

-RESEARCH ARTICLE-

## THE CAPITAL MANAGEMENT SYSTEM AFTER THE ADOPTION OF BASEL III NORMS: EVIDENCE FROM IRAQI CREDIT BANKS

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### –Abstract–

In every inquisitive modern society, the position of the banking system is extremely delicate and crucial. In exchange for a legal industry, the economic sector is the primary link between the efficacy and legitimacy of the financial system and its organizations, under the fundamental objectives of each nation's economy. To protect the financial system against risk-taking and extreme stubbornness, any version of the Basel Committee's rules and alternatives is pertinent. Therefore, based on ratio analysis, this paper provides an overview of the application of Iraqi and banking standards in the Basel Committee's decision, as well as an overview of the issues and reasons why the Basel

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Committee's decisions have not been implemented at the national and international level. This paper also analyzes how the banking system might be adjusted to satisfy the economic and financial conditions necessary to execute Basel decisions, as interpreted by the Board and the broader financial community.

**Keywords:** Capital Management System, Basel III, Liquidity.

## 1. INTRODUCTION

Commercial bank customers can use several investment products, such as savings accounts and deposit certificates, ranging from business loans and auto loans to mortgages. The management of work resources refers to a management accounting method for the bank meant to track and utilize two elements, current assets and existing commitments so that the bank functions as efficiently as possible from a financial standpoint. Working capital management's primary objective is to guarantee that the bank has the sufficient cash flow to meet its short-term operating expenses and short-term debt commitments (Onyeonu et al., 2022).

Working capital management controls the company's current assets and liabilities. Banks are more difficult than manufacturing and non-manufacturing businesses to manage their resources. Commercial banks are huge monetary institutions that contribute significantly to economic prosperity. Commercial banks are the most accountable of all financial institutions. You must be prepared to pay a substantial portion of your obligations on demand without prior notification or notice (Godswill et al., 2018). From a variety of deposit types, banks obtained funds for lending and transferred them to diverse businesses. Banks will attempt to collect deposit and investment funds to earn greater profits. The primary purpose of the banking industry is to borrow public funds and lend them to the poor. However, trade banks also face the challenge of using more deposits, as loan investment increases the cash balance on banks, allowing their significant proportion of liabilities to be paid on demand and without prior notice by their depositors. However, high quantities of idle cash balance frequently reduce banks' profitability (Abdulnafa et al., 2022).

The Basel III Agreement is a series of BCBS financial reforms to enhance bank supervision, risk management, and control. Due to the impact of the 2008 global financial crisis on banks, Basel III is being implemented to strengthen their ability to withstand financial stress shocks and boost their visibility. It is based on Basel III I and Basel III II and is part of a continuous phase of tightening banking regulation. Without taking unnecessary risks, this agreement bans banks from harming the economy (Taskinsoy, 2018). The decisions of the Basel Committee have not been applied on a national or worldwide scale; therefore, this article use ratio analysis to provide an overview of Iraqi banking standards in the Basel Committee's decision-making process. According to Basel Board members and non-Board members, the banking system can

be modified to meet economic and financial requirements for Basel decision implementation.

## 2. THE BASEL COMMITTEE

The Central Bank of the Ten (G10) Countries was founded in 1974 in response to the financial market turmoil. The Committee was established as a platform for the Member States to discuss banking supervision. The BCBS fosters global financial stability by enhancing legislation, banking supervision, and procedures. In 2009, the Committee expanded its jurisdictions to include Canada, Australia, Argentina, France, China, Russia, Hong Kong, Saudi Arabia, Italy, Japan, Korea, Singapore, Spain, Mexico, Luxembourg, Sweden, Turkey, the United Kingdom, Belgium, and Indonesia. The BCBS provides reports to the Governors and GHOS Committee. The International Settlements Bank (BIS) has been based in Basel, Switzerland, since BCBS developed the Basel I, Basel II, and Basel III agreements (Rizvi et al., 2018).

### 2.1 Basel III's Main Concepts

- **Minimum Criteria for Money**

As a percentage of the bank's risk-weighted assets, the Basel III Structure increased from 2% to 4.5 % for Basel II's minimum capital level. A reserve capital allowance of 2.5% is also available, which accounts for 7% of the total equity. Faced with the financial crisis, banks may utilize the buffer, leading to even greater dividend payment limits. In Basel II, the Tier 1 Basel II capital allowance increased from 4% to 6% from the previous year. The rules will be imposed beginning in 2013, but the compliance date has been continuously postponed, and banks must still implement these adjustments by March 31, 2019. (Ben Naceur et al., 2018).

- **Usage of the Ratio**

Basel III established a non-risk leverage ratio to achieve risk-based capital requirements. Banks should maintain a leverage ratio of more than 3 percent. The leverage ratio, which is independent of risk, is calculated by dividing Tier 1 capital by the average total assets of a bank. Following the rule, the Federal Reserve Bank of the United States fixed the debt for insured bank holding companies at 5 percent and for Systematically Significant Financial Institutions (SIFI) at 6 percent (Akkizidis et al., 2018).

- **Needs for Liquidity**

The liquidity and positive net finance ratios were adopted under Basel III. The liquidity ratio mandates that banks have sufficient liquid assets to fulfill their supervisors' stressed 30-day financial scenario. The liquidity coverage ratio was launched in 2015 with criteria of 60 percent and is expected to increase by 10 percent annually until its complete implementation in 2019. In contrast, for one year of persistent stress, the Stable Net

Funding Ratio enables banks to provide stable funding above what is required. In 2018 the NSFR will be adopted to tackle liquidity disparities. (Grundke et al., 2020)

## 2.2 Basel III Capital and Liquidity Standards

Following the announcement of the Basel I and Basel II capital adequacy structures in 1988 and 1999, GHOS suggested in September 2010 to increase worldwide minimum capital requirements for commercial banks. In November 2010, Seoul's G20 Leaders' Summit accepted new capital and liquidity criteria. Basel III is a comprehensive set of changes designed to enhance the banking sector's supervision, monitoring, and risk management (Akkizidis et al., 2018). The following actions are intended to:

- Enhance the bank sector's ability to withstand economic and financial shocks regardless of their origin;
- Enhance risk identification and identification
- Enhance the banks' openness and disclosures

The reforms intend to:

- Control at the banking level, or micro-prudential, will enhance banks' resilience during times of crisis.
- Macro-prudential systemic risk, which can develop gradually in the banking sector, and the procyclical extension of these risks
- All supervisory techniques are complementary, as increased banking sector resilience reduces network shock risk.
- The Bank for International Settlements has published a compilation of documents that shape the worldwide regulatory framework for capital and liquidity.

## 2.3 Criticisms against Basel III

A coalition of 450 members formed in the United States in opposition to the International Finance Institute in response to the potential for banks to hurt and impede economic growth. According to the OECD assessment, Basel III is anticipated to reduce yearly GDP growth by 0.05 to 0.15 percent. The American Bankers Association and other Democrats contended that Basel III would paralyze US banks by boosting mortgage and SME loan capital holdings in the US Congress. These even argued against the implementation of Basel III (Blundell-Wignall et al., 2018).

## 2.4 Basel III Impact

The requirement that banks have a minimum of 7 percent capital will impair their competitiveness of banks. To protect themselves from financial trouble, many banks strive to increase their capital while decreasing the number of loans they extend to

borrowers. They would be required to retain more asset capital, resulting in a diminution of their balance sheets. According to a 2011 OECD poll, the annual effect of Basel III on GDP over the medium term will vary from -0.05% to -0.15%. The first half presented an analysis of the Basel III GDP. To remain solvent, banks are compelled to increase their lending charges, which they then pass on to their customers. Implementing new liquidity standards will affect bond market operations, notably the LCR and Net Stable Funding Ratio (NSFR) (Fidrmuc et al., 2020). To satisfy the LCR's liquid asset requirement, banks have feared maintaining large run-off assets, such as SPEC and SIVs. The preference of the LCR for banks that hold government and corporate bonds would reduce the demand for secularized assets and corporate bonds. This boosts bank liquidity and longer-term credit maturities while maintaining minimum NSFRs. The introduction of Basel III would affect the derivatives business if additional clearing agents left the market due to higher costs. The banks can help decrease the risk associated with company cash. Basel III's capital requirements emphasize rising counterparty Risk, regardless of whether a seller or a CCP transacted the fund. Basel III is responsible for the trade if it engages in a derivatives transaction with a broker and has a high cost of capital. The derivatives trading through the CCP incurs only a 2% tax, making it more profitable for banks. As a result of the dealers' departure, the risks of fewer participants will be pooled, making it difficult to shift trades between banks and increasing systemic risk (Jutasompakorn et al., 2021).

Basel III's micro-prudential elements are

- Capital meaning
- Improving capital exposure coverage
- Leverage quotient
- The legal system for liquidity;

## 2.5 Capital Meaning

Currently, applicable terms include an RWA capital adequacy ratio of 8 percent. The rules allow for a maximum of 4 percent of Tier1 equity capital and Tier 2 equity to be comprised of medium-term debt instruments with a minimum maturity of 5 years and 4 percent of RWAs. Tier 3 capital with at least two years will also benefit Tier 2. Regular Tier 1 ownership might be as low as 2 percent of RWAs. Innovative characteristics such as the step-up option are essential for capital instruments. Regulatory capital adjustments are made in Tier 1 and Tier 2 identically.

Consequently, the current definition of capital is flawed. Not only is the debt inadequate in quality capital, but the debt's components also do not aid the bank. Large banks entered the financial crisis with insufficient capital and inefficiency. Tier 1 capital will be the principal form of regulatory capital under Basel III. At least 75% of total capital

would be 8%, or 6%, compared to 4%, or 50% of total capital. Within Tier 1, common equity is the major form of capital. The Tier 1 capital requirements must increase to at least 75 percent of 6 percent, or 4.5 percent, from the existing level of 2 percent. Under Basel, I and II, the "predominant" portion of Tier 1 and Tier 1 of the common capital of the general capital (Tier 1 plus Tier 2) was 50 percent. This value was increased to 75 percent in Basel III, increasing banks' total amount of high-quality capital (Akkizidis et al., 2018).

Basel III's most novel component of this relationship is that taxpayers' losses are not carried out when they leave the public sector and that banks already inefficient and operating are anticipated to be saved by non-ordinary share capital sources. The obligation under Basel III is also to remove or, at the discretion of the competent authority, convert such instruments into joint equity to the point of non-viability that has been reached or exceeded; and the terms and conditions of all non-common instruments issued by banks at levels 1 and 2 at the discretion of the supervisory authority. Basel III would also strengthen the concept of capital in terms of its price, amount, consistency, and transparency (Blundell-Wignall et al., 2018).

## 2.6 Enhancing Risk Coverage of Capital

With considerable gaps in OTC collateral disclosure capital requirements, repo, or securities funding activities, Basel III actions have been implemented to enhance these areas. Applicable to credit risk management and capitalization. Such steps would enhance innovation, minimize procyclicality, and provide greater chances to transfer over-the-counter derivative contracts to central counterparties, reducing systemic risk in the financial system. In addition, it improves the management of risks related to loan exposures. Banks must evaluate their capital requirements with stressed inputs for counterparty credit risk in the future. It answers concerns regarding the high capital charge during periods of reduced market uncertainty and contributes to resolving procyclical issues (Golubeva et al., 2019).

Banks would be liable to the Credit Valuation Adjustment capital charge to protect against potential market losses resulting from a deterioration in a counterparty's creditworthiness (CVA). The CVA evaluates a decline in the fair value of the derivative asset resulting from the counterparty's diminished creditworthiness. The expectations for collateral management and initial marginalization have been enhanced. Bases with extensive and illiquid exposure to derivatives would require extended marginal periods for nations with counterparties to calculate the regulatory capital threshold. The development of additional requirements for enhanced collateral risk management actions. It would strengthen the Basel III system's risk coverage. This is significant because the Basel I or Basel II systems do not effectively protect banks' disproportionate exposures to derivatives (Taskinsoy, 2018).

## 2.7 Leverage Ratio

Before the crisis, the debt of some globally active banks was approximately 50 times the capital ratio, but these banks met the capital adequacy requirements. The crisis was exacerbated by the risk of leverage and the impacts of deleveraging during periods of stress due to a withdrawal of loans from the real sector, particularly with short-term credit structures. As a result, to supplement the risk-based capital criteria, The Basel Committee has selected a simple, uncomplicated, non-risk leverage ratio. All macroprudential and macroprudential instruments are debt instruments. It increases the capital risk ratio at the microphase to reduce unneeded risk. Due to its low-risk assets, the risk-based equity ratio does not consider the risk of over-debt (Janda et al., 2019). For a simple equation that reflects the leverage ratio. The test of the level 1 minimal ratio as a criterion in Pillar 2 and a condition of Pillar 1 is conducted.

## 2.8 International Liquidity Framework

Liquidity in general and banking, in particular, are essential to the functioning of financial markets, but liquidity control has gotten insufficient attention until recently. There are no internationally approved and standardized liquidity requirements. The banking industry has progressively adopted Basel I and Basel II capital regulations over the past two decades. The absence of international rules to prevent excessive maturity gaps contributed to the rise in long-term assets financed by short-term borrowing. The financial crisis highlighted the importance of liquidity risk management in banks. Due to irresponsible liquidity management methods, banks with a healthy capital basis over-relied on wholesale financial markets during the crisis. The crisis has revealed a direct connection between liquidity and solvency. Illiquid banks can become bankrupt rapidly, and an insolvent bank will be illiquid (Johnson, 2022).

Basel III added two additional liquidity criteria to enhance the liquidity resilience of banks. Banks must maintain the liquidity coverage ratio (LCR) of highly liquid assets in the short term. This liquidity cushion provides 30 days of stability for potentially disruptive liquidity. This enables the World Bank to keep sufficient liquid assets to counteract its net cash outflow over 30 days of extreme stress. That will be useful. Scenarios may include significant declines in the institution's rating of government loans, partial loss of deposits, loss of insecure wholesale financing, dramatic growth in guaranteed loan cuts and changes in collateral calls in the volume of deprivation, as well as extensive off-balance-sheet calls, both contractual and non-contractual, including dedicated credit and liquidity facilities (Zainudin et al., 2019).

## 2.9 Macroeconomic Impact of Basel III

Concerns were raised concerning Basel III's impact on banks' economic growth and profitability, presuming that banks will increase their capital demand from the market. In general, the increase in capital demand is expected to result in a rise in the weighted average cost of capital. Sometimes, banks pass the greater capital on larger loans to the

borrowers. There is also a chance that sustainability lending rates will be marginally higher, resulting in substantially slower credit growth than in prior years. And the price ought to be. After Basel III's last requirement is met? Based on official sector research, including that of the Basel Committee and other non-government or private organizations, I will attempt to respond to the questions posed (Fidrmuc et al., 2020).

The International Settlements Bank (BIS) and the Financial Stability Board (FSB) have studied the macroeconomic effects of the transition to greater capital and liquidity standards to implement new laws compatible with global economic recovery. The Macroeconomic Assessment Group (MAG) anticipated that the Basel Committee and FSB would have a global equity ratio that exceeds 0.22 percent of the total GDP agreed to in the baseline after Basel III, with a GDP impact of 0.17 percent for every higher capital percentage point. The Basel Committee's analysis of the long-term economic impacts (LEI) of the higher capital and liquidity requirements indicated that the net benefit from a reduction in the probability of a banking crisis and the resulting loss of economic growth is positive (Kalloub et al., 2018).

According to the International Finance Institute (IIF), a private sector organization, it is anticipated that the GDP level will be 3.2% lower after five years than the baseline scenario, which will be 0.7% yearly. Compared to the MAG's estimation of a production loss, this is greater than 0.03 percent yearly. There are numerous hypotheses and comparisons about the substantial differences in estimations (Fidrmuc et al., 2020).

## 2.10 Measurement of Liquidity Performances

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## 2.11 LCR (The Liquidity Coverage Ratio)

The cash coverage ratio indicates the number of liquid assets that cannot be utilized to minimize net cash withdrawals in an acute, short-term stress scenario. The latter entails economic and structural disruptions due to unique international financial crisis circumstances. This indicates that

The Run-off of a Portion of Retail Deposits Credit Rating Downgrade of the Institution

Loss of Wholesale Unsecured Funding

- Increased market volatility affecting collateral efficiency or future position exposure potential
- Increased hair loss was accounted for

Improved off-balance-sheet performance, including committed loan/liquidities, derivative collateral, and non-contractual assets

The objective of the LCR is to ensure that a bank retains sufficient high-quality assets that can be converted into cash for 30 days to meet liquidity requirements under a supervisor's acute liquidity stress scenario.

$\frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over a 30-day time}} \geq 100\%$
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Due to the strong quality of its liquid assets, the bank will endure the anticipated stress scenario for 30 days. 100 percent is calculated using the net accumulated cash outflow over the following 30 days. To defend themselves from significant liquidity stress, banks must continuously meet this criterion and maintain a high-quality reserve balance.

## 2.12 Definition of High-Quality Liquid Assets

The property described above will have high-quality liquid assets. This section can include the types of assets that satisfy particular qualities. These traits can be divided into two classes:

- At Level 1, all assets may be included.

- Level 2, The assets may represent no more than 40 percent of the equity.

Level 1 properties are maintained at market value and are not protected by LCR reductions. Tier 1 includes the following attributes:

- Cash
- Reserves of the central bank
- Settlement fund, the International Monetary Fund, and the European Commission are marketable debt assets supported by Sovereigns or central banks, the public sector Non-central government agencies.
- Non-zero percent risk-weighted sovereigns or central bank debt securities

Activities at level 2 should be included in the pool of liquid assets such that, after applying haircuts, they constitute no more than 40 percent of the overall stock of liquid assets. This will also include cash and another level 1 asset generated within 30 days through secured financing transactions. The following properties are included at Level 2, where the market value retained on shares decreases by at least 15%.

Satisfaction of the following standards for marketable securities by the sovereigns guaranteed, central banks, public sector non-Central Government enterprises, and multilateral development banks: 20 percent of the risk according to the Basel II Standard Credit Risk Approach

- Low-concentration transactions on large, active, and diversified repo or cash markets
- Dependable sources of market liquid (maximum 10 percent changes in price cuts over the 30-day liquidity stress scenario)
- Financial institutions have no obligation to their affiliates.

Bonds and backed bonds that meet any of the following criteria: not issued by a financial institution or associated with one

- Any issued by or relating to the bank
- Assets with a credit rating of at least AA- or with an internally rated default (PD) risk equivalent to a credit score of at least AA- from an externally recognized credit rating agency (ECAI).
- Lowly traded on vast, busy repo and cash markets. Reliable liquidity source in markets (max. 10 percent price fluctuation in liquidity stress scenario over 30 days)

## **2.13 Component of the Iraqi Banking System**

Numerous types of banks manage cash and finances nowadays, and we will strive to illustrate these to provide a comprehensive picture of the study's scope.

### **2.13.1 The Central Bank of Iraq:**

Every nation has a central bank responsible for managing the economy and monetary policy. Iraq has been exported into the Iraqi economy by the department in charge of cash distribution and control and cash flow distribution. The organization was distinguished by its long history. The Iraqi National Bank was created in 1931 at the Currency Council Ruins in London by the British Mandate Authority of Iraq. In 1949, the Council was officially dissolved. In 1956, the Iraq National Bank renamed the Iraq Central Bank. It was responsible for currency issuance, foreign currency transaction processing, banking system oversight, and enforcement. As a self-governing organization, the Central Bank has performed various responsibilities in varying quantities due to its experience, independence, and overall circumstances since 2003. In 2017, the Central Bank created a Financial Stability Section detailing its role in implementing Basel Committee decisions and regulations ([Al-Doori et al., 2022](#)).

### **2.13.2 Governmental & Private Commercial Banks:**

Trade banks are the primary financial instrument and essential component of all economies' financial and banking systems. To ensure the efficacy of each nation's political and financial resources, these banks must achieve and complete their commitments efficiently across all classes and techniques. There are 70 corporate, public, and private banks in the Iraqi financial sector. The government consists of Rafiday, Rashid Banks, the Iraqi Trade Bank (Tbi), and a number of specialized banks, such as the Agricultural, Commercial, Real Estate, and Muslim Nahrain Banks. Private banks are comprised of domestic private banking and other branches of international banks, and there are 64 private banks as of the publication date of this article. Almost 94% of all deposits and net assets in the Iraqi financial system are held by state banks ([Jirjees, 2022](#)).

### **2.13.3 Exchange and Transfer Money Companies:**

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#### 2.13.4 Basel Committee and Iraqi Banking Quality Standards:

The credit risk and liquidity problem in the Iraqi banking system have been resolved as quickly as possible, and the central bank is currently taking this into account in its management and control of the cash policy, as well as in its banking sector, institutional, and organizational efforts to reform Iraqi banking practices and instructions. Basel III, in particular, is a major step in enhancing the profitability of Iraqi banks, preserving the financial system's stability, and optimizing the utilization of Iraqi bank resources. Therefore, the Central Bank assessed the applicability of Basel rulings following 2015. But the official application of standards began in 2017 to mandate the classification of the following forms of liquidity risk as mandatory: LCR, NSFR.

- Risk financing: from multiple sources when the bank conducts typical finance operations.
- Market risk: the chance to sell or hypothecate their assets via the bank.
- Market risk: the chance to sell or hypothecate their assets via the bank.

Maintaining a high level of stability in the banking sector at the start of 2017 and beyond. Calculation procedure. A variety of foreign norms, including copy rules, were repeatedly attempted by the Iraqi banking system in Basel under the supervision of the Central Bank many years ago. In practice, Iraqi-an Banks are obligated to comply. Therefore the Central Bank began assisting in implementing these standards (Ojah et al., 2019).

Iraqi financial structure for implementation of Basel Committee recommendations:

To increase the efficiency of any country's banking system, introducing financial regulations to address capital adequacy and other needs causes complications and failure factors. In this context, the hurdles and causes that led to the failure of this banking system in the Basel committee's decision, specifically the Basel III decision, the Iraqi banking system, and other national environmental problems about this system, should be categorized as internal factors. so that we may obtain a clearer picture of this report's issue (Salman, 2019).

- Internal factors:

Whereas many banks are poor institutions with former and inverted managers and decision-makers, particularly public banks, and the rules of the family in the management of the majority of private banks, the banks' departure from many advanced management methods requires the central bank to adhere to both the limitations of its institution. It should be highlighted that, due to insufficient institutional alignment, there are various instances of incoherence between the actions of some central bank divisions

and those of others. Regarding government laws, policies, and procedures, the Central bank organization lacks independence.

- However, in exchange for unspecified kinds of real estate insurance, against lending and other assurances, when the property is residential and legal and acquires possession of the land, Iraqi banks' credit and risk assessments do not depend.
- Iraqi banks are not categorized by risk. Therefore, when a borrower does not pay in full to avoid Iraqi legal barriers, the bank cannot sell the loan, so such guarantees cannot be eliminated. Furthermore, personal guarantees are a poor form of guarantee, and it should be noted that Iraqi banks generate substantial revenues from US dollar transactions conducted for this reason.
- Connections between the Iraqi banking network and the remaining banking components of Iraq's Central Bank condemn the lack of professional skills and the abilities of administrative and technical staff and control; This is based on low rates of respect for staff, low levels of training programs, lack of responsiveness and knowledge at the banking and administrative levels, low and moderate levels of negative and positive rewards, and the implementation of telecommunications technology.
- Compared to worldwide standards for banking infrastructure structures, communications networks, information transmission, and types of buildings designed for banking, additional administrative and technological issues are comparatively dated. Ultimately, this impacts performance efficiency and international standards compliance initiatives like Basel III.
- Factors external:
- Law and negative implications: The Iraqi Regulatory Framework applicable to the Banking System Management & Control should be examined thoroughly in a general and current context. Legal loopholes are the primary reason central supervision banks are avoided. International standards cannot be implemented automatically, especially when implementing Basel III standards, which inherently require an integrated legal style to ensure their implementation. General economic situation: A general economic state combats economic unilateralism by creating gross domestic output and domestic earnings from the oil industry. General economic situation: This results in deflation in the banking system and a rise in investment loan demand, causing banks to seek out weak, high-risk credit demand, including consumer credit demand. The inability of the affected institutions to provide a national payment system, in particular the Central Bank, with a database to assess and determine how effectively the Banking System complies with the basic standards, including the Basel standard, as it begins to be implemented, This forces the Central Bank to produce erroneous and unsatisfactory data, which exacerbates the difficulty of enforcing Basel and Basel

III, the subject of the copied decisions and requirements. The administrative and financial corruption phenomenon of Iraq, which confounds all legislative intervention, is an underlying corruption in private and public institutions; Including the possibility of implementing standards of efficiency in operating a banking system's financial operation, since this pattern affects negative outcomes following international banking norms like Basel, which contradict efficiency and accounting principles. As a result of the vulnerability of banks in every nation of the globe to the security situation, the global situation has a detrimental and beneficial impact on all economic endeavors, including banking.

- Inadequate supply of a structured financial system in Iraq's economic or financial sector. Without a capital market in Iraq, credit evaluation and loan guarantee companies are essential. The Iraqi Financial Market is essentially a rudimentary economy and does not fulfill the tasks and responsibilities required by the current financial system. The incapacity of politicians' decision-making officers to rely on the independence of the central bank, which leads to politics and pressures, has led to lessening influence over the policies of Iraq's central bank and its ability to act.

#### **2.14 Banks of Iraq after Basel III**

The last observations should be used to evaluate our issue: Iraq has not yet accepted Basel III regulations because the focus is on What are the Basel standards? Following fashion? The concluding remarks must be included. And how will they react to the program's complexity now? Basel III focuses only on business risk calculation and financial and operating risk estimation. This is impossible for Iraqi banks that only evaluate credit risk and do not interact with the banking system. Basel, I am being implemented. Additionally, it is easier to deduce the Basel III introduction ([AL-mamoorey et al., 2020](#)).

The causes of the Iraqi financial crisis are the practical explanations for why the Basel standards are not being implemented in the banking system.

In addition to the inconsistency in risk assessment and credit security selection, these factors frequently center on structural weakness and wrongly implementing legislative standards like Basel III ([AL-mamoorey et al., 2020](#)).

There are clear explanations for the political, legal, and economic components of the crisis in Iraq, such as the inadequate law and economic structure, the low regulatory capacity of the government, and the political power. The primary issue is the lack of financial market integration. Following its role model and the absence of an electronic payment system, the financial markets are not integrally integrated and do not function; this gives regulatory authorities under the Central Bank the financial information and data required to implement international banking standards. All of these concerns impact the structure of central banks and the capacity of banks to apply the Basel III

requirements, which could result in more effective implementation and exploitation of Iraq's banking system in the financial sector. Banking and other pertinent fields (Mahmood, 2018).

Working capital management and short-term liquidity management are synonymous. Working capital is regarded as the lifeblood and nerve center of a firm and is crucial to the operation of every corporation. It is risky for a corporation to achieve its key objectives beyond the allocation of working capital. Consequently, there is a close relationship between risk and return when determining the ideal level of working capital. It is tough to demonstrate how much working capital a particular company needs. A corporation unable to take financial risks will increase its short-term liquidity. Greater short-term liquidity suggests that greater current liabilities imply less short-term funding. To deploy capital effectively and limit the risk of failing to meet income objectives. Reviewing and identifying problems and potential solutions (AL-mamoorey et al., 2020).

Working capital is regarded as the lifeblood and nerves of a firm and is essential for its successful operation. It is risky for a corporation to achieve its key objectives beyond the allocation of working capital. Inadequate investment in working capital jeopardizes and affects the solvency of a business. In contrast, excessive spending on working capital yields little benefit (Mahmood, 2018). In a competitive environment, commercial banks function. In this situation, banks must employ appropriate solutions. The various functional elements of a firm must be organized and balanced. The success or failure of an organization is contingent on its plan for the management of working capital. Working capital management is the most difficult aspect of drafting a comprehensive plan for its benefits.

### 3. METHODOLOGIES

Average capital adequacy ratio, average liquidity coverage, average stable net financing, and average leverage were calculated and examined using statistical definitions and correlation. The study utilized annual BASEL Norms data from 2017 to 2019 from four Iraqi commercial banks (Assyria Bank, Bank of Baghdad, Middle East Bank, and National Bank). The ratios determined by the BSEL III committee are compared with bank ratios. The correlation coefficients are utilized to determine the relationship between BASEL III norms and bank performance to determine the influence of BASEL III norms on the liquidity and performance of banks. Secondary data sources include annual reports, websites, and a data stream platform.

### 4. Results and Discussion

The table below provides the average capital adequacy ratio, average liquidity coverage, stable net financing ratio, and leverage ratio for four private commercial banks in Iraq from 2017 to 2019. The BSEL 3 committee determines the standards.

Banks	Variables			
	Average capital adequacy ratio	Average liquidity coverage	Average stable net financing	Average leverage
Assyria Bank	101	311	223	.45
Bank of Baghdad	31	241	195	.16
Middle east Bank	49	328	240	.29
National Bank	72	189	243	.33
BASEL Norms	10.4%	100%	100%	4%

We can compare the ratios of banks with BASEL norms to see if the bank meets them.

#### 4.1 Capital Adequacy Ratio.

The capital adequacy ratio has been measured according to the Basel III criterion. It has been demonstrated that the capital adequacy ratios for all the research sample banks are higher than what was approved in the standard. That is, the (regulatory) bank capital in Iraqi banks is of high quality because it consists of the majority of the capital Paid that was increased by the banks in the years (2017 and 2019) at the request of the Central Bank of Iraq to reach (250) billion The Iraqi banks will be less able to manufacture cash than the research sample, according to the Basel III layer. After all, it is risky. The Basel Committee has endeavored to strengthen bank capital by recommending a capital adequacy ratio of 10,5 percent so that banks can withstand shocks caused by financial crises. And the approved study sample of Iraqi banks had higher rates, indicating that they can increase their capital or that it is adequately reinforced to apply the Basel III capital adequacy ratio.

#### 4.2 Liquidity Coverage Ratio

The liquidity coverage ratio is a new ratio for Basel decisions that measures the ability of banks to face the risks of a lack of liquidity ratios in the short term of 30 days or less. It is one of the ratios that support the capital adequacy ratio. It has been determined through measuring the liquidity coverage ratio that the coverage ratios for banks are proportional to the liquidity coverage ratios. All of the research samples exceeded the Basel Committee's third criterion minimum, indicating that Iraqi banks can withstand financial crises caused by a lack of liquidity and also that capital ratios are high ratios that were able to improve liquidity ratios as the sources of financing represented in the sample were able to increase liquidity ratios. Other property rights and liabilities Which correspond to the uses of the bank in the budget equation demonstrate that the proportion of the sources of funding the remainder without the use represented in the form of criticism of high quality that came from all the banks' ratios greater than 100 percent,

the percentage approved, indicating that Iraqi banks can cover all requests for quick liquidity without difficulty. This is because bank capital is substantially bolstered

### 4.3 The Ratio of Net Available Financing

It is one of the new ratios developed by Basel III. It is the second supportive ratio for the capital adequacy ratio, which measures the ability of long-term sources of financing for one year or more to meet the overall long-term uses. This ratio, along with the liquidity coverage ratio, represents a defensive line against the risks of insufficient liquidity. Based on the percentage of the bank's (regulatory) capital's increase and fall, the size of the bank's (regulatory) capital, a [table](#) revealed that Iraqi banks enjoy higher interest rates than those established by Basel III judgments (100 percent ).

### 4.4 Leverage

The leverage ratio is one of the new elements mentioned by the Basel ratio; this ratio is an important aspect that reflects the size of the bank's dependence on borrowing and is represented by current and fixed deposits and the amount of capital invested in the bank, which work together to create the bank's assets; the results have shown that banks in Iraq have used their capital at a higher rate than stipulated in the Basel III standards, which have a minimum of (3 pence per dollar of capital). It is evident from the preceding that Iraqi banks can increase their capital and smoothly implement Basel decisions. The researcher believes that the high percentages of all independent variables and the total banks of the research sample, which exceeded the ratios of Basel III decisions, indicate that deposit rates are generally low in Iraqi banks and that the size of the capital exceeds the need for it, or that the investment environment is risky or that it lacks the required level of Ingredients for investment, or that banks rely on less risky methods to generate income.

### Table for Correlation between BASEL and Performance

Variables	Pearson's correlation coefficient	Significance
capital adequacy ratio	-.321	.201
Liquidity coverage ratio	-.167	.467
Stable net financing ratio	-.221	.384
Leverage ratio	-.521	.015

The results of each value of the Pearson correlation coefficient, the degree of significance, relationship indication, relationship type, relationship strength, influence type, and results at each level of the level of banks are presented in a [table](#) for acceptance or rejection of the results of analyses for each bank. Capital adequacy ratio, as the value of the Pearson correlation coefficient (0.321) appears with a negative signal, indicating that the relationship type has a negative intermediate strength, and the degree of significance is (0.201), which is greater than (0.05). Therefore the hypothesis was

rejected. As the value of the Pearson correlation coefficient (0.167) has a negative signal, indicating that the relationship type is inversely weak, and the degree of significance is (0.467), which is larger than (0.05). Thus the hypothesis was rejected. The second variable is the liquidity coverage ratio. The value of the Pearson correlation coefficient (0.221) indicates a negative signal, indicating that the kind of association is inversely weak, and the degree of significance is (0.384), which is larger than (0.05). Thus the hypothesis was rejected. The third variable is stable net financing. As the value of the Pearson correlation coefficient (0.521) has a negative signal, indicating that the relationship type is strong and inversely, and the degree of significance is (0.015), which is less than (0.05). Hence the hypothesis was accepted. The fourth variable is the leverage ratio. The author believes that the nature of the relationship between the independent and dependent variables is entirely in verse. Still, its significance has not been demonstrated due to the clear dispersion of the sample variables in the levels of profitability from one year to the next, as well as the difference in the size of the capital, as the increases in the capital were not at the level required. Rather, it was imposed by regulatory authorities, as the rate of increase in all research sample banks reached more than 50 percent between the previous and subsequent years.

## 5. CONCLUSION

Based on the conclusions presented in this study, we can infer the situation, namely that the Iraqi banking system does not comply with Basel III regulations. As the topic is based on the current state of the following developments, what are the Basel criteria? And how will they react to the program's complexity now? , Since Basel III focuses solely on market risk assessment, credit risk, and operational risk, there are no other considerations. This is impossible for Iraqi banks that only evaluate credit risk and do not interact with the banking system. Basel, I am being implemented. Therefore, Basel III implementation is simpler to conclude. The practical reasons for the bank system's inability to adopt Basel's standards stem from the Iraqi banking framework and are based on structural deficiencies and their disadvantage in implementing international quality requirements, such as Basel III and poor risk assessments and inaccuracies in selecting loans guarantees. Following its role model and the absence of an electronic payment system, the financial markets are not integrally integrated and do not function; this gives regulatory authorities under the Central Bank the financial information and data required to implement international banking standards. All of these factors influence the structure of central banks and the willingness of banks to apply Basel III norms, which may increase the effectiveness of the Iraqi banking system in political, financial, and other relevant domains.

## 6. RESEARCH IMPLICATIONS

The present work has various implications for future research. This paper begins with a discussion of the applicability of Iraqi and banking standards to the Basel Committee's

conclusion. In addition, the report presents an outline of the difficulties and reasons why Basel Committee rulings have not been implemented at the national and international levels. This article also examines how improvements to the banking system can be made to meet the economic and financial conditions essential for implementing Basel decisions, as the Board and the general public understand those conditions. Researchers, professors, and students seeking to specialize in working capital administration at the Commercial Bank can benefit from this study.

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