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## THE IMPACT OF PSAK 71 IMPLEMENTATION: FINANCIAL INSTRUMENTS ON ALLOWANCE FOR IMPAIRMENT LOSSES (CKPN) AND TAX TEMPORARY DIFFERENCE (A CASE STUDY IN PT BANK X)

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# **THE IMPACT OF PSAK 71 IMPLEMENTATION: FINANCIAL INSTRUMENTS ON ALLOWANCE FOR IMPAIRMENT LOSSES (CKPN) AND TAX TEMPORARY DIFFERENCE (A CASE STUDY IN PT BANK X)**

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## **ABSTRACT**

Indonesian Financial Accounting Standards (“PSAK”) 71 is a convergence of International Financial Reporting Standards (“IFRS”) 9, which had been effectively implemented on January 1, 2020. Based on PSAK 71. Banks are required to make an allowance for impairment losses (from now on, referred to as CKPN) based on PSAK 71 using the new method called Expected Credit Loss (ECL). This study case aims to evaluate the impact of PSAK 71 implementation on Allowance for Impairment Losses (CKPN) and temporary differences in taxation from CKPN at PT Bank X. This study also discusses the impact of the COVID-19 pandemic on the formation of Allowance for Impairment Losses. This research uses a case study approach at PT Bank X by analyzing descriptive data on financial statements and other company information and analysis of interview results. This study found a significant increase in Impairment Losses Reserve (CKPN) in 2020, which affected profit, but the decline in profits also occurred due to the COVID-19 Pandemic 2020. This study also found an increase in deferred tax assets related to CKPN as a result of the implementation of PSAK 71. This study also found that in PSAK 71 implementation, PT Bank X didn’t find any problems because PT Bank X had prepared the implementation before 2020 and used consultants to assist its implementation.

**Keywords:** Allowance for Impairment Losses, CKPN, PSAK 71, Tax

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## 1. INTRODUCTION

Through the Financial Accounting Standards Board-Indonesian Institute of Accountants (DSAK-IAI), Indonesia has ratified PSAK 71: Financial Instruments, a convergence of IFRS 9 Financial Instruments, on July 26, 2017, and its implementation came into effect on January 1, 2020, and early implementation is permitted. PSAK 71 is a statement of financial accounting standards effective as of January 1, 2020, and regulates financial instruments, including classification, measurement, impairment, and hedging accounting. The PSAK 71 replaces PSAK 55 (Revised 2014) Financial Instruments: Recognition and Measurement, which was previously applied. However, PSAK 55 remains valid for macro hedging ([www.iaiglobal.or.id](http://www.iaiglobal.or.id)). The core differences between PSAK 71 and PSAK 55 are *classification and measurement, asset impairment, and hedge accounting*.

PSAK 71 is a convergence of IFRS 9 regarding Financial Instruments: Classification and Measurement. This new standard, IFRS 9, was issued by the IASB as a response when IAS 39 has complex and inconsistent criteria in entities of managing the business and risks and delays in recognizing credit losses on loans and bad debt in the credit cycle (PwC, 2019). PSAK 55 or IAS 55 tends to form credit allowances procyclical with a business cycle and is considered too small and slow (Ardhienus, 2018).

This study focused on analyzing the financial asset **impairment** according to PSAK 71 in the banking industry, especially PT Bank X, by using the case study method. Impairment in PSAK 55 recognizes credit when the incurred loss occurs. Meanwhile, PSAK No. 71 recognizes impairment more quickly for the impact of changes in expected credit losses after the financial asset is initially recognized. This study discussed the findings of PT Bank X and the interview results with several parties to answer the problem formulation, namely the impact of the PSAK 71 implementation on the Allowance for Impairment Losses (CKPN) and its implications for the financial performance of PT Bank X, the impact of the Covid-19 pandemic on the calculation of Expected Credit Loss (ECL) at PT Bank on the initial date of PSAK 71 implementation on January 1, 2020, the problems occurred in PT Bank X in the CKPN formation after PSAK 71 implementation and the impact of tax calculations when PSAK 71 was implemented by PT Bank X related to temporary and permanent differences from the CKPN formation.

Based on Delloite's (2019) research, IFRS 9 increased the allowance level but did not significantly impact financial results and regulatory capital resources factor after a year of the implementation. Research conducted by Rizal and

Shauki (2019) revealed that the PSAK 71 implementation on Credit CKPN depends on the implementation of the previous PSAK (conservative); as a result, not all banks are negatively affected by the implementation of the new standard, PSAK 71. Another study conducted by Suroso (2017) stated that the simulation results for one of the national private banks showed a significant increase in the formation of CKPN by 55.68%. According to Syafina (2019), PSAK 71 resulted in more significant CKPN than PSAK 55. Further research was completed by (Devi et al., 2021). It resulted in a considerable difference in CKPN between PSAK 71 and PSAK 55. Implementing PSAK 71, also based on research (Devi et al., 2021), will reduce the bank's profit but is not remarkably significant. The research also provided information that regulators, the banking industry, and the public must distinguish the impact of PSAK 71 on financial bank stability (Devi et al., 2021).

Other research was also conducted by Seitz et al. (2018) on the banking industry in Europe in the range of 2005 to 2014. This study implemented a simulation of the Expected Credit Loss (ECL) model used by IFRS 9. The IFRS 9 or PSAK 71 is not higher than the allowance using IAS 39 or PSAK 55. However, during a crisis period, on the contrary, the allowance using ECL according to PSAK 71 will exceed the allowance regarding IAS 39. The study unearthed that the effect of the ECL calculation depends on the probability default (PD), i.e., the probability in the future.

The Financial Services Authority requires industries in Indonesia to prepare an action plan from PSAK No.71 through letter number S-78/PB.11/2017, dated September 8, 2018. Based on this regulation, one of the industries that will be significantly affected is the banking industry. It is reported in Kontan that banking profits will potentially be eroded or corrected (Septiadi & Mahadi, 2019). According to the news, banks must prepare more Allowance for Impairment Losses because it is calculated through the expected loss concept. It means that banks must prepare credit from the beginning. It is different from PSAK 55, where CKPN is given when there is a late payment. Based on other news from the Kontan as written by Septiadi (2020), PT Bank Mega Tbk (MEGA) also noted that there had been an increase in allowance from Rp. 280.47 billion to Rp. 578.29 billion as of January 2020 (an increase of Rp. 313.02 billion).

Based on PSAK 71, the formation of CKPN for a bank must implement the expected credit losses method, which will consider the past event, current condition, and estimates of future condition information. This research focused on tax calculations, namely temporary and permanent differences related to CKPN. In contrast to accounting, taxes do not recognize impairment in the value

of financial instruments, except for banking and certain financial industries. According to tax regulations, the establishment of CKPN for receivables financial instruments (credit extended by banks) is identified as the allowance for bad debts. It is regulated in the Regulation of the Minister of Finance Number 219/PMK.011/2012 concerning Amendments to the Regulation of the Minister of Finance Number 81/PMK.03/2019 concerning the Formation or Fostering of Allowance Funds that may be deducted as expenses. Based on these provisions, the allowance for bad debts is classified into receivables of current, special mention, sub-standard, doubtful, and loss. These provisions result in differences in assessing the allowance for receivables that differ from PSAK 71. Therefore, it will result in fiscal corrections or temporary and permanent differences. The tax provisions have not regulated the impact after implementing PSAK 71. Thus, an in-depth research is needed on PT Bank X. Based on this statement, the calculation of Corporate Income Tax also has the potential to be corrected as a result of implementing PSAK No. 71.

This research is significant considering that PSAK 71 will have a crucial impact on PT Bank X, which will be implemented on January 1, 2020. The business activities of PT Bank X are banking services that use various financial instruments, for example, financial assets, including cash, current accounts with Bank Indonesia, demand deposits with other banks, positions with Bank Indonesia and other banks, securities, acceptance claims, investment in shares, etc. As a limitation of problems related to PSAK 71, this research focused on the impairment, financial performance, the impact of the Covid-19 pandemic on CKPN formation, and aspects of taxation related to CKPN.

This study analyzed whether there has been an increase in the allowance for impairment losses after implementing PSAK 71 at PT Bank X. In this study, an analysis of the impact of PSAK 71 on the financial performance of PT Bank X was examined using several ratios, including the minimum Capital Adequacy Ratio (CAR), NPL (Non-Performing Loan), ROA (Return on Assets), ROE (Return on Equity), LDR (Loan to Deposit Ratio), and Allowance for Impairment Losses (CKPN) of financial assets to productive assets (Coverage Ratio). This study also discussed the impact of the Covid-19 pandemic on the formation of CKPN at PT Bank X. This research is essential to reveal what emerged during the PSAK 71 implementation. Thus, this research is expected to provide references and input to PT Bank X in developing policies related to CKPN after PSAK 71 implementation in the coming years. This study also examined the impact of the Covid-19 pandemic and stimulus from the government on the value of CKPN calculation from PT Bank X. Additionally, this study also observed the constraints or problems in the PSAK 71

implementation in the CKPN formation, whether there is a special infrastructure and a special consultant in the PSAK 71 implementation, especially in the CKPN formation. This study investigated the impact of PSAK No.71 on tax calculations, particularly the causes of temporary and permanent differences that occur from the PSAK No.71 implementation on the formation/reversal of allowance for impairment losses on productive assets of loans. Therefore, research was conducted under the title: *“The Impact of Implementing PSAK 71: Financial Instruments on Allowance for Impairment Losses (CKPN) and Tax Temporary Difference (A Case Study at PT Bank X)”*

This study aims to evaluate the impact of PSAK 71 implementation on PT Bank X on CKPN and its implications for the financial performance of PT Bank X in 2020. Furthermore, because there is a credit restructuring policy from the Financial Services Authority (hereinafter shall be referred to as OJK) and also has a press release was issued on the implementation of PSAK 8 and PSAK 71 in 2020, this study analyzed whether these policies affect the formation of CKPN. This study also aims to observe the impact of PSAK 71 implementation on taxation related to temporary/permanent differences in CKPN. This research is expected to explore phenomena from a real context in practice in the banking field. Therefore, this study can contribute to the banking, accounting, and taxation field.

## **2. LITERATURE REVIEW**

### **2.1. BOOK- TAX CONFORMITY (BTC)**

Accounting and Taxation have distinctive standards for preparing financial reports. Accounting is based on mostly accepted standards, PSAK, which adopts IFRS that has a principle-based. On the other hand, taxation uses a base. The difference between accounting and taxation will create a gap. Therefore, income tax accounting is where financial reports made based on PSAK must also comply with the applicable tax provisions. Differences in the preparation of financial reports between accounting and taxation will result in temporary and permanent gaps. The PSAK 71 implementation results in a difference between accounting and taxation, which generates a gap. Atwood et al. (2010) explained that by considering costs and benefits, some companies use conformity between tax regulations and PSAK, known as Book-Tax Conformity (BTC), in preparing earnings according to PSAK and Taxation

## **2.2. PSAK 71**

PSAK 71 is a statement of accounting standards that regulates financial instruments related to classification and measurement and hedge accounting that DSAK-IAI approved on July 26, 2017. PSAK 71 is a convergence of IFRS 9 and replaces PSAK 55, adopting IAS 39. The PSAK 71 shall come into effect on January 1, 2020, and early implementation of PSAK 71 is permitted. PSAK 71, which replaces PSAK 55, introduces new arrangements regarding the classification and measurement of financial instruments based on the valuation of the business model and contractual cash flows, recognition, and measurement of allowance for impairment losses on financial instruments using the expected credit. It replaces the credit model in PSAK 55 and provides a more straightforward approach to hedge accounting.

Previous research related to PSAK 71 is still associated with the impact of the PSAK No. 71 implementation on the financial report of companies, especially banks. However, no research reported on the impact of PSAK No. 71 implementation on taxation aspects in a company. Research conducted by Seitz et al. (2018) examined the provision method for impairment losses using Expected Credit Loss (ECL) in 32 banks in Europe from 2005 to 2014 as its samples. This study concluded that the provision under IFRS 9 or PSAK 71 is not higher than the allowance using IAS 39 or PSAK 55. However, in times of crisis, allowance using ECL based on PSAK 71 will exceed allowance with reference to IAS 39. This study discovered that the effect of the ECL calculation depends on the probability default (PD), namely the probability of the future. Another research conducted by Rizal (2019) concluded that the PSAK 71 implementation on Credit CKPN depends on the implementation of the previous PSAK (conservative); as a result, not all banks are negatively affected by the implementation of the new standard, PSAK 71.

The banking industry is an industry that has been significantly affected by changes in the classification and measurement of financial instruments, especially in lending. According to IAPI (2019), issuers affected by the implementation of PSAK 71 are issuers or banking companies and issuers with a lot of investment in the financial sector, such as purchasing bonds.

## **2.3. IMPAIRMENT**

In PSAK 71, the impairment model aims to provide relevant and real-time information as a basis for decision-making by entities (*Buletin Ikatan Bankir Indonesia*, 2019). Therefore, PSAK 71 introduces a novel impairment method

approach, namely the expected credit loss (ECL) in IFRS 9 or the expected credit loss in PSAK 71, which replaces the old method, the incurred loss in PSAK 55. It is considered time-consuming and too late in processing loss bookkeeping. The scope of impairment under IFRS 9 is debt instruments at amortized cost, debt instruments at fair value through other comprehensive income, lease receivables, contract assets, loan commitments, and financial guarantee contracts.

The definition of Expected Credit Loss (ECL) is a loss consequence that will not occur before the impairment loss has been recognized (Insight to IFRS 9, 2017). Based on PSAK 55, the entity can calculate the allowance only based on the current month's losses. Meanwhile, in PSAK 71, impairment losses on loans extended to debtors are recognized from the outset of the credit, either within 12 months for credit with no increased risk or throughout its life for credit with increased risk (PSAK 71: P 5.5.5). The loss in value of a financial asset can be measured using individuals or groups (collectively) where collective calculations are performed if the entity or bank does not have sufficient information (Ikatan Akuntan Indonesia, 2018c).

CKPN in PSAK 71 is a new model. It consists of three stages based on the level of risk, from low to high. PSAK 71 has provided arrangements related to stages. It is by classifying financial assets based on the evaluation results of the entity to categorize financial assets based on the level of credit risk. If the credit given has a small risk, it will be categorized at stage 1 (for example, a never-late loan). However, when credit risk indicates an increase, the bank will classify it as stage 2 (for example, a more than 30 days late loan). If the debtor experiences a default or bad credit (Non-Performing Loan), including restructured loans, the bank will categorize it at stage 3.

According to Financial Services Authority Regulation No.40/POJK.03/2019, **Allowance for Impairment Loss** (CKPN) is an allowance formed for impairment of financial instruments based on financial accounting standards. Meanwhile, CKPN, according to PAPI, is an allowance made if the carrying amount of credit after impairment is less than the initial carrying amount. Article 49 of Bank Indonesia Regulation Number 14/15/2012 concerning Asset Quality Assessment postulated that banks are required to establish CKPN based on the applicable financial accounting standards, in this case, PSAK 71. The term Allowance for Impairment Losses (CKPN) is not explained implicitly in PSAK 71. However, the recognition of CKPN is elucidated in paragraph 5.5.1 of PSAK 71: "An entity shall recognize an allowance for expected credit losses on a financial asset based on paragraph 4.1.2 (Financial Assets are measured at amortized cost) or 4.1.2A (Financial



Assets are measured at fair value through other comprehensive income), lease receivables, contract assets or loan commitments and financial guarantee contracts that apply the impairment requirements in accordance with paragraphs 2.1(g), 4.2.1(c), or 4.2.1”d)."

In determining CKPN, PSAK 71 does not refer to one particular method to calculate ECL because the method for calculating ECL varies prominently depending on financial instruments and available information (PSAK 71: PP 5.5.12). However, the Financial Services Authority and the *Buletin Ikatan Bankir Indonesia* (2019) have provided a guide to the calculation formula for CKPN or ECL based on PSAK 71 as follows:

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

Based on Witjaksono's (2017) research, the CKPN formation on credit will be affected by changes in accounting practices, i.e., the provisions that must be formed using PSAK 71 will be more significant than PSAK 55. Rizal (2019) uncovered that the impact of Credit CKPN implementation depends on the implementation of the previous PSAK, PSAK 55. Thus, not all are negatively affected by the implementation of the new standard.

Research conducted by Delloite (2019) regarding the PSAK 71 implementation in "After the first year of IFRS 9 Analysis of the initial impact of the large UK banks" revealed that there was an increase in provisions for banks in the United Kingdom (UK Banks). However, the long-term impact of the implementation of PSAK 71 was not yet identified. Based on Figure 1 below, there is an increase in the provision for impairment of receivables from several banks based on research from Delloite (2019) after implementing IFRS 9 (PSAK 71). Lloyds Banking Group Plc (LBG) and Barclays Bank were the 2 (two) banks in the United Kingdom that were significantly affected, which increased by 58.4% and 57.9% respectively.

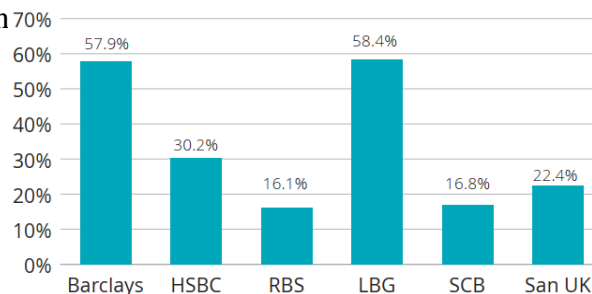


Figure 1. Allowance for Receivables at Several Banks in the United Kingdom

Source: Deloitte (2019)

#### **2.4. REGULATORY POLICY ON PSAK 71 AND CREDIT RESTRUCTURING RELATED TO THE COVID-19 PANDEMIC**

In early 2020, the Financial Services Authority issued a policy in the credit restructuring relaxation through POJK number 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy for the Impact of the Spread of Covid-19. It was valid until March 31, 2021. Then, Financial Services Authority through POJK No. 48/POJK.03/2020 concerning Amendments to the POJK Stimulus Covid-19 extended the relaxation policy by emphasizing the obligation to apply risk management and prudential principles in implementing the stimulus and adding policies related to liquidity and bank capital until March 31, 2022. In the end, through POJK number 17/POJK.03/2021 concerning the Second Amendment to POJK Number 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy for the Impact of the Spread of Coronavirus Disease 2019, OJK decided to extend the relaxation period for bank credit restructuring for one year from March 31, 2022, to March 31, 2022. Following up on the development of the Covid-19 pandemic that affected banks in calculating CKPN based on Expected Credit Loss (ECL) on the initial implementation date of January 1, 2020, the Indonesian Accountants Standard Board (DSAK IAI) issued a press release (Ikatan Akuntan Indonesia, 2020) with the title "*Press Release – Dampak Pandemi Covid-19 Terhadap Penerapan PSAK 8 Peristiwa Setelah Periode Pelaporan dan PSAK 71 Instrumen Keuangan*". This press release aims to clarify and guide in considering whether the Covid-19 pandemic can affect the calculation of Expected Credit Losses (ECL) on the initial implementation date of PSAK 71 on January 1, 2020.

#### **2.5. REGULATORY POLICY ON PSAK 71 AND CREDIT RESTRUCTURING RELATED TO THE COVID-19 PANDEMIC**

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## **2.6. BANKING PERFORMANCE MEASUREMENT**

Financial institutions, especially banks, have a strategic role in the economy in Indonesia. Banks with healthy performance will survive in an economic situation currently still disrupted by the Covid-19 pandemic. Assessing the soundness of the bank can be seen from the financial performance. Financial performance is the company's ability to manage and control its resources. The financial performance of conventional commercial banks can be measured using financial ratio analysis using CAMELS analysis as regulated in Bank Indonesia Regulation (PBI) Number 6/10/PBI/2004 concerning the rating system for the soundness of commercial banks. In Bank Indonesia Regulation Number 13/1/PBI/2011, which was amended by the latest regulation, namely the Financial Services Authority Regulation Number 4/POJK.03/2016, the CAMELS method was replaced using a risk-based approach or RBBR (Risk-based Bank Rating).

## **2.7. ALLOWANCE FOR IMPAIRMENT LOSSES ACCORDING TO TAX PROVISIONS**

Basically, the provisions between accounting in PSAK 71 related to CKPN are different from tax provisions related to CKPN. The difference is due to the legal construction of the Income Tax Law, among others, based on Rule-Based while PSAK 71 is based on Principle-Based. This rule-based concept means that calculating taxation, especially CKPN, must be based on applicable laws or regulations. The difference in the bookkeeping between accounting and taxation can be seen in the explanation of Article 28 paragraph (7) of Law Number 6 concerning General Provisions and Tax Procedures (UU KUP) of the Republic of Indonesia of 1983 as amended several times, most recently by Law of the

Republic of Indonesia Number 7 2021 concerning the Harmonization of Tax Regulations.

The concept of allowance for impairment of financial assets in taxation is regulated in Article 6 paragraph (1) letter h of the Income Tax Law. The regulation stipulated that costs related to the write-off of receivables must meet the requirements as regulated by the tax law. The concept of the allowance for receivables is contained in Article 9 paragraph (1) letter c of the Income Tax Law, which explains that banks can form the allowance for bad debts, in this case, CKPN, but must meet the requirements of the Minister of Finance Regulation Number 219/PMK.011/2012 concerning Amendments to Regulations Minister of Finance Number 81/PMK.03/2019 concerning the Formation or Fostering of Allowance Funds that may be deducted as expenses. Fiscal corrections that may occur in banks related to allowance for impairment losses or allowance for doubtful accounts are as follows:

1. Calculation of CKPN according to PSAK 71 is based on the ECL method.
2. Calculation of CKPN is based on Minister of Finance Regulation (PMK) Number 81/PMK.03/2019 as last modified with PMK Number 219/PMK.011/2012.
3. The fiscal correction that occurs is the difference between numbers (1) and (2).

### **3. RESEARCH METHODS**

Research is a process used to collect and analyze information to improve our understanding of a topic (Gunawan, 2017). In this study, the approach or method used was a mixed-method by combining a quantitative approach and a qualitative approach. A qualitative approach was used to answer the research questions about what and how. Meanwhile, a quantitative approach was used by developing research working papers based on PT Bank X's 2019 and 2020 financial information as a basis for analysis of the impact of the PSAK 71 implementation on reports and company performance to support interview questions. Quantitative research will also support interview questions regarding the impact of the PSAK 71 implementation on PT Bank X's taxation aspects.

One type of qualitative research is research with a case study method or approach (Gunawan, 2017). Therefore, this research employed a case study that is a series of scientific activities performed in detail, intensively, and more deeply on a case at the company. Hence, more in-depth information about the case can be obtained.

This study used primary data and secondary data to answer the research problems. The primary data were sourced from semi-structured interviews with several respondents from PT Bank X, the Financial Accounting Standards Board of the Indonesian Institute of Accountants (DSAK-IAI), the Directorate of Tax Regulations II, and the Account Representative from PT Bank X. The semi-structured technique is a combination of structured and unstructured interviews by preparing questions for respondents/resources and then developing questions to answer research questions. The secondary data in this study were accomplished from the archives of financial reports and all supporting information published online on the company's official website, the Financial Services Authority, Bank Indonesia, and other sources.

The research stages at this time included conducting a literature review and analyzing primary data from audited financial reports, annual reports sourced from PT Bank X, and other published reports. Thereafter, interviews were conducted with several relevant informants. The next step after the interview was to perform data reduction and data analysis using the descriptive analysis approach and content analysis. This study utilized descriptive qualitative analysis to provide comprehensive information and can be easily comprehended by readers regarding the impact of CKPN on PT Bank X after the PSAK 71 implementation, the obstacles that can occur in calculating CKPN after the PSAK 71 implementation, the impact of the Covid-19 pandemic that affects PT Bank X's CKPN and the potential impact on taxation aspects, especially related to CKPN after the PSAK 71 implementation. Descriptive research was also used to describe secondary data, especially on the amount of allowance formation completed by PT Bank X before and after the PSAK 71 implementation.

In addition to employing a descriptive approach, this research also used a content analysis approach in the data analysis process. According to Weber (1990), content analysis is a research method aiming to reveal the conclusions of a sentence and interpret a text coming from the interview process. Through this method, the interviews with the informants can be explored based on the words they convey related to research questions. The examples are related to the impact of Allowance for Impairment Losses (CKPN) after the PSAK 71 implementation to PT Bank X, the influence of the Covid-19 pandemic can affect the calculation of Expected Credit Loss (ECL), potential problems in PT Bank X in the CKPN formation after the PSAK 71 implementation and the impact of tax calculations when PSAK 71 is implemented to PT Bank X related to temporary differences in the CKPN formation. After analyzing the data through descriptive qualitative analysis and content analysis approach, the last

step is to conclude and provide recommendations to PT Bank X to mitigate potential risks after the PSAK 71 implementation.

#### **4. ORGANIZATION PROFILE**

This research employed a case study approach with PT Bank X as the research object. PT Bank X is a financial institution engaged in general banking and has a sharia unit. It is classified as Book III bank category. Based on POJK 6/POJK.03/2016 regarding Business Activity and Office Network Based on the Bank Core Capital that was amended by POJK number 17/POJK.03/2018, Buku III are banks with a Core Capital of between IDR5.000.000.000.000 (five trillion Rupiah) and IDR30,000,000,000,000 (thirty trillion Rupiah). Currently, this bank has its head office in DKI Jakarta and branch offices in several regions in Indonesia. PT Bank X, as a commercial bank, provides various banking products and services such as collecting funds from society in the form of savings, providing loans or credit, publishing Letters of Credit, etc. Based on the 2020 audited financial report, PT Bank X has implemented PSAK 71 since January 1, 2020.

#### **5. RESULT AND DISCUSSION**

This study discussed the findings at PT Bank X and the interview results with several informants to answer the problem formulation, including the impact of the PSAK 71 implementation on the allowance for impairment losses (CKPN) after the PSAK 71 implementation and its implications for the financial performance of PT Bank X, the impact of the Covid-19 pandemic on the calculation of expected credit losses (ECL) on the date of initial implementation the PSAK 71 on January 1, 2020, at PT Bank, the potential problems in PT Bank X in the CKPN formation after the PSAK 71 implementation and the impact of tax calculations when PSAK 71 was implemented to PT Bank X related to temporary and permanent differences from the CKPN formation.

##### **5.1. IMPACT OF PSAK 71 IMPLEMENTATION ON ALLOWANCE FOR IMPAIRMENT LOSSES (CKPN) AND ITS IMPLICATIONS FOR THE FINANCIAL PERFORMANCE OF PT BANK X**

As one of the banks in the BUKU III category in Indonesia, PT Bank X must perform its business activities based on applicable regulations. As a Limited Liability Company (PT) legal entity, PT Bank X is required to comply

with Law Number 40 of 2007. Based on Article 66, paragraph 3 of Law Number 40 of 2007, financial reports must be prepared based on financial accounting standards. It is also consistent with the Regulation of the Capital Market and Financial Institutions Supervisory Agency (or Bapepam-LK) No. VII.G.7, which is enclosed to the Decision of the Chairman of Bapepam-LK No.KEP-347/BL/2012 dated June 25, 2012, concerning Presentation and Disclosure of Financial Reports of Issuers or Public Companies.

PSAK 71 replaces PSAK 55, introducing a new method of forming CKPN. It utilizes the expected credit loss model that substitutes the old model, the incurred loss, which is backward-looking. In the old model, CKPN was formed when there was objective evidence that the debtor had defaulted. The most significant difference between PSAK 71 and PSAK 55 implemented by banks is the determination of the CKPN formation on financial assets, especially loans. Based on PT Bank X's 2020 Audited Financial Reports record, PT Bank X implemented the CKPN formation based on PSAK 71, and the Sharia Business Unit of PT Bank X implemented POJK No.16/POJK.03/2014 dated November 18, 2014, amended through POJK No.19/POJK.03/2018 dated September 20, 2018 regarding "Assessment of Asset Quality for Sharia Commercial Banks and Sharia Units.

Meanwhile, the Financial Services Authority issued Regulation No. 40/POJK.03/2019 concerning Asset Quality Assessment for Commercial Banks that POJK No.48/POJK later amended.03/2020 concerning Amendments to POJK No.11/POJK.03/2020 regarding National Economic Stimulus as a countercyclical policy impacting the spread of Corona Virus Disease 2019 on December 3, 2020, to create a healthy and developing banking system, compete nationally and internationally, and maintain asset quality and provision for asset quality assessment.

This study attempted to analyze the impact of the PSAK 71 implementation on PT Bank X's CKPN based on PT Bank X's Annual Report 2020 and previous years, PT Bank X's Audited Financial Reports, PT Bank X's Quarterly Reports, and other reports that have been published by PT Bank X both through newspapers and websites of PT Bank X and Financial Services Authority. After analyzing related documents, interviews were conducted with PT Bank X and several sources who have experience in the accounting field, especially related to PSAK 71.

Based on the explanation in the notes to the financial reports related to the transition requirements for the PSAK 71 implementation, PT Bank X used a retrospective implementation with a cumulative impact at the beginning of the implementation, which was on January 1, 2020. PT Bank X also did not restate

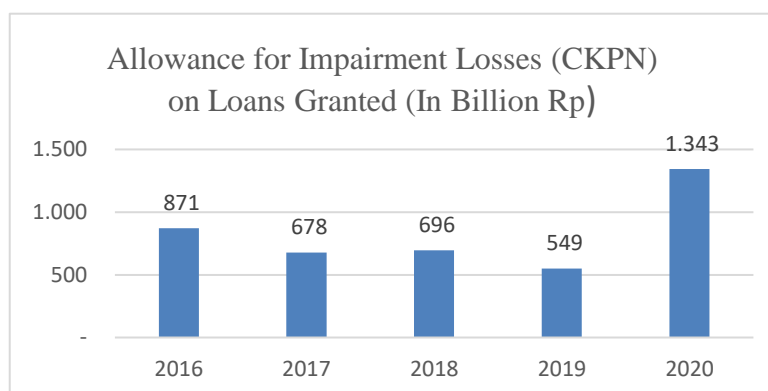
comparative information. Based on the results of the banks' review of the two criteria in determining the classification of financial assets, there was a change in the classification and measurement of long-term investments classified as available-for-sale and measured using the cost method according to PSAK 55. Then, it changed to the classification of financial assets measured at fair value through other comprehensive income based on PSAK 71. The change in approach in calculating the impairment of financial assets also had an impact on the carrying value of the bank's financial assets at the beginning of the PSAK 71 implementation.

**Table 1. Summary of PT Bank X's Financial Performance**

Notes	2019 (In Billion Rp)	2020 (In Billion Rp)	Increase/ Decrease (In Billion Rp)	Presentase
Allowance for Impairment Losses (CKPN) on Loans Granted	549	1.343	794	145%

Source: PT Bank X Annual Report, reprocessed

Based on the methods and calculations that have been completed on the audited financial reports of PT Bank X, the calculation of CKPN and financial performance of PT Bank X can be obtained as follows:



**Figure 2. Allowance for Losses PT Bank X 2016-2020**

Source: PT Bank X Annual Report, reprocessed

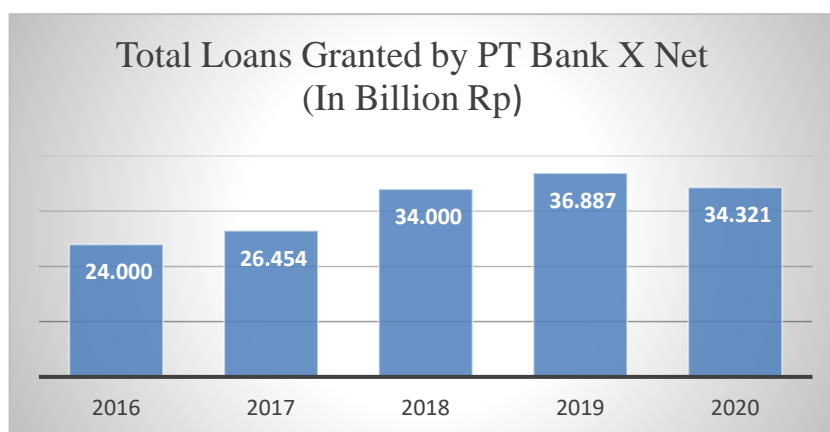
Table 1 and Figure 2 above shows the increase and decrease in CKPN from the year before the implementation, 2016, to 2020. At the first implementation of PSAK 71, 2020, there was a fairly high increase in CKPN above 100%. Based on table 1 above, the CKPN value from PT Bank X has increased by 145% compared to the previous year in 2019. It indicates that the new formation method is expected credit loss. It is in line with what was stated by the Leader of the Accounting and Finance Group of PT Bank “:

*"The implementation of PSAK 71 has an impact on increasing PT Bank X's CKPN in 2020. Thus, it will result in low financial performance and also*



*pressure from economic conditions in 2020. The purpose of establishing additional CKPN in 2020 is to comply with PSAK 71, which has taken effect on January 1, 2020."*

The content analyses from interviews with several informants (auditors and lecturers) indicated a similar result that the impact of the PSAK 71 implementation will increase the amount of CKPN as well as disrupt the company's financial performance. This is also in accordance with the previous finding put forward by (Defri, 2021) that the CKPN formed by Bank X experienced a significant increase compared to previous years. According to Defri (2021), in his research, the purpose of this additional CKPN is to meet the provisions of PSAK 71 and maintain the coverage ratio of Bank X.



**Figure 3. Credits Provided by PT Bank X Net**

Source: PT Bank X Annual Report, reprocessed

Figure 3 above illustrates the amount of credit granted by PT Bank X, that is, the sum of conventional lending and sharia financing, after deducting CKPN for the financing. Compared to 2016, 2017 had a fairly high increase. It is due to the possibility that PT Bank X managed to sell products from credit in the form of financing. However, after the implementation of PSAK 71 in 2020, there was a decrease in the number of loans compared to 2016.

In dealing with the Covid-19 pandemic situation and the application of PSAK 71, it will have an impact on the financial performance of PT Bank X. The following is an overview of PT Bank X's financial performance from 2016 to 2020:

**Table 3. Summary of PT Ban' X's Financial Performance (In Billion Rp)**

Note	2016	2017	2018	2019	2020	Changes 2019-2020
Total Assets	40.567	51.417	53.028	55.601	63.046	13%
Loans Disbursement (Gross)	24.871	27.132	34.696	37.426	35.664	-5%
Loans	21.088	23.114	29.346	31.410	29.711	-5%
Sharia Financing	3.783	4.018	5.350	6.016	5.953	-1%
Total Allowance for Impairment Losses	(871)	(678)	(696)	(549)	(1.343)	145%
Total Loans (Net of Allowance for Impairment Losses)	24.000	26.454	34.000	36.877	34.321	-7%
Third Party Funds	28.452	38.335	37.293	37.302	48.923	31%
Liabilities	33.171	43.214	44.441	46.309	53.862	16%
Equity	7.936	8.203	8.586	9.292	9.184	-1%
Operating Income	891	926	1.028	1.085	780	-28%
Profit and Loss Before Tax	915	967	1.074	1.103	797	-28%
Profit and Loss After Tax	645	712	800	817	581	-29%

Source: PT Bank X Annual Report, reprocessed

Based on the table above, the total assets of PT Bank X increased from 2016 to 2020. It is likely due to an increase in the financing granted so that it will affect the total assets of PT Bank X. Based on the table above. It can also be perceived that the net income after Taxes experienced a considerable decline in 2020 as a result of fairly high CKPN formation and a fairly slow economic condition due to the Covid-19 pandemic. It is consistent with the Leader of the Accounting and Finance Group of PT Bank X statemen“:

*"PT Bank X experienced pressure in 2020. It was the implementation of PSAK 71 that resulted in an increase in CKPN and also a pandemic from Covid"19".*

## **5.2. SOLUTIONS TO MITIGATE THE INCREASE IN CKPN THAT CAN BE DONE BY PT BANK X**

The first step in determining the solution to mitigate the increase in CKPN is to analyze the difference between PSAK 71 and PSAK 55. Based on the explanation that has been explained in the theoretical review, it can be concluded that the CKPN formation in PSAK 55 used the incurred loss where the impairment is recognized if there is objective evidence that loans extended to debtors are in default. Meanwhile, PSAK 71 utilized a new model called expected credit loss, where impairment is recognized for all financial asset instruments that meet the requirements described in PSAK 71. Of course, the

impact of the CKPN formation with this new model will result in more significant CKPN on the company's financial reports.

In this regard, good risk management is needed to mitigate the risk of an increase in CKPN. The interview result with the Leader of the Accounting and Finance Group of PT Bank X about the solution to reducing the CKPN value is as follows:

*"In my opinion, I prefer the CKPN formation at PT Bank X is formed in a prudence condition but not in the context of forming CKPN with a small value. The prudence concept is in line with applicable regulations, which is equivalent to the principle of conservatism in financial reporting. The principle of conservatism means determining CKPN by calculating and analyzing data based on the applicable SAK and in line with the statistical analysis used."*

In addition to the explanation above, the following are risk mitigation in the formation of CKPN based on the results of interviews with PT Bank X:

1. Improve the prudence principle in all lending and position of other financial instruments.
2. Increase efforts to monitor and supervise debtors who are given loans.
3. Upsurge collection efforts to debtors so that losses on loans can be minimized.
4. Intensify the last resort of credit rescue efforts by selling collateral

### **5.3. THE IMPACT OF THE COVID-19 PANDEMIC ON THE CALCULATION OF ECL AT PT BANK X**

As explained earlier, the Covid-19 pandemic was one of the causes of the decline in Net Profit after tax from PT Bank X in 2020 and also other banks in Indonesia. Following up on the development of the Covid-19 pandemic that affected banks in calculating CKPN based on Expected Credit Loss (ECL) on the initial implementation date of January 1, 2020, the Indonesian Accountants Standard Board (DSAK IAI) issued a press release (Ikatan Akuntan Indonesia, 2020). Its title is *"Press Release – Dampak Pandemi Covid-19 Terhadap Penerapan PSAK 8 Peristiwa Setelah Periode Pelaporan dan PSAK 71 Instrumen Keuangan"*. It aims to clarify and guide whether the Covid-19 pandemic can affect the calculation of Expected Credit Losses (ECL) on the initial implementation date of PSAK 71 on January 1, 2020.

On April 15, 2020, OJK issued a press release number SP-28/DHMS/OJK/IV/2020 regarding guidelines for the implementation of PSAK 71 and PSAK 68 for banking during the Covid-19 Pandemic. The press release explained that this guide was issued related to the impact of the Covid-19

pandemic, which has caused global and domestic economic uncertainty to affect the judgment of entities in preparing financial reports significantly. OJK provides guidelines for banks, including:

1. Banks should comply with and implement POJK No. 11/POJK.03/2020 and proactively identify debtors who have performed well but then decreased due to the impact of the Covid-19 pandemic.
2. Banks should implement a restructuring scheme referring to accurate assessment results adjusted to the debtor profile with a maximum period of 1 (one) year and only given to debtors who are highly affected by the Covid-19 pandemic.
3. Banks should classify debtors who received the restructuring scheme in Stage-1, and no additional Allowance for Impairment Losses (CKPN) is required.
4. Banks also should identify and monitor on an ongoing basis and prepare to form CKPN if debtors who have received the restructuring facility initially perform well but are estimated to decline due to the impact of the Covid-19 pandemic and cannot recover after restructuring/impact of Covid-19 pandemic is over.

The following is the result of the interview with the Leader of the Accounting and Finance Group of PT Bank X regarding the Impact of the Covid-19 Pandemic on the ECL Calculation at PT Bank X:

*"During the Covid-19 pandemic, credit quality was relatively low due to declining economic conditions in Indonesia. However, under these conditions, the OJK issued relaxations to the banking sector. It resulted in the CKPN formation being manageable, but banks consider conservative principles. Hence, the CKPN formation remains higher due to the real condition of the debtor. Then, the corrected bank's financial performance becomes smaller. OJK relaxation is beneficial, but for certain debtors who have good abilities or business."*

#### **5.4. PROBLEMS THAT OCCURED IN PT BANK X IN THE CKPN FORMATION AFTER THE PSAK 71 IMPLEMENTATION**

As previously explained, PSAK 71 has a distinctive model of impairment compared to PSAK 55. By using this new model, Expected Credit Loss, it can be projected that the loans provided for debtors will default or be current. Regarding the problems that occurred at PT Bank X, PT Bank X, through interviews, clarified that:

*"There was no problem during the PSAK 71 implementation, especially in CKPN formation."*

Based on the information from PT Bank X through interviews, the implementation process of PSAK 71 at PT Bank X commenced in 2016 and its implementation in 2020. PT Bank X had several steps related to the PSAK 71 implementation:

1. Provide an understanding of PSAK 71 to employees in accounting and business units.
2. Prepare technology infrastructure so that an integrated system conducts the CKPN formation.
3. PT Bank X is guided by several consultants in implementing PSAK 71.

#### 5.5. THE IMPACT OF TAX CALCULATION WHEN PSAK 71 WAS IMPLEMENTED TO PT BANK X RELATED TO TEMPORARY DIFFERENCES FROM THE CKPN FORMATION

The impact of tax calculations from the PSAK 71 implementation based on interviews with PT Bank X is:

*"Due to the decrease in Profit before tax, Corporate Income Tax Expenses will decrease from 2019."*

The following is the Tax Expense from PT Bank X for 2016 to 2020 based on 2016, 2017, 2018, 2019, and 2020 Audited Financial Reports:

**Table 4. Tax Expense 2016 – 2020**

Tax Expense	Year					Increase/(Decrease) 2019-2010
	2016 (in millions Rp)	2017 (in millions Rp)	2018 (in millions Rp)	2019 (in millions Rp)	2020 (in millions Rp)	
Current tax expense	194.597	286.613	296.474	287.343	187.665	(99.678)
Deffered tax (benefit) expense	75.019	(31.981)	(23.116)	(1.576)	29.032	30.608
Total	269.616	254.632	273.358	285.767	216.697	(69.070)

Source: Notes on the 2016-2020 Audited Financial Statements of PT Bank X

Current tax and deferred tax are recognized in profit or loss, except for income tax arising from transactions or events that are recognized in other comprehensive income or directly in equity. Based on table 4, there is a significant difference in deferred tax in 2016 and 2020. The previous year, namely 2017 to 2019, the deferred tax was categorized as a deferred tax benefit, thereby reducing the total tax expense of PT Bank X. In 2020, after the implementation of PSAK 71, the deferred tax was categorized as a deferred tax expense from PT Bank X, thus increasing the tax expense of PT Bank X.

There was a change in the method of establishing CKPN based on PSAK 71 in 2020, which resulted in a considerable increase in the value of CKPN based on PSAK 71. Meanwhile, the tax provisions related to CKPN are still based on

Article 2 of PMK 81/PMK.03/2009, which was amended by PMK 219/PMK.011/2012. Based on these tax regulations, the CKPN formation based on tax regulations still uses a percentage, for example, 1% of receivables with quality classified as current, excluding BI certificates and Government bonds, 5% of receivables with quality classified as special mention, excluding BI certificates and Government bonds, etc. Hence, the calculation of CKPN between PSAK 71 and taxation causes temporary differences, as described in the following table:

**Table 5. Deferred Tax**

Note	Allowance for impairment losses on loan (In Millions Rp)	Allowance for impairment losses on other financial assets (In Millions Rp)
January 1, 2018	(137.447)	
Charged to profit or loss	6.563	
Credited to other comprehensive income	-	
<b>December 31, 2018</b>	<b>(130.884)</b>	
January 1, 2019	(130.884)	
Charged to profit or loss	(5.429)	
Credited to other comprehensive income	-	
<b>December 31, 2019</b>	<b>(136.313)</b>	
January 1, 2020	(136.313)	
Impact of Implementation PSAK 7	207.244	700
Effect of change in tax rate	(8.059)	(84)
Charged to profit or loss	(8.173)	1.109
Credited to other comprehensive income	-	-
<b>December 31, 2020</b>	<b>54.229</b>	<b>1.725</b>

Source: Notes on the 2018-2020 Audited Financial Statements of PT Bank X

## 6. CONCLUSION AND DISCUSSION

This study discussed the impact of the PSAK 71 implementation: Financial Instruments on CKPN and financial performance that significantly increased the value of CKPN using Expected Credit Loss (ECL) as described in PSAK 71 compared to PSAK 55, which used the model incurred losses. It is consistent with Defri's (2021) research, where there was an increase in CKPN and has the potential to erode banking profits. This study also revealed that the implementation of PSAK 71 will have an impact on taxation aspects related to temporary differences where the tax expense based on table 4 from PT Bank X has increased compared to 2019.

Based on this study's results, the increasing CKPN also affects the financial performance of PT Bank X, which has decreased in addition to other factors, such as the Covid-19 pandemic. With the onset of the Covid-19 pandemic that has changed economic aspects globally and particularly in Indonesia, the Financial Services Authority released a credit relaxation policy in credit restructuring for debtors affected by the Coronavirus Disease 2019 (Covid-19) pandemic. In this case, PT Bank X formed a team to collect mortgage debtors who have collectability two and three and served a Desk Call for collection, restructuring, and visits if necessary.

In addition to the credit relaxation policy from the OJK, the Indonesian Institute of Accountants (IAI) also issued a new press release related to PSAK 71 according to conditions in 2020, which were experiencing the Covid-19 pandemic. With the policy from IAI, it is expected to guide PT Bank X in dealing with pressure from the changing model in PSAK 71 and the Covid-19 pandemic.

Based on the results of the previous analysis and discussion, this study suggests that PT Bank X should implement the conservatism principles or prudence in granting credit or loans and also intensify its in-depth analysis of prospective debtors. At the same time, the Financial Services Authority (OJK) should provide guidance related to PSAK 71. It is because Indonesian Banking Accounting Guidelines (PAPI) 2008 still implements PSAK 55. The tax authority, the Directorate General of Taxes, should prepare regulations related to CKPN that is currently using the Regulation of the Minister of Finance Number 219/PMK.011/2012 concerning Amendments to the Regulation of the Minister of Finance Number 81/PMK.03/2019 regarding the Formation or Fostering of Allowance Funds that may be Deducted as Expenses.

This study has a limitation in the data that used a case study on PT Bank X as a banking institution. It is advisable to research various types of industries with numerous financial instruments, including the insurance industry, securities companies, savings and loan companies, etc. This study also has a limitation on the resource person from PT Bank X, which is only the Leader of the Accounting and Finance Group of PT Bank X. It is expected for future research to obtain data from an open-ended survey. It is by giving questions to employees of PT Bank X so that they will develop more profound and more specific information.

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