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ANALYSIS OF NOT APPLYING PSAK NO. 71: FINANCIAL INSTRUMENTS IN PENSION FUND X

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ABSTRACT

On January 1, 2020, there is three Financial Accounting Standards that effectively applied which one of them is PSAK No. 71: Financial Instruments. There is no exception for Pension Fund to applied PSAK No. 71 but the condition occurred that Pension Fund did not applied it because the Pension Fund's misperception about PSAK No. 71 and the Pension Fund tends to fulfil the regulations issued by Financial Services Authority namely SEOJK No. 9/SEOJK.05/2016 for investment valuation also SEOJK No. 4/SEOJK.05/2021 for the financial reporting. This study is for identifying factors that made Pension Fund not implemented PSAK No. 71 also the issues and the impact to the Pension Fund financial statements. This study uses qualitative approach through document analysis such as financial statements and all supporting information also interviews with Pension Fund X's directors and employees also the auditors. The result showed that Pension Fund have to applied PSAK No. 71 and the factor causing it namely (1) lack of understanding the scope of PSAK No. 71 and (2) there is misperception concerning PSAK No. 71 which is using fair value means already applied PSAK No. 71. The issues and impact for not applying PSAK No. 71 namely (1) the total assets in the financial statements less precise and not reflecting the Pension Fund's asset value since impairment is not applied to one of its financial assets and (2) no financial instruments disclosure in the financial statements that caused the financial statement less informative.

Keywords: *Pension Fund, Financial Instruments, PSAK No. 18, PSAK No. 71*

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1. INTRODUCTION

International Financial Reporting Standards (IFRS) is being develop from time to time therefor Board of Financial Accounting Standards of the Institute of Indonesia Chartered Accountants (IAI) issuing some new and amendment of Statement of Financial Accounting Standards (PSAK) also Interpretation Financial Accounting Standards (ISAK) to minimize the gap between SAK and IFRS. The accounting standards affecting the financial statement of business entity in preparing their financial statements. On January 1, 2020, there are three SAKs that applied effectively which are PSAK No. 71: Financial Instruments, PSAK No. 72: Revenue from Contracts with Customers, and PSAK No. 73: Leases that effecting the financial statements business entities' in Indonesia. PSAK No. 71: Financial Instruments effectively applied on January 1, 2020 set up the principle for financial instruments which will presents relevant information and useful to users of financial statements to perform valuation of the entity's amount, time, and future cash flow uncertainty. PSAK No. 71 adopted from IFRS 9 Financial Instruments which applied January 1, 2018 and PSAK No. 71 has been approved by Board of Financial Accounting Standards of IAI on July 26, 2017. The scope of PSAK No. 71 applied for all entities to all financial instruments except that stated in PSAK No. 71 paragraph 2.1. Definition of financial instruments based on PSAK No. 50 is "each contracts that add value in financial assets and financial liabilities entity or equity instrument other entity".

Pension Fund is one of non-bank financial industry that regulated by Financial Services Authority (OJK) which is a legal entity that manage and run fund to fulfill pension benefit promises to the participants. Based on SEOJK No. 4/SEOJK.05/2021 that Pension Fund have to report to OJK the audited financial statements in accordance with the Indonesian Financial Accounting Standards. The condition occurred that Pension Fund did not understand and aware that have to applied PSAK No. 71. This condition implied in Indonesian Institute of Certified Public Accountant (IAPI) education concerning "Audit and Accounting Aspects of Pension Fund's Financial Statements" on August 1-2, 2022 which the participant are mostly pension fund in Indonesia. The Pension Fund tends to applied and follow OJK regulation such as SEOJK No. 9/SEOJK.05/2016 for investment valuation and SEOJK No. 4/SEOJK.05/2021 for the financial statements format. Since the majority of the Pension Fund's financial assets is investment which measured at fair value, the Pension Fund thought that PSAK No. 71 already applied.

The object used is Pension Fund X since Pension Fund X has been established for a long period of time and has a defined benefit pension perogram. Pension Fund X has a variety type of investment in managing participant's fund for their pension benefit in the future.

The study is to identify the factor that caused PSAK No. 71 not applied in Pension Fund X also the issued and impact because of it. The structure is consists of introduction, literature review, research methods, organization profile, results and discussion, and conclusion and discussion.

2. LITERATURE REVIEW

2.1. PENSION FUND REGULATIONS

Based on Law of the Republic of Indonesia No. 11 Year 1992 concerning Pension Fund, the Pension Fund is a legal entity that manage and operate pension benefit program. The Pension Fund is divided to 3 (three) types which are *Dana Pensiun Pemberi Kerja* (can organized either as a defined benefit or defined contribution program), *Dana Pensiun Berdasarkan Keuntungan* (only organized a defined contribution program), and *Dana Pensiun Lembaga Keuangan* (only organized a defined contribution program). The investment policy and strategies (*Arahan Investasi* or Investment Guidelines) is decided by the Pension Fund's founder or the Pension Fund's supervisory board and founder that become the management guidelines in doing its investment (Otoritas Jasa Keuangan, 2015). The limit of investments also included in the investment policy and strategy (Otoritas Jasa Keuangan, 2018). The Investment Guidelines also stated the valuation of investment in accordance with *Surat Edaran Otoritas Jasa Keuangan* No. 9/SEOJK.05/2016 concerning the Pension Fund Investment Valuation Basis, Form and Structure also Delivery Method of Yearly Pension Fund's Investment Report. The investments in Pension Fund are carried at fair value or can be carried at cost if there is a constant rate of return to the maturity date also the investments itself combined with the liability retirement benefits program or a specific part of retirement benefits program (Otoritas Jasa Keuangan, 2016). SEOJK No. 4/SEOJK.05/2021 stated that Pension Fund have to report to OJK the audited financial statements in accordance with the Indonesian Financial Accounting Standards.

2.2. PSAK NO. 71: FINANCIAL INSTRUMENTS

PSAK No. 71 purposes in accordance with paragraph 1.1:

"...is to set up principle for financial reporting of assets and liabilities that presents relevant information and useful to users of financial statements to perform valuation of the entity's amount, time, and future cash flow uncertainty."

PSAK No. 71 paragraph 2.1 stated which entities that being excluded in applying PSAK No. 71, and it is not included Pension Fund.

Financial Instruments, that classifies financial assets as subsequently measured at amortized cost, fair value through comprehensive income or fair value through profit or loss, on the basis of both:

- (a) business model for managing the financial assets; and
- (b) The contractual cash flow characteristics of the financial assets.

The entity assess whether the credit risk on a financial instrument has increased significantly since initial recognition at each reporting date. When making the assessment, the entity uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. The entity compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort at the reporting date about

past events, current conditions and forecasts of future economic conditions, that is indicative of significant increases in credit risk since initial recognition to make that assessment.

The purpose of terms in financial assets impairment is to acknowledge the whole life expected credit of all financial instruments that has significant increase in credit risks since initial recognition whether individually or collectively by considering all relevant and supporting information including forward-looking (*forward-looking*) (Ikatan Akuntan Indonesia, PSAK 71 Instrumen Keuangan, 2021). The disclosure for financial statements is arranged in PSAK No. 60: Financial Instruments: Disclosures.

2.3. PSAK NO. 18: ACCOUNTING AND REPORTING BY RETIREMENT BENEFIT PLANS

PSAK No. 18: Accounting and Reporting by Retirement Benefit Plans paragraphs 32 and 33 stated that the investment in Pension Fund is carried at fair value whereas for marketable securities the fair value is the market value. If the fair value estimate of the investment is not possible then the reason why it is not used should be disclosed. Investment in Pension Fund can be carried at cost if there is a constant rate of return to the maturity date also the investments itself combined with the liability retirement benefits program or a specific part of retirement benefits program. The format, content, and structure of the Pension Fund's financial statements is regulated in PSAK No. 18.

2.4. PREVIOUS RESEARCH RESULTS

Previous research in regards of application of PSAK No. 71 in Pension Fund is only by Gornjak (2019) for case study in Slovenia Pension Fund concerning applying IFRS 9 and Otete (2019) in regards of dilemma in financial reporting of financial statements in Uganda in one of which concerning the application of IFRS 9. Besides those research, there is also research about PSAK No. 71 such as Isma & Sixpria (2022) in regards impact analysis of application PSAK 71 to allowance and financial performance of listed bank entity; Al-Nsour & Abuaddous (2022) concerning impact of IFRS 9 to performance, solvency, credit ratio, capital adequacy ratio, expected credit loss, non-performing credits and write offs for local bank operated in Gulf Cooperation Council; Hermawan & Pratama (2021) about analysis and implementation PSAK 71 in PT X that operate in heavy equipment in 2019; Matoviany & Firmansyah (2021) concerning the impact of PSAK 71 application to bonds investment recognition and measurement owned by banking companies in Indonesia; and Gornjak (2020) about literature review of IFRS 9 and its key parameter that impacted the valuation of financial instruments and statements of profit or loss.

Other research was discussing of implication of PSAK 71 in banking industry and there is not yet a research in regards of analysis of not applying PSAK 71 in Pension Fund.

2.5. RESEARCH FRAMEWORK

The framework research is to identify factors that made Pension Fund not implemented PSAK 71 also the issues and impact that arise because of it.

3. RESEARCH METHODS

3.1. RESEARCH APPROACH

The research using qualitative method or approach by case study which are scientific activities that being done detailed, intensive, and depth to an incidents within an entity therefor depth information can be obtained. (Creswell, Research Design: Qualitative, Quantitative, and Mixed Methods Approaches (3rd ed.), 2009).

The phenomena that being research concering to Pension Fund not applying PSAK 71 and the issues also impact rises from that phenomenon.

3.2. RESEARCH STAGES

The stages done in this research by assess the literature, analyze the data, perform interview with responded in regards to the phenomenon, and lastly perform data reduction also data analysis.

3.3. DATA COLLECTION

The type of data that will be used are primary data which is interview and secondary data such as financial statements and other supporting information that publish on line officially by Pension Fund X, OJK, and other resources.

The instrument that being used for data collection is interview and the set up of respondent criteria are:

1. Pension Fund X
 - a. Minimum 5 years experience in its fields considering that the respondent knows the Pension Fund X's accounting, operational, and financial statement.
 - b. Have enough knowledge to answer research questions concerning PSAK's and regulation that applicable to Pension Fund X.
 - c. Have understanding about PSAK 71 concerning at least its scope and arrangement.

2. Pension Fund X Auditor

Signing partner, engagement partner, and manager in charge for Pension Fund X financial statement audit.

After permission being obtained, then the list of questions is being prepared. The interview being documented by organizing, analyzing, and writing.

Data collection instrument that also being used are through electronic and printed media, Pension Fund X and others.

4. ORGANIZATION PROFILE

The Pension Fund X is an employer pension fund with defined benefit program for the founder and co-founder. The majority participants of Pension Fund X are retired participants and there is also active participants and delayed retired participants.

Pension Fund X operational activities are to gather, manage, and develop the fund to ascertain and maintain also to obtain sustainable participants's result at retirement.

There is no information in financial statements of Pension Fund X for implementation of PSAK 71.

5. RESULT AND DISCUSSION

Pension Fund X have to applied PSAK 71 since Pension Fund is not excluded based on PSAK 71. Based on interview to respondent in regards to it:

“If Pension Fund is a specific industry that for accounting policy refer to PSAK 25....Pension Fund is specific because the thing that being consider is how the ability of its assets to fulfill pension benefit if Pension Fund is closed, The valuation of assets program is based on PSAK 18 which is using fair value and can be at cost if can be combined with the liabilities in accordance in PSAK 18. So there is specific arrangements in regards of Pension Fund program assetsbut if there is anything that not arrange in PSAK 18 that refer to other PSAK ...” (Respondent, July 23, 2022).

PSAK 71 should be applied since in PSAK 18 more to reporting of pension fund entity. The issues and implications of not applying PSAK 71 are as follows:

a. Financial assets

Based on the definition of financial instruments, Pension Fund X's financial assets consists of investment (except for land; building; and land and building), cash and banks, and receivables (contribution receivables, interest receivable on late contribution, investment receivables, and investment result receivables). For investment in bonds and asset backed securities, Pension Fund X has to assess the business model and the contractual cash flow to categorized this financial assets since currently it is being recognized at fair value and at amortized cost. Pension Fund X not yet consider impairment for its receivable and it may caused the value presented is higher in the financial statement.

b. Financial liabilities

There is no effect for financial liabilities owned by Pension Fund X.

c. Notes to financial statements

Disclosure for financial instruments is not yet being disclosed by Pension Fund X.

6. CONCLUSION AND DISCUSSION

PSAK 71 should be applied by Pension Fund since it is not excluded by PSAK 71 and the factor that caused it are: (1) lack of understanding the scope of PSAK No. 71 and (2) there is misperception concerning PSAK No. 71 which using fair value means already implemented PSAK No. 71. The issues and implication of not applying PSAK 71 are (1) Pension Fund X should made assessment for its business model and the contractual cash flow since there is two valuation for investment in bond and assets backed securities. For financial assets carried at fair value should be assessed whether it is FVPL or FVOCI. In regards of receivables, Pension Fund X should consider impairment for this financial assets. The total assets that being disclosed in the financial statement are higher since there is no impairment that being made for the receivables; and (2) Pension Fund X should made proper disclosure about financial instruments since it will give the reader better understanding and information of the financial statement.

The limitation of this study is interview in Pension Fund X and its auditor as respondent. The study can be reference and contribution for academic, pension fund industry, and regulator for implementation of PSAK 71.

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DISCLOSURES

There is no conflict of interests in performing this research.

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