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IMPACT OF IFRS 7 IMPLEMENTATION COMPLIANCE IN NATIONAL BANKING ON CAPITAL MARKET TRUST IN INDONESIA

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Abstract.

The aim of this paper is on the implementation of IFRS 7 Financial Instruments: Disclosure. This standard requires banks to make several disclosures about the significance of financial instruments for the financial position and financial performance of the entity concerned, and the nature and level of risk faced by the entity in relation to financial instruments, both in quantitative and qualitative terms. This research was conducted at the National Bank of the Indonesian Capital Market. The results of this study indicate that the adoption of IFRS by companies in the capital market has the effect of increasing the comparability and transparency of financial information. The application of strict accounting standards ensures that capital market participants have access to high quality information. Market analysts also benefit from the adoption of IFRS as they are the most important users of financial statements; this matter caused by increased relevance, transparency and comparability of accounting information.

Keywords: IFRS 7 Implementation Compliance, Capital Market Trust

JEL Classification Codes: D24, E22, G21.

1. Introduction

This paper examines banking compliance with IFRS implementation regarding the significance of financial statement disclosure instruments in national banks so that it affects capital market confidence. In this paper, we are interested in IFRS 7 Financial Instruments: Disclosures. This standard requires banks to make several disclosures about the significance of financial instruments for the financial position and financial performance of the entity concerned, and the nature and level of risk faced by the entity in relation to financial instruments, both in quantitative and qualitative terms (Rahmi et al., 2022). While the Standard should be applied by all companies engaged in financial instruments, it is likely to have a very strong effect on the banking industry, where financial instruments on average account for more than 90% of total assets and liabilities. Based on observations from the consolidated financial statements for the financial year. 2006 and 2007, this study examines the effect of first-time adoption of IFRS 7 on disclosure and presentation choices by Indonesian national banks and thus on overall disclosure quality.

The results explain how the introduction of more specific and mandatory disclosure requirements changed previous voluntary disclosures of information, and provides insight into how the introduction of additional voluntary disclosure recommendations affects the behavior of financial statement preparers. To explain cross-country differences in changes in disclosure quality, further research investigates how various institutional arrangements at the national level affect the adoption of IFRS 7. Corporate disclosures can enable outsiders to assess an entity's future economic performance (Schrand, C.M. and Elliott, 1997). In a world characterized by information asymmetry, managers know more about the expected financial performance of their companies. However, they may have incentives to withhold unfavorable value-relevant information (Sengupta, 1998). According to this line of thinking, success in meeting (failure to meet) the information needs of outsiders may have a positive (negative) impact on firm value because it eliminates information asymmetry that may exist because the firm's cost of equity capital should therefore fall due to declining risk and stock market liquidity (Syarif et al., 2022).

The development of trust (or positive expectations) from the public and potential investors is a fundamental variable in marketing strategy; which aims at creating relationships with investors. Potential investors and the public must be able to feel that the company is reliable (Maharani, 2010). Trust can be the foundation of a business. A transaction will occur when trust has been built between two or more parties. It can be said that in order for individuals to want to invest, trust and confidence is needed by an individual or investor in the issuer or the Indonesian capital market to build sustainability (Tang, T.W., & Chi, 2016).

2. Literature Review

2.1 Trust

Trust is defined as the subjective probability of an individual attributable to the probability that the individual is deceived (Guiso, 2009). Trust does not only function as loss aversion; the opposite ofrisk taker. According to (Guiso, 2009) Individual with natureloss aversionshould be more self-assured (of an object), but individuals with low confidence are more likely to not convince themselves. In terms of investing, individuals withloss aversiontend to choose to invest in capital market investment products that have little risk, in contrast to individuals with low confidence who will tend to avoid the capital market.

People who are not knowledgeable enough in investing will tend to follow the advice and recommendations of experts on social media, forums or newspapers. In research (Hackethal, A., Inderst, R. & Meyer, 2012) investors who rely on advice will make transactions in more volume. There is a relationship of trust that occurs between investors and experts so that a transaction occurs. So, trust is a factor or feature sought by investors in providing financial services (Hung, Angela A, Noreen Clancy, Jeff Dominitz, Eric Talley, 2008) and the results are also correlated with research results in the financial advisory section (Burke & Hung, 2021). Likewise in a research survey (Guiso, 2009) it was found that participation in the capital market is not only based on general trust.

Several other studies also show the importance of trust in investment, such as research conducted by (Guiso, 2009) regarding the importance of trust in bilateral trade in goods, financial assets and foreign direct investment. In the study of Botazzi et al. (2016), it is also shown the importance of the trust factor in making and determining investments inventure

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capital(VC). Moreover, trust is an essential element of any commercial transaction. Lack of trust between the two parties can create costs or more troublesome things like wasting time in searchingbrokerand add contracts to strengthen security. (Ben-Ner & Halldorsson, 2010) adds that trust is considered a central concept for understanding economic, social and political ehaviour. The author argues that trust can help interactions in economic, business and social.

(Vuk, K., Pifar, A., & Aleksić, 2017) used a question questionnaire to measure the general level of trust in others. The questionnaire aims to measure 2 main factors that shape trust in general, namely the belief that other people are basically honest and the belief that trusting others is an act risky. Using indicators such as ability (abilities), benevolent behavior (benevolence), and integrityor (integrity) in the measurement of the confidence variable.

2.2 International Financial Reporting Standard (IFRS)

The standards that form the basis for forming IFRS are known internationally. Accounting Standards (IAS). IAS was published between 1973 and 2001 by the International Accounting Standards Committee (IASC). According to (Kartikahadi, 2016) IAS is an International Accounting Standard for financial reporting compiled by the IASC. In 2000, the IASC member bodies approved the restructuring of the IASC and a new IASC constitution. In March 2001, the IASC Board of Trustees issued a new constitution for the IASC and established a non-profit company called the International Foundation Accounting Standards Committee to oversee the International Accounting Standards Board (IASB). The IASB is an accounting standard setting body based in London. Consists of 15 members from nine countries including the United States. On April 1, 2001, the new IASB took over the responsibility of the IASC for setting International Accounting Standards (IASC, 2001). The IASB continues to develop its standards which are now known as the International Financial Reporting Standard (IFRS). IFRS is an accounting standard development developed by the IASB based on global standards which is prepared for the financial statements of companies that have been supported by more than 100 countries and international bodies in the Global IAI world. International Accounting Standards are prepared by four major world organizations, namely the International Accounting Standards Board (IASB), the Commission of the European Union/Europe Commission (EC), the International Organization of Security Commission (IOSCO), and the International Federation of Accountants (IFAC). IFRS is an accounting standard development developed by the IASB based on global standards which is prepared for the financial statements of companies that have been supported by more than 100 countries and international bodies in the Global IAI world. International Accounting Standards are prepared by four major world organizations, namely the International Accounting Standards Board (IASB), the Commission of the European Union/Europe Commission (EC), the International Organization of Security Commission (IOSCO), and the International Federation of Accountants (IFAC). IFRS is an accounting standard development developed by the IASB based on global standards which is prepared for the financial statements of companies that have been supported by more than 100 countries and international bodies in the Global IAI world. International Accounting Standards are prepared by four major world organizations, namely the International

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Accounting Standards Board (IASB), the Commission of the European Union/Europe Commission (EC), the International Organization of Security Commission (IOSCO), and the International Federation of Accountants (IFAC).

Since April 1, 2001, the IASB replaced the role of the IASC in preparing accounting standards and began to issue IFRS. The terms related to IFRS are known as adoption and convergence. At the country level, adoption means the direct replacement of national accounting standards with IFRS. The term adoption was taken by member countries of the European Union (EU), which since 2005 have fully implemented IFRS. Meanwhile, convergence is a gradual mechanism carried out by a country to replace its country's national accounting standards with IFRS to minimize the differences between the two. Convergence is generally carried out in developing countries such as Indonesia. Even though it's not is a full adoption, convergence shows little difference with IFRS. The difference is usually in terms of time of application or a few exceptions in certain standards.

2.3 IFRS 7 Regarding Disclosure of Financial Instruments

IFRS 7 on Disclosure of Financial Instruments requires information about the importance of disclosure of financial instruments for an entity, as well as the nature and magnitude of the risks arising from financial instruments, both in terms of qualitative and quantitative. Special disclosures are required in relation to transferred financial assets and other matters (Zufrizal et al, 2022). IFRS requires certain disclosures to be presented based on the instrument category based on the measurement category IAS 39 Disclosure of financial instruments is a must for the group of entities that are presented with the instrument classified according to the instrument. The disclosures contained in IFRS 7 are as follows.

Table 1.Disclosure Criteria

No	Reference to IFRS 7 par.	Group of criteria
1	IFRS 7: 8	Categories of financial assets and financial liabilities
2	IFRS 7: 9 – 11	Financial assets or financial liabilities at fair value through profit or loss
3	IFRS 7: 12	Reclassification
4	IFRS 7: 13	Derecognition
5	IFRS 7: 14,15	Collateral
6	IFRS 7: 16	Allowance account for credit losses
7	IFRS 7: 17	Compound financial instruments with multiple embedded derivatives
8	IFRS 7: 18-19	Default and breaches
9	IFRS 7: 20	Statement of comprehensive income
10	IFRS 7: 21	Accounting policies
11	IFRS 7 : 22-24	Hedge accounting
12	IFRS 7 : 25-30	Fair value
13	IFRS 7 : 31-42	Nature and extent of risks arising from financial instrument – general

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3. Methodology

This research is a descriptive research with a qualitative approach. According to (Sugiyono, 2013) qualitative descriptive method is a research method based on postpositivism philosophy is used to examine the condition of natural objects (as opposed to experiments) where the researcher is the key instrument of data collection techniques carried out by trigulation (combined), data analysis is inductive/qualitative, and qualitative research results emphasize meaning rather than generalization. Qualitative descriptive research aims to describe, describe, explain, explain and answer in more detail the problems to be studied by studying as much as possible an individual, a group or an event. In qualitative research, humans are research instruments and the results are written in the form of words or statements that are in accordance with the actual situation (Sugiyono, 2019). This research is purely based on desktop research and library-based research. The articles reviewed are sourced from top journals and top papers on accounting. Selected articles were reviewed and their findings presented in research to help synthesize and understand the impact of IFRS on capital markets. The reviewed papers are significantly related to impact (Kimeli, 2018).

3.1 Research Time Location

This research was conducted at the National Bank on the Indonesian Capital Market in 2022.

3.2 Data Collection Techniques

In qualitative research, the quality of research is highly dependent on the quality and completeness of the data produced. Questions that are always considered in data collection are what, who, where, when, and how. Qualitative research relies on triangulation of data generated from three methods: interviews, participant observation, and review of organizational records. In qualitative research, data collection usually uses the methods of observation, documentation and interviews. It is also possible to use non-human sources of information, such as documents and available records (Kristanto, 2018).

3.3 Data Analysis

The data analysis in this paper is as follows:

1. Interview employees and users involved in company activities
2. Make observations related to the problems studied.
3. Documentation of the data required and permitted by the company under study.
4. Conducting analysis related to the applicable tax rules in accordance with the transactions that occur.

4. Results and Discussion

4.1 Implementation of IFRS in the Capital Market

The adoption of IFRS by companies around the world has the effect of increasing comparability and transparency of financial information so as to help reduce the cost of preparing financial statements by companies globally and potentially reduce the cost of producing financial statements. The application of strict accounting standards ensures that

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capital market participants have access to high-quality information so that they are able to make better investment decisions. Due to the adoption of IFRS, the capital market efficiently allocates funds as a result of which firms have a lower cost of capital. The demand for high-quality accounting standards that help improve the comparability and quality of financial reports encourages the development of local financial markets and also helps increase international market integration, as many investors including foreigners will be attracted to markets using IFRS.

4.2 IFRS and Comparability of Financial Information

A review to determine the main consequences of IFRS adoption between 2000 and 2013 was conducted by (Lourenço, I. M. E. C., & Branco, 2015). They reviewed 67 journal articles and observed that in general, the adoption of IFRS leads to an increase in accounting quality, an increase in the ability of capital market analysts to predict, an increase in comparability of accounting information and a better use of accounting information. They further noted that the achievement of the above results was not automatic because country factors and company factors played a role. They conclude by arguing that the use of general rules is not sufficient to create a common business language because management incentives and institutional factors influence financial reporting.

Market analysts also benefit from the adoption of IFRS as they are the most important users of financial statements; this is due to the increased relevance, transparency, and comparability of accounting information. An examination of the impact of international GAAP differences on foreign analysts, studied by (Bae, K., Tan, H., & Welker, 2008). They sampled 6,888 analysts drawn from 49 countries around the world in the period 1998 to 2004. They observed that the closer a country's GAAP is to IFRS, the closer it is to IFRS.

The higher the probability of being followed by foreign analysts and therefore the analyst is able to provide more accurate results. Forecast for the company. A limitation of this study is that worldwide adoption of new IFRS began in 2005, so the findings of this study may not be reliable for drawing conclusions about the current IFRS regime. Cross-border investment effects and comparability of accounting information under IFRS were carried out by (Bae, K., Tan, H., & Welker, 2008). They took a sample of 14 European Union country companies from 2003 to 2007 excluding 2005 which was the year of IFRS adoption in Europe. This study uses regression analysis to examine the effect of cross-border comparability and investment. The study surveyed foreign mutual fund investments using IFRS.

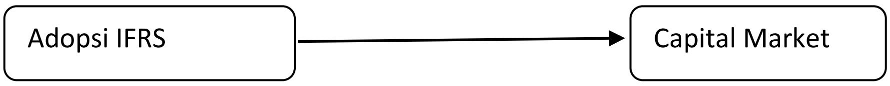

Figure 1. Conseptual Framework 1

4.3 Impact of IFRS 7 Implementation in National Banking on Capital Market Trust

So far, investigations have been limited to the European level. Therefore, the finding that IFRS 7 has encouraged banks to disclose more information about risk exposures and accounting policies is not always applicable at the national level. While the average risk

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disclosure increased, there was some variation at the country level, with the smallest increase of 0 pages in Estonia and the largest increase of 15.5 pages in Lithuania. It is possible that national factors account for the differences. Further examination of these factors is of academic interest; immediately after the implementation of IFRS accounting throughout the European Union, Accounting in Europe published a controversial debate about the need for consistent application of standards across countries. Whereas Alexander (2006) suggests that IFRS will continue to be interpreted differently in different cultural contexts (which is in line with predictions by Nobes (2006), Wüstemann and Kierzek (2006) argue that a uniform interpretation of accounting standards will improve comparability. Financial statements which are the main reason for the regulation of IAS 1606/2002. The data presented here cannot provide a conclusive answer to the normative issues raised in this discussion, however, it can at least provide some evidence regarding the level of uniformity that is currently being achieved, as is the case in Indonesia, with the development of the business world of multinational and international companies, the need for uniformity of financial statements that can be achieved. Understood globally.

Implementation of IFRS No. 7 in Indonesia has indicated that the companies in the banking sector listed on the Indonesian Stock Exchange which are included in the sample of this research have complied and followed the international standards applied by Indonesia. the thing can have a positive impact on investment in Indonesia because the company has issued financial reports that are in accordance with international standards and can facilitate the language of transactions in financial reports. In this way, it can make it easier for investors and prospective investors to understand the position and financial performance of the company as a measuring tool in determining an investment

Advantages of IFRS That Affect Capital Market Confidence

Making a change from PSAK to IFRS means that you are adopting a global financial reporting language, which will make your company (business) understandable to the global world market. Thus, if your company's performance does have a reasonable selling point, then the company's potential will be better than when your company has not adopted IFRS in preparing its financial statements. The big-5 accounting firms often say that many of the companies that have adopted IFRS have made significant progress in meeting their goal of entering the world capital market (global). Pricewaterhouse Coopers in its publication "Making a Change to IFRS" says: "Financial reporting that is not easily understood by global users is unlikely to bring new business or capital to a company. This is why so many are either voluntarily changing to IFRS, or being required to by their governments. Communicating in one language to global stakeholders enhances confidence in the business and improves finance-raising capabilities. It also allows multinational groups to apply common accounting across their subsidiaries, which can improve internal communications, and the quality of management reporting and group decision-making. At the same time, IFRS can ease acquisitions and divestments through greater certainty and consistency of accounting interpretation. In increasingly competitive markets, IFRS allows companies to benchmark themselves against their peers worldwide, and allows investors and others to compare the

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company's performance with competitors globally. Those companies that do not make themselves comparable (or can't, because national laws stand in the way) will be at a disadvantage and their ability to attract capital and create value going forward will be undermined"

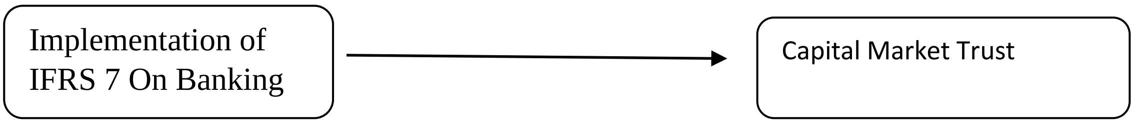

Figure 2. Conseptual Framework 2

5. Conclusion

The adoption of IFRS by companies around the world has the effect of increasing the comparability and transparency of financial information thereby helping to lower the costs of preparing reports financial statements by companies globally has the potential to reduce the cost of producing financial statements. Implementation of IFRS No. 7 in Indonesia has indicated that the companies in the banking sector listed on the Indonesian Stock Exchange which are included in the sample of this research have complied and followed the international standards applied by Indonesia. investigations have been limited to the European level. Therefore, the finding that IFRS 7 has encouraged banks to disclose more information about risk exposures and accounting policies is not always applicable at the national level. While the average risk disclosure increases, there is indeed some variation at the country level.

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