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A comparison between PSAK 71 and PSAK 55 in the banking industry

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ABSTRAK

Economic activities ascending from the use of PSAK 55 (Statement of Financial Accounting Standards) are alleged to be the cause of the Indonesian bank system instability when facing the global financial crisis in 2008. PSAK 55 results in CKPN (allowance for impairment losses) allocation on a procyclical nature. Therefore, it is expected that PSAK 71 implementation avoids procyclical CKPN that does not reflect sustainable financial performance. The current study is conducted to test the effectiveness of PSAK 71 implementation in hindering procyclical and credit crunch mitigation. The study's population is the banking industry listed on the Indonesian Stock Exchange from 2008 to 2020. The data are then descriptively analyzed using descriptive analysis and the Wilcoxon Rank Test. The findings show that: 1) there is a significant difference in CKPN between PSAK 55 and PSAK 71 implementations, with no significant difference in the CAR and profit values, 2) there is no significant difference in the CKPN value applied based on PSAK 71 before and after entering the COVID-19 pandemic, and 3) there are significant differences in credit disbursement during the 2008 crisis and the 2020 crisis due to the COVID-19 pandemic.

ABSTRACT

Kegiatan ekonomi yang timbul dari penggunaan PSAK (Pernyataan Standar Akuntansi Keuangan) 55 disinyalir menjadi penyebab ketidakstabilan sistem perbankan pada saat Indonesia menghadapi krisis keuangan global tahun 2008, penggunaan PSAK 55

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mengakibatkan alokasi CKPN (Cadangan Kerugian Penurunan Nilai) bersifat prosiklikal. CKPN prosiklikal diharapkan dapat dihindari melalui penerapan PSAK 71 karena prosiklikal tidak mencerminkan kinerja keuangan yang berkelanjutan. Penelitian ini dilakukan untuk menguji efektivitas penerapan PSAK 71 dalam menghindari prosiklikal dan mitigasi credit crunch. Populasi penelitian ini adalah industri perbankan yang terdaftar di BEI dari tahun 2008 sampai dengan tahun 2020. Analisis data menggunakan analisis deskriptif dan Wilcoxon Rank Test. Hasil penelitian menunjukkan: 1) terdapat perbedaan CKPN yang signifikan antara penerapan PSAK 55 dan penerapan PSAK 71, namun untuk nilai CAR dan profit tidak terdapat perbedaan yang signifikan, 2) tidak terdapat perbedaan yang signifikan pada nilai CKPN yang diterapkan berdasarkan PSAK 71 antara sebelum dan setelah memasuki pandemi COVID-19, dan 3) terdapat perbedaan signifikan terkait penyaluran kredit selama krisis 2008 dan krisis 2020 saat pandemi COVID-19.

INTRODUCTION

As outlined in Article 4 of Act Number 10 of 1998, banks are financial institutions that aim to support national development in improving public welfare through sustainable economic growth and national stability. All banks under Bank Indonesia and the Financial Services Authority (OJK) must operate based on the prudence principle. Banks need to apply this principle in their operations.

The importance of this prudence principle causes the relevant financial accounting standards (*PSAK – Pernyataan Standar Akuntansi Keuangan*) to be updated regularly to enhance the financial statements' relevance for decision making. In this respect, the Financial Accounting Standards Board of the Institute of Indonesian Chartered Accountants (DSAK IAI) has focused on allowance for impairment losses (*CKPN – Cadangan Kerugian Penurunan Nilai*) or commonly known as PPAP (*Penyisihan Penghapusan Aktiva Produktif*) in the banking industry. This focus arguably enhances banks' compliance with the prudence principle.

PSAK 55 requires firms to allocate CKPN after experiencing an event leading to incurred loss. In contrast, PSAK 71 mandates firms to allocate CKPN since the beginning of the credit periods based on the expected future credit losses affected by various factors, including expected future economic conditions. CKPN allocation based on PSAK 55 referring to the Loss Incurred Method (LIM) motivates banks to have lower CKPN than the Expected Credit Loss (ECL) model as stipulated by PSAK 71. Suroso (2017) confirms this argument by demonstrating that PSAK 71 implementation increases CKPN formation of a national private bank by 55.68% (see Table 1). Higher CKPN formations at the beginning of the PSAK 71 implementation period arguably encourage banks to channel their credits cautiously.

Lower CKPN formations based on PSAK 55 during better economic conditions arguably encourage banks to continue distributing their credits, resulting in excessive lending and rapid economic growth. However, during the economic crisis,

credit allocation is curtailed, and economic growth declines (Goolsbee & Syverson, 2020; König & Winkler, 2021). PSAK 55-induced banks' economic activities allegedly lead to an unstable banking system when Indonesia experienced the global financial crisis in 2008 (Witjaksono, 2018). During the economic crisis, banks will record very high losses due to higher NPLs (Non-Performing Loans) and higher CKPN. Consequently, banks suffer significant profit drops and poorer performance and distribute lower credits. Higher (lower) CKPN allocations during better (worse) economic conditions represent a procyclical CKPN allocation model. The PSAK 71 implementation potentially mitigates this procyclical model that cannot reflect sustainable banking financial performance and is very detrimental to banks' stakeholders, especially investors.

Table 1
Simulation of Allowance for Impairment Losses (CKPN) in PSAK 55 and PSAK 71

Description	Quarter I	Quarter II	Quarter III	Quarter IV	Quarter V
CKPN in PSAK 55	15.201	17.198	18.784	21.364	18.137
CKPN in PSAK 71	24.530	27.176	28.513	32.373	28.148
% Increase	61.37	58.02	51.79	51.53	55.68

Source: Suroso (2017)

In this respect, the ECL approach introduced in PSAK 71 seeks to accommodate dynamic provisioning in the CKPN formation. According to Ardhienu (2018), PSAK 71 implementation helps banks in 1) reducing their desire to channel credit excessively during the expansion period because each additional credit extension must be accompanied by CKPN formation, 2) preserving their financial performance when the economic condition declines, and 3) mitigating credit crunch risks when the economy declines because banks still manage to channel their credits to the real sector that helps the economy revive, and 4) smoothing profits that minimize profit fluctuation. Several studies in other countries support these arguments. For example, Cerutti et al. (2017); Lim et al. (2011) reveal the effectiveness of dynamic provisioning in avoiding procyclical allocations, mitigating credit crunches, and limiting banking risks. However, to our best knowledge, the quantitative approach of PSAK implementation in Indonesia is still relatively understudied and deserves further analysis.

However, certain banks are not affected by PSAK 71 implementation. For example, Bank Mandiri has not been significantly affected by PSAK 71 because of its conservative CKPN allocations in the pre-PSAK 71 periods. The significant differences between Bank Mandiri's actual CKPN and Suroso's (2017) simulated CKPN emphasize the importance of this study that analyzed how Indonesian banks allocate CKPN in the post-PSAK 71. PSAK 71 was initially effective from January 1, 2019. However, the full implementation came into effect on January 1, 2020, because some industries, especially banks, had not fully implemented the standard.

PSAK 71 implementation increases initial CKPN formations and decreases capital adequacy ratio (CAR) to suppress banks' bottom line (net profit or loss).

Concerns about higher CKPN and lower CAR due to PSAK 71 implementation explain banks' unpreparedness (Suroso, 2017). Suroso (2017) suggests that the negative effect of PSAK 71 implementation on CAR highly depends on profitability. Accordingly, this study also uses profitability as the research variable.

In particular, this research investigates whether banks exhibit different indicators (CKPN, CAR, and profits) in the pre-and-post-PSAK 71 periods (PSAK 55 and PSAK 71 periods). Additionally, this study analyzes whether banks channel credits differently between the 2008 financial crisis and the current (2020) crisis. PSAK 71 came into effect on January 1, 2020, two months before Covid-19 hit Indonesia, that the impact of Covid-19 on this issue is interesting. Prior studies largely focus on the qualitative analysis of PSAK 71 implementation. Thus, this study contributes to the literature by quantitatively analyzing the impact of PSAK 71 on banks amidst the Covid-19 pandemic.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Decision-Usefulness Theory

The decision-usefulness theory establishes that rational managers should ensure that their systems provide relevant information (Dandago & Hassan, 2013; Gassen & Schwedler, 2010; Staubus, 2000). The information helps economic decision-making processes when presented compliantly with existing regulations (accounting standards for accounting information). In this respect, accounting information systems have to provide relevant accounting information to enable information users to make better decisions.

According to Lestari & Dewi (2020), numbers in accounting reports are useful or have value relevance if they help investors value firms as reflected by stock prices or returns. Investors or financial analysts mostly use earnings information when analyzing firms' financial performance (Fanani, 2014). Firms with better financial performance earn higher earnings and attract more investors to buy their shares.

PSAK 55

The Institute of Indonesia Chartered Accountants (*IAI- Ikatan Akuntan Indonesia*) has issued Statement of Financial Accounting Standards (*PSAK – Pernyataan Standar Akuntansi Keuangan*) 55 regarding financial instruments: recognition and measurement. PSAK 55 (the 2011 revised edition) employs the incurred loss model to recognize and measure allowance for impairment losses (CKPN). The values of financial assets are impaired, and losses from impairment are recognized if and only if the objective evidence of impairment exists due to an event occurring after the asset's initial recognition (an adverse event). Further, the adverse event affects the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

PSAK 55 classifies financial assets into four categories. First, the portions of portfolios held for short-term profits and financial assets held for short-term sales or repurchase purposes are measured at fair value and reported in income statements. Second, non-derivative financial assets with fixed or predetermined payments and predetermined maturity dates are held-to-maturity investments. Third, loans and receivables are non-derivative financial assets with fixed or predetermined payments and not quoted in active markets. The ownership of these financial assets should represent loans or receivables. Fourth, available-for-sale financial assets refer to all non-derivative nonfinancial assets held for sale or cannot be classified into three previous categories. These financial assets are initially recognized as available for sale.

Estimating the impairment loss amounts may result in a possible loss value or a range of losses. In the latter case, the entity shall recognize the impairment loss at the best estimate within the range by considering all relevant information available before issuing the financial statements regarding conditions existing on the balance sheet dates. PSAK 55 (2011 revision) paragraph 65 (measurement of allowance for losses on receivables) indicates that an impairment loss is considered existent when there is objective evidence of impairment. The amount of impairment loss for a loan measured at amortized cost is the difference between the loan's carrying amount and the present value of the principal loan payments and future interest discounted at the loan's original effective interest rate (Husain et al., 2014).

PSAK 71

According to Taruna & Harun (2017), the Indonesian Accounting Standards Board (DSAI) has issued PSAK 71 by adopting IFRS 9. PSAK 71 is even the translation of IFRS 9 with some adjustments to the Indonesian banking conditions. PSAK 71 seeks to focus on the expected credit loss (ECL) model. This approach requires banks to calculate their expected future potential losses in more detail. Consequently, the model directly reduces banks' portfolios. As stated by Rizal & Shauki (2019), PSAK 71 provides criteria for assessing whether the credit risks of an entity's financial instruments have increased significantly at each reporting date using forward-looking information. Suroso (2017) proposes that the shift in the business model is one of the changes in the classification of financial assets in PSAK 71. Hence, the managerial intention is no longer the basis for classifying financial instruments but cash flows' contractual characteristics and the entity's business model.

PSAK 71 has been effective as of January 1, 2020, to replace PSAK 55 (Witjaksono, 2018). According to Ardhiyus (2018), the ECL model (also known as dynamic provisioning) is useful for 1) minimizing the banking sector's desire to channel excessive credit during the expansion period because any additional lending must be accompanied by CKPN formation, 2) defending banks' finances and avoiding procyclical CKPN in declining economic conditions, 3) mitigating credit crunches in declining economic conditions because banks still have the remaining ability to

continue channeling credit to the real sector that prevent further economic slowdowns, and 4) smoothing profits that minimize profit fluctuations.

Allowance for Impairment Losses (CKPN)

As suggested by Damayanti & Chaniago (2015), allowance for credit impairment losses (CKPN) refers to total credits channeled to non-bank third parties doubtful or even substandard and non-performing credit qualities. According to Syahid (2016), CKPN is total allowances for all estimated losses on loan balances that have not been fully repaid. Banks have to be able to determine the CKPN amount each period to maintain financial stability. Otherwise, they will potentially experience financial crises. Sudrajat & Rahayu (2018) defines CKPN as the assessment of borrowers' credit evaluation results, which are then formed or set aside by the bank. If these borrowers' credits are objectively considered impaired, banks must create allowances from these credits.

Capital Adequacy Ratio (CAR)

Kurniadi (2012) explains that CAR is a solvency ratio representing banks' ability to prepare funds to finance their operations and mitigate any loss that may arise from these operations. CAR directly indicates that banks' equity can still finance their assets. Higher CAR values suggest banks' better financial condition. According to Sudrajat & Rahayu (2018), CAR is a ratio that explains the risk levels of banks' all assets (loans, investments, securities, and claims on other banks), including banks' financing from their own capital. Several factors determine banks' CAR level, including liquidity (Aktas et al., 2015), asset quality (Hafez & El-Ansary, 2015), and business risks (Festiani, 2018). Business risks represent events that potentially harm banks. The required minimum CAR level for banks to maintain the financial system's stability and protect their customers is eight percent (according to Bank Indonesia Regulation No. 10/15/PBI/2008), CAR is calculated by dividing the total capital by risk-weighted assets (RWA) multiplied by 100%.

Hypothesis Development

DSAK IAI seeks to continuously increase accounting information relevance for financial statement users by revising PSAK 55 to PSAK 71 related to the recognition and measurement of allowance for impairment losses (CKPN). PSAK 55 leads to procyclical banks' CKPN that cannot reflect a sustainable banking performance and harms banks' stakeholders, especially investors. Besides, the revision also represents the implementation of decision-usefulness theory, arguing that a fair and reliable information system is crucial for decision-making to produce relevant information.

In terms of allowance for impairment losses, PSAK 55's loss incurred method (LIM) is arguably lower than PSAK 71's expected credit loss (ECL) method. This argument is supported by (Suroso, 2017), who finds a significant increase in the CKPN

formation due to PSAK 71 implementation at a national private bank. Accordingly, the following hypothesis is proposed:

H1: There is a significant difference in CKPN values between the PSAK 55 and PSAK 71 implementations.

CKPN represents banks' anticipation for the risk of productive asset loss that contributes significantly to financial crises in the banking sector. Hence, the CKPN formation is crucial to maintain banking financial stability. Higher CKPN formation as stipulated by PSAK 71 will affect banks' profits and eventually core capital. One of the main components of banks' core capital to calculate CAR is their current and prior profits (Suroso, 2017). Higher CKPN reduces banks' bottom line (net profits/losses) because banks have to add expected future losses in CKPN calculation. In turn, reduced capital values will affect CAR as a ratio between total assets with risk-weighted assets (RWA) multiplied by 100%. Higher CKPN also arguably reduces asset values that will erode capital values.

CKPN represents the differences between financial assets' current carrying values and their initial carrying values (Bank Indonesia Regulation No. 14/15/PBI/2012). Higher declines in financial assets' values (as indicated by higher non-performing loans) will erode banks' profits because such declines will be charged as an expense (Eng, 2013). Sudrajat & Rahayu (2018) demonstrate that CKPN negatively affects ROA. Hence, higher CKPN formations likely reduce CAR and earnings values. Based on the above discussion, the following hypotheses are proposed:

H2: There is a significant difference in CAR values between the PSAK 55 and PSAK 71 implementations.

H3: There is a significant difference in profit values between the PSAK 55 and PSAK 71 implementations.

Higher CKPN due to PSAK 71 will arguably reduce the credit disbursement levels due to reduced CAR values. Consequently, banks must channel their credit more cautiously to compensate potentially higher risks (and CKPN) with their equities to finance their operations. Rahmadhani (2014) reveals that CKPN negatively affects bank lending in Indonesia. The PSAK 55 implementation has resulted in procyclical CKPN values that motivate banks to channel credits aggressively in non-crisis periods with higher NPL values. Consequently, banks find it more difficult for banks to distribute credits during economic crises. Conversely, the PSAK 71 implementation results in higher initial CKPN formations that encourage banks to channel credits more cautiously. Thus, CKPN values under PSAK 71 are less procyclical than those under PSAK 55. During economic crises, banks arguably have more capacities to continue channeling credits. Based on this explanation, the following hypothesis is formulated:

H4: There is a significant difference in lending values between the 2008 and 2020 crises.

RESEARCH METHOD

Population and Research Sample

We generate the data of banks' financial reports from the Indonesia Stock Exchange's official website. Our population is all Indonesian banks that have been publicly listed at the Indonesian Stock Exchange from 2007 to 2020, which enable us to compare the difference in credit distribution between 2008 and 2020. Furthermore, PSAK 71 has also been effective from January 1, 2020, that our population enables us to test our first three hypotheses. Samples are selected based on the saturated sampling technique, implying that all population members are selected as the sample. Consequently, we have the following firm-year observations: 1) CKPN is observed from the 2019-IV period to the 2020-II period (three observation periods $\times$ 20 = 60), 2) CAR is observed from the 2019-IV period to the 2020-I period (two observation periods $\times$ 20 = 40), 3) profit is observed from the 2019-IV period to the 2020-I period (two observation periods $\times$ 20 = 40), and 4) credit distribution is observed from the quarter II 2008 and the quarter II 2020 (two observation periods $\times$ 20 = 40).

Definition of Operational Variables

According to Syahid (2016), CKPN is the total allowances for all estimated losses on outstanding loan balances. CKPN functions as general and special reserves to cover risks and stabilize banks' financial systems to remain liquid. Banks form CKPN funds by evaluating their individual debtors' credits (Fitriana, 2015). This study uses CKPN values as displayed by banks' financial statements based on the formula of Probability of Default $\times$ Loss Given Default $\times$ Amortized Cost.

As Sudrajat & Rahayu (2018) suggests, CAR is a ratio that describes risk levels contained in all banks' assets (loans, investments, securities, and claims on other banks), including financing from their own capital. CAR also directly indicates that banks' equity can back up their assets. Higher CAR values imply better financial conditions. We calculate CAR by dividing the total capital by risk-weighted assets (RWA) and multiplying the result by 100%:

$$CAR = \frac{\text{Capital}}{\text{ATMR}} \times 100\% \dots\dots\dots 1$$

Next, we use net income as the proxy of banks' profits. Banks generate profits by channeling credits. Banks that fail to distribute more credits relative to customers' deposits will likely suffer losses (Sari, 2013). However, banks have to distribute credits cautiously because of credits' higher risks, including uncollectible and overdue loans

that result in low-quality credits (Wicaksana et al., 2017). We measure the lending variable with the amounts of credits distributed.

Data Analysis Technique

Initially, we present and discuss the descriptive statistics of banks' research variables. We then run the normality test to determine whether we can employ the parametric t-test. If the data is not normally distributed, we will have to use the non-parametric test (the Wilcoxon Signed Rank test). The next step empirically tests the hypotheses by running the tests of the mean difference. For hypotheses 1-3, we compare the mean values between the research variables under PSAK 55 and PSAK 71. Meanwhile, for hypothesis 4, this study compares the credit amounts between 2008 and 2020.

ANALYSIS AND DISCUSSION

Descriptive Analysis and Data Normality Test

As shown by Table 2, the descriptive statistics indicate an increased mean CKPN value from the pre-PSAK 71 implementations (PSAK 55) to post-PSAK 71 implementation periods. Thus, PSAK 71 implementation has increased banks' average CKPN values. However, the mean CAR value decreases in the post-PSAK 71 implementation period, implying that PSAK 71 has decreased banks' mean CAR value. Similarly, PSAK 71 also decreases banks' profit.

The mean credit distribution value slightly had increased in 2020. The standard deviation values of CKPN and profit greater than their mean values indicate that banks' CKPN and profit fluctuate greatly. Likewise, the standard deviation values of credit distribution in 2008 and 2020 that are greater than their mean values imply that credit distribution varies greatly. However, CAR tends to fluctuate mildly because its standard deviation is lower than its mean value.

Table 2
Descriptive Analysis Results

	N	Minimum	Maximum	Mean	Std. Deviation
CKPN in PSAK 55	20	3.099	37.076.465	6.255.338,15	10.383.932,98
CKPN in PSAK 71	20	11.598	56.862.633	10.153.569,15	17.513.701,53
CAR in PSAK 55	20	13.29	41.20	20.65	6.55
CAR in PSAK 71	20	12.59	43.12	19.99	6.49
PROFIT in PSAK 55	20	-18.198	10.391.480	2.013.351,75	3.468.972,37
PROFIT in PSAK 71	20	-49.258	10.158.529	1.896.229,55	3.328.397,33
Credit distribution in 2008	20	1.789.405	567.474.940	103.500.476	151.120.825,80
Credit distribution in 2020	20	1.926.266	575.515.194	107.656.562,10	153.437.629,6
Valid N (listwise)	20				

Source: Processed data, (2020)

Table 3
Normality Test Results

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
CKPN in PSAK 55	0.284	20	0.000	0.646	20	0.000
CKPN in PSAK 71	0.365	20	0.000	0.617	20	0.000
CAR in PSAK 55	0.131	20	0.200*	0.861	20	0.008
CAR in PSAK 71	0.210	20	0.021	0.762	20	0.000
PROFIT in PSAK 55	0.326	20	0.000	0.629	20	0.000
PROFIT in PSAK 71	0.374	20	0.000	0.620	20	0.000
Credit distribution in 2008	0.285	20	0.000	0.794	20	0.000
Credit distribution in 2020	0.314	20	0.000	0.730	20	0.000

Source: Processed Data, 2020

The Shapiro-Wilk normality test results reveal that our data are not normally distributed (significance values= 0.00 and $0.008 < 0.05$) (see Table 3). Thus, we have to run the non-parametric Wilcoxon signed-rank test.

Results

Differences in CKPN, CAR, and Profit Values between the PSAK 55 and PSAK 71 Implementations

Table 4 presents the rank differences in CKPN, CAR, and profit between the PSAK 55 and PSAK 71 implementations. Only one bank has experienced a decrease in CKPN while the other 19 exhibit increases in CKPN values. Further, nine (eleven) banks have experienced decreases (increases) in CAR values from the PSAK 55 to PSAK 71 implementation. Lastly, 13 (seven) banks have experienced decreases (increases) in profits from the PSAK 55 to PSAK 71 implementation.

Table 4
The Rank Differences in CKPN, CAR, and PROFIT between PSAK 55 and PSAK 71 Implementations

		N	Mean Rank	Sum of Ranks
CKPN in PSAK 71 - CKPN in PSAK 55	Negative Ranks	1 ^a	14.00	14.00
	Positive Ranks	19 ^b	10.32	196.00
	Ties	0 ^c		
	Total	20		
CAR in PSAK 71 - CAR in PSAK 55	Negative Ranks	9 ^d	13.22	119.00
	Positive Ranks	11 ^e	8.27	91.00
	Ties	0 ^f		
	Total	20		
PROFIT in PSAK 71 - PROFIT in PSAK 55	Negative Ranks	13 ^g	12.15	158.00
	Positive Ranks	7 ^h	7.43	52.00
	Ties	0 ⁱ		
	Total	20		

Source: Processed data (2020)

Table 5 presents the Wilcoxon signed-rank test results. Overall, the significance values of all variable differences are significant (> 0.1), except for CAR (*PROFIT* has a marginally significant rank-difference). Thus, banks exhibit

significantly different CKPN and profit values between the PSAK 55 and PSAK 71 implementations, but not for CAR.

Table 5
Wilcoxon Signed-Rank Test Results

	CKPN in PSAK 71 - CKPN in PSAK 55	CAR in PSAK 71 - CAR in PSAK 55	PROFIT in PSAK 71 - PROFIT in PSAK 55
Z	-3.397 ^b	-0.523 ^c	-1.979 ^c
Asymp. Sig. (2-tailed)	0.001	0.601	0.052

Source: Processed Data (2020)

The Difference in the Credit Distribution/Lending Value between the 2008 Crisis and the 2020 Crisis

As suggested by Table 6, all banks have experienced increases in credit distribution in 2020 (as indicated by all banks having the 2020 values higher than their 2008 values). Further, Table 7 reveals a significant rank-difference in the credit distribution value between 2008 and 2020 (the significance value is $0.00 < 0.05$).

Table 6
The Rank Difference in Credit Distribution Value in 2008 and 2020

	N	Mean Rank	Sum of Ranks
Credit Distribution 2020 - Negative Ranks	0 ^a	0.00	0.00
Credit Distribution 2008 Positive Ranks	20 ^b	10.50	210.00
Ties	0 ^c		
Total	20		

Source: Processed data (2020)

Table 7
Wilcoxon Signed-Rank Test Results

	Credit Distribution 2020 - Credit Distribution 2008
Z	-3.920 ^b
Asymp. Sig. (2-tailed)	0.000

Source: Processed Data, 2020

Discussions

Differences in the CKPN, CAR, and Profit Values between the PSAK 55 and PSAK 71 Implementations

PSAK 71 requires banks to form CKPN with the expected credit loss approach that provides credit loss allowances based on certain expectations over the credit periods. This method is also known as the immediate recognition approach that requires firms to recognize expected losses immediately after the initial recognition of financial assets. This approach is different from PSAK 55 that employs the loss incurred method that dictates firms to recognize allowance for credit losses after default loss events have taken place. The difference in CKPN recognition methods arguably leads to significantly different CKPN values based on these two accounting

standards. In this respect, DSAK IAI has revised PSAK 55 into PSAK 71 to accommodate the demands for more relevant information because PSAK 55 tends to provide procyclical CKPN values that reduce information relevance. Specifically, under PSAK 55, CKPN values tend to be lower (higher) during better (worse) economic conditions. Our empirical results indicate that banks exhibit higher CKPN values when initially implementing PSAK 71 than in the PSAK 55 period. Higher CKPN values in the initial phase of PSAK 71 implementation motivate banks to channel their credits more cautiously. The findings support Suroso (2017), who observes that PSAK 71 increases the CKPN values of an Indonesian private bank.

Similarly, the PSAK 71 implementation also affects banks' profits, albeit with a marginally significant value. Banks have to recognize allowance of provision losses after granting credits to their customers. More banks have experienced profit decreases than increases. A likely explanation of these findings is that immediate recognition of CKPN (losses) under PSAK 71 reduces banks' profits.

The Difference in the Lending/Credit Distribution Value between the 2008 Crisis and the 2020 Crisis

Indonesian banks still employed PSAK 55 based on the loss incurred method during the 2008 financial crisis. The descriptive statistics in Table 2 indicate that the amount of credits distributed in 2008 is significantly lower than in 2020. Hence, the loss incurred method used by PSAK 55 has eroded banks' ability to distribute credits when the economy declines sharply due to higher NPL values. Under this method, increased bad credits due to economic crisis will increase NPL values that require banks to recognize much higher allowances for impairment losses. In 2020, when Covid-19 spread globally and nationally, banks can still distribute credits because the PSAK 71 implementation has motivated banks to distribute credits more cautiously. In particular, PSAK 71 requires banks to recognize provisions for impairment losses (incur losses) more timely, which banks consider because higher provision-related losses will potentially affect all financial performance components. Consequently, when the economy declines sharply, banks still manage to distribute credits. Thus, PSAK 71 helps banks mitigate credit crunch.

CONCLUSIONS, LIMITATIONS, AND SUGGESTIONS

This study concludes significant differences in banks' CKPN and profits between the PSAK 55 and PSAK 71 implementations, implying that PSAK 71 arguably increases CKPN and reduces profits. Accordingly, there is a significant difference in credits distributed between the 2008 and 2020 crises, indicating that PSAK 71 likely mitigates a credit crunch. However, banks do not exhibit significantly different CAR between the PSAK 55 and PSAK 71 implementations.

This study informs the regulator (government), banks, and the public about the effects of implementing PSAK 71 that maintain banks' financial stability. This

research also suggests that banks should worry less about the negative effect of PSAK 71 (increasing CKPN values and decreasing CAR) and be more prepared in implementing this standard. PSAK 71 may also mitigate credit crunches when the economy slows down and avoid procyclical CKPN. Further, the government may also consult our results to evaluate the benefits of PSAK 71 in maintaining banks' financial stability.

This study only observes the data until the pandemic was still at the beginning and upward phases in Indonesia. Thus, this study cannot test the benefits of PSAK 71 in banks' key financial variables during a long economic crisis. Further studies need to have longer observation periods to understand the effect of PSAK 71 implementation better.

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