0.28*
Market Value	0.65**	0.69**	1	0.61**	0.32*
Market Risk Disclosure	0.58**	0.55**	0.61**	1	0.36*
Liquidity Risk Disclosure	0.30*	0.28*	0.32*	0.36*	1

Notes: ** $p < 0.01$; * $p < 0.05$