

RELEVANCE OF ALLOWANCE FOR LOAN IMPAIRMENT BEFORE AND AFTER THE IMPLEMENTATION OF SFAS 71

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ABSTRACT

Relevance means that accounting reports should be useful for users of financial statements in making investment decisions such as predicting future company performance and confirming or correcting the results of past company assessments. Information is said to be relevant if the information is used by investors in determining the value of the company. Changes in accounting standards are expected to affect the relevance of financial statements. One of the accounting standards that has changed in Indonesia is the implementation of accounting standard statement number 71 replacing PSAK numbers 50 and 55. The study aims to examine changes in the relevance of the value of loan impairment loss reserves (CKPN) before and after the implementation of PSAK 71. The research population is all banking companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021. Banking sector companies listed on the IDX were chosen because they are entities with significant accountability that are required to use PSAK 71 in preparing financial statements starting in 2020. The final sample was selected using *purposive sampling* technique. Value relevance testing using the *price model* developed by Ohlson (1995). The price model is estimated by OLS regression for period data and before and after the implementation of PSAK 71 separately. Value relevance testing uses the *adjusted R value*² obtained from the estimation results. The results found that CKPN did not have value relevance in all periods, before, and after the implementation of PSAK 71. Earnings information proved to have value relevance in all observed periods. Book value of equity information is proven to have value relevance in all periods, before and after the implementation of PSAK 71.

Keywords: impairment loss allowance, PSAK 71

1.1 Introduction

Relevance has become one of the important characteristics of quality financial reporting. Relevance means that accounting reports should be useful for users of financial statements in making investment decisions such as predicting future company performance and confirming or correcting the results of past company assessments. Information is said to be relevant if the information is used by investors in determining the value of the company. Firm value is determined based on investors' perceptions of the company's performance reported in the financial statements.

Research on the revised value of financial statements is important because financial statement information is important information for investors in decision making, and changes in accounting standards in several countries including Indonesia. Changes in accounting standards are expected to affect the relevance of financial statements. One of the accounting standards that has changed in Indonesia is the implementation of accounting standard statement number 71 replacing PSAK numbers 50 and 55. PSAK 71 on financial instruments regulates the classification of financial assets, impairment of financial assets, and hedge accounting. PSAK 71 adopts International Financial Accounting Standard (IFRS) 9 (International Accounting Standard Board, 2014) issued by the International Accounting Standard Board (IASB). PSAK 71 is applied effectively as of 1 January 2020 replacing PSAK 50 (Indonesian Institute of Accountants, 2014) and 55 (Indonesian Institute of Accountants, 2014). One of the differences between PSAK 55 and PSAK 71 is the determination of allowance for impairment losses (CKPN). PSAK No. 55 stipulates that CKPN is determined on loans that are objectively proven to be impaired, so that the provision must be formed if an event that causes default occurs. If it is related to the collectability of bank loans, banks are not obliged to form provisions for loans that have current collectability. PSAK 71 requires companies to form CKPN on all credit collectability, namely current, doubtful, non-current, and loss, so the implementation of PSAK 71 is expected to have an impact on the relevance of CKPN value. The study aims to examine changes in the relevance of CKPN value before and after the implementation of PSAK 71.

Several previous studies have examined changes in the application of PSAK 71, especially changes in the CKPN formation method, for example the impact of the CKPN formation method on earnings smoothing or manipulation (Ozili & Outa, 2017; Ozili P., 2017; Ozili & Arun, 2018; Ozili & Outa, 2018; Lim & Yong, 2017; Ozili P., 2017; Lim & Yong, 2017; Shala, Toci, & Ahmeti, 2020). This study will examine the impact of the changes in PSAK 71 replacing PSAK No. 50, 55, and 60 on the relevance of book value and earnings. The implementation of PSAK 71 requires banking companies to use the *expected loss model* in estimating CKPN, replacing the *incurred loss model*. In the *loss incurred model*, companies are required to form new reserves if an event occurs that results in the risk of CKPN costs. In the *Expected Credit Loss* method, CKPN is established at the inception of the loan by recording impairment losses. *Expected Credit Loss* is considered to

provide management flexibility in determining the amount of CKPN that must be formed by the company. The implementation of PSAK 71 will have an impact on the amount of CKPN, profit and book value of equity presented by the company, which in turn affects the relevance of the value of CKPN, profit, and book value of equity.

This study aims to analyse the value convention of financial statements, before and after the implementation of PSAK 71. This research needs to be done to determine the impact of the implementation of PSAK 71, especially on the value convention of financial statements in Indonesia. The issuance of standards should improve the quality of financial statements. Good quality reports should have high value relevance. High value relevance indicates the magnitude of the benefits of financial statements for users of financial statements, namely investors in making investment decisions.

The Decision Usefulness Approach to Accounting Information states that financial statements are created to provide information that is useful for decision making of users of financial statements. The value relevance of financial statements accounting numbers reflect information that is relevant to investors in assessing a company and is measured *reliably* enough to be reflected in stock prices (Barth *et.al*, 2001). Kanagaretnam *et al.* (2004) and Kanagaretnam *et al.* (2005) show that banks use discretionary loan impairment losses to signal changes in expected future earnings, which are positively priced by the market. The results of this study support the conjecture that loan impairment losses have value relevance. Previous research has proven that earnings and book value of equity have value relevance. The implementation of PSAK 71 affects the amount of CKPN presented by the company. This will have an impact on the amount of profit and book value of equity presented in the financial statements which ultimately affects the value relevance of profit and book value of equity.

Barth *et al.* (2008) argue that IFRS as principles-based standards can increase the value relevance of accounting information. This is because *fair value* measurement better describes the company's economic position and performance. This can better assist investors in making investment decisions. In addition, the rational expectations model of Ewert and Wagenhofer (2005) shows that IFRS earnings can better reflect the economic performance of the company. The research results of Barth *et al.* (2008) and Alali and Foote (2012) show that IFRS adoption can increase value relevance. Based on the explanation above, a hypothesis can be formulated.

H1: Value-assessment allowances have value relevance

H1a: LLP before the implementation of PSAK 71 has value reinvention
H1b: LLP after the implementation of PSAK 71 has a value reinvention.

H2: Earnings have value relevance

H2a: Earnings before the application of PSAK 71 has a value reinvention
H2b: Earnings after the implementation of PSAK 71

have value reinvention. H3: Book value of equity has value relevance

H3a: The book value of equity before the implementation of PSAK 71 has a value reinvention
H3b: The book value of equity after the implementation of PSAK 71 has a value reinvention.

RESEARCH METHODS

The research population is all banking companies listed on the Indonesia Stock Exchange (IDX) in 2018-2021. The final sample was selected using purposive sampling technique with criteria:

- a) These banking companies publish financial statement data consistently during 2018-2021;
- b) Non-Islamic banking companies

The research sample selection process is all non-sharia commercial banks that are consecutively registered from 2018 to 2021. The number of banks listed on the Indonesia Stock Exchange.

Table 1. Sample Selection Process

Criteria	Number of Companies
Commercial banks listed consecutively in 2018-2021	45
Islamic commercial bank	5
Non-sharia commercial bank	40
Number of observations during 2018-2021	160

Source: Secondary data processed, 2022

This study analyses the relevance of the value of CKPN, earnings, and book value of equity before and after the adoption of PSAK 71. The implementation of PSAK 71 in Indonesia was only carried out in 2020. Therefore, taking into account the availability of data, the period after the implementation of PSAK 71 was chosen in 2020 and 2021. To obtain a balanced time observation, the period before adoption was chosen in 2018-2021.

Consistent with previous accounting standards research such as Barth et al. (2008), Karampinis and Hevas (2011), and Alali and Foote (2012), this study develops the price model developed by Ohlson (1995). The research model is as follows.

$$LN_HP_{2018-2022} = b_0 + b_1LPS_{2018-2022} + b_2LN_CPS_{2018-2022} + b_3LN_NBCPS_{2018-2022} + e \dots(1)$$

$$LN_HP_{2018-2019} = b_0 + b_1LPS_{2018-2019} + b_2LN_CPS_{2018-2019} + b_3LN_NBCPS_{2018-2019} + e \dots(2)$$

$$LN_HP_{2020-2022} = b_0 + b_1LPS_{2020-2022} + b_2LN_CPS_{2020-2022} + b_3LN_NBCPS_{2020-2022} + e \dots(3)$$

Description:

LN_HP= stock market price
 LPS= earnings per share
 LN_CPS= VAT per share
 LN_NBCPS= book value excluding CKPN per share

The three models above were estimated with OLS regression for data for the period 2018-2021, 2018-2019 (before the implementation of PSAK71) and 2020-2021 (after the implementation of PSAK 71). The value relevance test uses the significance value of the regression coefficient obtained from the estimation results of the three regression models. If the significance value of the regression coefficient is less than 0.05, then the value of CKPN, profit, and book value has value relevance.

RESULTS AND DISCUSSION

The results of descriptive statistical analysis are presented in Table 2.

Table 2. Results of Descriptive Statistical Analysis

Descriptive statistical analysis	Stock market price	Book value per share	Earnings Per Share	CPKN per share	Book value excluding CGPA per share
Mean	1.777	1.067	82	171	1.238
Median	740	401	13	37	439
Standard deviation	2.467	1.384	154	372	1.685
Maximum value	13.460	6.702	833	2.724	9.426
Minimum value	50	8	-134	1	12

Source: Appendix, 2022

The results of descriptive statistical analysis present the *mean*, median, standard deviation, maximum value, and minimum value of each research variable. The *mean* and median of the stock market price (HPS) are Rp1,777 and Rp740. The standard deviation of HPS is IDR 2,467 with maximum and minimum values of IDR 13,460 and IDR 50. The standard deviation value is quite high, indicating that the data distribution is quite dispersed from the *mean*. The highest HPS is owned by ARTO in 2021 and the lowest HPS is owned by BAPP, BGTG, and BEKS.

Mean and median book value per share (NBPS) of Rp1,067 and Rp401. The

standard deviation of NBPS is Rp1,384 with maximum and minimum values of Rp6,702 and Rp8. The standard deviation value is quite high, indicating that the data distribution is quite dispersed from the *mean*. The highest NBPS is owned by BBNI in 2021 and the lowest NBPS is owned by BEKS in 2020.

The *mean* and median earnings per share (EPS) are Rp82 and Rp13. The standard deviation of EPS is Rp154 with maximum and minimum values of Rp833 and -Rp134. The standard deviation value is quite high, indicating that the data distribution is quite dispersed from the *mean*. The highest EPS is owned by BBNI in 2019 and the lowest EPS is owned by AGRO in 2021.

The *mean* and median of CPKN per share (CPS) are Rp171 and Rp37. The standard deviation of CPS is IDR372 with maximum and minimum values of IDR2,724 and IDR1. The standard deviation value is quite high, indicating that the data distribution is quite dispersed from the *mean*. The highest CPS is owned by BBNI in 2021 and the lowest CPS is owned by BACA in 2021.

The *mean* and median book value excluding CPKN per share (NBCPS) is Rp1,238 and Rp439. The standard deviation of NBCPS is Rp1,685 with maximum and minimum values of Rp9,426 and Rp12. The standard deviation value is quite high, indicating that the data distribution is quite dispersed from the *mean*. The highest NBCPS is owned by BBNI in 2021 and the lowest NBCPS is owned by BEKS in 2019.

This study tests classical assumptions, namely the residual normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test and has passed these tests. The analysis continued to the regression test to determine the effect of the relevance of earnings value, book value of equity, and CGPA. This study also analyses the relevance of earnings value, book value and CPKN before and after the implementation of PSAK 71. PSAK 71 became effective on January 1, 2020, so the relevance of earnings value, book value of equity and CPKN before the implementation of PSAK 71 was analysed from 2018 and 2019 data. The relevance of the value of earnings, book value of equity and CPKN after the implementation of PSAK 71 was analysed from the 2020 and 2021 data. Regression analysis for the period 2018 to 2021 is presented in the following table.

Table 3 Results of Multiple Linear Regression Analysis Model 1

Independent Variable	Unstandardised		Standardised	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	2,474	0,525		4,717	0,000
LPS	0,002	0,001	0,186	2,387	0,018*
LN_CPS	-0,037	0,068	-0,048	-0,537	0,592
LN_NBCPS	0,650	0,106	0,608	6,133	0,000*
F	53,533				

Sig. F	0,000*
R Square	0,507
Adjusted R Square	0,498

Source: Appendix 5, 2022

Table 3 reports an *Adjusted R Square* value of 0.498. This value means that 49.8% of the variation in LN_HP2018-2021 is explained by LPS2018-2021, LN_CPS2018-2021, and LN_NBCPS2018-2021 on LN_HP2018-2021. Other variables explain 49.2% of the variation in LN_HP2018-2021. Table 4.11 reports a calculated F value of 53.533 with a significance value of 0.000. The significance value of 0.000 is less than α of 0.05. This means that the research model can be used and analysed further.

Table 3 shows that the profit of banking industry companies for the period 2018 to 2021 (LPS2018-2021) has a positive effect on the stock market price (LN_HP2018-2021). The significance value (Sig.) of 0.018 is smaller than the significance level (α) of 5%, concluding that there is a significant effect of profit on the stock market price (LN_HP2018-2021).

stock market price. The results of this test support the research hypothesis statement, earnings have value relevance in the period 2018 to 2021.

This study failed to prove that loan impairment loss reserves for the period 2018 to 2021 (LN_CPS2018-2021) have a negative effect on stock market prices (LN_HP2018-2021). This conclusion is based on the results of the regression analysis in Table 4.11. The analysis results show an *unstandardised coefficient beta* value of -0.037 and a significance value (Sig.) of 0.592. Although the *unstandardised coefficient beta* value is negative, the significance value is greater than α of 0.05, so it can be concluded that loan impairment loss reserves have no significant negative effect on stock market prices. The test results failed to support the research hypothesis.

This study proves that the book value of equity after taking into account the allowance for loan impairment losses for the period 2018 to 2021 (LN_NBCPS2018-2021) has a positive effect on the stock market price (LN_HP2018-2021). This conclusion is based on the results of the regression analysis in Table 4.11. The analysis results show an *unstandardised coefficient beta* value of 0.650 and a significance value (Sig.) of 0.000. The *unstandardised coefficient beta* value is positive and the significance value is smaller than α of 0.05, so it can be concluded that the book value of equity has a significant positive effect on the stock market price. The test results support the research hypothesis.

Table 4 Results of Multiple Linear Regression Analysis Model 2

Independent Variable	<i>Unstandardised Coefficients</i>		<i>Standardised Coefficients</i>	t	Sig.
	<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
	(Constant)	2,706	0,671		
LPS	0,002	0,001	0,258	2,301	0,019*

Source: Annex 5, 2022

Notes:

HPS ₂₀₁₈₋₂₀₂₁	= price per share for the period 2018-2019
LPS ₂₀₁₈₋₂₀₂₁	= earnings per share for the period 2018-2019
LN_CPS ₂₀₁₈₋₂₀₂₁	= natural log of CPKN per share for the period 2018-2019
LN_NBCPS ₂₀₁₈₋₂₀₂₁	= natural log of book value of equity per share for the period 2018-2019
	ϵ = error

Table 4 reports the *Adjusted R Square* value of 0.537. This value means that 53.70% of the variation in LN_HP₂₀₁₈₋₂₀₂₁ is explained by LPS₂₀₁₈₋₂₀₁₉, LN_CPS₂₀₁₈₋₂₀₁₉, and LN_NBCPS₂₀₁₈₋₂₀₁₉ on LN_HP₂₀₁₈₋₂₀₂₁. Other variables explain 53.70% of the variation in LN_HP₂₀₁₈₋₂₀₂₁. Table 4.11 reports a calculated F value of 31.142 with a significance value of 0.000. The significance value of 0.000 is less than α of 0.05. This means that the research model can be used and analysed further.

Table 4 shows that the profit of banking industry companies for the period 2018 to 2019 (LPS₂₀₁₈₋₂₀₁₉) has a positive effect on the stock market price (LN_HP₂₀₁₈₋₂₀₂₁). The significance value (Sig.) of 0.019 is smaller than the significance level (α) of 5%, concluding that there is a significant effect of earnings on stock market prices. The results of this test support the research hypothesis statement, earnings have value relevance in the period 2018 to 2019.

This study fails to prove that loan impairment loss reserves for the period 2018 to 2019 (LN_CPS₂₀₁₈₋₂₀₁₉) have a negative effect on stock market prices (LN_HP₂₀₁₈₋₂₀₂₁). This conclusion is based on the regression analysis results in Table 4.12. The analysis results show an *unstandardised coefficient beta* value of 0.049 and a significance value (Sig.) of 0.625. Although the *unstandardised coefficient beta* value is negative, the significance value is greater than α of 0.05, so

it can be concluded that loan impairment loss reserves have no significant negative effect on stock market prices. The test results failed to support the research hypothesis.

This study proves that the book value of equity after taking into account the allowance for loan impairment losses for the period 2018 to 2019 (LN_NBCPS2018-2019) has a positive effect on the stock market price (LN_HP2018-2019). This conclusion is based on the regression analysis results in Table 4.12. The analysis results show an *unstandardised coefficient beta* value of 0.529 and a significance value (Sig.) of 0.000. The *unstandardised coefficient beta* value is positive and the significance value is smaller than α of 0.05, so it can be concluded that the book value of equity has a significant positive effect on the stock market price. The test results support the research hypothesis.

Table 5. Multiple Linear Regression Analysis Results Model 3

Independent Variable	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2,233	0,844		2,646	0,010
LPS	0,001	0,001	0,142	1,168	0,247
LN_NBCPS	0,786	0,168	0,742	4,675	0,000*
LN_CPS	-0,148	0,094	-0,210	-1,574	0,120
F	24,293				
Sig. F	0,000*				
R Square	0,490				
Adjusted R Square	0,469				

Source: Appendix 5, 2022

Table 5 reports the *Adjusted R Square* value of 0.498. This value means that 49.8% of the variation in LN_HP2018-2021 is explained by LPS2018-2021, LN_CPS2018-2021, and LN_NBCPS2018-2021 on LN_HP2018-2021. Other variables explain 49.2% of the variation in LN_HP2018-2021. Table 4.11 reports a calculated F value of 53.533 with a significance value of 0.000. The significance value of 0.000 is less than α of 0.05. This means that the research model can be used and analysed further.

Table 5 shows that the profit of banking industry companies for the period 2018 to 2021 (LPS2018-2021) has a positive effect on the stock market price (LN_HP2018-2021). The significance value (Sig.) of 0.018 is smaller than the significance level (α) of 5%, concluding that there is a significant effect of earnings

on stock market prices. The results of this test support the research hypothesis statement, earnings have value relevance in the period 2018 to 2021.

This study failed to prove that loan impairment loss reserves for the period 2018 to 2021 (LN_CPS2018-2021) have a negative effect on stock market prices (LN_HP2018-2021). This conclusion is based on the results of the regression analysis in Table 4.5 The results of the analysis show an *unstandardised coefficient beta* value of -0.037 and a significance value (Sig.) of 0.592. Although the *unstandardised coefficient beta* value is negative, the significance value is greater than α of 0.05, so it can be concluded that the allowance for impairment losses is negative.

credit score does not have a significant negative effect on stock market price. The test results failed to support the research hypothesis.

This study proves that the book value of equity after taking into account the allowance for loan impairment losses for the period 2018 to 2021 (LN_NBCPS2018-2021) has a positive effect on the stock market price (LN_HP2018-2021). This conclusion is based on the results of the regression analysis in Table 4.11. The analysis results show an *unstandardised coefficient beta* value of 0.650 and a significance value (Sig.) of 0.000. The *unstandardised coefficient beta* value is positive and the significance value is smaller than α of 0.05, so it can be concluded that the book value of equity has a significant positive effect on the stock market price. The test results support the research hypothesis.

Discussion

This study failed to prove the research hypothesis (H1) that credit CKPN for the period 2018 to 2021 (LN_CPS2018-2021) has a negative effect on the stock market price (LN_HP2018-2021). The results of this study do not support the statement that accounting numbers reflect information that is relevant to investors in assessing a company and is measured *reliably* enough to be reflected in stock prices (Barth et.al, 2001). Kanagaretnam et al. (2004) and Kanagaretnam et al. (2005) show that banks use discretionary credit impairment losses to signal changes in expected future earnings, which are positively priced by the market.

This study failed to prove the research hypothesis (H2) that loan impairment loss reserves for the period 2018 to 2019 (LN_CPS2018-2019) have a negative effect on stock market prices (LN_HP2018-2021). The results of this study also failed to prove the research hypothesis (H3) regarding the relevance of the value of the allowance for loan impairment losses for the period 2020 to 2021 (LN_CPS2020-2021). The results prove that CKPN before and after the implementation of PSAK 71 is not considered by investors in assessing a company. Changes in CKPN estimation from the *incurred loss model* to the *expected loss model* cannot increase the relevance of the CKPN value.

The results of this study prove the research hypothesis (H4), the profit of banking industry companies for the period 2018 to 2021 (LPS2018-2021) has a positive effect on the stock market price (LN_HP2018-2021). Earnings are proven

to have long relevance for data from 2018 to 2021. The results of this study support the decision usefulness approach to accounting information, especially earnings information. The results of data analysis for the period 2018 to 2021 prove that earnings information proves to be useful for investors in making investment decisions, or earnings information has value relevance. The relevance of earnings value is evidenced by the relationship between earnings and stock prices in the period 2018 to 2021. Earnings information is proven to have a positive effect on stock prices. This means that the higher the earnings per share reported by the company, the higher the share price per share will be. Investors base earnings information on making investment decisions and determining the price of the company's shares. The higher the earnings information per share, the higher the investor's assessment of the price of the company's shares. The results of the study concluded that earnings information has value relevance. The results of this study support the results of previous studies, such as Khanagha (2011), Rahman (2011), Wulandari and Adiati (2015), Widiastuti and Meiden (2013), Sinarto and Christiawan (2014), Yendrawati and Pratiwi (2014), Hadinata (2020), Cahyonowati and Ratmono (2012), and Rahmawati and Murtini (2015).

The results of this study support hypothesis 2a (H2a) which states that earnings before the implementation of PSAK 71 have value relevance. The analysis results prove that the earnings of banking industry companies for the period 2018 to 2019 (LPS₂₀₁₈₋₂₀₁₉) have a positive effect on the stock market price (LN_HP₂₀₁₈₋₂₀₂₁). The results of the study support previous research that proves earnings information before the adoption of IFRS has value relevance, such as Romadhoni (2017), Wulandari and Adiati (2015), Sinarto and Christiawan (2014), Sebrina and Taqwa (2017), and Rahmawati and Murtini (2015). The relevance of earnings value before the implementation of PSAK 71 is consistent with the results of testing hypothesis 2 (H2) which proves that earnings have revised value. The results of this research analysis prove that earnings per share have a positive effect on the price of a share. The higher the earnings per share reported by the company, the higher the price per share. Investors respond to earnings per share before the implementation of PSAK 71 in making investment decisions. Higher earnings per share are responded by investors by increasing the valuation of the company's share price.

This study fails to support hypothesis 2b (H2b) which states that earnings after the implementation of PSAK 71 have value revention. The results of the study do not support the earnings value relevance approach and the results of previous studies that prove the relevance of earnings value after IFRS adoption, such as Wulandari and Adiati (2015), Sinarto and Christiawan (2014), and Rahmawati and Murtini (2015). The results of the study support the results of studies that found no relevance of earnings value at the time of IFRS implementation, such as Simorangkir (2016), and Ramadhoni (2017). This study found that the implementation of PSAK 71 reduced the relevance of earnings value. The decline in the relevance of earnings value after the application of IFRS is evidenced by Sebrina

and Salma (2017), as well as variations in the relevance of earnings value found by Karğın (2013).

PSAK 71 has been implemented by commercial banks in Indonesia since 2020, replacing PSAK 50 and PSAK 55. PSAK 71 applies the *expected loss model* method in estimating CKPN for loans, replacing the *incurred loss model* method. The *expected loss model* method estimates CKPN on all loan collectabilities, namely current, doubtful, non-current, and loss. In contrast, the *loss incurred model* requires companies to form new reserves if events occur that result in the risk of uncollectible loans. Previous research found that CKPN was higher in the period of implementation of PSAK 71. The formation of CKPN will have an impact on the cost of loan impairment losses which will affect the profit reported by the company. Furthermore, the relevance of earnings value is affected by the application of PSAK 71. The application of the *expected loss model* method reduces the relevance of the earnings value reported by the company.

This study proves hypothesis 3 (H₃) which states that the book value of equity has value relevance. The analysis results presented in the previous section prove that the book value of equity after taking into account the allowance for loan impairment losses for the period 2018 to 2021 (LN_NBCPS2018-2021) has a positive effect on the stock market price (LN_HP2018-2021). The results of this study support the results of previous studies that prove the book value of equity has value relevance, such as Karğın (2013), Agusti (2011), Heniwati (2022), Rahman (2011), Widiastuti and Meiden (2013), Sebrina and Taqwa (2017), and Rahmawati and Murtini (2015). The results of this study prove the value relevance approach to the book value of equity in making investment decisions by investors. The higher the book value of equity reported by the company, the higher the investor's assessment of the company's share price.

This study empirically proves hypothesis 3a (H_{3a}) which states that the book value of equity before the implementation of PSAK 71 has value relevance. Commercial banks implemented PSAK 55 in the 2018 and 2019 periods. PSAK 55 requires commercial banks to apply the *incurred loss model* method to estimate CKPN for loans. The *incurred loss model* method estimates LLP on loans that are at risk of non-payment. CKPN is only estimated on loans with doubtful, substandard and loss collectability. The application of the *incurred loss model* will have an impact on the amount of loan impairment allowance formed by commercial banks and then have an impact on the book value of equity. This study proves that investors utilise the book value of equity to make investment decisions and assess the company's share price. The results of this study are consistent with previous research on the relevance of book value of equity before the implementation of IFRS, such as Ramadhoni (2017), Wulandari and Adiati (2015), and Sebrina and Salma (2017).

Hypothesis testing 3b (H_{3b}) found that the book value of equity after the implementation of PSAK 71 has value relevance. The results of the regression analysis of model 2 on the reported book value of equity for the period 2020 to 2021

have a positive effect on the company's stock price for the period 2020 to 2021. The higher the book value of equity report will have an impact on the higher the share price. This means that investors value more companies that report higher book value of equity. The results of this study support the results of research, such as Simorangkir (2016), Dewi and Kristianto (2018), Cahyonowati and Ratmono (2012), Sebrina and Taqwa (2017), Karğın (2013), and Rahmawati and Murtini (2015). The application of the *expected loss model* method in estimating loan impairment does not reduce the relevance of the book value of equity. Investors still utilise book value of equity information for investment decision making.

CONCLUSIONS AND SUGGESTIONS

The research results can be summarised as follows.

- a. CKPN has no value relevance in all periods, before and after the implementation of PSAK 71. These results indicate that CKPN information is not utilised by investors in making investment decisions, especially in determining the company's market price.
- b. Earnings information is proven to have value relevance in all observed periods. The relevance of earnings value was proven in the period before the implementation of PSAK 71, but the relevance of earnings value was not found in the period of PSAK 71 implementation.
- c. Book value of equity information is proven to have value relevance in all periods, before and after the implementation of PSAK 71. Changes in accounting standards do not reduce the relevance of book value of equity. Book value of equity information is still considered important by investors in determining the share price of banking sector companies.

Advice

- a. The results of this study found that CKPN did not have value relevance in the entire observation period, both before and after the implementation of PSAK 71. This information will be useful for investors in utilising information in financial statements and in the implementation of PSAK 71.
- b. The results of this study consistently prove the relevance of book value of equity. Information is very important for investors in determining the stock market price, so it is recommended for investors to utilise book value of equity information in making investment decisions.

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