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The Quality of Banking Financial Reporting Information Before and After IFRS 9 Implementation

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ABSTRACT

This research aims to test differences in the quality of banking financial reporting information before and after the implementation of IFRS 9 which was adopted as PSAK 71 in Indonesia. Data was acquired from the annual and quarterly financial reports of conventional banking sector listed on the Indonesia Stock Exchange 2018-2021. The data analysis technique used the Wilcoxon signed ranks test to investigate the differences in accrual quality, and the paired sample t test to investigate the differences in value relevance. The results found that there are significant differences in the financial reporting information quality before and after PSAK 71 implementation in terms of accrual quality. After PSAK 71 implementation, managers used more discretion to influence accounting figures than before the PSAK 71 implementation. The main factor that may cause this difference is the global economic crisis that hit in 2020-2021 due to the Covid-19 pandemic and other institutional changes that occurred along with the PSAK 71 implementation. However, there is no significant difference in value relevance before and after PSAK 71 implementation. As a result, although the PSAK 71 implementation theoretically has a positive impact on increasing value relevance, this condition may be covered by the impact of the economic crisis during the Covid-19 pandemic which coincides with the PSAK 71 implementation. The significance of this study is to examine whether there are differences in the quality of bank financial reporting information before and after implementing PSAK 71 from the perspective not only accounting but also the market.

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1. INTRODUCTION

Banks are public fund management entities that are obliged to ascertain that their financial information reflects comprehensive and quality information (OJK, 2021). In the field of financial accounting, quality financial information indicators are reflected in useful financial information (IAI, 2022). Useful information contains value relevance and faithful representation (IAI, 2022). The financial information quality can be seen from two perspectives, namely the quality related to the overall entity performance manifested in sustainable earnings and quality related to the capital market performance (Fanani, 2009; Francis *et al*., 2004). To be able to provide quality financial statements, DSAK (Financial Accounting Standards Council) IAI developed Financial Accounting Standards based on IFRS applied in Indonesia (OJK, 2021). Thus, banks are obliged to implement applicable accounting standards.

Quality accounting information plays an important role in reducing information asymmetry that arises in the agency relationship (Khoufi, 2020). In relation to agency theory (Johannes *et al*., 2018; Jensen & Meckling, 1976), IFRS 9 which in Indonesia was adopted as PSAK 71 acts as an accounting standard that regulates the principles of reporting financial information in aspects related to financial instruments created by managers to be reported to principal as a basis for decision making. PSAK 71 (IFRS 9 adoption) became effective on January 1, 2020 and displaces PSAK 55 which was previously adopted from IAS 39 (IAI, 2022). The distinction between PSAK 55 and PSAK 71 lies in the reckoning mechanism for allowance for impairment loss (Indramawan, 2019). For banks, allowance for loan loss must be provided on all credit assets (Ginoga & Syahwani, 2022). According to PSAK 55, allowance for loan losses is projected using the Incurred Loss Method based on backward-looking information (Indramawan, 2019). Meanwhile, PSAK 71 uses Expected Credit Loss (ECL) method based on forward-looking information namely immediate recognition of loan loss provision (Jasman & Murwaningsari, 2022).

On state-owned banks, The PSAK 71 implementation resulted in an increase in the allowance for credit losses which had an impact on bank capital (Husni *et al*., 2022). Changes in accounting policies related to the formation of allowances for credit losses on loans from PSAK 55 to PSAK 71 caused the value of the allowance for loan losses in 2020 increased by 90.36and and in 2021 the increase continued by 14.15and (Isma & Sixpria, 2022). Although it has increased the provisions value for bank loan losses, PSAK 71 has advantages in mitigating the bank credit failure risk when the economy slows down and mitigating provisions for procyclical loan losses (Devi *et al*., 2021).

The researchers whose studies support the impact of IFRS 9 implementation on the financial reporting information quality include Mohammed & Al-Mashhadani (2021), Saeed & Nikam (2020), Desalegn (2020), Sun *et al*. (2021), Silva *et al*. (2019), Odoemelam *et al*. (2019), Isaboke & Chen (2019), Kwon (2018), (Okafor *et al*. (2017), Outa *et al*. (2017), and Erin *et al*. (2017). Meanwhile, Khasanah & Komalasari (2022), Firmansyah *et al*. (2022), Amissah *et al*. (2020), and Roca (2021) state the opposite. These previous studies generally measured the company financial reporting information quality using proxies such as value relevance (Mohammed & Al-Mashhadani, 2021; Sun *et al*., 2021; Roca, 2021; Odoemelam *et al*., 2019; Okafor *et al*., 2017; Isaboke & Chen, 2019; Kwon, 2018; Outa *et al*., 2017; Erin *et al*., 2017), suitability (Saeed & Nikam, 2020), reliability (Saeed & Nikam, 2020), understandability (Desalegn, 2020), comparability (Desalegn, 2020), faithful representation (Desalegn, 2020), earning persistence (Silva *et al*., 2019), income smoothing (Taylor & Aubert, 2022), and earnings management (Firmansyah *et al*., 2022; Amissah *et al*., 2020) separately. This research seeks to prove empirically the impact of PSAK 71 implementation on the banking financial reporting information quality in Indonesia, not only based on an accounting perspective proxied by accrual quality but

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also a capital markets perspective proxied by value relevance. This method has never been used by researchers before.

This research contributes to the financial accounting research, namely providing empirical evidence about the impact of implementing new accounting standard such as PSAK 71 on the quality of banking financial statements before and after implementing PSAK 71 from two different perspectives. These perspectives are the accounting perspective and the capital market perspective. Thus, this further enriches research references in the field of banking financial reporting information quality after the implementation of new accounting standards.

2. METHODS

This research is a comparative study in which the differences between banking financial reporting information quality proxied by the accrual quality and value relevance before and after PSAK 71 implementation are analysed. Operational variables of this study consist of accrual quality as an accounting perspective quality indicator and value relevance as a capital market perspective quality indicator. Francis *et al*. (2004) stated that among the existing accounting-based financial reporting information quality attributes, accrual quality has the most direct relationship with information risk because it captures variations in the mapping of profits into operating cash flows which is the key to an attractive payment structure for investors. Meanwhile, value relevance was chosen as a proxy for the quality of financial reporting information because it is closely related to usefulness and materiality (Herath & Albarqi, 2017).

Accrual quality describes discretionary management as an estimate of residual value from regression of allowance for loan losses resulting from a linear function model of outstanding loans, nonperforming assets, changes in nonperforming assets, and net loan charge-offs (Beaver & Engel, 1996; Jasman *et al*., 2021). A lower residual value close to zero indicates better accrual quality (Simbolon & Budiharta, 2016). The measurement of accrual quality is estimated using residual values from the equation model introduced by Beaver and Engel (1996) as follows:

$$\boldsymbol{ALL_{it} = \gamma_0 + \gamma_1 CO_{it} + \gamma_2 LOAN_{it} + \gamma_3 NPA_{it} + \gamma_4 \Delta NPA_{it+1} + z_{it}}$$

The $\boldsymbol{ALL_{it}}$ is the total ending balance of the i company's loan loss allowance in Year t deflated against gross book value. The $\boldsymbol{CO_{it}}$ is the i company's net charge-offs in Year t deflated against gross book value. Charge-offs show the receivables written off during the accounting period. Net charge-offs are defined as gross charge-offs minus previous account recovery. The $\boldsymbol{LOAN_{it}}$ is outstanding loans of the i company in Year t deflated against gross book value. The $\boldsymbol{NPA_{it}}$ is nonperforming assets of the i company in Year t deflated against gross book value. The $\boldsymbol{\Delta NPA_{it+1}}$ is changes in nonperforming assets over the next year deflated against gross book value. GBV is gross book value of the i company in Year t, which is the net book value of common equity plus total allowance for loan losses. Common equity consists of common stock plus retained earnings (Martin, 2018). The $\boldsymbol{z_{it}}$ is residual value as an estimate of the discretionary allowance or discretionary accruals component.

Value relevance describes the magnitude of the relationship between accounting figures and returns or contemporary stock prices where greater explanatory power over accounting figures to returns or stock prices is seen as desirable (Karampinis & Hevas, 2011; Fanani, 2009). The value relevance measurement that has been led by Collins *et al*. (1997) used Adjusted R^2. Adjusted R^2 according to Collins *et al*. (1997) is obtained from the Ohlson's (1995) price equation:

$$\mathbf{P_{it} = \alpha_0 + \alpha_1 E_{it} + \alpha_2 BV_{it} + \varepsilon_{it}}$$

The $\mathbf{P_{it}}$ is the share price of i company three months after the end of t period. The $\mathbf{E_{it}}$ is earnings per share of i company at the end of t period. The $\mathbf{BV_{it}}$ is the book value per share of i company at the end of t period. The $\mathfrak{E}_{\mathbf{it}}$ is other information of i companies in Year t that have

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orthogonal value relevance to earnings and book value. Adjusted R^2 according to Collins *et al.* (1997) assesses the explanation strength of accounting figure information in the form of earnings value and book value to the company's market value where the greater Adjusted R^2 indicates the greater value relevance. Adjusted R^2 in Collins's research is calculated based on observations in the company's annual financial statements. However, for this study, Collins's formula will be applied to the bank's quarterly financial statement data by considering the short research time.

The quantitative data used in this study includes financial statement data of banks listed on the Indonesia Stock Exchange (IDX) and stock price data available on https://finance.yahoo.com website. All conventional banks listed on the IDX in 2018-2021 become the research population. Sharia commercial banks are not the object of this study because PSAK 71 is generally not implemented in sharia-based transactions (IAI, 2019). As of October 1, 2022, conventional commercial banks listed on the IDX amounted to 44 companies. The selected sample excludes four banks that are not listed consistently on the IDX in the 2018-2021, a bank that does not provide the complete financial information, a bank that has never implemented PSAK 71 since 2020, and two banks that do not have stock price data during research period so that 36 sample banks were obtained. The observation year is two years before the PSAK 71 implementation (2018-2019) and two years after the PSAK 71 implementation (2020-2021). Thus, we obtain 144 firm-year observations in total.

A different test was carried out for the sample data of two variables (accrual quality and value relevance) before PSAK 71 implementation compared to the period during PSAK 71 implementation. Before the difference test is performed, the data is first examined for normality. If the normality test results show a normal data distribution, then the test is continued to the next stage, namely paired sample t test. However, if the proceeds of the normality test represent abnormal data distribution, then according to Maryadi (2020), comparative analysis of data can use nonparametric statistical analysis in the form of the Wilcoxon signed ranks test. Data is processed and analyzed using the SPSS 27 application. Quantitative data processed using the SPSS 27 application can produce standard deviation values, variance, one sample t test, paired sample t test, and other outputs (Zein *et al.*, 2019). The SPSS 27 application was used in this research because of the many quantitative data processing functions that can be carried out by this application. The research construction diagram is shown as **Figure 1**.

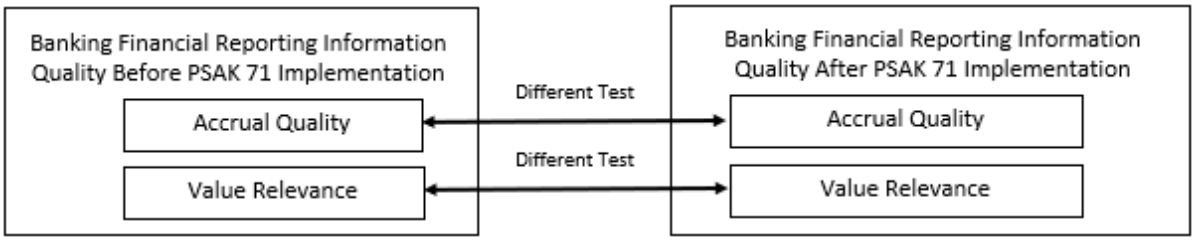

Figure 1. Research construction diagram

3. RESULTS AND DISCUSSION

3.1. Descriptive Analysis of Accrual Quality Varaibel

All financial data that is an element of accrual quality variables are acquired from the bank's annual financial statements except nonperforming assets data for 2022 which is a ΔNPA_{t+1} calculation element. The 2022 nonperforming assets data uses the bank's interim financial statement data in the third quarter of 2022 because the 2022 annual financial report data was not yet available to the public at the time this study was conducted.

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Table 1. Descriptive statistics of accrual quality variable

	Before PSAK 71 Implementation					After PSAK 71 Implementation				
Variable	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation
ALL	72	0,0001	0,3150	0,1077	0,0681	72	0,0034	0,4379	0,1461	0,1111
CO	72	-0,0170	0,4333	0,0459	0,0705	72	-0,0172	0,6888	0,0684	0,1204
LOAN	72	0,4289	9,0709	4,4215	1,6361	72	0,3984	8,3161	3,4676	1,6117
NPA	72	0,0088	0,7506	0,1692	0,1348	72	0,0000	0,5351	0,1185	0,1055
ΔNPAt+1	72	-0,5506	0,8495	0,0138	0,1654	72	-0,1873	0,1248	-0,0076	0,0449
Z	72	-0,0784	0,1740	0,0000	0,0483	72	-0,1433	0,1656	0,0000	0,0761

Variable definitions:
$\mathbf{ALL}$ = total allowance for loan losses.
$\mathbf{CO}$ = net charge-offs.
$\mathbf{LOAN}$ = loan outstanding.
$\mathbf{NPA_{it}}$ = nonperforming assets.
$\Delta \mathrm{NPA}_{t+1}$ = one-period-ahead change in nonperforming assets.
z = residual value as an estimate of the discretionary allowance/discretionary accruals component.

Based on **Table 3**, the final balance standard deviation of allowance for loan losses (ALL), loan outstanding (LOAN), and nonperforming assets (NPA) for the period before and after PSAK 71 implementation is smaller than the average. This indicates that the final balance of allowance for loan losses, outstanding loan assets, and nonperforming assets before and after PSAK 71 implementation has a small data distribution. In contrast to the nonperforming assets variable, the variable of one-period-ahead change in nonperforming assets ($\Delta\mathbf{NPA_{t+1}}$) shows the distribution of big data both before and after PSAK 71 implementation. This is seen in the average of $\Delta\mathbf{NPA_{t+1}}$ before and after PSAK 71 implementation which is smaller than its standard deviation. The net charge-offs (CO) standard deviation before and after PSAK 71 implementation was also greater than the average. This indicates that net charge-offs before and after PSAK 71 implementation have a large data distribution.

Both before and after PSAK 71 implementation, the discretionary component (z) of banks had a negative minimum value and a positive maximum value. A negative value indicates the manager is using his discretion to make income decrease while a positive value indicates discretion in the form of income increasing (Simbolon & Budiharta, 2016). The average discretionary component before and after PSAK 71 implementation is the same, which is 0.0000. Meanwhile, the discretionary component standard deviation before and after PSAK 71 implementation was 0.0483 and 0.0761, respectively. The discretionary component standard deviation before and after PSAK 71 implementation has a greater value than the average. This indicates that discretionary accruals before and after PSAK 71 implementation have a large data distribution.

To prove whether there is a difference in the accrual quality before and after PSAK 71 implementation, the discretionary component is absolutized regardless of whether in the form of income increasing or income decreasing.

Table 4 shows the standard deviation DA_Before PSAK 71 Implementation and the DA_After PSAK 71 Implementation is smaller than the average value. This indicates that discretionary component data after absolutization has a small data spread. The average DA_Before PSAK 71 Implementation and DA_After PSAK 71 Implementation is 0.03783 and 0.06124 respectively. The average value of the discretionary component after PSAK 71 implementation is greater than before PSAK 71 implementation. This indicates that discretionary accruals are increasingly

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aggressive after PSAK 71 implementation period. Thus, there is an indication of the difference in the average quality of accruals before and after the PSAK 71 implementation in the form of a decrease in the accrual quality after PSAK 71 implementation period.

Table 2. Description of absolutized discretionary accruals components

	Before PSAK 71 Implementation					After PSAK 71 Implementation				
Variable	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation
DA	72	0,00148	0,17398	0,03783	0,02962	72	0,00005	0,16536	0,06124	0,04449

Variable definition:
DA = Absolutized bank discretionary accruals as an indicator of accrual quality.

Table 4 shows the standard deviation DA_Before PSAK 71 Implementation and the DA_After PSAK 71 Implementation is smaller than the average value. This indicates that discretionary component data after absolutization has a small data spread. The average DA_Before PSAK 71 Implementation and DA_After PSAK 71 Implementation is 0.03783 and 0.06124 respectively. The average value of the discretionary component after PSAK 71 implementation is greater than before PSAK 71 implementation. This indicates that discretionary accruals are increasingly aggressive after PSAK 71 implementation period. Thus, there is an indication of the difference in the average quality of accruals before and after the PSAK 71 implementation in the form of a decrease in the accrual quality after PSAK 71 implementation period.

3.2. Kolmogorov-Smirnov Normality Test of Accrual Quality Variable

Kolmogorov-Smirnov normality test of accrual quality variable as **Table 5.**

Table 3. Accrual quality variables normality test

	Kolmogorov-Smirnov[a]		
	Statistic	Df	Sig.
DA_Before PSAK 71 Implementation	0,142	72	0,001
DA_After PSAK 71 Implementation	0,117	72	0,016

Note:
a. Lilliefors Significance Correction.

The output of the accrual quality normality test before and after the PSAK 71 implementation was 0.001 and 0.016 respectively. Both significance values are less than the established significance level (0.05). This indicates that the accrual quality samples before and after PSAK 71 implementation are not sourced from normally distributed populations. Because the data normality prerequisite is not met, the difference test with paired sample t test cannot be continued. Alternatively, the accrual quality difference test uses nonparametric statistical analysis of Wilcoxon signed ranks test.

3.3. Wilcoxon Signed Ranks Test of Accrual Quality Variable

Wilcoxon signed ranks test uses different data ranks to test the difference between two data groups. Based on Table 6, discretionary accruals before and after PSAK 71 implementation are classified into Negative Ranks and Positive Ranks groups. There were 25 negative data and 47 positive data. Positive data has more numbers than negative data. This indicates that higher

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discretionary accruals occurred in the period after PSAK 71 implementation than before PSAK 71 implementation.

Wilcoxon signed ranks test of accrual quality variable as **Table 6** and **Table 7.**

Table 4. Accrual quality variable ranks of wilcoxon signed ranks test

		N	Mean Rank	Sum of Ranks
DA_After PSAK 71 Implementation – DA_Before PSAK 71 Implementation	Negative Ranks	25[a]	24,92	623,00
	Positive Ranks	47[b]	42,66	2005,00
	Ties	0[c]		
	Total	72		

Notes:
a. DA_After PSAK 71 Implementation < DA_Before PSAK 71 Implementation
b. DA_ After PSAK 71 Implementation > DA_ Before PSAK 71 Implementation
c. DA_ After PSAK 71 Implementation = DA_ Before PSAK 71 Implementation

Table 5. Wilcoxon signed ranks test accrual quality variable

Test Statistics[a]	
	DA_After PSAK 71 - DA_Before PSAK 71
Z	-3,878[b]
Asymp. Sig. (2-tailed)	<0,001

Notes:
a. Wilcoxon Signed Ranks Test.
b. Based on negative ranks.

Based on Table 7, the statistical output results of the Wilcoxon signed ranks test show a significance value of <0.001. When compared with the established significance level (0.05), the significance value of the statistical test results is less than the established significance level. This indicates that the accrual quality variable reflected in the value of discretionary accruals after PSAK 71 implementation period is statistically significantly different from before PSAK 71 implementation period.

3.4. Descriptive Analysis of Value Relevance Variable

The value relevance can be seen through Ohlson's (1995) price model where accounting figures reflected in earnings and book value as well as bank stock prices are sought for the magnitude of the relationship. Value relevance observations were made to the quarterly financial statements of 36 companies for the 2018-2021 period. Descriptive statistical analysis of the value relevance variable elements (stock price, earnings, and book value) as listed in **Table 8.**

Table 6. Descriptive statistics of value relevance variable elements

Variable	Before PSAK 71 Implementation					After PSAK 71 Implementation				
	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation
P	288	50,00	9100,00	1562,63	2109,76	288	50,00	16000,00	1878,32	2574,60
E	288	-101,11	1158,79	84,73	168,85	288	-141,52	941,46	64,12	131,83
BV	288	0,41	6578,95	1117,99	1466,64	288	6,46	7363,57	1152,79	1510,16

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Variable definitions:
P = company share price 3 months after the end of the t period.
E = earnings per share at the end of t period.
BV = book value per share at the end of t period.

Table 8 shows that the standard deviation of stock price (P), net income (E), and book value (BV) before and after the implementation of PSAK 71 is greater than its average value. This indicates stock price, net income, and book value before and after the PSAK 71 implementation have a large data distribution. The condition of value relevance before and after PSAK 71 implementation can be viewed through the Adjusted R^2 value of the regression equation in the price function of each sample company. Adjusted R^2 descriptive statistics as listed in **Table 9.**

Table 7. Adjusted r^2 descriptive analysis of value relevance variables

	Before PSAK 71 Implementation					After PSAK 71 Implementation				
Variable	N	Minimum	Maximum	Mean	Std. Deviation	N	Minimum	Maximum	Mean	Std. Deviation
Adj_R^2	36	-0,374	0,900	0,18792	0,36183	36	-0,392	0,912	0,28278	0,39230

Variable definition:
Adj_R^2 = Adjusted R Square as an indicator of value relevance.

Based on **Table 9**, the average Adjusted R^2 before and after PSAK 71 implementation was 0.18792 and 0.28278 respectively. This indicates that the independent variables in the multiple linear regression equation of value relevance (E and BV) are on average provide 18.79and of the information required to forecast the price variable (P) in the period before PSAK 71 implementation and provide 28,28and in the period after the PSAK 71 implementation. The average value of Adjusted R^2 after PSAK 71 implementation which is greater than before the PSAK 71 implementation also indicates that accounting figures in the bank's financial statements reflected in the earnings value and book value in the period after PSAK 71 implementation have greater information content in elucidating variations in stock market prices compared to the period before PSAK 71 implementation. Thus, this can be defined descriptively as a difference in value relevance before and after PSAK 71 implementation in the form of an increase in value relevance after PSAK 71 implementation.

3.5. Kolmogorov-Smirnov Normality Test of Value Relevance Variable

Kolmogorov-Smirnov test of value relevance variable as listed in **Table 10.**

Table 8. Normality test of value relevance variable

	Kolmogorov-Smirnov[a]		
	Statistic	Df	Sig.
Adj_R^2_Before PSAK 71	0,129	36	0,137
Adj_R^2_After PSAK 71	0,108	36	0,200*

Notes:
*. This is a lower bound of the true significance.
a. Lilliefors Significance Correction.

The value relevance normality test before and after PSAK 71 was applied resulted in significance outputs of 0.137 and 0.200. Both significance values are greater than the established

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significance level (0.05). This indicates that both samples are sourced from normally distributed populations. Therefore, the difference test in value relevance will use paired sample t test because of the fulfillment of the data normality preload.

3.6. Paired Sample t Test of Value Relevance Variable

Paired sample t test of value relevance variable as **Table 11.**

Table 9. Paired sample t test of value relevance variable

		Paired Differences					T	df	Sig. (2-tailed)
					95and Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper			
Pair 1	Adj_R2_Before PSAK 71 - Adj_R2_After PSAK 71	-0,094861	0,602779	0,100463	-0,298812	0,109090	-0,944	35	0,352

Based on **Table 11**, the significance of paired sample t test results is 0.352. Because the significance of the test results is greater than the established significance level (0.05), it can be deduced that the variables tested are identical or there is no difference. Thus, the value relevance variable before and after PSAK 71 implementation has no difference.

3.7. Accrual Quality Before and After PSAK 71 Implementation

The SAK enhancement on financial instruments after IFRS is adopted causes financial instruments to be disclosed in more detail, including qualitative and quantitative risk disclosures (Simbolon & Budiharta, 2016). In the aspect of measuring impairment of credit assets, the incurred loss method under IAS 39 results in too little and late allocation of value because credit loss recognition is only acknowledged when there is objective evidence of impairment so that this condition results in procyclicality because the recognized credit loss will be low in periods of economic expansion and will increase in a contracted economy (Klefvenberg & Nordlander, 2015). Meanwhile, the expected credit losses method of IFRS 9 uses a forward-looking approach based on credit quality groups in allocating credit losses so that this condition is useful in reducing procyclical effects and mitigating bank failures in facing future crisis risks (Klefvenberg & Nordlander, 2015; Yusdika & Purwanti, 2021). Thus, PSAK 71 plays a role in reducing earning fluctuations and is better able to mitigate bank failures in times of crisis than PSAK 55 so as to improve the bank accruals quality.

Accrual plays a role in shifting or adjusting the cash flow recognition from time to time so that the results of the adjustment, hereinafter referred to as profit, can better measure the performance of a company (Dechow & Dichev, 2002). Because loan loss provision is the bank's largest accrual, loan loss provision can be used by managers with various incentives to smooth out earnings to reduce costs in order to increase capital (Kanagaretnam *et al*., 2004). Beaver and Engel (1996) suggest that the discretionary allowance can be utilized by management to communicate private company information that benefits future profitability. Thus, managerial discretion can be utilized by bank managers to degrade income variability.

The first hypothesis (H_1) of this study states that there are significant differences in the banking financial reporting information quality as measured by accrual quality attributes before

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the PSAK 71 implementation in 2018-2019 and after the PSAK 71 implementation in 2020-2021. The H_1 hypothesis is proven. Based on Wilcoxon signed ranks test results on accrual quality data for the period before PSAK 71 implementation and after PSAK 71 implementation, the significance value of statistical test results is smaller than the established significance level (<0.001 is smaller than 0.05). According to Sujarweni and Utami (2020), If the significance value ($\boldsymbol{Sig}$) of Wilcoxon signed ranks test result is smaller than the specified significance level (0.05), it can be deduced that $\mathbf{H_0}$ is rejected. Thus, the null hypothesis (H_0) in this study was rejected. This denotes that there is a difference in the average of the two accrual quality samples reflected in the discretionary accruals (DA) values between before and after PSAK 71 implementation.

This study results are in line with research led by Simbolon & Budiharta (2016) which states that the banking earnings quality differs between before and after IFRS adoption. This result is also supported by higher discretionary accruals data in the period after the PSAK 71 implementation compared to before the PSAK 71 implementation. The IFRS convergence has resulted in the change of IFRS to be principle-based, the use of fair value as a basis for measurement, and the increasing professional judgment use and disclosure in financial statements (IAI, 2022). The expected credit loss (ECL) model of PSAK 71 is more subjective than the incurred loss model applied before the existence of PSAK 71 because the ECL model relies on estimates or significant estimates of expected cash flows that have been prepared by the reporting entity so that it becomes vulnerable to potential earnings management (Beerbaum, 2015). The incurred loss model applied during the IAS 39 implementation is considered to limit the banking credit losses recognition, thereby limiting earnings management opportunities (Onali & Ginesti, 2014). The incurred loss model in IAS 39 that was adopted in PSAK 55 also limits the recognition of bank credit losses and limits earnings management opportunities.

This study further supports the agency theory existence (Johannes *et al*., 2018; Jensen & Meckling, 1976) where the delegation of company decision-making authority by the principal to the agent (manager) gives agents the flexibility to use their discretionary behavior in influencing accounting figures to meet their respective utilities. However, this study results can not set evidence of an improvement in the accounting information quality which theoretically plays a role in reducing information asymmetry as explained by Khoufi's (2020) research. Conversely, the results of research related to differences in the banking company accruals quality before and after the PSAK 71 implementation actually provide differences that lead to a diminishing accounting information quality. This is as evidenced by the higher average value of discretionary accruals in the period after the PSAK 71 implementation compared to before the PSAK 71 implementation.

This study are also contrary to the findings of Firmansyah *et al*. (2022) which stated that there was no difference in earnings management of banking subsector companies before and after PSAK 71 implementation and Khasanah & Komalasari's (2022) findings which stated that there was no difference in earnings quality before and after PSAK 71 implementation. The difference in research results related to earnings management and earnings quality which is a reflection of accrual quality is very possible because the object in the research conducted by Firmansyah *et al*. (2022) was carried out in a short period, namely one year before PSAK 71 was implemented (in 2019) and one year since the start of PSAK 71 implementation (in 2020). According to Brabant (2018), to evaluate the impact of the implementation of IFRS 9 adopted in PSAK 71 on the quality of financial reporting information, researchers need to wait several years so that differences or added value can be seen in the application of the new standard.

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3.8. Value Relevance Before and After PSAK 71 Implementation

IFRS rectifies the quality of financial reporting information towards best practices that eradicate international capital flows barriers by minimizing differences in financial reporting provisions between countries (IFRS Foundation, 2020). The characteristics of PSAK 71 as a result of IFRS 9 adoption include more fair value use, professional judgment, and disclosure in financial statements than PSAK 55 adopted from IAS 39 (IAI, 2022). According to Herath & Albarqi (2017), fair value is one of the most significant indicators of value relevance where the use of fair value by entities indicates the higher financial reporting value relevance. The ECL method of IFRS 9 closes the weakness gap in the previous accounting standard (IAS 39) by mitigating delays in recognizing credit losses (Gebhardt, 2016; Beerbaum, 2015). The implementation of PSAK 71 as a result of IFRS 9 adoption further increases the informativeness of accounting figures reported in financial statements and thus, further increases the value relevance of such accounting information in user decision making. It is as stated by Ozili and Outa (2019) that IFRS also has a higher accounting quality than previous accounting standards because it rectifies the quality and informativeness of the reported accounting figures.

The second hypothesis (H_2) of this study states that there are significant differences in the financial reporting information quality of banking companies as seen from the value relevance attribute before the PSAK 71 implementation in 2018-2019 and after the PSAK 71 implementation in 2020-2021. The H_2 hypothesis of this study was rejected. Based on paired sample t test value relevance variables of the period before and after PSAK 71 implementation, the significance value of the statistical test results was greater than the established significance level (0.352 greater than 0.05). Although descriptively the Adjusted R^2 average value after PSAK 71 implementation (0.28278) is greater than the average value of Adjusted R^2 before PSAK 71 implementation (0.18792), it turns out that this difference is not statistically significant so it can be deduced that the value relevance between before and after PSAK 71 implementation is no difference.

If these results are viewed from agency theory, the results of this study cannot yet support the positive role of PSAK 71 as a regulation that can improve the quality of accounting information from a value relevance perspective in the 2018-2021 period. In fact, existing literature states that PSAK 71 has advantages in mitigating the bank credit failure risk when the economy slows down and mitigating provisions for procyclical loan losses (Devi *et al*., 2021). The results of this value relevance research also do not fully support research conducted by Yusdika & Purwanti (2021) and Kwon (2018), which stated that investors react positively to ongoing IFRS accounting reforms. This result also contradicts the results of research by Desalegn (2020), Sun *et al*. (2021), Odoemelam *et al*. (2019), Rahayu & Setiawan (2019), Isaboke & Chen (2019), Okafor *et al*. (2017), Outa *et al*. (2017), and Erin *et al*. (2017) which stated that the value relevance increased after IFRS implementation. However, the results of this study support the research conducted by Roca (2021) which states that mandatory adoption of IFRS does not increase value relevance.

Differences in the results of this study can still be possible due to other influencing factors that occurered simultaneously with the PSAK 71/IFRS 9 implementation. These other factors include other institutional changes that occurred simultaneously with the PSAK 71 implementation. According to de George *et al*. (2016), strong evidence of increased capital market results as a proxy that measures the financial reporting quality after IFRS adoption occur for some countries but researchers have not agreed on whether the observed results are due to IFRS adoption itself or other institutional changes that occur along with IFRS adoption. Taylor & Aubert (2022) also stated that IFRS implementation impact varies across jurisdictions depending on several factors

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such as accounting, the country where the company is established, company size, and other institutional factors. Differences in country political systems, country laws, economic conditions between countries, and socio-cultural factors are also reasons for inconsistent results on the impact of IFRS adoption on improving accounting information (Bhatia & Mulenga, 2019). The level of accounting value relevance depends on the environment in which the bank operates, such as banks located in countries with high law enforcement will have a higher level of value relevance after IFRS adoption than before IFRS adoption and vice versa (Manganaris *et al*., 2016).

The economic crisis due to the Covid-19 pandemic that occurred in 2020-2021 could also be another factor that contributed to the insignificance of differences in bank value relevance before and after the PSAK 71 implementation. This is as stated by Aljawaheri *et al*. (2021) who stated that the economic crisis during the Covid-19 pandemic had an impact on decreasing stock market sensitivity to company earning announcements where companies practiced earnings management to maintain revenue during a series of times amid the outbreak that hit which negatively affected investor behavior in the financial market. According to Aljawaheri *et al*. (2021), high earnings management to reduce earning fluctuations in order to acquire positive impressions and perceptions from investors about the company's performance in the midst of a crisis that hits can increase the risk of high price errors so that this condition is realized by investors in the form of a decrease in the accounting information value relevance. Thus, although the PSAK 71 implementation which began in 2020 should theoretically have a positive impact on increasing the value relevance of banking companies accounting information, this condition may be covered by the negative impact of the global economic crisis due to the Covid-19 pandemic that hit in 2020-2021 which caused a decrease in the accounting information value relevance. As a result, the impact of the PSAK 71 implementation in the 2020-2021 periods on the banking accounting information value relevance is invisible as evidenced by the results of this study.

The short observation period, namely two years before the PSAK 71 implementation (2018-2019) and two years after the PSAK 71 implementation (2020-2021) may also be the reason why the impact of implementing PSAK 71 on the accounting value relevance in this research is not yet visible. According to Nijam & Jahfer (2018), it is too early to assess the impact of IFRS implementation on the accounting information quality proxied by value relevance in developing countries using an observation period of two years after IFRS implementation. To see the added value of implementing the new accounting standards, researchers need to wait several years after IFRS 9 is implemented (Brabant, 2018). Thus, there is still an opportunity for future researchers to prove the significant impact of implementing PSAK 71 on the value relevance of accounting information by using a longer research period

4. CONCLUSION

This study results found that there was a significant difference in the financial reporting information quality of banking companies listed on the IDX before the PSAK 71 implementation in 2018-2019 and after the PSAK 71 implementation in 2020-2021 in terms of accrual quality attributes. Such discrepancies lead to a decrease in the accrual quality. After PSAK 71 was implemented, bank managers used more discretion to influence accounting figures than before the PSAK 71 implementation. However, this study results have not succeeded in providing a significant difference in the financial reporting information quality of banking companies seen from the value relevance attribute between before and after PSAK 71 implementation.

The main factor that may cause this difference is the global economic crisis that hit in 2020-2021 due to the Covid-19 pandemic and other institutional changes that occurred along with the implementation of PSAK 71. As a result, although the PSAK 71 implementation theoretically

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has a positive impact on increasing value relevance, this condition may be covered by the impact of the economic crisis during the Covid-19 pandemic which coincides with the PSAK 71 implementation.

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