Governance of Financial Market Regulation in Iraq: Between Institutional Independence and Government Oversight

1. Mohammed Tareq Ismael Ismael: Ph.D. Student, Department of Public Law, Faculty of Law, University of Qom, Qom, Iran
2. Mahdi Rajaei*: Assistant Professor, Department of Public Law, Faculty of Law, University of Qom, Qom, Iran

*Correspondence: M.rajaei@qom.ac.ir

Abstract

This study examines the governance of financial market regulation in Iraq with particular emphasis on the balance between institutional independence and government oversight. The study proceeds from the premise that effective financial regulation cannot be achieved through either unrestricted regulatory autonomy or extensive governmental intervention. Instead, a credible regulatory framework requires operationally independent institutions functioning within a transparent system of legal accountability, coordination, and public oversight. The study adopts a descriptive and analytical approach to assess the institutional structure of financial market regulation in Iraq, focusing on the distribution of regulatory competences, supervisory independence, transparency, investor protection, financial stability, and inter-agency coordination. The analysis identifies several structural weaknesses, including fragmented regulatory authority, overlapping competences, insufficient transparency, limited supervisory autonomy, weak coordination mechanisms, and potential conflicts arising from the interaction between state ownership and regulatory functions. These weaknesses can reduce legal certainty, increase compliance costs, weaken investor confidence, and limit the development of efficient financial markets. The study argues that reform should be based on a hybrid governance model incorporating functional specialization similar to the twin-peaks approach, supported by macroprudential coordination. Under this model, prudential supervision would focus on institutional soundness and systemic stability, while market-conduct regulation would address disclosure, investor protection, conflicts of interest, manipulation, and market integrity. Government oversight should concentrate on legality, institutional performance, financial accountability, and achievement of statutory objectives without intervening in individual supervisory or enforcement decisions. The study concludes that strengthening regulatory governance in Iraq requires clearer allocation of competences, greater operational and financial independence, stronger transparency obligations, integrated supervisory data systems, risk-based regulation, improved coordination, and institutional separation between ownership and regulatory functions. Such reforms could strengthen financial stability, market credibility, investor protection, and the broader contribution of financial markets to economic development.

Keywords: Financial Market Regulation; Regulatory Governance; Institutional Independence; Government Oversight; Iraq; Investor Protection; Financial Stability

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1. Introduction

The governance of financial market regulation has become one of the central concerns of contemporary economic and legal policy because the effectiveness of financial markets depends not only on the existence of formal legislation, but also on the institutional arrangements through which that legislation is interpreted, implemented, supervised, and enforced. Financial markets perform functions extending far beyond the exchange of securities. They mobilize savings, allocate capital, provide mechanisms for pricing risk, facilitate investment, influence corporate governance, and connect domestic economic activity with wider regional and international financial flows. The efficiency of these functions depends upon a regulatory framework capable of maintaining confidence, reducing informational asymmetry, preventing manipulation, and ensuring that market participants operate under predictable and transparent rules. Khater emphasizes that financial innovation changes the nature of instruments and transactions available in modern markets and consequently requires regulatory systems capable of adapting without obstructing legitimate economic activity (Khater, 2019). Financial-market efficiency is therefore closely associated with the quality of the institutional environment in which transactions occur. Al-Naqa connects the effectiveness of developing financial markets with their ability to perform their financing and allocation functions under conditions that support stability and confidence (Al-Naqa, 2010). In the Iraqi context, this question assumes particular importance because financial-market development takes place within a political economy characterized by extensive state involvement, a dominant public sector, institutional fragmentation, dependence on oil revenues, uneven private-sector development, and continuing attempts to modernize banking, securities, and investment structures. These features make the design of financial regulation not merely a technical issue but a broader question of governance involving the distribution of authority between specialized regulatory institutions and governmental bodies.

Financial-market regulation requires an institutional balance between autonomy and accountability. Regulatory institutions must possess sufficient independence to make decisions according to law, expertise, risk assessment, and market conditions without being subjected to short-term political pressure or administrative intervention. At the same time, complete separation from the state would be incompatible with principles of public accountability because financial regulators exercise public powers, adopt binding rules, grant and withdraw licenses, impose sanctions, influence the allocation of economic opportunities, and can affect financial stability. The central problem is consequently not whether the financial regulator should be independent or supervised, but how independence and government oversight should be combined within a coherent governance architecture. Regulatory independence is intended to protect professional decision-making from inappropriate intervention, while governmental and legal oversight is intended to ensure legality, accountability, coordination, and consistency with broader economic policy. Hatem's examination of investor protection demonstrates that the credibility of a securities market depends heavily on the existence of enforceable legal guarantees and supervisory arrangements capable of restraining conduct that disadvantages investors (Hatem, 2017). Similarly, Al-Jubouri's discussion of conflicts of interest in securities markets highlights the necessity of regulatory arrangements that are sufficiently impartial to distinguish public regulatory objectives from the interests of market participants or other influential actors (Al-Jubouri, 2021). The governance challenge therefore lies in preventing both political capture and regulatory insulation, since either extreme can weaken market integrity.

The Iraqi financial market illustrates the difficulty of achieving such balance. Regulatory competences are distributed among several institutions whose mandates intersect in relation to banking, securities, monetary policy, public finance, investment, and financial supervision. The existence of multiple authorities is not inherently problematic, because modern financial systems often rely on specialized regulators. The difficulty emerges when competencies are insufficiently defined, coordination mechanisms are weak, regulatory responsibilities overlap, or supervisory bodies lack sufficient institutional autonomy to apply rules consistently. Hamza's analysis of the Iraq Stock Exchange indicates that the development and evaluation of market performance must be considered in light of the institutional environment surrounding trading and market organization (Hamza, 2012). Yusuf likewise shows that financial stability in Iraqi private banks is affected by a combination of internal and external factors, making regulatory coordination especially important when banking stability and capital-market development intersect

(Yusuf, 2021). If financial supervision is fragmented, institutions may apply different standards to closely related activities, regulated entities may face inconsistent requirements, and gaps can emerge between prudential supervision, market-conduct regulation, and broader macroeconomic oversight. Such fragmentation can also create opportunities for regulatory arbitrage, whereby market participants organize transactions according to differences between supervisory regimes rather than according to economically justified considerations.

Another central issue concerns the relationship between financial-market governance and transparency. Regulatory institutions cannot establish credibility merely by possessing formal legal authority. Their procedures, criteria, decisions, and enforcement policies must be intelligible to regulated entities and the investing public. Transparency enables market participants to anticipate regulatory expectations and reduces the cost of uncertainty. Ezzat's discussion of securities markets underscores the importance of organized institutional mechanisms for the marketing and circulation of securities, which presuppose predictable market rules (Ezzat, 1994). Transparency also supports accountability because public institutions cannot be meaningfully supervised unless their decisions can be reviewed against identifiable legal standards. Regulatory discretion is unavoidable in financial markets because regulators must respond to rapidly changing products, risks, technologies, and market practices. However, discretion becomes problematic when it is exercised through unpublished criteria, inconsistent interpretations, or administrative intervention that cannot be justified through general rules. Muharram's analysis of dispute settlement in securities markets shows the significance of clear institutional mechanisms for resolving disputes and protecting legal certainty (Muharram, 2021). Effective financial governance therefore requires not the elimination of discretion, but its organization through reasoned decisions, procedural safeguards, review mechanisms, disclosure requirements, and clearly articulated statutory mandates.

The challenges confronting Iraq are also connected with the broader economic role of financial markets. A securities market that functions with limited depth, insufficient transparency, weak institutional-investor participation, or uncertain supervision will struggle to become an effective alternative to bank financing and government expenditure. Al-Jaafari's study of banks listed on the Iraq Stock Exchange demonstrates the close relationship between capital-market efficiency and the market value of securities (Al-Jaafari, 2021). This relationship matters particularly in an economy where financial intermediation has historically been influenced by public-sector institutions and government spending. The development of a more effective financial market can contribute to diversification by creating channels through which private savings are transformed into productive investment. Yet financial-market expansion without credible regulatory institutions can create new opportunities for manipulation, insider dealing, conflicts of interest, excessive risk-taking, and unequal access to information. Abu Al-Majd's analysis of unlawful speculation and price manipulation demonstrates the regulatory importance of protecting price formation against conduct that distorts market signals (Abu Al-Majd, 2025). The need for institutional independence is therefore connected directly with the regulator's capacity to enforce rules against influential actors regardless of their economic or political position.

Financial openness introduces a further dimension to this governance problem. Greater integration with regional and international financial markets can increase access to capital and improve competition, but it may also expose domestic markets to volatility, rapid capital movements, external shocks, and regulatory complexity. Sadiq's examination of financial openness and volatility in Arab securities markets shows that increased openness may generate both opportunities and heightened exposure to instability (Sadiq, 2025). Regulation must consequently be capable of promoting market development without assuming that liberalization automatically produces efficiency. Government oversight remains necessary in areas involving systemic stability, crisis management, fiscal implications, and national economic policy, but such oversight should not become a mechanism for routine administrative interference in individual regulatory decisions. The distinction between strategic governmental oversight and operational regulatory independence is therefore fundamental. The government may legitimately define broad statutory objectives, establish institutional mandates, appoint officials under transparent procedures, approve budgets according to legal standards, and require public reporting. It should not, however, determine the outcome of licensing cases, enforcement proceedings, market investigations, or supervisory assessments according to transient political preferences.

The objective of this article is to analyze the governance of financial-market regulation in Iraq through the tension between institutional independence and government oversight and to identify an institutional model capable of reconciling both requirements. The article examines the conceptual foundations of regulatory independence and accountability, evaluates the

existing Iraqi governance structure, identifies the principal weaknesses arising from overlapping competences and insufficient transparency, and proposes a reform model emphasizing functional specialization, coordination, independence, and accountability. The central argument is that Iraq does not require either a regulator isolated from the state or a system of intensified governmental control. It requires a structured governance framework in which regulatory authorities are legally protected in their operational decisions while remaining institutionally accountable through legislation, judicial review, financial transparency, parliamentary or governmental reporting, and clearly defined coordination mechanisms. This approach treats independence and oversight not as mutually exclusive concepts but as complementary elements of credible financial governance.

The study employs a descriptive and analytical approach based on the legal and institutional characteristics of the Iraqi financial system and draws on comparative regulatory principles insofar as they clarify the reform choices available to Iraq. Particular attention is given to regulatory competences, supervisory autonomy, financial stability, investor protection, market integrity, transparency, inter-agency coordination, and the institutional relationship between regulatory authorities and governmental bodies. Makrab's discussion of financial management and capital-market efficiency provides an important analytical basis for linking institutional quality to the effectiveness of market performance (Makrab, 2024). Medahi similarly approaches financial markets as institutional environments in which organizational mechanisms shape the operation of market functions (Medahi, 2017). The analysis therefore moves beyond formal legal provisions to consider whether the distribution of institutional authority is capable of producing coherent supervision in practice. The broader purpose is to contribute to the development of an Iraqi regulatory architecture capable of supporting confidence, market development, financial stability, and investor protection while preserving legitimate public oversight.

2. Institutional Independence and Government Oversight in Financial Market Governance

Institutional independence in financial regulation refers to the capacity of a regulatory authority to exercise the powers assigned to it by law without inappropriate interference from political institutions, regulated entities, market participants, or other public bodies. Independence is not a single legal characteristic but a multidimensional institutional condition. It includes organizational independence, which concerns whether the regulator possesses a distinct legal and administrative identity; functional independence, which relates to its freedom to apply regulatory powers according to professional standards; decision-making independence, which protects individual supervisory and enforcement decisions from external intervention; financial independence, which concerns the availability and control of adequate resources; and personnel independence, which concerns appointment, dismissal, tenure, professional qualifications, and conflict-of-interest rules. These dimensions operate together. A regulator may formally possess legal personality while remaining dependent on another institution for its budget, staffing, enforcement decisions, or rulemaking authority. Conversely, financial independence without accountability may create opportunities for institutional self-interest or weak democratic control. The purpose of independence must therefore be understood in functional terms: it exists to protect the integrity and quality of regulatory decisions rather than to confer institutional privilege.

The economic justification for independence is especially strong in financial markets because regulation frequently requires decisions that impose short-term costs in order to secure long-term stability. Supervisors may need to restrict risky activity, require higher capital or liquidity buffers, sanction influential firms, suspend trading, reject market-entry applications, or impose disclosure obligations that powerful actors would prefer to avoid. If such decisions depend on political approval or can be reversed informally, regulated institutions have an incentive to seek political influence rather than comply with general regulatory standards. Al-Jubouri's treatment of conflicts of interest is particularly relevant because financial markets generate situations in which personal, institutional, and public interests may diverge (Al-Jubouri, 2021). The regulator must therefore possess sufficient autonomy to identify and control conflicts even when doing so affects economically influential actors. Abu Al-Majd's analysis of price manipulation similarly illustrates why market enforcement requires impartiality: manipulation investigations cannot be credible if enforcement depends on the political status of the suspected participant (Abu Al-Majd, 2025). Regulatory independence thus supports equality before the law by reducing the possibility that supervisory treatment varies according to political access.

Independence also contributes to regulatory consistency. Financial markets depend heavily on expectations because investors, issuers, intermediaries, banks, and institutional investors make decisions based on assumptions about how rules will be applied. Unpredictable regulatory intervention increases compliance costs and may be incorporated into risk premiums. Hatem's work on investor protection demonstrates that legal safeguards are meaningful only when market participants can reasonably expect them to be enforced (Hatem, 2017). The same principle applies to licensing, disclosure, market-conduct supervision, and dispute resolution. If similar cases receive different treatment because political priorities change, the formal rule loses part of its practical value. Institutional independence strengthens predictability by requiring regulatory decisions to emerge from stable statutory mandates, professional analysis, and published criteria. This predictability is particularly important where financial markets seek to attract foreign investment because external investors cannot easily assess informal political channels and therefore place greater weight on formal institutional credibility.

Financial independence constitutes one of the most difficult aspects of regulatory autonomy. A supervisory authority that depends entirely on annual discretionary funding decisions may be formally independent but practically vulnerable. Budgetary dependence can affect staffing, technology investment, investigative capacity, data systems, and the ability to retain specialized professionals. Modern financial regulation increasingly depends on sophisticated information systems, electronic reporting, risk analytics, cybersecurity expertise, and specialists capable of understanding complex securities and financial innovations. Khater's analysis of financial innovation shows that the development of new financial products alters the regulatory environment and requires corresponding institutional adaptation (Khater, 2019). If the regulator cannot control sufficient resources to develop such capacity, its formal powers may exceed its practical capabilities. Financial autonomy does not necessarily require complete separation from the public budget, but it does require predictable funding arrangements protected from retaliatory or arbitrary reduction. Appropriate mechanisms may include statutory appropriations, supervisory fees, market levies, or combinations of public funding and regulated-sector charges, accompanied by auditing and disclosure requirements.

Personnel arrangements are equally significant because institutional independence is weakened when senior officials can be removed without clearly defined legal grounds. Appointment and dismissal procedures should prevent both permanent bureaucratic insulation and political instability. Fixed terms of office, professional qualification requirements, transparent appointment criteria, restrictions on arbitrary dismissal, and cooling-off periods between regulatory service and regulated employment can strengthen independence while reducing regulatory capture. Regulatory capture can arise not only from government intervention but also from excessive closeness between regulators and financial institutions. Badawi's treatment of modern financial instruments highlights the growing complexity of markets in which regulators must understand rapidly evolving products and institutional practices (Badawi, 2015). Expertise is essential, but the movement of professionals between regulators and regulated institutions can create conflicts of interest if safeguards are absent. Independence must therefore be protected against both governmental pressure and private influence.

Government oversight nevertheless remains an indispensable component of regulatory governance. Financial regulators exercise delegated public authority and must remain accountable for the legality, proportionality, and effectiveness of their actions. Independence cannot mean that regulatory agencies establish their own objectives without reference to legislation. Governmental institutions legitimately define the statutory architecture within which regulators operate, and elected authorities may establish broad priorities related to financial stability, market development, consumer protection, competition, and economic policy. The distinction lies between setting the framework and deciding individual cases. Legitimate oversight concerns institutional performance, public expenditure, compliance with law, achievement of statutory objectives, and coordination with macroeconomic policy. Inappropriate intervention concerns directions intended to alter specific regulatory outcomes for political, fiscal, or private advantage.

Transparency provides the principal mechanism through which independence can coexist with accountability. A regulator whose decisions are protected from direct interference should be required to explain how those decisions are made. Published rules, consultation procedures, enforcement policies, annual reports, statistical data, audited financial statements, reasoned administrative decisions, and accessible complaint mechanisms enable external institutions to evaluate regulatory performance without controlling operational outcomes. Muharram's discussion of mechanisms for settling securities-market disputes illustrates the importance of procedural clarity in maintaining confidence in market governance (Muharram, 2021). Review procedures are particularly important because independent regulators inevitably exercise discretion. Affected parties should

have access to administrative reconsideration or judicial review, but reviewing bodies should assess legality, procedural fairness, and reasonableness rather than replacing professional supervisory judgments without justification.

Government oversight also has a legitimate role in financial stability because systemic crises can generate fiscal and macroeconomic consequences extending beyond the authority of a single regulator. Banking distress, market collapse, liquidity shortages, or major institutional failures may require cooperation among the central bank, finance ministry, securities regulator, deposit-protection arrangements, and other public bodies. Yusuf's study of financial stability in Iraqi private banks illustrates the importance of identifying factors that influence resilience within the banking sector (Yusuf, 2021). In such circumstances, a purely isolated regulator would be inadequate. What is required is institutional independence within a framework of structured coordination. Crisis-management protocols should identify which institution is responsible for liquidity support, resolution decisions, market stabilization, fiscal authorization, investor protection, and public communication. Coordination should be established in advance rather than improvised during periods of instability.

The relationship between independence and oversight is therefore best understood as a system of checks and balances. Independence protects regulatory judgment from external pressure, while oversight prevents independence from becoming unaccountable discretion. The quality of regulation depends upon the institutional design connecting both. An authority that must obtain governmental approval for routine enforcement cannot exercise genuine independence. An authority that faces no reporting, review, or transparency obligations lacks sufficient accountability. A balanced system allocates regulatory powers clearly, protects decision-making from interference, provides stable resources, establishes professional appointment standards, requires transparent procedures, subjects institutions to audit and judicial review, and creates formal coordination arrangements where mandates intersect. Makrab's assessment of capital-market efficiency supports the broader proposition that institutional effectiveness is inseparable from the quality of financial administration (Makrab, 2024). In Iraq, the practical significance of these principles is heightened by the state's extensive role in economic activity. Where public institutions simultaneously influence ownership, financing, economic policy, and supervision, the separation of regulatory functions becomes essential to avoid conflicts between policy objectives and impartial enforcement.

3. The Governance Structure of Financial Market Regulation in Iraq

The governance structure of financial-market regulation in Iraq reflects the broader institutional characteristics of the country's financial system. The system includes securities-market institutions, banking regulators, governmental bodies responsible for fiscal and economic policy, public financial institutions, and organizations involved in trading, settlement, investment, and enforcement. The principal governance difficulty is not simply the number of institutions participating in financial regulation, but the absence of sufficiently clear boundaries between their functions and the weakness of mechanisms through which overlapping responsibilities are coordinated. Hamza's examination of the establishment and indicators of the Iraq Stock Exchange demonstrates that market development has taken place within a distinctive institutional environment whose effectiveness cannot be evaluated solely through trading indicators (Hamza, 2012). Regulation must be considered together with the legal and organizational framework that determines who makes rules, who supervises market participants, who enforces sanctions, and who is responsible when risks cross institutional boundaries.

A central structural problem arises from fragmented regulatory authority. Modern financial activities do not respect traditional administrative divisions. Banks may engage in securities-related activities, listed companies may be financially interconnected with banking institutions, investment intermediaries may perform functions involving payment systems or custody, and systemic risks may move rapidly between markets. Where different agencies supervise these activities according to separate rules without an effective mechanism for coordination, gaps and duplication emerge. One authority may focus on institutional solvency while another emphasizes market conduct, but if mandates are not clearly separated the same institution may be subject to inconsistent requirements or, conversely, important activities may fall between regulatory jurisdictions. Al-Saffar's examination of legal issues surrounding securities-exchange brokerage demonstrates the complexity that arises when financial transactions cross institutional and legal boundaries (Al-Saffar, 2023). Such complexity strengthens the case for clearly articulated competence rather than broad or undefined administrative authority.

The weakness of regulatory independence compounds the problem of fragmentation. In a system where administrative and economic responsibilities are concentrated within governmental structures, supervisory agencies may face pressure to

accommodate policy objectives unrelated to the regulatory mandate. Financial institutions linked to the public sector may occupy a different practical position from private institutions if ownership and supervision are not institutionally separated. This creates a potential conflict between the state's role as owner, policymaker, financier, and regulator. A government may reasonably seek to use public financial institutions to support development objectives, but the supervisory authority must still apply prudential and market-conduct standards uniformly. If regulatory decisions are influenced by ownership considerations, private competitors may perceive the market as unequal and investors may question the credibility of enforcement. Al-Jaafari's analysis of banks listed on the Iraq Stock Exchange demonstrates the importance of market efficiency to the valuation of securities (Al-Jaafari, 2021). Equal regulatory treatment is one of the institutional conditions required for such efficiency because prices cannot accurately reflect market information if certain entities are understood to benefit from privileged supervisory treatment.

Overlapping competences also weaken accountability because responsibility becomes difficult to assign when regulatory outcomes are poor. If several institutions share authority over the same matter, each may attribute failure to the others. Conversely, when no institution possesses comprehensive authority, emerging risks may remain unaddressed until they become serious. Effective accountability therefore requires competence mapping: each major regulatory function should be assigned explicitly to a responsible institution, while areas of unavoidable overlap should be governed by formal coordination procedures. These functions include prudential supervision, securities-market conduct, disclosure, licensing, anti-manipulation enforcement, investor protection, payment and settlement oversight, systemic-risk monitoring, crisis management, and financial crime coordination. Medahi's treatment of financial markets as organized systems illustrates the importance of institutional arrangements in shaping the functioning of market processes (Medahi, 2017). The legal allocation of responsibility is thus not an administrative technicality; it directly affects market outcomes.

Transparency represents another significant weakness in the governance structure. Market participants need access not only to financial information about issuers but also to information about regulatory expectations. When licensing criteria, enforcement priorities, supervisory interpretations, sanctioning policies, or grounds for administrative decisions are insufficiently publicized, regulated entities are forced to rely on informal communication. This creates inequality because institutions with greater access to regulators may obtain better information than smaller or newer market participants. Ezzat's analysis of the organization and marketing of securities demonstrates the importance of an institutional environment in which market participation follows understandable procedures (Ezzat, 1994). Transparency of regulation is therefore part of market transparency itself. Investors assess not only corporate information but also the reliability of the system that produces, verifies, and enforces that information.

Disclosure regulation is central to the operation of capital markets because securities prices depend on the availability and credibility of information. Regulators must establish rules concerning periodic reporting, material-event disclosure, beneficial ownership, related-party transactions, conflicts of interest, and financial statements. Al-Jubouri's analysis of conflicts of interest in securities markets illustrates how undisclosed relationships can distort decision-making and undermine market fairness (Al-Jubouri, 2021). Disclosure rules must consequently be backed by verification and enforcement. Merely requiring companies to file reports does not create transparency if information is incomplete, delayed, difficult to access, or not reviewed for compliance. Digital reporting systems can improve supervisory capacity by allowing information to be standardized, compared, and analyzed across firms. Such systems can also reduce administrative discretion because compliance requirements become more uniform.

Market manipulation and insider conduct present further governance challenges. Price formation is credible only when investors believe that trading reflects genuine supply, demand, and information rather than artificial transactions or privileged access. Abu Al-Majd identifies unlawful speculation and price manipulation as conduct requiring a coordinated legal response because they can distort the normal operation of financial markets (Abu Al-Majd, 2025). An effective Iraqi regulatory system therefore requires surveillance capacity capable of identifying unusual trading patterns, relationships among accounts, coordinated transactions, and suspicious price movements. Enforcement must be independent enough to investigate powerful actors, while procedures must provide due process and review. A weak regulator may hesitate to pursue influential participants, whereas an unaccountable regulator may impose sanctions arbitrarily. Both problems damage confidence.

Investor protection is closely related to regulatory legitimacy. Investors assume risks inherent in market fluctuations, but they should not be required to bear risks created by fraud, undisclosed conflicts, inconsistent regulation, or ineffective enforcement. Hatem emphasizes legal protection as an essential component of securities-market governance (Hatem, 2017). Protection does not mean guaranteeing investment returns. Rather, it means establishing fair rules concerning disclosure, custody, brokerage conduct, conflicts, manipulation, complaints, and access to remedies. Dispute-resolution mechanisms are particularly important where retail investors may lack the resources to pursue lengthy litigation. Muharram's discussion of securities-market dispute settlement shows that institutional mechanisms for resolving disagreements contribute to confidence and legal certainty (Muharram, 2021). Iraq's governance framework can therefore be strengthened through accessible administrative complaint procedures and specialized dispute-resolution arrangements integrated with judicial review.

Financial stability introduces another layer of institutional complexity. Securities regulation cannot be considered independently from banking supervision and monetary conditions because shocks can move between banks, markets, and public finances. Yusuf's analysis of the determinants of financial stability among Iraqi private banks demonstrates the importance of monitoring banking-sector resilience (Yusuf, 2021). In a market where banks may be significant investors, issuers, intermediaries, or settlement participants, instability in the banking system can rapidly affect securities-market confidence. A governance framework should therefore contain a macroprudential dimension through which authorities share information and assess system-wide risks. This differs from microprudential supervision, which focuses on the condition of individual institutions. Macroprudential oversight examines common exposures, concentration, interconnectedness, liquidity conditions, and channels through which distress could spread across the financial system.

The institutional structure must also adapt to technological change. Financial innovation can improve market accessibility, trading efficiency, payment systems, and information processing, but it also introduces cyber risks, data-governance problems, and new forms of misconduct. Khater's analysis of financial innovation emphasizes the transformative effect of new instruments and techniques on financial markets (Khater, 2019). Regulation based primarily on traditional documentary processes may become inadequate when trading, reporting, settlement, and investor communication are increasingly electronic. Regulatory modernization therefore requires legal recognition of electronic processes, cybersecurity standards, digital record preservation, secure identity mechanisms, and supervisory technology capable of analyzing large volumes of transaction data. This technological capacity is also connected with institutional independence because regulators lacking their own professional and financial resources may depend excessively on other governmental bodies for technical infrastructure.

The role of financial openness further illustrates the need for coherent governance. Increased participation by foreign investors and financial institutions may contribute to market depth and diversification, but it also makes regulatory credibility more visible to external participants. Sadiq's analysis of financial openness and market volatility demonstrates that openness can increase exposure to fluctuations and external conditions (Sadiq, 2025). Investors entering a foreign market assess whether property rights, disclosure rules, market conduct, and regulatory decisions are predictable. Institutional fragmentation and administrative intervention therefore create not only domestic inefficiencies but also reputational costs that may affect investment flows. Strengthening governance is consequently part of the broader strategy for increasing Iraq's integration into regional and international capital markets.

A final structural weakness concerns the relationship between public-sector dominance and market competition. Where state-owned or state-influenced financial institutions occupy a major position, governance must distinguish ownership objectives from regulatory responsibilities. Badawi's discussion of modern securities-market instruments illustrates the expansion of market functions beyond traditional banking activities (Badawi, 2015). As Iraq seeks to deepen its financial markets, the regulatory framework should encourage competition among public, private, and foreign institutions under equivalent prudential and conduct standards. Government oversight should focus on systemic stability and lawful administration rather than protecting particular institutions from competition or enforcement. A credible governance system must therefore combine institutional clarity, operational independence, public accountability, transparent rulemaking, technological modernization, and formal coordination across the financial system.

4. Rebalancing Independence and Government Oversight: A Governance Model for Iraq

Reforming financial-market governance in Iraq requires a model capable of addressing fragmentation without simply concentrating all regulatory power in a single governmental institution. Centralization may appear attractive because it can reduce visible overlap, but concentration of authority can create new risks if the resulting institution lacks internal specialization, accountability, or operational independence. The more appropriate approach is to organize regulatory functions according to their objectives while creating formal mechanisms for coordination. A hybrid structure incorporating elements of the twin-peaks model provides a useful basis. Under such an arrangement, prudential regulation and financial-stability supervision are institutionally distinguished from market-conduct and investor-protection regulation, while a macroprudential coordination mechanism addresses system-wide risk. The purpose of this model is not to copy a foreign institutional structure mechanically, but to clarify functions that are already present in Iraq's financial system and to reduce overlap among authorities.

Prudential supervision should focus primarily on the safety and soundness of financial institutions and the containment of risks capable of threatening broader stability. This includes capital adequacy, liquidity, risk management, governance, stress testing, consolidated supervision, and early intervention. Yusuf's work on financial stability in Iraqi banks provides support for the importance of identifying and controlling factors that weaken institutional resilience (Yusuf, 2021). Prudential supervision should be supported by legal authority to obtain information, conduct examinations, require corrective action, and intervene before an institution becomes insolvent. Such powers should be exercised independently according to objective criteria because delayed intervention is often more costly than early supervisory action. At the same time, major decisions affecting public funds or systemic crisis management should involve predefined coordination with governmental authorities responsible for fiscal policy and financial stability.

The second institutional pillar should focus on market conduct, securities regulation, disclosure, investor protection, and market integrity. This authority would be responsible for supervising exchanges, intermediaries, issuers, brokers, investment services, disclosure obligations, insider conduct, conflicts of interest, market manipulation, and related investor-protection requirements. Abu Al-Majd's analysis of price manipulation illustrates why specialized expertise is required to identify trading practices capable of distorting securities prices (Abu Al-Majd, 2025). Al-Jubouri's study of conflicts of interest similarly demonstrates the need for regulatory attention to relationships that may compromise impartiality or investor interests (Al-Jubouri, 2021). Combining these functions within a clearly defined conduct regulator can reduce ambiguity concerning responsibility for market fairness. The authority should possess independent investigatory and sanctioning powers subject to procedural safeguards and judicial review.

The twin-peaks element should be supplemented by macroprudential oversight. Financial stability cannot be protected solely through supervision of individual institutions because systemic risk may emerge from common exposures, liquidity shortages, interconnectedness, market concentration, or changes in external financial conditions. Sadiq's findings concerning financial openness and volatility in Arab markets underscore the importance of monitoring risks that originate beyond individual institutions (Sadiq, 2025). A macroprudential council or equivalent mechanism should therefore bring together the principal financial authorities while preserving their operational mandates. Its task should be to identify system-wide risks, coordinate data, establish crisis protocols, and issue recommendations concerning vulnerabilities affecting multiple sectors. The council should not become a mechanism through which government officials direct individual supervisory decisions. Its function should remain strategic and system-wide.

A necessary condition for any new model is precise legislative allocation of competences. Broad statutory phrases that allow several institutions to claim authority over the same activity should be replaced with more specific functional mandates. The law should define which authority licenses which category of institution, which body supervises prudential requirements, which body regulates conduct, who has authority over market infrastructure, who monitors systemic risks, and how disputes about jurisdiction are resolved. Al-Saffar's work on securities brokerage highlights how financial activities can generate legal questions crossing institutional boundaries (Al-Saffar, 2023). Clear competence allocation reduces such uncertainty. Memoranda of understanding can support coordination, but basic jurisdiction should not depend on informal agreements that may be changed administratively.

Independence should be guaranteed through the institutional design of regulatory authorities. Senior officials should be appointed through transparent procedures based on professional qualifications, integrity, and relevant expertise. Terms of office should be sufficiently secure to prevent arbitrary removal, while dismissal should remain possible for defined reasons such as serious misconduct, incapacity, legal disqualification, or major failure to perform statutory duties. Appointment arrangements should avoid excessive concentration of control in a single governmental office. Staggered terms can reduce the risk that an entire regulatory leadership changes simultaneously with political transitions. Independence should also extend to internal staffing because specialized financial supervision requires economists, lawyers, accountants, risk specialists, technology professionals, and market analysts capable of competing professionally with the institutions they regulate.

Financial autonomy should be strengthened through predictable funding. A regulator unable to invest in surveillance systems, databases, cybersecurity, or professional training cannot exercise meaningful independence. Khater's discussion of financial innovation demonstrates why supervisory institutions must continually adapt to changing financial technologies and products (Khater, 2019). Funding mechanisms may combine government appropriations with licensing fees, market charges, or supervisory levies, but the principle should be that resources cannot be reduced arbitrarily in response to unpopular regulatory decisions. Financial autonomy must be accompanied by external audit, procurement transparency, public financial reporting, and rules preventing the regulator from using fee-setting powers primarily to expand its own institutional interests.

Government oversight should be redesigned around accountability rather than operational control. The responsible governmental and parliamentary institutions should be entitled to receive periodic reports, question regulatory leaders about performance, examine audited accounts, review whether statutory objectives are being achieved, and propose legislative amendments. They should not be permitted to direct the outcome of specific licensing, investigation, enforcement, or supervisory cases. This separation is essential because political oversight concerns the performance of the institution as a whole, whereas operational independence concerns the application of law to particular regulated entities. Hatem's discussion of investor protection reinforces the importance of dependable enforcement that does not vary according to external pressure (Hatem, 2017). Institutional accountability should consequently be strengthened precisely because direct political intervention is reduced.

Transparency should become a statutory obligation applicable to both rulemaking and enforcement. New regulations should ordinarily be published in draft form, accompanied by explanations of their objectives and expected impact. Market participants should have an opportunity to submit comments, while the regulator should explain the principal reasons for adopting or rejecting significant proposals. Final rules should specify effective dates, transitional arrangements, and interpretive guidance. Enforcement policies should clarify how sanctions are determined, what factors are treated as aggravating or mitigating, and which violations are considered especially serious. Muharram's analysis of dispute settlement emphasizes that procedural certainty strengthens confidence in the regulatory system (Muharram, 2021). Publishing significant administrative decisions in anonymized or appropriately redacted form would further improve consistency by allowing market participants to understand how general rules are applied.

A unified financial information architecture should form another pillar of reform. Fragmented regulators cannot coordinate effectively if they rely on incompatible databases or exchange information only through manual requests. Iraq should develop a secure national supervisory-data platform permitting authorized institutions to access standardized information according to clearly defined legal permissions. Such a system should include information on licensed institutions, beneficial ownership, financial statements, trading activity, sanctions, suspicious transactions, and relevant prudential indicators. Makrab's analysis of capital-market efficiency indicates the importance of financial information in supporting effective market functioning (Makrab, 2024). Better data would also support risk-based supervision by allowing regulators to focus resources on institutions or activities presenting greater potential harm.

Risk-based regulation should replace excessive reliance on uniform procedural requirements. Not all financial institutions or activities create the same level of risk. Licensing, reporting, inspection, and enforcement should therefore be proportionate to the size, complexity, interconnectedness, and conduct history of regulated entities. Risk-based licensing should examine ownership transparency, governance, capital strength, professional competence, compliance systems, technological resilience, and anti-money-laundering controls. It should avoid unnecessary administrative barriers that deter legitimate entry. Al-Zaghadani's analysis of Arab securities markets and their developmental role illustrates the importance of institutional

arrangements that support rather than unnecessarily obstruct market growth (Al-Zaghadani, 2018). Proportional regulation can facilitate innovation and competition while preserving supervisory intensity where risk is highest.

The reform model should also strengthen competition and reduce conflicts arising from public ownership. Public financial institutions may continue to perform important economic roles, but ownership should be separated institutionally from supervision. Government agencies responsible for managing public assets should not exercise control over regulatory decisions affecting those same institutions. The same prudential, disclosure, and conduct requirements should apply according to function rather than ownership. Al-Jaafari's study of listed banks demonstrates the importance of market valuation and efficiency in the Iraqi financial sector (Al-Jaafari, 2021). Competitive neutrality would improve the credibility of such valuation by reducing expectations of preferential treatment.

Investor protection should be reinforced through both preventive and remedial mechanisms. Preventive regulation includes disclosure, suitability requirements where relevant, conflict-of-interest controls, custody safeguards, licensing standards, and market-surveillance systems. Remedial mechanisms include complaint procedures, compensation arrangements where appropriate, specialized dispute resolution, administrative review, and access to courts. Hatem's analysis underscores the central position of investor protection within securities regulation (Hatem, 2017). The purpose should be to create confidence that investors can participate in the market under rules that are consistently applied, without implying protection from ordinary investment losses.

Finally, reform should be implemented gradually through a legislative and institutional roadmap rather than through abrupt organizational restructuring. Existing institutions possess accumulated expertise that should not be lost. The first stage should clarify mandates and establish information-sharing requirements. The second should strengthen legal independence, funding arrangements, reporting obligations, and professional capacity. The third should integrate supervisory data and develop risk-based regulation. The fourth should consolidate the twin-peaks and macroprudential coordination structure as institutional capacity becomes sufficient. This phased approach would allow Iraq to improve governance without creating regulatory gaps during transition. The objective is not institutional change for its own sake, but a durable balance in which independent regulatory judgment operates within transparent, accountable, and coordinated public governance.

5. Conclusion

The governance of financial-market regulation in Iraq requires a restructuring of the relationship between institutional independence and governmental oversight. The two principles should not be treated as alternatives. Institutional independence is necessary because financial regulation depends on technical judgment, consistent application of law, impartial enforcement, and the ability to act against influential market participants without political interference. Government oversight is equally necessary because regulatory authorities exercise delegated public powers and must remain accountable for legality, performance, public resources, and their contribution to national financial stability. The principal challenge is therefore to construct an institutional architecture in which each principle limits the risks associated with the other.

The current Iraqi framework reveals weaknesses that arise from fragmented authority, overlapping competences, insufficiently developed coordination arrangements, uneven transparency, limited supervisory autonomy, and the broader interaction between financial regulation and state participation in the economy. These problems reduce accountability because responsibility for regulatory outcomes may be dispersed among several institutions. They also increase uncertainty for market participants when similar activities are subject to different administrative approaches or when supervisory expectations are not articulated through sufficiently transparent rules. Such conditions increase compliance costs and may discourage investment, weaken market liquidity, and reduce confidence in the fairness of enforcement.

A central conclusion of this study is that formal independence alone cannot resolve these weaknesses. A regulator can possess separate legal personality while remaining practically dependent on governmental institutions for funding, appointments, staffing, information, technology, or enforcement. Effective independence must therefore be functional. It should protect the regulator's authority to make supervisory, licensing, investigative, and enforcement decisions according to law and professional standards. It should also be supported by predictable financing, qualified personnel, secure leadership arrangements, internal governance rules, and access to the information required for risk assessment.

At the same time, independence should not produce an insulated administrative body free from meaningful control. Regulatory institutions should be required to publish rules, explain major decisions, report on performance, disclose financial information, undergo external audit, respond to legislative or governmental scrutiny concerning institutional performance, and remain subject to judicial review. These mechanisms allow public institutions to evaluate regulatory effectiveness without determining the outcome of individual cases. The distinction between oversight of the institution and intervention in regulatory decisions is therefore fundamental. Government should establish the legal framework and monitor whether the regulator performs its statutory mandate, but it should not use supervisory authority as an instrument of short-term political or economic preference.

The most suitable governance structure for Iraq is a hybrid model incorporating functional specialization similar to the twin-peaks approach while preserving macroprudential coordination. Prudential supervision should concentrate on the safety and resilience of financial institutions, capital and liquidity, governance, risk management, and early intervention. A separate market-conduct function should focus on securities regulation, disclosure, investor protection, conflicts of interest, manipulation, brokerage practices, and market integrity. A macroprudential mechanism should connect these authorities with institutions responsible for monetary and fiscal stability in order to assess risks affecting the financial system as a whole.

Such restructuring would have limited value unless statutory competences were clarified. Iraq needs a precise legal map identifying the institution responsible for each major regulatory function. Areas of overlap should be governed by mandatory procedures for information sharing, consultation, and joint action. Institutional coordination should not depend on personal relationships among officials or ad hoc arrangements. It should be established through legislation, formal agreements, shared data systems, and predefined crisis-management protocols. Clear allocation of authority would also strengthen accountability because regulatory failure could be traced to the institution legally responsible for the relevant function.

Transparency should occupy a central position in the reformed model. Financial-market governance depends on public confidence, and confidence requires predictability. Regulators should publish rules, consultation documents, enforcement policies, interpretive guidance, significant decisions, market statistics, and annual performance reports. Administrative decisions affecting licenses, sanctions, and supervisory restrictions should be reasoned and reviewable. Greater transparency would reduce reliance on informal access to regulatory institutions and would help ensure that established institutions and new market participants operate under the same publicly known standards.

The development of a unified supervisory information infrastructure is similarly essential. Modern financial regulation increasingly depends on timely, standardized, and electronically accessible data. Iraqi authorities should be able to exchange information concerning regulated institutions, ownership structures, financial conditions, market transactions, sanctions, and system-wide risk indicators through secure systems governed by clear rules on confidentiality and access. Better data would strengthen both routine supervision and crisis management while allowing regulation to shift from document-centered administration toward risk-based oversight.

A reformed governance framework should also protect competition and reduce conflicts resulting from state ownership in the financial sector. Public institutions may continue to have an important role in economic development, but ownership responsibilities should be separated from regulatory functions. Public, private, and foreign financial institutions should be supervised according to the risks they create and the activities they perform rather than according to ownership status. Equal regulatory treatment would support investor confidence, reduce perceptions of preferential access, and encourage more efficient competition.

Investor protection must remain one of the principal tests of regulatory effectiveness. Market development cannot be measured solely through capitalization, trading volume, or the number of listed companies. A sustainable market requires confidence that information is available, manipulation is investigated, conflicts are controlled, intermediaries meet professional standards, client assets are protected, complaints can be addressed, and regulatory decisions are applied consistently. Strong investor protection can therefore contribute simultaneously to market integrity, capital formation, and broader financial development.

The proposed reform should be implemented incrementally. Immediate priorities include clarifying competences, strengthening disclosure, improving coordination, creating formal reporting obligations, and protecting operational decision-making from inappropriate interference. Subsequent stages should strengthen the financial and personnel capacity of regulatory institutions, integrate data systems, expand risk-based supervision, and develop a more clearly differentiated prudential and

conduct-regulation structure. Institutional restructuring should occur only when sufficient administrative capacity exists to prevent gaps in supervision during transition.

Ultimately, the effectiveness of financial-market regulation in Iraq will depend less on the formal quantity of regulatory rules than on the quality of the institutions applying them. A credible regulatory system requires clear authority, professional competence, operational independence, governmental accountability, transparent procedures, reliable information, coordinated supervision, and enforceable safeguards for investors. The appropriate equilibrium is therefore neither complete regulatory autonomy nor extensive government direction. It is a system in which independent institutions exercise specialized regulatory authority within a legally defined framework of accountability and coordination. Such a model would provide Iraq with a stronger institutional foundation for financial stability, market development, investment attraction, and long-term economic diversification.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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