



IMPLEMENTATION OF PSAK 71 FINANCIAL INSTRUMENTS IN THE BANKING SECTOR DURING THE COVID-19 PANDEMIC

Arlie Irham Yusdika¹⁾, Dyah Purwanti²⁾

^{1),2)} Department of Accounting, State Financial Polytechnic STAN

ARTICLE INFO

*Implementation Of PSAK
71 Financial Instruments In
The Banking Sector During
The Covid-19 Pandemic*

Submitted:

10 – Februari - 2021

Revised:

23 – Februari - 2021

Accepted:

25 – Maret - 2021



ABSTRACT

This study aims to analyze the impact of the COVID-19 pandemic on the application of PSAK 71 around financial instruments in the banking sector. The review uses a qualitative method with a literature study approach and content analysis. This study observes changes in the allowance for impairment losses (CKPN) balance from the fourth quarter of 2019 to the third quarter of 2020. The study shows a significant increase is in the balance of the allowance for impairment losses, which impacted the disclosure of earnings in the financial statements. Moreover, banks should reclassify credit risk status. However, government intervention limited this reclassification. It has implications for decreasing the reliability of presenting the financial statements' quality of information on instruments.

Keywords: COVID-19, PSAK 71, allowance for impairment losses, CKPN

Email: arlieirhamy@gmail.com¹⁾, dyahpurwanti@pknstan.ac.id²⁾

INTRODUCTION

The Financial Accounting Standards Board of the Indonesian Accounting Association (DSAK IAI) ratified two Financial Accounting Standard Statements (PSAK) and one PSAK Amendment on July 26, 2017. One of the PSAK ratified is PSAK 71 (2017) concerning Financial Instruments which guides the recognition and measurement of financial instruments. This PSAK adopts the International Financial Reporting Standards (IFRS) 9 Financial Instruments issued by the International Accounting Standards Board (IASB) which became effective on January 1, 2018. PSAK 71 is effective starting January 1, 2020, and allows entities wishing to apply early.

One of the important points in PSAK 71 is to regulate the provision for impairment loss of financial assets in the form of loans or credit receivables, which are commonly referred to as allowance for impairment losses (CKPN). PSAK 71 changes the basic method of calculating the provision for allowance for losses due to uncollectible loans. If based on PSAK 55 which was previously applicable, CKPN is calculated based on the incurred loss method and is backward-looking, that is, the reserve obligation arises after an event occurs or there is objective evidence that indicates the debtor has a risk of default such as being late in paying credit installments. Therefore, the formation of CKPN according to PSAK 55 will be based on historical data. While PSAK 71 requires backups performed since the beginning of the credit period and applies to all categories of good credit status smoothly (performing), doubt (underperforming), or loss (non-performing). This is because PSAK 71 uses a forward-looking method of expected credit loss. According to the Indonesian Institute of Accountants (IAI), the expected credit loss method requires banks to estimate risk estimates of financial instruments from initial recognition using forward-looking information such as projections of economic growth, inflation, unemployment rates, and commodity price indexes at each reporting date.

In the banking industry sector, the application of PSAK 71 has an impact on the formation of CKPN which will affect bank capital and profits. The formation of a large CKPN will cause the funds provided for provision for losses to be larger, thus reducing profits. However, greater reserves in the banking industry are aimed at safeguarding and anticipating bank failures in the face of future crisis risks, as the background for the emergence of this standard is in response to the failure of the financial sector in anticipating credit defaults due to the economic crisis in 2008.

Following the implementation of PSAK 71, an extraordinary condition occurred, namely the COVID-19 pandemic which had a significant impact on the world economy. The spread of this virus was first reported in Wuhan, China at the end of December 2019. In Indonesia, the government stated the first case of COVID-19 infection on March 2, 2020. The COVID-19 pandemic was later declared a national disaster through Presidential Decree No. 12 2020 regarding the determination of Non-Natural Disaster Deployment Coronavirus Disease 2019 (COVID-19) As a national disaster on 13 April 2020. Therefore, the events of the 19th COVID an events that occurred after the reporting period in 2019 so it is not an event that customizers can affect the presentation of financial statements in 2019.

The COVID-19 pandemic has had various significant impacts on the Indonesian economy. The Central Statistics Agency (BPS) recorded that Indonesia's Gross Domestic Product (GDP) in the second quarter of 2020 grew by -5.32% and in the third quarter of 2020 it grew -3.49 on a year - on - year basis, which indicates that the Indonesian economy is experiencing contraction. One component of GDP expenditure, namely household consumption, experienced a contraction of -4.04%, indicating a decline in people's purchasing power. Also, BPS noted that the number of unemployed people in Indonesia as of August 2020 was 9.77 million people, an increase of 7.07% over the same period in the previous year. Seeing such a significant impact, an entity needs to consider the going concern assumption in preparing its financial statements. Concerning the calculation of the Expected Credit Loss (KKE) model, the COVID-19 incident in March 2020 was certainly not included in the KKE calculation as of January 1, 2020, so that the entity must

reconsider the model, especially its compatibility with government policies that may affect in the 2020 KKE calculation model.

The government has issued various policies to improve the performance of the Indonesian economy. One of the policies in the financial and banking sector established by the government is the credit restructuring relaxation policy. This policy is formally regulated through the Financial Services Authority Regulation Number 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy on the Impact of the Spread of Coronavirus Disease 2019. The Financial Services Authority (OJK) then issued guidance on accounting treatment, especially in the application of PSAK 71 and PSAK 68 on April 15, 2020. Also, the Indonesian Accounting Association (DSAK IAI) Financial Accounting Standards Board issued a press release as a guide for business entities in applying Financial Accounting Standards (SAK) that are relevant to the impact of the COVID-19 pandemic, consistent in applying standards based on these principles to produce financial statements that accurately represent the entity's actual financial position and performance.

Regarding the significant impact of the COVID-19 pandemic, the application of PSAK 71 in the banking sector faces its challenges, especially when it is related to policies issued by the government during the COVID-19 pandemic. This research analyzes how the realization of PSAK 71 implementation during 2020 and the impact of the COVID-19 pandemic on the presentation of financial instruments in banking financial reports.

LITERATURE REVIEW

a. Recognition and Measurement of Financial Instruments according to PSAK 71

Statement of Financial Accounting Standards (PSAK) 71 guides the recognition and measurement of financial instruments. This standard is effective starting January 1, 2020, and replaces PSAK 55 which was previously in effect. PSAK 71 is an adoption of the International Financial Reporting Standard (IFRS) 9 which became effective on January 1, 2018. IFRS 9 is a response to the mandate of the G20 (2009) to improve the assessment standards of financial instruments to eliminate deficiencies caused by the 2008 financial crisis. IFRS 9 introduced a new principle-based classification and measurement of financial instruments, a forward-looking impairment loss model for financial assets, and new hedge accounting rules that are more aligned with risk management activities.

Credit recognition according to PSAK 71, namely credit is a financial asset measured at amortized cost because it meets two conditions, namely the purpose of the bank to provide credit to obtain contractual cash flows, and the contractual terms of credit on a certain date increase cash flows that are solely from payments of principal and interest (solely payments of principal and interest) of the principal amount outstanding. The measurement of credit according to PSAK 71 is using amortized cost.

PSAK 71 allows reclassification of the management of financial assets if and only if an entity changes its business model for financial management. These changes are thought to occur very rarely. Such changes are determined by the entity's management as a result of external or internal changes and must be signed in the entity's operations and demonstrable to external parties. Accordingly, changes to the entity's business model will occur only if the entity starts or ceases to perform activities that are significant to its operations; for example, when the entity has acquired, released, or terminates a line of business.

In PSAK 71, the model of impairment using the method of expected loss is forward-looking so do not wait until there is objective evidence but the calculation of loss has been recognized since the early recognition and is updated each reporting date until maturity. This is so that the entity can provide relevant and real-time information as a basis for decision-making. For example, when during that time there are indications of a decrease, such as an increase in the risk of default by debtors.

PSAK 71 requires the entity consider whether there is a significant increase in credit risk (ratings based on changes to the possibility of default occurring) by comparing the initial credit risk of financial instruments with credit risk at the reporting date. If an entity estimates a financial instrument to have a low credit risk at the reporting date (for example, investment-grade), it assumes that the credit risk on the financial instrument has not increased significantly. There is a rebuttable presumption that significant credit risk has occurred when payments are in arrears more than 30 days if there is no further specific information about the borrower, available without undue cost and effort, to determine whether there is a significant increase in credit risk.

Allowance for Impairment Losses (CKPN) in PSAK 71 is divided into 3 stages based on the level of risk. Stage 1 (performing) is credit with relatively small risks, such as never experiencing a late payment and no increased risk. If there is an indication that credit risk has increased significantly, banks will reclassify it as Stage 2 (under-performing). If the debtor has difficulty paying and causes the credit to become bad, including restructured loans, the bank will categorize it as Stage 3 (non-performing). Regarding the calculation of expected credit loss (ECL) or Expected Credit Loss (KKE), Stage 1 requires calculating the KKE for 12 months, while Stage 2 and Stage 3 require calculating the KKE for the period to maturity (lifetime). The formula for calculating CKPN using the ECL method according to PSAK 71 is as follows:

$$\text{ECL} = \text{Probability of Default (PD)} \times \text{Loss Given Default (LGD)} \times \text{Exposure at Default (EAD)}$$

PSAK 71 paragraph 5.5.18 states that when measuring expected credit, an entity does not have to identify all possible scenarios. However, an entity considers the risk or probability of a credit loss by reflecting the probability of a credit loss occurring and not occurring, even though the probability of a credit loss occurring is very low. This means that in providing CKPN, banks must take into account at least two possible macroeconomic scenarios, namely the upside and the downside to determine the Probability of Default (PD) and Loss Given Default (LGD). Economic variables that can be used include the Gross Domestic Product (GDP), unemployment rate, exchange rate, Bank Indonesia (BI) 7 days repo rate, and commodity price index. The choice of which economic variable to use depends on the relevance of the bank's product.

b. Previous research

Several previous studies discussed the preparation of the banking industry in Indonesia and internationally for the application of PSAK 71 or IFRS 9. Dedy et al. (2018) conducted a study entitled *The Preparation of Banking Industry in Implementing IFRS 9 Financial Instruments (A Case Study of HSBC Holdings Plc Listed on London Stock Exchange of the Year 2015–2017)*. This study found that HSBC has prepared to implement these standards very well. The results of this study also indicate a certain level of approval

by providing two main sections of the income statement. The first section presents the current gain or loss (for example, the gain or loss from operating the business) and the second section presents the capital gain or loss. Although the concept is very similar to that of the Income Statement and Comprehensive Income Statement, it does not reflect the ECL model because the model itself is a machine that combines macroeconomic scenario data to produce an expected amount of loss. This is because the application of the requirements of IFRS 9 relating to the presentation of gains and losses on financial liabilities designated at fair value only impacts how those gains and losses are presented but not on the amounts themselves. However, it cannot be denied that this practice carries a more optimistic view in the income statement with the opposite effect on Other Comprehensive Income (OCI).

Rizal & Shauki (2019) conducted a study entitled motives and constraints for banks in implementing PSAK No. 71 against CKPN on credit. The results of his research found that *early adopters* were banks with government, foreign, and mixed ownership types. The motive is dominated by normative isomorphism conditions that arise because of demands from professionals who are considered right. There are differences in the behavior of actors and institutions in commercial banks which are influenced by multiple logics, namely regulatory logics and profits (banking logics).

Furthermore, the research that analyzes the impact of the application of PSAK 71 is Witjaksono (2017) in a study entitled The Impact of the ED PSAK 71 Financial Instruments on the Accounting Guidelines for Banking Related Credit, found that there is no significant impact of ED PSAK 71 in terms of credit recognition in Commercial Bank Financial Statements and BPR, however, there is a significant impact of ED PSAK 71 in terms of measurement and presentation of LK for Commercial Banks and BPRs. Suroso (2017) conducted a study entitled The Implementation of PSAK 71 and Its Impact on Bank Minimum Capital Requirements. The results of his research indicate that the application of PSAK 71 has a positive impact, namely providing relevant information to users of financial statements regarding the total, period, and uncertainty of cash flows. However, there are negative impacts such as increasing the allowance for impairment losses and reducing the minimum capital requirement.

Ilat et al. (2020) researched to evaluate the application of PSAK 71 regarding financial instruments at PT. Sarana Sulut Ventura Manado. The results show that the difference between PSAK 55 and PSAK 71 is that according to PSAK 55 CKPN responsibility for backup occurs when there is an event that is recognized as failure to pay, however, in PSAK 71 the beginning of the period is recognized. The difference in the method of forming CKPN is that PSAK 55 uses LIM (Loss Incurred Method) while PSAK 71 uses ECL (Expected Credit Loss). The implementation of PSAK 71 at PT Sarana Sulut Ventura starts in 2020 which will be finalized in the December 2020 reporting but for a concrete impact, namely the amount of CKPN value which becomes greater.

In the international scope, research was also conducted on the implementation of IFRS 9. Lie & Sumirat (2018) conducted a study entitled Implementation of IFRS 9 for Banking in Indonesia and found that the implementation of IFRS 9 changed the definition of credit loss from incurred loss to expected loss. The classification and measurement of financial instruments are based on business models and the nature of cash flows. The implementation of IFRS 9 has an impact on CKPN, earnings, and KPM/CAR. Most banks will experience an increase in CKPN, lower earnings (because CKPN is included in operating expenses), and a lower capital adequacy ratio (CAR) because banks have

sufficient reserves. By implementing IFRS 9 for impairment losses, banks will have sufficient capital as required by regulators. This research was conducted before PSAK 71 became effective in Indonesia. Therefore, research opportunities were found to examine how the real impact of the implementation of PSAK 71 on the financial reports of the banking sector in Indonesia.

Groff & Mörec (2020) conducted a study on the effects of the transition to IFRS 9 on equity in a post-recovery banking environment with a case study in Slovenia. The result was that banks without extensive asset portfolio improvements recognized additional loan impairments on the transition to IFRS 9, whereas the opposite effect was observed for banks restructuring their state-assisted loan portfolios.

Onali et al. (2017) conducted a study entitled *Investor Reaction to IFRS for Financial Instruments in Europe: The Role of Firm-Specific Factors*. The results of this study indicate that the quality of pre-adoption information and pre-adoption information asymmetry is related to market reactions to IFRS 9. Financial firms react relatively worse than non-financial firms to IFRS 9 adoption events. Suggestions for further research are to investigate the effects of IFRS 9 after the implementation of this standard is carried out.

One of the important points of the difference between PSAK 71 and the previous standard is regarding the provision for impairment of financial assets. With the implementation of this new standard, banks must provide an allowance for impairment losses (CKPN) for all loan categories, whether they are current, underperforming, or non-performing. If based on PSAK 55, the approach used is the Incurred Loss Method (ILM), where the reserve obligation arises after an event that results in the risk of default occurs. Meanwhile, according to PSAK 71, the basis for provisioning uses the Expected Credit Loss (ECL) approach, which is the expectation of future credit losses based on various factors including economic projections and requires the entity to make reserves from the beginning of the credit period.

Witjaksono (2018) in his research found that there are fundamental differences in credit treatment between PSAK 55 and PSAK 71, especially in the formation of CKPN and the main causes are as follows: 1) PSAK 55 asks Banks to calculate and present CKPN on the date of financial statements, while PSAK 71 requires Banks to calculate CKPN since credit recognition. 2) For PD. PSAK 55 approaches Point in Time (PIT), while PSAK 71 using the approach Through the Cycle (TTC). PD according to PSAK 71 will always change according to the movement of a bank in the economic cycle, while PD according to Basel will have less sensitivity and less sensitivity to changes in economic conditions. According to Bholat et al. (2018), early recognition of expected losses in good times is generally approved by policymakers to contribute to greater bank resilience and reduce the impact of the crisis on bank balance sheets.

Beerbaum (2015) conducted a study entitled *Significant increase in credit risk according to IFRS 9: Implications for financial institutions* which explores the literature on definitions and concepts when there is a significant increase in credit risk. With IFRS 9, prudent accounting has been a strong influence for the change from an incurred loss model to an expected loss model. The expected loss model is not entirely new in the accounting literature. This study provides initial insight into the implementation of IFRS 9 regarding impairment because IFRS 9 will take effect in 2018. This new model will have a material impact on the systems and processes of financial institution banks. Also, this will have an impact on the tightening of earnings management. Based on these findings, the question

arises whether regulators should provide further guidance to avoid that all firms have completely different models resulting in reduced comparability for regulators and investors.

Serrano (2018) examines the consequences of financial stability from the expected credit loss model in IFRS 9. The results show that the shift from the incurred loss approach to the expected credit loss approach brings substantial benefits from a financial stability perspective that comes from more timely recognition of credit losses and more complete. Several aspects of the expected credit loss approach can have a sizeable effect on financial stability. As such, all will consider policy options in the precautionary area.

Gebhardt (2016) in his research states that impairments based on IFRS 9 will result in earlier recognition of expected credit losses. Management will have more discretion when measuring impairment losses for FVTOCI financial assets which will provide more opportunities for earnings management. It can also affect earnings comparability.

Novotny-Farkas (2016) in his research found that the IFRS 9 expected credit loss model resulted in earlier and larger impairment allowances and was more in line with regulated loss expectations. Early recognition of credit losses will reduce the build-up of overhang losses and overstatement of regulatory capital. Besides, extended disclosure requirements tend to contribute to more effective market discipline. Through this, IFRS 9 can improve financial stability. However, due to reliance on time point estimates of the main input parameters (probability of default and loss given default) IFRS 9 ECL will increase the volatility of regulatory capital for some banks. Moreover, the ECL model provides significant room for managerial discretion. Bank supervisors may play an important role in IFRS 9 implementation, but too much supervisory intervention risks creating a prudent bias in the accounting for loan losses that compromises the integrity of financial reporting. Overall, the potential benefits of the standard will depend largely on their proper and consistent application across jurisdictions.

Pucci & Skærbæk (2020) conducted a study entitled *The co-performance of financial economics in accounting standard-setting: A study of the translation of the expected credit loss model in IFRS 9*. The results show that the IASB's expected credit loss model was built after a series of *in vitro* laboratory experiments regarding an uncertain future that resulted in compromising solutions. While studies show the struggles involved in assembling increasingly complex forward-looking models in financial reporting standards, the effect of the result is unknown. Furthermore, there are some practical difficulties involved in the realization of global financial reporting standards. It has been demonstrated that placing a major dependence on a conceptual framework provides an inadequate basis for convergence. Therefore, it is important to translate financial reporting utility appraisal programs into specific accounting standard-setting networks. The transformations involved in making economic theory can be applied through strategic approaches. This shows that the use of economic theory in the preparation of accounting standards is not an all-or-nothing proposition. Financial economics plays a more nuanced role in the standard-setting process, which involves the arduous translation of wills resulting in impure solutions.

Volarević & Varović (2018) conducted a study entitled *Internal Model For IFRS 9 - Expected Credit Losses Calculation*. This study contains theoretical and practical instructions for defining, determining, and calculating the three variables in the ECL (expected credit loss) formula: Exposure at Default (EAD), Loss Given Default (LGD), and Probability of Default (PD). Basel rules can be used for LGD calculations whereas PD calculations are based on a special methodology with two different solutions. In the first

option, PD is taken as external data from a trusted rating agency. If there is no external rating, an internal model for PD calculation must be created.

Landini et al. (2019) conducted a quantitative study entitled Credit risk migration rates modeling as open systems II: A simulation model and IFRS9-baseline principles. This study produces realistic modeling of dynamic credit risk migration rates from the portfolio as an open system with entries and exits consistent with the IFRS 9 principles that are segmented and prospective. This model allows for more reliable provision of *ex-ante* and forward-looking estimates of expected losses.

Vaněk & Hampel (2017) conducted a quantitative study entitled The Probability Of Default Under IFRS 9: Multi-Period Estimation And Macroeconomic Forecast. This study proposes a framework for estimating the multi-period probability of default that incorporates macroeconomic forecasts. This concept is based on the Markov model, the estimated coefficient of economic adjustment, and the official economic forecast of the National Bank of the Czech Republic. Economic forecasts are taken into account in separate steps to further differentiate between idiosyncratic and systemic risks. The proposed framework can be used primarily in the requirements of IFRS 9 (calculation of lifetime expected credit losses).

Xu (2016) conducted quantitative research entitled Estimating Lifetime Expected Credit Losses Under IFRS 9. The results of this study propose a framework for estimating ECL *lifetime* based on the multi-period PD literature. This framework complies with IFRS 9 and can also combine 20 single-period ECLs as a special case. This framework rests on a strict definition of the "structure of the PD term" and conditional expectations in light of forward-looking economic dynamics. It also allows banks to easily implement, within this framework, a simplified and cutting-edge modeling strategy.

RESEARCH METHOD

This study used qualitative methods to approach the study of literature and content analysis. A library study is a study that is used to collect information and data with the help of various materials in the library such as documents, books, magazines, historical stories, etc. (Mardalis, 1999). Literature studies can also study various reference books and the results of similar previous research which are useful for obtaining a theoretical basis for the problem to be researched (Sarwono, 2006). The literature study is carried out to gather information relevant to topics or problems related to the application of PSAK 71 during a pandemic in the banking sector. According to Parveen & Showkat (2017), *content analysis* is a series of procedures used to extract meaningful information from the text to draw meaningful conclusions.

This study uses the financial statements of banking issuers consisting of four state-owned banks and one private bank. The financial statements used are the period from December 31, 2019, until the third quarter of 2020 in conducting content analysis related to the application of PSAK 71 and the formation of CKPN. Besides, this study also uses information from relevant authorities that issue regulations or policies that have an impact on the application of PSAK 71 and the formation of CKPN in the banking sector.

RESULT AND DISCUSSION

1. Recognition of credit restructuring according to PSAK 71

Credit restructuring is known in PSAK 71 as a *modification*. When there is a credit restructuring, the entity must modify the credit assets (banking) and liabilities (debtors). Credit modification during the COVID-19 pandemic is generally carried out by extending the credit period. This causes the modification to generally result in a loss for the bank and gain for the debtor due to the difference resulting from the difference in time value of money.

PSAK 71 divides modifications into two categories, namely substantial and non-substantial modifications. However, PSAK 71 does not directly define the criteria for the two categories of modification. In general, the modification category is determined by calculating the difference between the present value (PV) after restructuring and the PV before restructuring. If the difference is more than 10% of the PV value before restructuring, it is called a substantial modification. Conversely, if the difference does not exceed 10%, it is said to be a non-substantial modification.

The basic difference between a substantial modification and a non-substantial modification is that in a substantial modification, the bank derecognizes the old financial asset and recognizes it as a new financial asset. Meanwhile, for non-substantial modification, the bank still recognizes the carrying amount of the old assets adjusted for the PV of the revised cash flows discounted by the effective interest rate (EIR).

2. Policies regarding credit quality assessment and restructuring during the pandemic and their impact on the formation of CKPN in the banking sector

The Financial Services Authority (OJK) issued Regulation of the Financial Services Authority Regulation Number 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy Impact of the Spread of Corona Virus Disease 2019 which was set on March 13, 2020, and applies to Conventional Commercial Banks (BUK), Commercial Banks Sharia (BUS), Sharia Business Unit (UUS), Rural Bank (BPR), and Sharia Rural Bank (BPRS). This regulation states that banks can implement policies that support economic growth stimuli for debtors affected by COVID-19 including micro, small and medium business (MSME) debtors while still paying attention to the principle of prudence.

Based on the intended stimulus policy, the assessment of the quality of credit/financing/ other provision of funds is only based on the accuracy of principal and/or interest payments for credit/financing/other provision of funds with a ceiling of up to IDR 10,000,000,000 (ten billion Indonesian's Rupiah) and improvement of credit quality/financing becomes smooth after being restructured during the validity period of POJK. Credit restructuring is a loan repayment relief at a bank/leasing. The forms of credit/financing relief that banks/leasing can provide include lowering interest rates, extending time, reducing principal arrears, reducing interest arrears, adding credit/financing facilities, and converting credit/financing into temporary equity participation. The restructuring policy can be carried out by banks regardless of credit/financing ceiling limits or the type of debtor and is valid until March 31, 2021.

Based on these regulations, banks can proactively identify debtors who in the pre-pandemic period had performed well but had declined due to the impact of COVID-19. The bank can then apply the restructuring scheme after conducting an accurate assessment of

the debtors and classifying the debtors who received the restructuring into the Stage-1 (performing) category, namely debtors who did not experience a significant increase in credit risk and did not require additional allowance for impairment losses (CKPN). Furthermore, banks need to carry out continuous monitoring and continue to apply the principle of prudence to establish CKPN if the debtor who has obtained the restructuring facility is deemed not to have recovered his performance until the restructuring/impact period of COVID-19 ends.

Even though under normal conditions, credit restructuring carried out by banks indicates a significant increase in credit risk (PSRK) for debtors whose credit is restructured so that it must be followed by the formation of an allowance for KKE for life. This is following PSAK 71 paragraph 5.5.9 which requires that KKE for life is recognized if there is a significant increase in credit risk (SICR) in a financial instrument. Besides, PSAK 71 paragraph PP5.5.2. states that life-span expected credit losses are generally expected to be recognized before financial instruments are in arrears. In general, credit risk increases significantly before financial instruments are in arrears or other borrower-specific delay factors (for example, modification or restructuring) are observed. Consequently, when reasonable and supportable information that is more forward-looking than delinquent information is available without undue cost or effort, that information should be used to assess changes in credit risk.

However, based on the publication of the IAI DSAK on April 2, 2020, which provides instructions on how the impact of the COVID-19 epidemic on the calculation of Expected Credit Loss (KKE) in 2020 is associated with the relaxation policy issued by the authorities/government, in the condition that the authority issues a policy to encouraging credit restructuring, it is not appropriate for the bank to consider the debtor to experience PSRK. Banks still have to do identification and assessment to consider whether debtors affected by COVID-19 can recover or will not recover after the end of the restructuring period.

Furthermore, in response to the continued spread of COVID-19 in Indonesia and globally, on December 1, 2020, the Financial Services Authority issued a Financial Services Authority Regulation Number 48/POJK.03/2020 concerning Amendments to the Financial Services Authority Regulation Number 11/POJK.03/2020 of the National Economic Stimulus As policies Countercyclical impact Spreading Coronavirus Disease 2019. The regulation states that the policy of relaxation for debtors affected by COVID-19 remains valid until March 31, 2022.

Also, there are additional regulations related to the implementation of risk management and prudential principles for banks, as well as policies related to bank capital and liquidity. Banks must apply risk management in implementing credit restructuring policies. This risk management requires banks to have guidelines in determining debtors who are affected by the spread of COVID-19. Banks must also assess debtors who can survive the impact of COVID-19 and still have business prospects so that they can be given credit restructuring and form reserves for debtors who are deemed unable to survive after credit restructuring. Banks must consider capital resilience by taking into account the addition of reserves to anticipate the potential for deterioration in the quality of restructuring loans if the bank will distribute dividends and/or bonuses. Banks must also conduct periodic resilience tests on the potential for deterioration in the quality of restructured loans and their impact on bank liquidity and capital.

3. Evaluation of CKPN during the COVID-19 pandemic

Based on data from the Financial Services Authority (OJK) until January 4, 2021, it was recorded that bank credit restructuring had reached IDR971.1 trillion in 101 banks. The restructuring was proposed by 7.57 million debtors affected by COVID-19. CKPN data in bank financial reports show an increase in CKPN in the 2020 reporting period when compared to the 2019 reporting period. The following is CKPN data from several banks in the 2019 and 2020 reporting periods presented in millions of rupiah:

1. PT. Bank Rakyat Indonesia (Persero) Tbk

Table 1. Data on CKPN of PT Bank Rakyat Indonesia (Persero) Tbk

Account	Period			
	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Loans given to third parties	781,119,443	799,458,067	784,657,106	808,956,078
Loans granted to related parties	96,311,750	102,347,637	102,242,404	87,260,722
CKPN on the loan given	38,363,840	56,862,633	53,134,643	58,235,996
Percentage of CKPN	4.37%	6.31%	5.99%	6.50%

2. PT. Bank Negara Indonesia (Persero) Tbk

Table 2 . Data on CKPN of PT Bank Negara Indonesia (Persero) Tbk

Account	Period			
	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Loans given to third parties	444,823,814	466,652,350	456,255,335	467,759,608
Loans granted to related parties	111,947,133	112,952,010	120,520,376	114,626,684
CKPN on the loan given	16,908,871	32,686,673	36,541,989	41,701,902
Percentage of CKPN	3.04%	5.64%	6.34%	7.16%

3. PT. Bank Tabungan Negara (Persero) Tbk

Table 3 . Data on CKPN of PT Bank Tabungan Negara (Persero) Tbk .

Account	Period			
	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Loans given to third parties	214,807,263	213,075,426	212,753,319	214,891,092
Loans granted to related parties	17,405,276	16,259,499	15,205,871	15,667,044
CKPN on the loan given	5,425,908	12,373,939	12,130,724	12,105,176
Percentage of CKPN	2.34%	5.40%	5.32%	5.25%

4. PT. Bank Mandiri (Persero) Tbk

Table 4 . Data on CKPN of PT Bank Mandiri (P ersero) Tbk

Account	Period			
	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Loans given to third parties	714,451,116	708,329,257	671,873,398	677,700,007
Loans granted to related parties	171,384,121	173,055,337	179,636,787	175,120,004
CKPN on the loan given	29,988,393	53,871,929	55,183,318	58,880,056
Percentage of CKPN	3.39%	6.11%	6.48%	6.90%

5. PT. Bank Central Asia Tbk

Table 5. Data on CKPN of PT Bank Central Asia Tbk

Account	Period			
	Q4 20219	Q1 2020	Q2 2020	Q3 2020
Loans given to third parties	582,706,461	592,554,902	575,515,194	564,258,291
Loans granted to related parties	4,233,122	3,854,750	5,471,994	3,874,593
CKPN on the loan given	14,905,584	22,045,913	24,818,744	26,809,573
Percentage of CKPN	2.54%	3.70%	4.27%	4.72%

The data above shows that banks will make provision for CKPN which is relatively larger in 2020. This, as PSAK 71 does include forward-looking macroeconomic information as one of the considerations in calculating KKE. Macroeconomic variables used include unemployment rate, growth in Gross Domestic Product (GDP), commodity price index, rupiah exchange rate, and Bank Indonesia 7 days reverse repo rate (BI7DRR). The bank will then create several economic estimation scenarios in the future. The development of the conditions for the spread of the COVID-19 virus certainly deserves to be taken into account in making this scenario and to estimate the possibility of which macroeconomic scenario is more dominant.

Based on the development of the CKPN data from the 5 banks presented above, the value of CKPN is getting bigger in the fourth quarter of 2020. This of course will affect the amount of bank capital and profits because the formation of large CKPN will cause the funds provided for provision for losses to be bigger, so which will reduce profits. However, on the other hand, a larger reserve in the banking industry aims to safeguard and anticipate bank failures in the face of future crisis risks, as the background of the emergence of this standard is in response to the failure of the financial sector in anticipating credit defaults due to the economic crisis. in 2008.

The credit restructuring policy directly affected the adoption of the new standard of PSAK 71 for Financial Instruments, particularly concerning the formation of Allowance for Impairment Losses (CKPN) using the Expected Credit Loss (ECL) method. Different from normal conditions, credit restructuring during the COVID-19 pandemic did not make the CKPN status of the debtor who received the restructuring policy down from Stage 1 (performing) to Stage 2 (underperforming) or Stage 3 (nonperforming) but remained at Stage 1 (performing) and the authorities allow banks not to recognize any additional

CKPN. The restructuring also did not result in an indication of debtors whose loans were automatically restructured to experience a significant increase in credit risk.

Supposedly in the presence of a significant increase in credit risk, banks should have me do a reclassification from Stage 1 to Stage 2 (under-performing). And if the debtor has difficulty paying and causes the credit to become bad, then includes restructured loans, then the bank must categorize it in Stage 3 (non-performing).

The regulations set by the government are intended to support economic growth by encouraging the optimization of banking performance and maintaining financial system stability. However, government intervention also has the potential to disrupt the fundamental quality of financial reporting. Maintaining the relevance and accurate representation of financial reports is a challenge for the banking sector. Moreover, banks must be very careful in implementing these policies and regulations so that there is no abuse (moral hazard) by irresponsible parties. Complete and informative disclosures will be very important for users of financial statements.

CONCLUSION, SUGGESTIONS, AND LIMITATIONS

The COVID-19 pandemic has a significant impact on the Indonesian economy. This has prompted the government to issue various policies or regulations to encourage economic recovery in Indonesia. One of the policies issued was the Financial Services Authority (OJK) Regulation which regulates the relaxation of credit restructuring for debtors affected by COVID-19. Credit restructuring is a loan repayment relief at a bank/leasing. The forms of credit/financing relief that banks/leasing can provide include lowering interest rates, extending time, reducing principal arrears, reducing interest arrears, adding credit/financing facilities, and converting credit/financing into temporary capital participation. The restructuring policy can be carried out by banks regardless of credit/financing ceiling limits or the type of debtor and is valid until March 31, 2022.

Besides, this study concludes that in 2020 there will be a significant increase in the percentage of CKPN on loans given when compared to 2019. This is reasonable considering that the KKE method in PSAK 71 includes forward-looking macroeconomic information as one of the variables. The condition of the COVID-19 pandemic, which is still ongoing until now, will certainly make future macroeconomic projections not very good, causing banks to need to make larger reserves as an anticipatory step. With the significant increase in CKPN, banks should have reclassified the risk status of financial instruments, however, government policy intervention limited the reclassification treatment.

This research still has many limitations, especially related to the research approach method and the limited data used. Therefore, further research should be able to add research approach methods such as conducting interviews with affected parties (banks and debtors) to find out the actual conditions in the field. This study also uses interim financial reports so that it does not get complete information on related topics that might be extracted from notes on financial statements in annual financial reports. Further research may be carried out after the publication of the annual banking financial reports as of December 31, 2020, so that more comprehensive data can be obtained.

REFERENCES

- Beerbaum, D. (2015). Significant Increase in Credit Risk According to IFRS 9: Implications for Financial Institutions. *International Journal of Economics & Management Sciences*, 4(9), 9–11. <https://doi.org/10.4172/2162-6359.1000287>
- Bholat, D., Lastra, R., Markose, S., Miglionico, A., & Sen, K. (2018). Non-performing loans at the dawn of IFRS 9: Regulatory and accounting treatment of asset quality. *Journal of Banking Regulation*, 19(1), 33–54. <https://doi.org/10.1057/s41261-017-0058-8>
- Dedy, Johannes, R., & Muksin, A. (2018). The Preparation of Banking Industry in Implementing IFRS 9 Financial Instruments (A Case Study of HSBC Holdings Plc Listed on London Stock Exchange of Year 20152017). *International Journal of Economics and Financial Issues*, 8(6), 124–136. Retrieved from <http://repository.bakrie.ac.id/id/eprint/1439>
- Financial Services Authority Regulation Number 11/POJK.03/2020. *Stimulus Perekonomian Nasional Sebagai Kebijakan Countercyclical Dampak Penyebaran Coronavirus Disease 2019*. , Pub. L. No. 11/POJK.03/2020 (2020).
- Financial Services Authority Regulation Number 48/POJK.03/2020. *Perubahan atas Peraturan Otoritas Jasa Keuangan Nomor 11/POJK.03/2020 tentang Stimulus Perekonomian Nasional Sebagai Kebijakan Countercyclical Dampak Penyebaran Coronavirus Disease 2019*. , Pub. L. No. 48/POJK.03/2020 (2020).
- Gebhardt, G. (2016). Impairments of Greek Government Bonds under IAS 39 and IFRS 9: A Case Study. *Accounting in Europe*, 13(2), 1–28. <https://doi.org/10.1080/17449480.2016.1208833>
- Groff, M. Z., & Mörec, B. (2020). IFRS 9 Transition Effect on Equity in A Post Bank Recovery Environment: The Case of Slovenia. *Economic Research-Ekonomiska Istrazivanja*, 1–17. <https://doi.org/10.1080/1331677X.2020.1804425>
- Ilat, V., Sabijono, H., & Rondonuwu, S. (2020). Evaluasi Penerapan PSAK 71 Mengenai Instrumen Keuangan Pada PT. Sarana Sulut Ventura Manado (Evaluation of The Application of Article 71 Regarding Financial Instruments at PT. Sarana Sulut Ventura Manado). *Going Concern: Jurnal Riset Akuntansi*, 15(3), 514–520. <https://doi.org/10.32400/gc.15.3.30178.2020>
- Landini, S., Uberti, M., & Casellina, S. (2019). Credit risk migration rates modelling as open systems II: A simulation model and IFRS9-baseline principles. *Structural Change and Economic Dynamics*, 50(July), 175–189. <https://doi.org/10.1016/j.strueco.2019.06.013>
- Lie, P., & Sumirat, E. (2018). Implementation of IFRS 9 for Banking in Indonesia. *11th International Conference on Management, Law, Economics and Interdisciplinary Studies (MLEIS-18)*, (14), 101–106. <https://doi.org/10.15242/DiRPUB.DIRH0118207>
- Mardalis. (1999). *Metode Penelitian Suatu Pendekatan Proposal (Research Methods A Proposal Approach)*. Jakarta: Bumi Aksara.
- Novotny-Farkas, Z. (2016). The Interaction of The IFRS 9 Expected Loss Approach with Supervisory Rules and Implications for Financial Stability. *Accounting in Europe*, 13(2), 197–227. <https://doi.org/10.1080/17449480.2016.1210180>
- Onali, E., Ginesti, G., & Ballestra, L. V. (2017). Investor Reaction to IFRS for Financial Instruments in Europe: The Role of Firm-Specific Factors. *Finance Research Letters*,

- 21, 72–77. <https://doi.org/10.1016/j.frl.2017.01.002>
- Parveen, H., & Showkat, N. (2017). *Content Analysis*. e-Pg Pathshala.
- Pucci, R., & Skærbæk, P. (2020). The Co-Performance of Financial Economics in Accounting Standard-Setting: A Study of The Translation of The Expected Credit Loss Model in IFRS 9. *Accounting, Organizations and Society*, 81, 101076. <https://doi.org/10.1016/j.aos.2019.101076>
- Rizal, A. P., & Shauki, E. R. (2019). Motive and Obstacle Bank As Early Adopters of PSAK No. 71 for Allowance for Impairment Losses (CKPN) of Loan). *Jurnal Akuntansi Dan Keuangan Indonesia*, 16(1), 83–107.
- Sarwono, J. (2006). *Metode Penelitian Kuantitatif dan Kualitatif (Quantitative and Qualitative Research Methods)* (1st ed.). Yogyakarta: Graha Ilmu.
- Serrano, A. S. (2018). Financial Stability Consequences of The Expected Credit Loss Model in IFRS 9. *Revista de Estabilidad Financiera*, 34, 81–99.
- Suroso. (2017). Penerapan PSAK 71 dan Dampaknya Terhadap Kewajiban Penyediaan Modal Minimum Bank (The application of PSAK 71 and Its Impact on The Bank's Minimum Capital Adequacy Requirements). *Jurnal Bina Akuntansi*, 4(2), 157–165.
- Vaněk, T., & Hampel, D. (2017). The Probability of Default Under IFRS 9: Multi-Period Estimation and Macroeconomic Forecast. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, 65(2), 759–776. <https://doi.org/10.11118/actaun201765020759>
- Volarević, H., & Varović, M. (2018). Internal Model for IFRS 9 - Expected Credit Losses Calculation. *Ekonomski Pregled*, 69(3), 269–297. <https://doi.org/10.32910/ep.69.3.4>
- Witjaksono, A. (2017). Dampak ED PSAK 71 Intrumen Keuangan Terhadap Pedoman Akuntansi Perbankan Terkait Kredit (Impact of ED PSAK 71 Financial Instruments on Banking Accounting Guidelines Related to Credit). *Jurnal Online Insan Akuntan*, 2(1), 35–48. <https://doi.org/10.5281/zenodo.3368520>
- Witjaksono, A. (2018). Perbandingan Perlakuan Akuntansi Kredit Menurut PSAK 55, PSAK 71, dan Basel pada Bank Umum (Comparison of Credit Accounting Treatment According to PSAK 55, PSAK 71, and Basel in Commercial Banks). *Jurnal Online Insan Akuntan*, pp. 111–120. <https://doi.org/10.5281/zenodo.3368478>
- Xu, X. (2016). Estimating Lifetime Expected Credit Losses Under IFRS 9. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2758513>