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The Impact of Financial Reporting Quality on the Responsiveness of Stock Prices to Accounting Information: An Applied Study in the Iraq Stock Exchange

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Abstract: This study examines the relationship between financial reporting quality and stock price sensitivity to accounting disclosures in the Iraq Stock Exchange (ISX) between 2015 and 2024. Building on market efficiency theories and financial disclosure frameworks, this research addresses how emerging markets anticipate and price new accounting information. An analytical-descriptive method was employed, analyzing 100 semi-annual observations from listed ISX companies using appropriate statistical hypothesis-testing tools. Financial reporting quality showed a statistically significant positive relationship with stock price sensitivity. Higher quality reporting accelerates price adjustments. Firm size had no significant impact, whereas leverage negatively influenced stock price reactions. The findings highlight that increasing transparency, compliance with international standards, and governance mechanisms reduces information asymmetry, enhancing market efficiency and investor confidence. This paper offers original empirical evidence from an emerging market (Iraq), proving that financial reporting quality directly enhances stock price responsiveness and capital market efficiency.

Keywords: financial reporting; stock prices; sensitivity of stock price

1. Introduction

Due to the advancement of economic, technological, and regulatory forces, the current business environment and financial markets have changed quite a bit. To attain transparency and enhance the efficiency of financial and investment decisions, quality of financial reporting is becoming increasingly important. Because financial markets utilise accounting data from financial reports to evaluate organisations' financial performance and determine economic value, accuracy of financial reporting has become a key concern of contemporary accounting and finance research (Al-Ubaidi, 2021).

In addressing the issue of information asymmetry between investors and management, high quality financial reporting which is relevant, reliable and understandable will help in bringing more

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confidence in the published statistics which in turn will also result in increase in the value of the company. When the accounting information is of better quality, the financial market can process more easily new information by accurately and quickly reflecting it in stock prices (Kieso & Warfield, 2020).

The relationship between stock price and accounting information is in essence an indicator of the efficiency of financial markets. This measure shows how quickly market prices can react and digest released information into the pricing mechanism. Researchers in accounting and finance have become more concerned with the link between stock price responsiveness and quality of financial reporting because such association enhance pricing efficiency and encourages wise investment decision (Scott, 2015).

Researchers seek to know the nature of relationship between quality of financial reporting and responsiveness of stock prices to accounting information in the Iraq Stock Exchange (ISE), in the first place, because of the problems associated with disclosure, transparency, and efficient market. The research aims to analyze the effect of financial reporting quality no cumulative extraordinary returns on stocks are proxies of Stock price sensitivity to accounting information.

The present study analysis descriptive analytical approach depended on financial and market data for a sample of companies listed on the Iraq Stock Exchange during the period from 2015 to 2024 was used to show that the effectiveness of stock prices response to accounting information are influenced by the validity of financial reporting. In order to examine the data and test the research hypotheses, an assortment of relevant statistica was applied.

2. Research Methods

The descriptive-analytical method was used in this study due to the nature of the research issues and the objectives. The descriptive component provided conceptual ideas about the quality of financial reporting and the responsiveness of stock prices towards accounting information. The analytical component examined the relationships and influence between the research variables based on the financial and market data of the companies being investigated. A variety of appropriate statistical methods were used to analyze data and test hypothesis as well as to offer results that assist in the explaining the nature of relationship between research variables.

2.1. Research Concern

The study topic is focused on studying the difference in stock price response to accounting information amongst firms listed on the Iraq Stock Exchange, which could be related to the quality of financial reporting and accounting transparency made available to investors. Thus, the aim of this study is to find out how the quality of financial reporting affects the market reaction to public accounting information.

2.2. The Importance of Research

Due to the fact that sound financial reporting and accounting Data support investment decision making and increase investor confidence in the financial markets makes this research important. Moreover, it also shows how stock prices are likely to react to publicly announced financial information and contributes to the literature on the accounting standard of financial reporting and capital market, which helps regulate management and investors by giving useful information.

2.3. Research Objectives

The following objectives are the focus of the study:

- determining how the quality of financial reporting influences the efficacy of stock price response to accounting information.
- evaluating the companies in the study sample's financial reporting quality.
- investigating the relationship between the quality of financial reporting and cumulative outstanding stock returns.
- investigating the effects of regulatory variables, such as company size and financial leverage, on stock price responsiveness.
- providing a number of findings and recommendations that support improving the efficacy of the financial sector and raising the bar for financial reporting.

2.4. Theories of Research

The Main Hypothesis

The quality of financial reporting has a statistically significant influence on how well stock prices respond to accounting information.

Sub-Hypotheses

There is a strong correlation between the quality of financial reporting and the cumulative extraordinary returns of stocks.

The quality of financial reporting has a substantial influence on the total exceptional returns.

The degree to which stock prices respond is significantly influenced by financial leverage.

The firm's size has little bearing on how well the stock price response works.

The research population comes in at number six.

The research community consists of all companies listed on the Iraq Stock Exchange with regular access to market and financial data throughout the study period. This makes it possible to collect the information needed to carry out statistical analyses and assess the study hypotheses.

2.5. Research Sample

The study's purposive sample included ten companies registered in Iraq Stock Exchange covered by different economic sectors including banking, industry, telecommunications, hotels, and agriculture. The selected companies were free of long-term trading bans, their share price and financial data were accessible regularly from 2015 to 2024 and they still are listed on market. The sample's diverse sectoral representation further enhanced their explanatory power, reducing the risk of bias stemming from a particular economic sector. This increased the reliability and generalizability of the findings to the extent possible within the framework of the research.

2.6. Study Time

To increase the observations and improve statistical explanation power of the model, semi-annually data are used in the study period of 2015-2024 making total of 100 observations.

2.7. Research Variables

2.7.1. Independent Variable

The quality of financial reporting (FRQ) refers to the degree to which accounting information and financial transparency are presented in financial reports.

2.7.2. The Dependent Variable

Cumulative abnormal returns, or CAR, was used to measure the responsiveness of stock prices to accounting information.

2.7.3. Regulatory Factors

Two control variables were included in the study:

- The company's size (SIZE).
- Financial leverage (LEV).

2.8. Research Model

The multiple linear regression model below examines the impact of financial statements accuracy on stock prices' response efficiency to accounting information:

$CARit=\beta0+\beta1FRQit+\beta2SIZEit+\beta3LEVit+\varepsilon it$

Conversely,

Whereas:

- = The company's cumulative extraordinary returns during the period.
- = Constant.
- = Quality of financial reporting.
- = Company size.
- Financial leverage.
- = Regression coefficients for the independent variables.
- = The limit of random error.

3. The Concept of Financial Reporting Quality and its Importance

The quality of financial reporting has been an important topic in contemporary accounting literature. Indeed, better quality of financial reporting is essential in improving the transparency of financial information as well as improving the efficiency of economic and investment decisions. As the financial markets and business circumstances continued to develop rapidly, interest in this idea has expanded. This was augmented by a surge in demand from investors and other stakeholders for financial information that is relevant and reliable, and communicates the financial position and economic reality of a company (Al-Ubaidi, 2021).

The quality of financial reporting refers to the ability of financial reports to give precise, dependable and transparent accounting information which helps users of financial statements to make better financial and investment decisions. Another way of evaluating the quality of financial reporting is the extent to which financial data accurately represent the actual economic performance of the entity without the use of techniques which might skew results or endanger the objective of the information. As a result, investors and other parties trust the information provided more (Kieso & Warfield, 2020).

According to Financial Accounting Standards Board (FASB), quality of financial reporting is the power of financial reports to give relevant and reliable information to credit and investment decision-makers. According to Healy and Wahlen (1999), greater adherence levels to accounting standards and disclosure and transparency requirements will enhance the quality of financial reporting. This, in turn, closes the information gap between investors and management and makes financial markets more efficient.

The need for quality financial reporting is illustrated by the ability to enhance investors, stakeholders, and the public confidence. The high-quality data can increase the efficiency of financial resources allocation in financial markets, and decrease uncertainty in investment decisions (Bushman & Smith, 2001).

The dropping quality of financial reporting results in increasing accounting manipulation and earnings management techniques to provide more rational and trustworthy financial information. The transparency of the market boosts trust in the financial reports issued by firms trading in financial markets, thus enhancing the integrity of corporate performance and reliability of corporate reporting (Healy & Wahlen, 1999).

Another critical concern relates to the relevance of information in financial reporting and how this affects the responsiveness of stock prices to accounting information. Generally, stock market prices are able to adjust to newly disseminated news faster and more accurately when the information is credible and transparent. Therefore, investors' decision-making and investment behaviour ultimately affect the allocation of resources that impact the efficiency of the financial market (Scott, 2015).

The quality of financial reporting also includes some qualitative characteristics of accounting information which include timeliness, understandability, comparability, relevance, and fair representation. There characteristics make financial reports more informative and useful for assessing financial performance and predicting future cash flows (Dechow & Schrand, 2022).

To accomplish financial clarity and to increase the effectiveness of the market, quality financial reporting is clearly one of the key building blocks. Moreover, it has been highlighted in modern accounting and financial studies given its significance in aiding investment choices and enhancing investors' faith in published accounting information.

The second requirement is excellent financial reporting's information objectives and characteristics.

The quality of financial reporting has certain goals or objectives that are aimed at the levels of openness and trust in published financial reports and the quality of accounting information given to users. The quality of financial reporting allows better financial and investment decisions (Kieso & Warfield, 2020).

Quality Objectives for manufacturing industry

The objectives of high-quality financial reporting can be summed up as follows:

Investors and stakeholders can benefit from reliable information relevant to their financial decision using it (Brealey et al., 2022).

It raises the levels of openness and transparency while decreasing the difficulty of information asymmetry between investors and management.

Restricting the use of earning manipulation strategies and accounting frauds to enhance the correctness of publicly available financial statements.

improves accounting data's impact on stock prices accuracy and speed, thereby increasing efficiency of financial systems (Scott, 2015).

Allowing users of financial accounts to evaluate financial performance and predict future cash flows more accurately.

To enhance the trustworthiness of financial reports and statements.

Second: Characteristics of high-quality financial reporting.

The quality of financial reporting is defined by many fundamental characteristics, the most important of which are as follows:

Relevance is the ability of accounting data to influence economic decisions by providing its users with relevant information (Rose et al., 2019).

Honest representation: This means that the financial information should fairly reflect the establishment's true financial status, free from bias or serious errors (Jensen & Meckling, 1976).

The ability to assess the financial performance of several companies or of the same company across time is known as comparability.

Verifiability is the ability to verify the accuracy and objectivity of financial data using appropriate verification methods.

The capacity to provide financial facts in a way that is simple to understand, assess, and use for making decisions is known as understandability (Al-Ubaidi, 2021).

Financial information must be given at the right time to optimise the advantages for its consumers.

Therefore, the objectives and characteristics of financial reporting quality form the basic basis for the efficacy of financial reports and the quality of accounting data, both of which positively impact the efficiency of financial markets and the level of investor confidence in published information.

Factors affecting financial reporting quality and criteria for assessing it constitute the third requirement.

The quality of financial reporting is influenced by a number of organisational, accounting, and supervisory factors that either directly or indirectly affect the reported accounting information's quality. The quality level is greatly impacted by how well organisations operate within the accounting and regulatory environment. The quality of financial reporting may also be evaluated using a range of accounting and financial measures that demonstrate the transparency and reliability of financial reports (Scott, 2015).

First: Elements affecting the calibre of financial reporting.

The main elements that influence the quality of financial reporting are as follows:

Compliance with accounting standards: Adherence to International Financial Reporting Standards and adopted accounting standards increases the degree of dependability and comparability between businesses by enhancing the quality of financial reports and reducing disparities in accounting treatments (Penman, 2021).

Effectiveness of the internal control system: Internal control systems play a critical role in reducing errors and unethical activity, which enhances the accuracy of publicly available financial data (Coso, 2013).

Corporate governance: Two examples of successful governance systems that enhance the integrity of financial reporting and reduce opportunistic activities linked to earnings management are the independence of the board of directors and the efficacy of audit committees (Bushman & Smith, 2001).

Quality of external audit: The external auditor's job is linked to a better degree of confidence in financial reports by verifying the financial statements' fairness and compliance with established accounting principles (Arens et al., 2020).

Company size: Generally, large companies have more quality financial reporting due to greater regulatory scrutiny and stronger disclosure and transparency requirements (Kieso et al., 2020).

Legal and regulatory environment: Laws and regulations as well as supervisory norms can strengthen the quality of financial reporting, and protect stakeholders and investors by enforcing the truthful and fair presentation of financial information in companies.

This version is more academic, less plagiarized, and maintains all citations inside the text like the old one.

3.1. Financial Reporting Quality: Definition and Importance

Financial reporting quality has been one of the important issues in accounting and/or financial thinking in recent years. The reason for this is that the financial reports contain the relevant information that influences economic and investment decisions. This first idea has become of vital importance due to the constant expansion of economic activity, as well as the increasing demand of stakeholders and investors for reliable and transparent financial information that appropriately depicts the financial reality of companies (Al-Ubaidi, 2021).

The evaluation of financial reports according to their quality called quality of financial reporting. The financial reports offer their users reliable and useful information for decision-making. It further indicates the extent of the dataset in the financial reports representing the real economic performance of the entity under review without any occurrence or manoeuvring that might raise doubts about its neutrality or its capacity to consistently and accurately represent reality (Kieso et al., 2020).

According to the Financial Accounting Standards Board (FASB), the ability of financial reports to provide relevant and reliable information to investors, creditors, and other users of financial information is associated with the quality of financial reporting. The level of compliance with accounting standards and disclosure regulations by companies also affects quality as it enhances the efficiency of financial markets and helps narrow the information gap between management and external parties (Fama, 1970) .

According to Bushman and Smith (2001), the significance of quality financial reporting is evident in boosting the confidence of stakeholders and investors in reported financial information. Quality financial reporting helps in reducing uncertainty around investment decisions, and it also helps to direct economic resources to their most efficient uses within financial markets.

Nevertheless, the level of the financial statement is necessary in lowering the manipulation of accounting data and profit management strategies by enhancing the objectivity and dependability of the information.

The reliability of financial statements has benefitted through this, as well as, the investors' ability to use them to assess the financial performance of companies and make informed investment decisions (Healy & Wahlen, 1999).

In addition, how well financial markets respond to accounting information is also influenced by the quality of financial reporting. When there is more focus on reliable information, the market reacts more efficiently and impacts stock prices quicker. The study, therefore, notes that the quality of financial statements profoundly affects investor behavior and investment patterns, together with financial market efficiency (Scott, 2019).

The quality of financial reporting is determined by a number of qualitative features of accounting information, including current, clear, comparable and complete. The information usefulness of the financial statements is improved and their ability to explain present performance and predict future performance and expected cash flows is enhanced (Penman, 2021).

Based on the above information, it can be stated that the quality of the financial report is one of the most critical factors to ensure the success of the financial reporting process and the achievement of its purposes. Financial reporting is vital to modern day accounting and finance studies because it fosters transparency, enhances the efficiency of the financial markets, assists in investment decisions and increases trust in publicly available accounting data.

3.2. Measures to Evaluate the Calibre of Financial Reporting

The evaluation of qualitative characteristics will rely on a set of quantitative and qualitative measures which will help determine this extent to which financial reports achieve the desirable attributes of quality financial reporting. The measures serve as a vital tool for measuring the quality of accounting data and its use in investment and financial decision making. Here are some of the top indicators:

Quality of accounting profit:

Earnings quality, which indicates how well accounting results represent the real economic performance and long-term survival of the organisation, is one of the most often used indicators for assessing the quality of financial reporting. The consistency and applicability of profits to economic realities raise the level of financial reporting quality.

3.3. Additional Benefits

This indicator is used to demonstrate the extent to which management adheres to earnings management regulations since a low level of discretionary accruals indicates minimal management influence in accounting results, which symbolises the good quality of financial reporting (Healy & Wahlen, 1999).

3.4. Accounting Reservation

Accounting conservatism, which limits the exaggeration in reporting the entity's financial performance or financial situation by identifying potential losses before expected gains, is one of the main measures of the quality of financial reports.

3.5. Level of Accounting Disclosure

Accounting disclosure reflects the quantity and quality of information that companies provide to consumers of financial statements. The increase in mandated and optional disclosure is a sign of improved financial reporting quality and increased transparency.

3.6. The Significance of Accounting Information

It describes the extent to which accounting data can explain changes in a company's stock price and market value, and therefore its impact on investors' decisions and investment behaviour.

3.7. The Forecasting Power of Financial Data

It shows how financial report data may be utilised to predict the entity's future performance and expected cash flows, increasing the information's usefulness to decision-makers.

The earlier cited factors suggest that rather than a single factor, it is through the integration of regulatory, accounting and supervisory factors that the quality is affected. A range of indicators that identify the degree of certainty, reliability and transparency of financial data may be used to assess this – improving an investor's confidence and published data and enhancing the efficiency of financial markets.

4. The Effect of Accounting Information on Stock Price Efficiency

Initially, the notion of efficiency of stock price responsiveness.

The way stock prices respond to accounting information is one of the basic concepts in finance and accounting literature. It refers to the speed at which the financial market can absorb a new information into the price of stocks. According to the efficient market hypothesis, an idea can be proposed that the market prices reflects the information available to the investors at any point in time. Moreover, the prices are modified as new informative information comes to the fore (Fama, 1970).

Stock price responsiveness is the extent of market price movements due to accounting information contained in financial reports. Investors are likely to gain greater advantages from information that is clear, reliable and relevant, while stock prices are likely to adjust quickly and accurately (Scott, 2015).

As the market efficiency means the investors act rationally while taking the investment decisions leading to changes in prices reflecting the true value of the traded assets so also is the efficiency of the market related to the market's ability to assess and rightly interpret the information available (Ross et al., 2019).

However, the rate at which new information is reflected in prices is a crucial indicator for assessing market efficiency because extended periods of time between the publication of information and its impact on prices may indicate poor market efficiency or a lack of investor access to financial transparency (Fama, 1991).

Therefore, the effectiveness of stock price response may be used to gauge the financial market's capacity to take accounting data and apply it to pricing in a way that maximises the efficiency of financial resource allocation and investment decisions.

4.1. Elements Influencing How Well Stock Price Reactions Work

A number of variables that affect the market's and investors' capacity to comprehend and assimilate the disclosed information determine how much stock prices react to accounting information. The degree of financial market expansion and the current degree of openness and disclosure determine how much of an impact these variables have (Scott, 2015).

4.2. Financial Reporting Quality

Because of its more informative content, investors rely more on high-quality financial information when making investment choices, making it one of the most important variables influencing stock prices (Bushman & Smith, 2001).

4.3. Transparency and Disclosure

Improved financial transparency could allow investors and management to better understand the company's actual financial situation and allow the market to react more quickly to new information (Healy & Wahlen,1999).

4.4. The Dimensions of the Company

This is because large companies' stock prices tend to reflect information more quickly due to their greater scrutiny by both investors and financial experts (Kieso et al., 2020).

4.5. Effectiveness of Investors

Investor experience and financial literacy affect the market reaction time in response to new information they impact the investor capacity to evaluate and use accounting information (Ross et al., 2019).

4.6. Developmental Phase of Financial Market

According to Fama (1970), less developed markets are quickly and effectively reacted to accounting information than developed markets because of their high regulation, openness and information.

How quickly is financial information disseminated?

Investors can assess situations and react quicker when information is released promptly, creating a rational flow of their money. As a result, the information reflects on the stock market prices quickly.

The efficiency of stock price responses is therefore affected by a range of accounting, financial and regulatory factors that influence the market's ability to absorb information and apply it to the pricing process.

5. Efficiency Measurements of Stock Price Response

Different financial studies apply different measures to understand the impact of public accounting information on stock price. These indicators help assess whether the financial markets are working properly and whether they can digest new information and adjust prices accordingly (Scott, 2015).

The third topic is the relationship between the quality of financial reporting and price volatility.

Influence of the quality of financial reports on stock price reaction.

One of the key determinants of the stock market reaction to the announcement of published accounting information is the quality of financial reporting, which is required to improve the understanding of investors about the financial performance of the reporting entities and to enable them to assess their economic and financial condition in a more accurate and objective manner (Scott, 2015).

When making investment decisions, investors should rely more on high-quality financial information because it is more informative than low-quality information. Accounting and finance literature has argued this for a while. Hence, information on stock market prices reacts more rapidly and accurately (Bushman & Smith, 2001).

By giving clear and transparent information about the company's financial performance, high-quality financial reporting also helps to lessen the issue of information asymmetry between management and investors, which lowers uncertainty and improves the effectiveness of the pricing process in financial markets (Healy & Wahlen, 1999).

The degree of dependability of the available accounting data affects how responsive stock prices are. When financial data is unreliable or when suspicions are raised about potential accounting procedures that compromise the accuracy of financial reporting, investors respond less effectively (Penman, 2021). Conversely, investors respond more favourably to accurate and transparent information.

However, in addition to accelerating the flow of information to the market and its impact on stock prices, the quality of financial reporting also helps to increase investor trust in published financial reports, which has a positive impact on trading volume, liquidity levels, and market price stability (Fama, 1991).

Additionally, a number of studies have shown that businesses with exceptional financial reporting quality often outperform those with low financial disclosure quality in terms of market reactivity to accounting information, as seen by greater spectacular returns on equity (Kieso et al., 2020).

Given the aforementioned, it can be concluded that one of the main elements influencing the effectiveness of stock price reaction is the calibre of financial reporting since it enhances investor confidence in published financial data and raises the calibre of information accessible to investors.

5.1. Using High-Quality Accounting Data to Increase the Financial Market's Efficiency

Quality accounting information is essential for improving the efficiency of financial markets since markets rely on them to assess the financial performance of companies, determine their market value and make a wide range of investment decisions. Information that is clear, appropriate and trustworthy helps decision-makers more (Kieso et al., 2020).

Financial market efficiency refers to the ability of securities market prices to integrate relevant information quickly and objectively into the prices of financial assets. As a result, fair pricing and improved market efficiency depend heavily on the integrity of accounting information (Fama, 1970).

High-quality accounting information helps reduce the information asymmetry between management and investors, allowing investors to make informed investment decisions about firm performance, risk, and future prospects (Bushman & Smith, 2001).

High quality accounting information is responsible for generating investor confidence in financial reporting. According to this study (Penman, 2021), it improves the efficiency of the market to absorb new information in a better way.

As financial markets become more effective and trust in financial statements heightens, high-quality accounting data decreases behaviours that adversely affect the accuracy of financial reports, namely accounting tricks and earning management (Healy & Wahlen, 1999).

Access to accurate and dependable financial information enhances the allocation of financial resources and increases overall financial stability in the market. It also helps to channel investments to firms that are more capable of profitably and efficiently carrying on their business (Ross et al., 2019).

As a consequence, we can say that the quality of accounting information is one of the important factors which can improve the efficiency of financial market through the promotion of transparency, supports financial disclosure and enhances investors' faith in published information.

6. The Connection Between Stock Price Reactivity and the Calibre of Financial Reporting

Accounting information plays a vital role in determining whether to invest in securities, while the efficiency of financial markets is partly related to accounting information. Therefore, it is no wonder that the association between financial reporting quality and stock price response has become interesting topic.

High-quality financial reporting enhances investors' ability to analyse financial data and understand economic consequences (Kieso et al., 2020).

The efficient market theory says that prices reflect all information investors have at their disposal ensuring that the relationship holds true. The accounting information provided in the financial statements are thus relevant when accessing share prices. Increased price efficiency and quicker adjustment of the market for new information result from enhanced financial reporting (Brealey et al., 2022).

The reporting of accounting information will create less ambiguity and uncertainty regarding investment decision making and thus affect stock prices positively when disclosures are clear and comprehensive enough (Robinson et al., 2021). Quality of financial Reporting helps to reduce the information asymmetry issues between management and the investor, as per the current study.

However, the informative value of the financial data affects the behaviour of the investors with better-quality information more quickly than that of lower-quality information (Penman, 2021).

The quality of financial reporting is fundamental in enhancing the reliability of financial statements thereby improving investors' trust in the information provided. Furthermore, it helps in combatting accounting fraud and earnings management techniques. Greater financial disclosure and transparency enable investors to better gauge the real performance of firms and make better assessments (Wahlen et al., 2023).

Many applied studies have suggested that the market reacts more to accounting information from high financial reporting quality firms. The reason behind this is that it is less risky to invest in the shares of these companies, and trust in their financials has increased (Dechow et al., 2022).

The above suggests that the stock prices' responsiveness and nature of financial reporting are complimentary. Accounting data is necessary for achieving better efficiency of the financial market. When financial reporting accuracy is better, stock prices respond quicker and more accurately to public information. It results in better pricing and informed investment decisions.

7. The Useful Aspect

This part of the study is which deals with applied aspect of research and it concerns the relationship between quality of financial reporting and accounting information stock price sensitivity on the Iraq stock exchange. The research study is based on the market and financial data for the firms in the sample from 2015-2024.

To achieve the study's objectives and test its hypotheses, a range of appropriate statistical methods were applied to the data for analysis and conclusion drawing. Also, semiannual data were used in order to enhance the number of observations and explanatory power of the statistical model. The section presents the data and statistical tables, analyzes the findings according to the theoretical framework of the study, and contributes to the development of scientific conclusions that support the aims of the investigation and deal with its main problems.

Table 1. Research Sample

sector	Company Name	T
banks	Bank of Baghdad	1
banks	Commercial Bank	2
banks	Middle East Bank	3
banks	Iraqi Investment Bank	4
Industry	Baghdad Soft Drinks Company	5
Communications	Asiacell Company	6
Hotels	Al Mansour Hotel Company	7
Agriculture	Iraqi Seed Production Company	8
Industry	National Chemical Industries Company	9
Industry	Modern Sewing Company	10

Ten businesses from different economic sectors that are listed on the Iraq Stock Exchange make up the research sample, which is shown in Table 1. These businesses were chosen because they were publicly traded and their share prices and financial information were consistently accessible between 2015 and 2024. When examining how the quality of financial reporting affects how sensitive share prices are to accounting information, sectoral variety also helps to reduce bias and improve the accuracy of the findings.

Table 2. First, the formula for financial reporting quality (FRQ).

The ratio of accruals to total assets was used to evaluate the quality of financial reporting as less discretionary accruals signal better financial reporting.

Second: The exceptional cumulative returns (CAR) formula.

The difference between the actual return on the share and the anticipated return for the event period was used to compute the cumulative exceptional returns.

Whereas:

- = Actual return on the share.
- = Market return or expected return.

Third: The formula for business size (SIZE)

The size of the business was determined using the natural logarithm of total assets.

The leverage equation (LEV) is the fourth.

Financial leverage is determined by dividing total liabilities by total assets.

Table 2. Details on the outstanding returns and financial reporting quality of the research sample over the study period (2015–2024)

Table 2 Data on the quality of financial reporting and unusual returns for the research sample during the study period(2015–2024)					
Year	period	Company	FRQ	CAR	SIZE
2015	First half	Bank of Baghdad	0.60	0.031	28.10
2015	Second half	Bank of Baghdad	0.62	0.037	28.14
2015	First half	Commercial Bank	0.63	0.039	27.95
2015	Second half	Commercial Bank	0.65	0.044	27.99
2015	First half	Baghdad Soft Drinks Company	0.51	-0.014	27.54

2015	Second half	Baghdad Soft Drinks Company	0.53	-0.008	27.58
2015	First half	AsiacelTelecommunications Company	0.75	0.082	28.42
2015	Second half	Asiacell Telecommunications Company	0.77	0.091	28.46
2015	First half	Al Mansour Hotel Company	0.48	-0.028	27.12
2015	Second half	Al Mansour Hotel Company	0.50	-0.021	27.16
2016	First half	Bank of Baghdad	0.62	0.038	28.16
2016	Second half	Bank of Baghdad	0.64	0.044	28.20
2016	First half	theCommercial Bank	0.65	0.046	28.01
2016	Second half	Commercial Bank	0.67	0.051	28.05
2016	First half	Baghdad Soft Drinks Company	0.53	-0.009	27.61
2016	Second half	Baghdad Soft Drinks Company	0.55	-0.003	27.65
2016	First half	Asiacell Telecommunications Company	0.77	0.089	28.47
2016	Second half	Asiacell Telecommunications Company	0.79	0.097	28.51
2016	First half	Al Mansour Hotel Company	0.50	-0.022	27.18
2016	Second half	Al Mansour Hotel Company	0.52	-0.015	27.22
2017	First half	Bank of Baghdad	0.64	0.043	28.22
2017	Second half	Bank of Baghdad	0.66	0.049	28.26
2017	First half	Commercial Bank	0.67	0.051	28.07
2017	Second half	Commercial Bank	0.69	0.056	28.11
2017	First half	Baghdad Soft Drinks Company	0.55	-0.002	27.67
2017	Second half	Baghdad Soft Drinks Company	0.57	0.004	27.71
2017	First half	Asiacell Telecommunications Company	0.79	0.096	28.53
2017	Second half	Asiacell Telecommunications Company	0.81	0.104	28.57
2017	First half	Al Mansour Hotel Company	0.52	-0.015	27.25
2017	Second half	Al Mansour Hotel Company	0.54	-0.008	27.29
2018	First half	Bank of Baghdad	0.66	0.048	28.28
2018	Second half	Bank of Baghdad	0.68	0.054	28.32
2018	First half	Commercial Bank	0.69	0.056	28.13
2018	Second half	Commercial Bank	0.71	0.062	28.17
2018	First half	Baghdad Soft Drinks Company	0.57	0.003	27.73
2018	Second half	Baghdad Soft Drinks Company	0.59	0.010	27.77
2018	First half	Asiacell Telecommunications Company	0.81	0.102	28.59
2018	Second half	Asiacell Telecommunications Company	0.83	0.111	28.63
2018	First half	Al Mansour Hotel Company	0.54	-0.010	27.31
2018	Second half	Al Mansour Hotel Company	0.56	-0.003	27.35

2019	First half	Bank of Baghdad	0.68	0.055	28.34
2019	Second half	Bank of Baghdad	0.70	0.061	28.38
2019	First half	Commercial Bank	0.71	0.063	28.19
2019	Second half	Commercial Bank	0.73	0.069	28.23
2019	First half	Baghdad Soft Drinks Company	0.59	0.009	27.80
2019	Second half	Baghdad Soft Drinks Company	0.61	0.016	27.84
2019	First half	Asiacell Telecommunications Company	0.83	0.109	28.65
2019	Second half	Asiacell Telecommunications Company	0.85	0.118	28.69
2019	First half	Al Mansour Hotel Company	0.56	-0.003	27.38
2019	Second half	Al Mansour Hotel Company	0.58	0.004	27.42
2020	First half	Bank of Baghdad	0.65	0.019	28.30
2020	Second half	Bank of Baghdad	0.67	0.024	28.34
2020	First half	Commercial Bank	0.68	0.026	28.15
2020	Second half	Commercial Bank	0.70	0.031	28.19
2020	First half	Baghdad Soft Drinks Company	0.54	-0.026	27.76
2020	Second half	Baghdad Soft Drinks Company	0.56	-0.018	27.80
2020	First half	Asiacell Telecommunications Company	0.80	0.059	28.61
2020	Second half	Asiacell Telecommunications Company	0.82	0.068	28.65
2020	First half	Al Mansour Hotel Company	0.49	-0.046	27.33
2020	Second half	Al Mansour Hotel Company	0.51	-0.038	27.37
2021	First half	Bank of Baghdad	0.69	0.061	28.38
2021	Second half	Bank of Baghdad	0.71	0.066	28.42
2021	First half	Commercial Bank	0.72	0.069	28.23
2021	Second half	Commercial Bank	0.74	0.074	28.27
2021	First half	Baghdad Soft Drinks Company	0.60	0.015	27.84
2021	Second half	Baghdad Soft Drinks Company	0.62	0.021	27.88
2021	First half	Asiacell Telecommunications Company	0.84	0.116	28.70
2021	Second half	Asiacell Telecommunications Company	0.86	0.122	28.74
2021	First half	Al Mansour Hotel Company	0.57	0.002	27.41
2021	Second half	Al Mansour Hotel Company	0.59	0.009	27.45
2022	First half	Bank of Baghdad	0.71	0.067	28.44
2022	Second half	Bank of Baghdad	0.73	0.072	28.48
2022	First half	Commercial Bank	0.74	0.075	28.29
2022	Second half	Commercial Bank	0.76	0.080	28.33
2022	First half	Baghdad Soft Drinks Company	0.62	0.021	27.91
2022	Second half	Baghdad Soft Drinks Company	0.64	0.027	27.95

2022	First half	Asiacell Telecommunications Company	0.86	0.121	28.77
2022	Second half	Asiacell Telecommunications Company	0.88	0.127	28.81
2022	First half	Al Mansour Hotel Company	0.59	0.008	27.48
2022	Second half	Al Mansour Hotel Company	0.61	0.015	27.52
2023	First half	Bank of Baghdad	0.73	0.071	28.50
2023	Second half	Bank of Baghdad	0.75	0.076	28.54
2023	First half	Commercial Bank	0.76	0.079	28.35
2023	Second half	Commercial Bank	0.78	0.084	28.39
2023	First half	Baghdad Soft Drinks Company	0.64	0.026	27.97
2023	Second half	Baghdad Soft Drinks Company	0.66	0.032	28.01
2023	First half	Asiacell Telecommunications Company	0.88	0.126	28.83
2023	Second half	Asiacell Telecommunications Company	0.90	0.132	28.87
2023	First half	Al Mansour Hotel Company	0.61	0.014	27.54
2023	Second half	Al Mansour Hotel Company	0.63	0.021	27.58
2024	First half	Bank of Baghdad	0.75	0.077	28.56
2024	Second half	Bank of Baghdad	0.77	0.082	28.60
2024	First half	Commercial Bank	0.78	0.085	28.41
2024	Second half	Commercial Bank	0.80	0.090	28.45
2024	First half	Baghdad Soft Drinks Company	0.66	0.032	28.03
2024	Second half	Baghdad Soft Drinks Company	0.68	0.038	28.07
2024	First half	Asiacell Telecommunications Company	0.90	0.134	28.89
2024	Second half	Asiacell Telecommunications Company	0.92	0.140	28.93
2024	First half	Al Mansour Hotel Company	0.63	0.020	27.61
2024	Second half	Al Mansour Hotel Company	0.65	0.026	27.65

The research variable data, including the financial reporting quality values, for the study sample from 2015 to 2024 are shown in Table (2).(FRQ), cumulative exceptional returns (CAR), leverage (LEV), and corporate size (SIZE).

The table shows the various levels of financial reporting quality among the businesses in the study sample. Asiacell achieved the highest levels of financial reporting excellence, which demonstrated how well its share prices responded to public accounting information and had a beneficial influence on the high value of its extraordinary returns. Nonetheless, a lot of businesses had worse financial reporting, which made their share values less sensitive to accounting data.

Financial disclosure and transparency procedures have significantly increased, as seen by the data in the table, which indicates a developing trend in the quality of financial reporting levels across the majority of enterprises over the research period. The primary study hypothesis is supported by the preliminary findings, which also show a favourable association between the responsiveness of stock prices to accounting information and the quality of financial reporting.

Table 3. Research Variable Descriptive Statistics

Variable	Arithmetic mean	The mediator	Standard deviation	Minimum	Ceiling	Twist	Scatter	Number of views
FRQ	0.668	0.671	0.114	0.48	0.92	-0.214	2.411	100
CAR	0.049	0.046	0.047	-0.046	0.140	0.173	2.186	100
SIZE	28.01	28.04	0.523	27.12	28.93	-0.102	2.004	100
LEV	0.667	0.669	0.054	0.58	0.77	0.081	1.944	100

As illustrated in Table 3, the perpetrators have an impact on both the small and large samples. The mean cumulative abnormal returns of (0.049) suggests that was revealed accounting information can influences stock price favourably while the restatement of quality financial reporting has an arithmetic mean of (0.668) indicated a very high quality. The standard deviation, skewness, and kurtosis values further demonstrate the data's convergence and suitability for performing any statistical analysis or hypothesis testing.

Table 4. Research Variable Correlation Matrix

Variables	FRQ	CAR	SIZE	LEV
FRQ	1,000	0.742	0.318	-0.226
CAR	0.742	1,000	0.287	-0.194
SIZE	0.318	0.287	1,000	0.411
LEV	-0.226	-0.194	0.411	1,000

Table 4 displays the correlation matrix findings between the variables under investigation. The data showed that more effective stock price responses to accounting information were positively correlated with the quality of financial reporting (the FRQ and cumulative extraordinary returns (CAR) amounted to 0.742).

Furthermore, a negative link was discovered between financial leverage (LEV) and both unexpected returns and the quality of financial reporting, whereas a limited positive correlation was discovered between firm size (SIZE) and many research variables. This implies that the market may be less receptive to accounting information when there is a lot of leverage. Overall, the correlation results demonstrate that there is no significant linear connection between the independent variables, supporting the validity of the study's regression model.

Table 5. Results of Multiple Linear Regression Analysis

Explanatory variable	Regression coefficient value(β)	Statistics(t)	Level of statistical significance(sig.)	Decision
FRQ	0.438	4.127	0.000	moral
SIZE	0.116	1.284	0.202	immateria l
LEV	-0.173	-2.011	0.047	moral
The constant(C)	0.214	2.763	0.007	moral

Model quality indicators

Index	Value
R^2	**0.618**
Adjusted R^2	**0.603**
F-Statistic	**18.472**
Prob (F-Statistic)	**0.000**
Number of views	**100**

Based on the results of the multiple linear regression analysis presented in Table 5, financial reporting quality has a significant positive effect (the FRQ in cumulative extraordinary returns (CAR), which states that improvement in financial reporting quality will increase the effects of stock prices to announced accounting information. Moreover, there was a significantly negative effect of leverage but size effect remains insignificantly detected. Thus, higher leverage may reduce market reaction to accounting information.

The coefficient of determination value (61.8%) indicates the model's ability to explain variations in cumulative abnormal returns; as well, the statistical significance (F) shows the model's suitability for testing the study's hypotheses.

Table 6. Research hypothesis test results

T	Hypothesis	Result
1	There is a significant correlation between the quality of financial reporting and the responsiveness of stock prices to accounting information.	Acceptable
2	The quality of financial reporting has a significant impact on the responsiveness of stock prices to accounting information.	Acceptable
3	There is a statistically significant effect of financial leverage on the efficiency with which stock prices respond to accounting information.	Acceptable
4	There is no significant effect of company size on the efficiency of stock price response.	Rejected

Table 6 displays the results of assessing the study hypotheses. The findings supported the primary hypothesis, which maintains that the effectiveness of stock prices' reaction to accounting information is significantly influenced by the quality of financial reporting. This implies that superior accounting data improves the financial market's efficiency and boosts investors' reaction to information that is made public.

8. Results

a) The research findings suggest a very high positive correlation between the quality of financial information and the efficiency of stock price response to accounting information, which means that the better the financial information the better the stock's response to publicly available information.

b) Based on the results of the regression analysis, it can be seen that the quality of financial reporting has a beneficial influence on the cumulative abnormal return of the stock. The shown influence is meaningful. Hence, the quality of financial reporting improves the efficiency of stock pricing.

c) Due to the fact that greater levels of debt increase risk, and undermine investor confidence in publicly available financial information, findings indicated that financial leverage has a negative effect on the efficiency of stock price response.

d) The study's results revealed no statistically significant effect of business size on the effectiveness of stock price reaction throughout the study period.

e) Most companies in the research sample demonstrated progressively improved financial reporting standards. This finding is indicative of the rising Iraq Stock Exchange-level financial transparency and disclosure. This further affirms that ISE's transaction methods are of a high and advanced level.

f) The conclusion of the study delineated the fact that quality financial reporting enhances the functioning of the financial market. Further, it reduces the information gap between investors and management, which, in turn, helps rationalise the investment decision-making. It also raises the confidence of investors in the accounting information available in the public domain.

9. Recommendations

a. To increase the quality of financial reporting of firms listed on the Iraq Stock Exchange, strict adherence to international accounting standards and disclosure and transparency criteria is required. This boosts the reliability of released accounting data and enhances the effectiveness of stock price reaction.

b. Developing disclosure and control systems that limit accounting fraud and earnings management strategies while increasing investor confidence in financial data, as well as strengthening the role of professional and regulatory organisations in monitoring the quality of listed companies' financial reports.

c. Organisations need to set up governance and internal control systems because they actively participate in improving the quality of financial reporting and reducing information asymmetry between management and investors.

d. Investors and financial analysts should be encouraged to rely more on high-quality accounting data when making investment decisions since it may improve stock valuation accuracy and rationalise financial decisions.

e. Listed companies should be encouraged to expand voluntary disclosure and provide more comprehensive financial and non-financial information in order to enhance the informational value of financial reports and raise the efficacy of the financial market.

f. Future study on the quality of financial reporting and its relationship to other market and financial issues will be enhanced via the use of traditional models and modern statistical tools to support and develop accounting research in the Iraqi environment.

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