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COMPARATIVE ANALYSIS OF EARNINGS MANAGEMENT BEFORE AND AFTER IMPLEMENTATION OF IFRS 9

(Empirical Study of Banking Sector in Emerging Market)

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Abstract

This research investigates the impact of implementing IFRS 9 on earnings management practices in the Indonesian banking sector. Focusing on the period before and after the implementation of the new standards, this research uses data from 47 banking companies listed on the Indonesia Stock Exchange during the 2017-2022. The purposive sampling method was used for data collection. The research results show significant differences in earnings management practices before and after the implementation of IFRS 9. Banks use discretionary accruals, especially through allowances for impairment losses, to adjust their accounting practices to the new standard. These findings suggest that new accounting standards influence corporate financial behavior, with banks using earnings management strategies to mitigate their impact. In this article, the theoretical and practical implications of these findings are discussed in depth.

Keywords: *Earnings Management, IFRS 9, Allowance for Impairment Losses; Banking search engine.*

1. INTRODUCTION

Based on the agreement of the G-20 (Group of Twenty) members, Indonesia adopted the International Financial Reporting Standard (IFRS). The adoption of IFRS is in line with the aim of the formation of the G-20, namely to connect developed and developing countries and achieve global economic growth and prosperity in the future (G20, 2008).

Statement of Financial Accounting Standards (PSAK) 71, currently called IFRS 9 (Indonesian Accountants Association, 2023), which regulates financial instruments, is an application of IFRS 9 in Indonesia. On 1 January 2020, IFRS 9 caused enormous changes to the previous accounting standard, namely PSAK 55 (Indonesian Accountants Association, 2017) or IAS 39. Changes to these standards include changes in the classification and valuation of financial instruments, handling impairment of financial instruments, application of the anticipated credit loss method in assessing impairment of financial instruments, and improvements in the hedge accounting model. The impact of these changes includes increased volatility in profit/loss, earlier recognition of impairment of receivables and credits, and the need for broader disclosure of information in financial reports (PWC Indonesia, 2019). The main change introduced by IFRS 9 is in the calculation of Allowance for Impairment Losses (Sibarani, 2021). Calculation of credit losses in Allowance for Impairment Losses no longer relies on objective evidence that is detected but is updated continuously and recognized from the initial recognition until maturity, even if there are no signs of decline, such as an increase in the risk of default by the borrower (Indramawan, 2019).

The expected credit loss model in IFRS 9 will speed up the recognition of impairment losses, increasing the value of the Allowance for Impairment Losses formed. Allowance for Impairment Losses is a part of operational costs that will reduce operational profit, as recorded in the profit and loss statement. A decrease in profits is an unfavorable signal received by shareholders. According to classical agency theory, managers tend to prioritize their interests to the detriment of the interests of company owners. In addition, pressure from investors to obtain accurate and high-quality information provides incentives for banks to manage their financial reports in such a way that they reflect additional information about the banking prospects. In response to these dynamics, bank managers often use earnings management practices to convey confidential information about their Bank's financial condition (Jensen & Meckling, 1976). Earnings management is an action by company management

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to influence the value of profits recorded in financial reports (Corporate Finance Institute, 2020). According to Scott (2015: 445), earnings management is defined as decisions taken by managers regarding accounting policies (involving accruals) or actual actions that can influence income to achieve specific goals. The approaches engaged in earnings management can often blur the line between ethically acceptable manipulation to manage earnings and dishonest actions aimed at manipulating markets or covering up poor performance. Therefore, strict regulations and adequate supervision are crucial in dealing with issues related to earnings management to maintain the reliability of financial information.

In the context of the banking sector, provisions for credit losses are essential because provisions for credit losses have a significant impact on bank interest margins. In addition, supervisory authorities are particularly interested in calculating provisions for the various risks that banks face. Supervisors pay special attention to credit loss requirements because credit risk is the most significant and most important (Bojar, 2023). According to Kim (2021), transitioning to a credit loss estimation model based on credit expectations increases accuracy in estimating credit losses at the right time. The approach in the IFRS 9 model provides more room for bank managers to make decisions in determining the allocation of credit losses, which can lead to discretionary behavior. This discretionary action reflects the bank manager's intention to manage earnings (Caporale, 2018).

Based on previous research, research by Casta et al. (2019) analyzed the initial implementation of IFRS 9. The focus was on the short-term results of implementing the standard, primarily related to the decrease in retained earnings and other equity reserves due to implementing the reserve-based model. Researchers found that banks tend to reduce or increase the level of loss reserves they can manage independently when the negative impact on profits is smaller or larger. This shows the practice of income smoothing.

Taylor & Aubert (2022) assess whether the use of profit before tax and credit loss reserves for income smoothing under IFRS 9 is significantly higher. The results show that, after adopting IFRS 9, the European sub-sample and the African sub-sample were divided. The researchers found evidence that income smoothing through profit before tax and credit loss provisions increased in the European sub-sample. In contrast, the findings show that income smoothing through profit before tax and credit loss provisions decreases in the African sub-sample. C.K. Lam et al. (2023) evaluate the influence of social trust on the effect of implementing IFRS on earnings management. Researchers found that companies implementing IFRS were likelier to report more aggressive accruals and positive small profits after the IFRS implementation period than those that unimplemented IFRS.

In addition, we find that the level of social trust also influences earnings management practices. The research of Norouzpour et al. (2023) aims to compare capital and earnings management carried out by banks in Europe before and after the implementation of IFRS 9. The results show that earnings management has improved significantly compared to the period before IFRS 9, and capital management has also improved considerably compared to the previous period. Improvements in earnings management are evident in banks located in countries with low levels of regulatory quality. Nandi et al. (2023) investigate the mediating role of IFRS 9 on earnings management in European banks. The results show that increasing the share of non-interest income from total assets lowers the Bank's risk and provides better diversification, reducing credit loss provision. When a bank's risk increases, the Bank shows this by increasing its credit loss reserves. It shows that European banks' adoption of IFRS 9 does not increase income smoothing, and earnings management behavior does not change. Jakubíková (2022) determines whether the provision for credit losses provided by the new rules of IFRS 9 allows banks to achieve income smoothing. The results show strong evidence contrary to the hypothesis, the hypothesis that banks use credit loss reserves to increase their profits is rejected. These results may indicate that during the observed period, IFRS 9 provided transparency and reliability of loss reserve disclosure information in the financial statements of European banks.

Based on several previous studies, no agreement shows consistent results between studies. Discrepancies in research results are caused by factors that influence one study but do not impact other studies, such as differences in sample, time, and population. Therefore, this study is intended to provide the latest and most accurate results regarding earnings management practices in Indonesia, especially in banking sector companies.

2. Literature Review

Jensen & Meckling (1976) explain that an agency relationship occurs when the principal engages the services of an agent to perform tasks on their behalf. Still, the agent may not always act in the principal's interests. The principal incentivizes the agent to make the best decisions in the principal's interests, such as bonuses for satisfactory performance. However, agency costs arise when the agent's interests are not aligned with those of external shareholders, which can result in earnings management. Managers can influence the presentation of financial reports by choosing accounting methods that support performance achievement through the use of capital and the preparation of appropriate financial reports.

In earnings management, managers manipulate judgment or discretion to influence financial reports to achieve results that depend heavily on accounting numbers (Healy & J. M. Wahlen, 1999). It can reduce the transparency of financial reports and mislead stakeholders about the company's economic performance (Stein, 1989). The strategies include estimating accounts receivable losses, inventory valuation, depreciation policy, and revenue recognition methods Maigoshi et al. (2016). There are two types of earnings management, namely accrual earnings management and real earnings management (Susanto, 2017). Managers carry out earnings management for various reasons, including

*Corresponding Author: **Elvira Luthan.**

influencing the market, increasing compensation, reducing the risk of violating credit agreements, and avoiding regulatory interference (Healy & J. M. Wahlen, 1999).

IFRS 9, which is the result of the convergence of IFRS 9 Financial Instruments, is regulated by the Financial Accounting Standards Board of the Indonesian Accountants Association (DSAK IAI) and is effective from 1 January 2020 (Indonesian Accounting Association (IAI), 2020). IFRS 9 contains provisions for assessing credit losses, where losses or impairment gains/losses are recognized in profit or loss. Credit loss assessments are carried out throughout the period when financial assets are first identified, and entities must update this assessment without waiting for objective evidence detected by the Indonesian Accounting Association (IAI) (2020). The credit loss assessment stage in Allowance For Impairment Losses covers low to high risk, with Expected Credit Loss (ECL) carried out within a specific time per the classification of the credit risk stage. IFRS 9 aims to provide comprehensive and accurate information for decision-making in bank credit risk management Indonesian Bankers Association (2019).

Based on IFRS 9 of the Indonesian Accounting Association (IAI) (2020), an entity applies impairment requirements retrospectively following IAS 8. At the time of initial application, the entity uses reasonable and verifiable information that is available without requiring excessive cost or effort to assess credit risk. When the financial asset is first recognized or when credit commitments and financial guarantee contracts are formed when the entity becomes a party to an irrevocable commitment. In evaluating whether there has been a significant increase in credit risk since initial recognition, an entity may consider (1) the terms of and (2) the presumption that contract payments have been delayed for more than 30 days.

At the time of initial implementation, if determining whether there has been a significant increase in credit risk since initial recognition would require high costs or effort, then the company should record a credit provision reflecting the number of credit losses over time at each financial statement date until the financial instrument is unrecognized (Institute of Indonesian Accounting (IAI), 2020). According to the Indonesian Bankers Association (2019), the impairment model in IFRS 9 aims to provide comprehensive, accurate, structured, and relevant information that is used as a basis for the decision-making process. Therefore, based on IFRS 9, assessing losses on financial assets, such as credits in Allowance For Impairment Losses, will continue to be updated and recognized from initial recognition to maturity without waiting until objective evidence is found. If, during a period, there is an indication of a decline, there is an increase in the risk of default by the borrower.

Allowance For Impairment Losses based on IFRS 9 has three stages that assess the level of risk, starting from low to high. In the first stage, the classification is credit with low or small risk. In the second stage, the classification is when there are indications of a significant increase in credit risk. Then, in the third stage, the classification is when the debtor is unable to pay the installments or credit obligations and when Non Performing Loans occurs, then credit restructuring being carried out (Indonesian Bankers Association, 2019).

2.1. Review of Previous Research

Several previous studies can be used to compare and analyze differences in earnings management practices. The presence of gaps in this research led to further studies. The differences in several study results are caused by variations in factors that are significant in one study but have no impact in other studies. These variations arise due to differences in samples, periods, and populations used in each study.

Casta et al.'s research (2019) analyzed the first implementation of IFRS 9. The focus was on the short-term impacts arising from the implementation of the standard, in particular regarding the decrease in retained earnings and other equity reserves due to the adoption of a reserve-based model. Apart from that, it also explains how banks adjust their accounting policies to reduce this negative impact. The research approach was carried out based on two different research designs. First, bank Allowance For Impairment Losses in the first semester of 2018 was carried out using OLS (ordinary least squares) regression. The standard level of credit loss provisions is estimated by referring to several related independent associations from the first semester of 2012 to the second semester of 2016. Second, DLLP (day 1 loss provision) is estimated using OLS regression, where the day's loss (profit) first, as reported in retained earnings and other reserves on 1 January 2018, is used as the main independent variable. Next, the results obtained from the second research design were tested with robustness testing involving alternative methods for OLS regression, then tested on falsification test data. This research uses a sample of 56 public banks in the European Union. The researchers concluded that banks tend to reduce or increase the level of loss reserves they can set on a discretionary basis when the negative impact on retained earnings is more significant or less, indicating the practice of income smoothing.

Based on agency theory, Taylor & Aubert (2022) investigate whether the use of profit before tax and credit loss reserves for income smoothing is significantly higher under IFRS 9. Second, they examine the influence of country-level governance quality on profit before tax and loss reserves credit for income smoothing. Panel data from commercial banks registered in 24 countries in Europe and Africa from 2016 to 2019 were used. The final sample consists of a year-end balanced panel of 104 commercial banks registered in 22 countries across Europe and Africa. The final data set covers four years, separated into two distinct periods: the previous adoption period (2016-2017) and the post-adoption period (2018-2019). Found evidence that the post-adoption phase of IFRS 9 was associated with a decrease in the use of profit before tax and credit loss provisions for income smoothing.

Additionally, they find evidence to support that country-level governance and institutional quality limit the use of earnings before tax and credit loss provisions for income smoothing,

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suggesting that after adopting IFRS 9, the quality of governance and regulatory bodies becomes critical in exploiting optimal utility from those standards. Divided into a European sub-sample and an African sub-sample to explore potential economic heterogeneity and different institutional arrangements, the researchers found evidence of increased income smoothing through pre-tax profits and credit loss provisions in the European sub-sample post-adoption of IFRS 9. In contrast, the findings showed decreased income smoothing through profit before tax and credit loss provisions post IFRS 9 in the African sub-sample.

C.K. Lam et al. (2023) examine the role played by social trust in the influence of IFRS adoption on earnings management. Based on observations from 7,936 different company years, including 922 companies that implemented IFRS and another 922 companies that did not, we found that companies that implemented IFRS tended to report more aggressive accruals and were more likely to report positive small earnings compared to companies that do not apply IFRS after the IFRS application period. This result aligns with the findings of Ahmed et al. (2013), which state that the mandatory implementation of IFRS can reduce the quality of earnings reports. We also compare the effect of IFRS implementation on earnings management between groups of companies with low and high levels of trust. The more aggressive use of accrual reporting to avoid reporting losses by IFRS-applying firms after adopting the standard is especially apparent in IFRS-applying firms from cultural environments with low levels of trust. In addition, we find that earnings management practices, as measured by the absolute value of discretionary accruals and setting earnings to exceed the previous year's earnings, decrease in the group of firms with high levels of trust, illustrating the importance of more robust enforcement of standards on trust.

Norouzpour et al. (2023) conducted research to compare earnings management and capital management carried out by banks in Europe before and after the implementation of IFRS 9. Implementing IFRS 9 gave banks greater freedom to recognize credit loss provisions than before. This standard allows banks to use earnings management and capital management practices more widely after implementing IFRS 9. This research can make it relevant across more banks and countries using quantitative data. In addition, this analysis can be carried out more systematically than if qualitative data were used for fewer banks. Data is compiled from Thomson Reuters, with industry restrictions to the banking sector, region to the European Union, and observations to the primary parent. Quarterly data was collected from 2015 to 2019. State and non-commercial banks were excluded from the sample, so only public banks were included due to data availability. There were 968 observations from 86 banks in 19 European countries from 2015 to 2019. The results of this research show that after the implementation of IFRS 9, there was a relative increase in earnings management compared to the period before IFRS 9. Capital management also increased relative to the previous period. Improvements in earnings management occurred mainly in banks in countries with low levels of regulatory quality. Meanwhile, in countries with high regulatory quality, there have been no significant changes in earnings management since the adoption of IFRS 9.

Using agency theory, Nandi et al. (2023) conducted research on the mediating role of IFRS 9 on earnings management in European banks, using data from 2011-2019 from 100 commercial banks in Europe. This research focuses on commercial banks in Europe. Financial data for European commercial banks was obtained from the Capital IQ database (2020). By selecting the SIC Code criteria, 6020 commercial banks, including listed and unlisted, that have been operating for at least 10 years were identified. The initial selection included 245 banks, but 145 banks were removed from the sample due to missing data. The final sample comprises 100 banks in 37 countries from 2011 to 2019. The income smoothing assumption is used as a proxy for earnings management. Therefore, the methodology section mainly focuses on the relationship between credit loss reserves, profit before tax and provisions, and net profit volatility. Finding that an increase in the share of non-interest income to total assets helps reduce bank risk and provides better diversification, thereby reducing provisions for credit losses. When a bank's risk increases, the Bank shows this by increasing its credit loss reserves. The result shows that European banks' adoption of IFRS 9 does not significantly increase income smoothing, so there is no significant difference in earnings management behavior.

Jakubíková (2022) examines whether banks carry out income smoothing using credit loss allowance provisions under the new rules of IFRS 9. Due to the relatively loose definition of provisioning principles and the use of macroeconomic forecasts under IFRS 9, a certain managerial discretion is expected to allow banks to reduce variability in earnings over time by using credit loss reserves. Data sources were obtained from the European Central Bank and Eurostat databases. The data set forms a comprehensive panel on 27 European Union member states from 2015 to 2021. The data population provides a total of 702 observations for each variable. These observations are divided into the IAS 39 period (2015 - 2017) and the IFRS 9 period (2018 - 2021), representing 324 observations in the IAS 39 period and 378 observations in the IFRS 9 period for each variable. The hypothesis that banks use credit loss reserves to smooth their profits is rejected because the data provides strong evidence that contradicts the theory. These findings may indicate that IFRS 9 provides transparency and reliability in disclosing information on loss reserves in the financial statements of European banks during the observed period. However, the results of this study may also indicate that these banks are likely using other tools to align their profits.

The implementation of IFRS 9 expands the scope of Allowance For Impairment Losses that must be formed, covering losses that have occurred (incurred losses) and expected losses (expected credit losses). It impacts increasing the number of Allowance For Impairment Losses, thereby reducing banking company profits. A decrease in profits can cause the company's performance assessment to appear less

*Corresponding Author: **Elvira Luthan.**

favorable in the eyes of stakeholders. Companies may tend to carry out earnings management to maintain positive perceptions from stakeholders. Therefore, it is suspected that there are differences in earnings management practices before and after the implementation of IFRS.

2.2. Research Hypothesis

The implementation of IFRS 9, which replaces IAS 39 concerning the valuation and recognition of financial instruments, has changed the way of calculating Allowance For Impairment Losses from an incurred loss model approach to an expected loss model in credit, which expands the scope of Allowance For Impairment Losses that financial institutions must form. The main impacts and consequences that are usually emphasized are the anticipated increase in Allowance For Impairment Losses, primarily focusing on income smoothing through earnings management, and its implications for financial stability (Krüger et al., 2018). Based on Jensen & Meckling's (1976) agency theory, the source of opportunistic managerial actions is the difference in interests between the owner and management. Management as an agent will be evaluated based on its performance in optimizing the profits of the main party, thus becoming the root of opportunistic behavior.

This thinking is supported by research showing that implementing IFRS 9 increases flexibility, resulting in variable earnings management across various compensation schemes. Taylor & Aubert (2022) examine the impact of IFRS 9 adoption on profit distribution in banks in Europe and Sub-Saharan Africa. Their findings show that banks in Europe experienced an increase in profit distribution after adopting IFRS 9 due to pressure on these banks to achieve profit targets. Norouzpour et al. (2023) researched banks in Europe, finding that after the implementation of IFRS 9, earnings management practices increased proportionally compared to the period before the implementation of IFRS 9. Casta et al. (2019) align with the income smoothing hypothesis. Their findings show that banks use discretionary authority to reduce provisions for credit losses when the negative impact of IFRS 9 on retained earnings is more pronounced.

Conversely, these provisions increase when the impact is less severe. C.K. Lam et al. (2023) examine the effects of social trust on the impact of IFRS adoption on earnings management, documenting a significant increase in the use of earnings-enhancing accruals and a small likelihood of reporting positive earnings. Cugova & Cug (2021) found that implementing IFRS can expand opportunities for using discretionary accounting methods. Based on these findings, the following research hypothesis is proposed:

H_1: There are differences in earnings management before and after implementing IFRS 9

3. Research Methods

This research is included in the Event Study introduced by Fama et al. (1969) is a valuable method for studying the effects of unexpected events. It is a powerful statistical tool, originally developed to assist academics in investigating the financial impact of changes occurring on companies in finance, accounting, and economics. The event in this research is a change in accounting policy with the implementation of IFRS 9 in Indonesia. This study uses a quantitative approach, namely, data in numbers or numbers that allow it to be processed and analyzed using mathematical or statistical calculations (Sekaran, 2016).

The research population consists of financial reports of banking subsector companies listed on the Indonesia Stock Exchange during 2017-2022, totaling 47 companies. The sample was selected using purposive sampling to obtain results from 40 sub-sector banking companies. It is the time to articulate the research work with ideas gathered in the above steps by adopting any of the suitable approaches:

Table 1. Sample Criteria

Criteria of Sample	Number of Companies
Banking sector companies listed on the Indonesian Stock Exchange for 2017 - 2022	47
Banking Companies listed on the Indonesia Stock Exchange after January 2017	(3)
Banking Companies listed on the Indonesia Stock Exchange with Sharia principles (not relevant)	(4)
Number of samples that meet the criteria	**40**

3.1. Research Variables

This research uses an earnings management variable that is proxied by the loan loss provision (LLP), as has been shown in previous research (Abdelsalam et al., 2016; Dong et al., 2012; Elnahass et al., 2014; Kanagaretnam et al., 2004; Leventis & Dimitropoulos, 2012). This study estimates the discretionary component of the allowance for credit losses. Non-discretionary elements are calculated using indicators such as non-performing loans (NPL) and net write-offs. The discretionary element is estimated by calculating the difference between the expected and actual reserve values using the Beaver & Engel (1996) model framework. Earnings management practices are assessed through discretionary accruals (DALL), which can indicate efforts to increase profits if they are positive and vice versa.

3.2. Data Analysis Method

A hypothesis test was carried out after carrying out descriptive statistical tests and passing the classical assumption test. This research uses the Paired Sample t-test to analyze paired and not independent data. Paired data refers to a situation where one research subject experiences two treatments. Two sets of sample data were obtained from the first and second treatments. This test evaluates differences in earnings management practices (DALL) between two-time groups: 3 years before implementation and 3 years after implementation, research data processed using SPSS v.25.

*Corresponding Author: **Elvira Luthan.**

4. Results and Discussion

4.1. Descriptive Statistical Analysis

From Table 2, with the implementation of IFRS 9, the mean value of discretionary accruals increased to 0.181984 from -0.179164 before implementation. After deployment, the minimum value increased from -2.308077 before deployment to -2.003845 after deployment. Also, the maximum value increased from 1.842036 before implementation to 2.308849 after implementation. The implementation of IFRS 9 is thought to cause an increase in the value of discretionary accruals during this period.

Table 2 DALL Descriptive Statistics for Events of Implementation of IFRS 9

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std Deviation
DALL_Before	120	-2.308077	1.842036	-0.179164	0.714157
DALL_After	120	-2.003845	2.308849	0.181984	0.809513
Valid (N) (listwise)	120				

4.2 Classical Assumption Test Normality Test

Table 3: DALL Normality Test for

IFRS 9 Implementation Events

One-Sample Kolmogorov-Smirnov Test			
		DALL_Sebelum	DALL_Setelah
N		120	120
Normal Parameters[a]	Mean	-.18	.18
	Std. Deviation	.714	.810
Most Extreme Differences	Absolute	.095	.097
	Positive	.067	.063
	Negative	-.095	-.097
Kolmogorov-Smirnov Z		1.037	1.067
Asymp. Sig. (2-tailed)		.232	.205
a. Test distribution is Normal.			

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	DALL_Sebelum & DALL_Setelah	120	.605	.000

Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	DALL_Sebelum - DALL_Setelah	-.361	.682	.062	-.484	-.238	-5.800	119	.000

Note :

DALL_Sebelum =Discretionary accruals before implementation IFRS 9

DALL_Setelah = Discretionary accruals after implementation IFRS 9

According to the Paired Sample t-test results, the research results show that the resulting significance value is 0.000, more diminutive than 0.05. H_1 is accepted, meaning there is a difference in DALL between before and after the implementation of IFRS 9. The research results also show a very close relationship between DALL data before and after implementation of IFRS 9., where the resulting correlation value is 0.605.

4.4. Discussion

Based on the results of the hypothesis test, which used the Paired Sample t-test, it was found that there were differences in earnings management before and after the implementation of IFRS 9. in Indonesia. These findings are in line with research conducted by Taylor & Aubert (2022), Norouzpour et al. (2023), Casta et al. (2019), C.K. Lam et al. (2023), Cugova & Cug (2021). Banks manage profits through loan loss provisions to smooth income and show that bank managers are incentivized to smooth profits. The previous standard, namely IAS 39, would only recognize provisions for credit losses based on evidence that emerged. Meanwhile, the issuance of IFRS 9. significantly changed the reserve increase for credit impairment losses. IFRS 9. provides more significant opportunities for banks to recognize estimated credit losses in the future. As shown in Appendix 2, credit loss provisions increased after 1 January 2020, and the implementation of IFRS 9. has contributed to this increase. The provision for credit losses in 2020 increased due to the adjustment of the credit loss reserve from the existing credit loss reserve to the estimated credit loss reserve. Banks with higher earnings tend to have higher provisions for credit losses, indicating more aggressive earnings management practices. When banks earn lower profits, managers reduce credit loss provisions for the year, often delaying proving them until the following year when the company experiences increased earnings. The contract between the principal and the agent encourages the agent to achieve good performance, triggering earnings management practices so that financial statements reflect more positive performance. If banks perform well, managers can achieve greater profits, which benefits them in the short term. This finding confirms the existence of agency problems between principals and agents in the banking context.

5. Closing

This study looks at the differences in earnings management practices before and after implementing IFRS 9. This study focuses on the short-term impact caused by the new standard on financial reporting and how banks accommodate their accounting policies to mitigate this impact. Using a sample of companies in the banking sector listed on the Indonesia Stock Exchange, data was collected from 2017 to 2022 using a purposive sampling method. This result supports the hypothesis that the research results show differences in earnings management before and after implementing IFRS 9. Applying the standard can increase the scope of discretionary accounting practices. The Bank uses discretionary accruals, which are proxies by the allowance for impairment losses, to

*Corresponding Author: **Elvira Luthan.**

reduce or increase it when there is an unfavorable impact from implementing IFRS 9.

Based on the conclusions, researchers have suggestions to follow:

1. For future researchers, the event study in this research is the application of IFRS 9; it is necessary to consider the timing of policy changes implemented by the sample companies. Thus, the observed data is data that reflects two completely different conditions.
2. Managers are expected to be more transparent with stakeholders, especially investors. Thus, investors are confident that the company's condition, as reflected in the company's financial performance, is the actual condition.
3. Investors should pay more attention to events that are likely to directly or indirectly impact the company. Thus, understanding the influence of these events can increase investors' awareness of negative impacts and encourage them to pay more attention to events that are likely to directly or indirectly affect the company. Thus, having an understanding of the influence of these events can increase awareness of the negative impacts

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