Market Reaction Due to Implementation on International Financial Reporting Standard (IFRS) on Public Listed Companies at LQ45

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Abstract: The perpose of this study to determine market reaction that reflected by average abnormal return before and after the implementation of International Financial Accounting Standard (IFRS) and market reaction that reflected by cumulative average abnormal return before and after the implementation of International Financial Accounting Standard (IFRS). The Population in this research are 45 Companies that listing LQ45. The sampling method used purposive sampling method with 41 Companies. The data that used in this research in secondary data. The analytical method that used is descriptive statistic with the help of SPSS 18.0. The result of this study indicate that market reaction that reflected by average abnormal return before and after the implementation of International Financial Accounting Standart (IFRS) has positive reaction and market reaction that reflected by cumulative average abnormal return before and after the implementation of international accounting standart (IFRS) has positive reaction.

Keywords: Average Abnormal Return, Cumulative Average Abnormal Return and International Accounting Standard (IFRS)

1. Introduction

Sound Financial Statement will serve the financial information and increase credibility to potential investor who intends to invest in capital market. Good implementation of Accounting standard provides investors have proper information and consider cost of implementation of relevant cost rationally. The current initiative is focussed on set of Global accounting standards which already accepted by regulator, standard team, accounting profession and business community and universal academician. The Companies more than 100 countries have adopted the *International Financial Reporting Standards* (IFRS) for preparation the their Financial Statements. (IFRS) (Siregar, 2012). Accounting has assumed as business langguage and the current issues are does all Accounting profession globally speak and treat the uniform Accounting Standard"?: Or the other word: "Does the global accounting standard can be accepted? Does the focus to IFRS implementation is the real solution?

This Research try to answer those questions by gathering the opinions and understanding from selected academician in relation with relevance, beneficial and how the possibility pooling the accounting standard. This research also to respond this question by pooling the opinion and understand from selected academician in regards with relevance, beneficial, and how to set-up the accounting standard.

Financial Statements has to be presented in accpordance with *Generally Accepted Accounting Principles* yang (GAAP). Generally accepted means can be accepted by users of Financial Statement. An Acconting principle can be accepted in certain country may not be accepted generally in other country.

International Federation of Accountants stated that single International Accounting standard is the key success to develop economic when the 89% of respondent feel satisfy with the IFRS (IFAC 2007).While the other side. *American Institute of Certified Public Accountant*

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(AICPA) fully support to concentrate to Global accounting Standard and implementation of IFRS for Financial Statements, which can identify that the changes also should be implemented in auditing, regulation and legal environment of America (2007).

Chairman of Security Exchangfe Commission (Christopher Cox), when promoted the Concentration force, said:" IFRS is coming" reminded that American generally accepted the Accounting Principles (GAAP), does its will not realize soon"?.

Beneficial Financial Statement is the Financial Statements which contian the needed information by market doers. They will give response or reaction for the informations got from the Financial Statement. The respond can be measured from the Return on changes of share price by using ***abnormal return*** (Jogiyanto, 2000). The forces of globalization has crreate the condition where the border of countries geography is not a handicap for market share doer in doing Investment activities and market share trading. Previously, every countries hav e they own accounting and financial statements standard which are prepared diffrently.

By this fact, we consider need a uniform Accounting Standard and Financial reporting globally. (Purba, 2010) also emphasized that the harminization of accounting standard and financial statements which used gobally is in emergency condition which should be done by every countries soon, included Indoensia as developed country.

The main advantage can be achieved from Harmonization the accounting financial standard is it will have more better understanding by user on Financial Statements from many countries. Therefore, its will facilitate the Companies when selling their share inter countries and inter stock exchanges. For Indonesian context, the Convergency IFRS to PSAK (Pedoman Standard Akuntansi Keuangan) is the important to maintain the competiteveness National Companies in Global Competition by declared in 2008 by Indonesian Accountant Association (IAI) that Indonesian will impement the IFRS starting 1 Januari 2012 for Financial Accounting.

Indonesian has been implemented the Convergention to IFRS by three stages. The firts stage is the process to adopt all IFRS to PSAK by preparing infrastructure and evaluate the impact after the implementation period. The second stage is done in 2011 toward final preparation before fully implementtion in 2012. And the third stage is implementation PSAK which consider already converted to IFRS standard (Siregar, 2012).

The International Financial Reporting Standard (IFRS) has been socialized since 2009 and will be effective starting 1 January 2012. This implementation is expected will be fullfilled the market expectation to implement the IFRSn, it means to have quick, accurate and proper by fully socialized. However due to a lot of items and regulation in IFRS make users difficult to understand the procedures and to understand information in Financial Sttatment.

Impact of IFRS implementation is various impacts , it depend on kind businesss entity operation, kind of transactions, , elements in Financial statementand opt of Accounting policy. Banking Operations is one of entity which has big impacts.The changes not only in entity operations but it will impact to Central Bank's policies.

State own Companies can not avoid to implement IFRS due to its has responsible as Public significant state own Companies as regulated by its Standard Operating Procedures. For this purpose States Own Companies has to have the proper man power to handle it with adequate fund. Therefore the commitment from entityy's Director is needed to support its implementtaion and its also effect of stackholder as users of Financial Stetement.

Various impact will be found in implementation either positive or negative to business operations. Either it still have pro and contra for all emitens who are playing in Indonesian Stock Exchange (BEI) by implementing the IFRS, effect to all stackholdeder will have opportunity to stakeholder more easy to make decisions (Eza, 2012) by considering:

- Financial Staements more easy to understand because its presents more detail information and transparancies.
- By transparancies system, level of accountability and credibility to management will be improve.
- Financial Statements is presented shows the fair value.

However by implementing the IFRS the users who are investors, especially foreign investor for implementing the investment in Indonesia, either its consider is contrary with Indonesian basic Law (UUD) 1945 article 33.In regards with Investment Law , Year 2007, its shows indication to shift the responsible from Goverment to capitalist.

IFRS as the global accounting standard can create implemented in Indonesia can create community suspect that the Goverment as the holder of Accounting Policy in Indonesian is Capitalisas and avoid the basic economic fundamendal of Indonesian economic as staed in Indonesian Basic Law of State and facilitate the Foreign Investor to explore Indonnesian state.s resources. This research try to study the market reaction to Companies which has been implemented the IFRS. Information which is needed by investor in making investment decision in capital market (Usman, 1990, p. 58), consists of factors fundamental, technic, social, economic and politic. This research also wants to study impacts of IFRS's information value toward market reaction which indicated by market share price fluctuation and further has effect to *average abnormal return* dan *cumulative average abnormal return.*

2. Literature Review

2.1. *International Financial Reporting Standar*d (IFRS)

IFRS is the International accounting standard as reference or guidance in preparriation the Financial Statement.. IFRS (*International Financial Reporting Standard*) as an effort to strenghten financial reporting globally and solution for long term in regards with the financial information transparancies.

2.2. *Average Abnormal Return* (AAR)

Abnormal return based on (Jogiyanto, 2010) is variance between actual return and minus expected return. *Average abnormal return is the average actual return minus expected return by investor.*

2.3. *Cumulative Average Abnormal Return* (CAAR)

Cumulative abnormal return (CAR) is used to examine the *cumulative average abnormal return* (CAAR) (Permata, 2008)

2.4. Previous Research

- Margaretta (2012), IFRS's implementaion and the effect of delay Financial Statement submited based on the Empiric Studies in Financial Statement submitted for Manufacturing Companies at Indonesian Stocks Exchange Market for the period 2008-2010. The following are the results of reserach shown significant effect as folows: Delay of submitting the Financial Statement based on IFRS, Size and reputation of Public Accounting Firms
- (Erlina, 2013), Effect of IFRS's implementation on Financial performance for Go Public Companies which are listed in Indonesian Stock Exchange. The result of data analysis shown that implementation of IFRS has not significant effect. And data analysis to variable Return on equity shown that implementation of IFRS has not significant effect. While the implementation of IFRS also has not significant effect to ***debt equity ratio (DR)*** .And result analisys of ***variable total debt to total asset ratio*** shown that the impolementation of IFRS has not significant effects.

3. Methodology

While the population is aggregate object (respectively/ individually) which the characteraistic will be predicted (Indriantoro, 1999). And the polpulation are all Go Public Companies which registered in LQ45.

Sample is a part of population , where its characteristic will researched, and is assumed can representative to all population. Technic sampling used is Purposive Sampling, it means sampling is taken by random and it has certain objectives.(Indriantoro and Supomo, 131). The sampling criteria are 1. The Companies are listed in Indoensian Stocks Exchange (BEI), 2. Active Companies within LQ45 and 3.Have implemented the IFRS since January 2012.

Data Analysis Method is used for normal testing data to examine does data is used contains the normal data or not? Normality testing technic is used Kolmogrov Smirnov is testing result will shown level of signifiancy at *p* level value. Thsi level is the has normal distribution, if it greater than 0,05 ,or it reverse , the data is catagorized not the sigficant figure if it is less than 0.05.

Hypotesis examining is used to find the differences between implementation *average abnormal return* and *cumulative average abnormal return listed at* LQ45 before and after IFRS implementation.

By usingTesting tool, if the result shows the data has normal distribution, thus hypothesis testing will be done by using parametic statistic analysis (paired sample test). But if normality test shows data are not has normal distribution, the hypothesis will use statistical analysis non-parametic, it means using wilcoxon signed rank test.

4. Result And Discussions

4.1. Data Analysis Statistic Descriptive

Variable is used in this research is *average abnormal return* and *cumulative average abnormal return* befor and after IFRS implementation. Following is presented **Statistic Descriptive** for respective variables used in this research.

Table 1. Research Statistic Descriptive Variabels

	N	Minimum	Maximum	Mean
AAR Before	41	-,00102	,00100	,0001110
AAR After	41	-,00084	,00154	,0004300
Valid N	41			

Descriptive Statistics

	N	Minimum	Maximum	Mean
CAAR Before	41	-,00140	,00459	,0009783
CAAR After	41	,00091	,01761	,0086310
Valid N	41			

Source : Secondary Data (processed) 2017

Table 1 informed that *average abnormal return* before and after implementation in 2012. Based on tabel 1 found that rata *average abnormal return* before IFRS implementathion was 0,00011, compare to *average abnormal return* after IFRS was 0,00043. If both averages, *average abnormal return* before and after the IFRS implementation compare to, thus can be found that after IFRS implemented in 2012 the *average abnormal return was increased.*

Tabel 1 also informed that average *tive average abnormal return* before and after IFRS implementation in 2012. Found that the *cumulative average abnormal return* before implementation was 0,00097, and average *cumulative average abnormal return* after implemenmtation was 0,00863.

4.2. Test Normality Data

Testing normality data is used to know does those data distribute normally or not? Test tool used is *Kolmogorov-Smirnov Test* with criterium (SIG) testing, if the fiqure significant (SIG) > 0,05 its mean data contrubutes normally, and while if the figure significancy < 0,05 its means not distribute normally.

Based on Normally Data testing for variable ***average abnormal return*** and **variable *cumulative average abnormal return*** have normal distribution by using **significancy *Kolmogorov-Smirno*** *v* which greater than 0,05. Therefore for testing hyphotesis variable *average abnormal return* dan *cumulative average abnormal return* used was statistic parametric *Paired Sample T-Test.*

4.3. Result of Hyphotesis for *Average Abnormal Return*

Based on *Paired Sample T-Test* found that value t counted in amount -2,155, with value p in amount 0,037. If we used level of significancy $\alpha = 0,05$, thus H1 is accepted. It means implementation of IFRS by Companies in grouping LQ45 in 2012 found the diffrences in *average abnormal return* significantly, so the hyphotesis is correct or H1 is accepted due to implementation of IFRS can provide the valuable information tend to increase the shares price drives the investor to do investment.

Significancy effect can be shown in the *average abnormal return*. Changes the *average abnormal return* is measured by comparing *average abnormal return* before and after IFRS's implementation.

4.4. Testing result Hypotesis for *Cumulative Average*

4.4.1. *Abnormal Return*

Based on t Test found that t is counted in amount -14,051, with value p in amount 0,000. If using signigancy level $\alpha = 0,05$ therefore H2 is accepted, its means by implementing the LQ45 group Companies in 2012 changes the *cumulative average abnormal return* significantly and hyphotesis or H2 is accepted.

4.4.2. Research Result

Based on the Research Resul found, therefore the explanation from hypothesis are as follows:

The diffrences between *Average Abnormal Return* after IFRS implementation ,the result empirically there was increase *average abnormal return* after IFRS implementation, where the *average abnormal return* before IFRS implementaion in amount 0,00011, and the average *abnormal return* after IFRS implementation was 0,00043. If both *average abnormal return* before and after IFRS implementation.

Market reaction can be shown by price changing respective share price by using *abnormal return*. Based on (Jogiyanto, 2010) *average abnormal return is the average result from average balance return expected by investor before and after IFRS implenatathion.*

Indonesian Stock exchange which is efficiency can encourage the market reaction for information published. In this research, the reaction on information published by evaluating on a *abnormal return,* its means market drives reaction for any published information. In this research to evaluate the reaction to the market for information contain by evaluating abnormal return.. If there is an abnormal return, it means market gives reaction on published information, likes in Uni Europe for the IFRS adoption in Financial Statement presentation.

This research is confirm and support to (Siregar, 2012) that there was the market reaction which shown on average abnormal return due to IFRS's implementathion, however this research is not confirm with research result by Puspitarini, et al (2014) stated that implementation Accounting Standard (PSAK) as regulated by IFRS has not effect to Indoseian Stock exchange in Indoensia.

The diffrences on *Cumulative Average Abnormal Return* due to IFRS implementation. This research showed that empirically, there was increase *cumulative average abnormal return* after IFRS implemendation , where *cumulative average abnormal return* before IFRS implementation is 0,00097, and average *cumulative average abnormal return* after IFRS implementaion is 0,00863. If both average value *cumulative average abnormal return* before and after compare to has the result *cumulative average abnormal return*. Therefore, hyphotesis mention that there was differences reaction on cummulative average abnormal return before and after the Company implemented IFRS is correct or H2 is acceptable. Its indicate the Company able to increase c*umulative average abnormal return through* IFRS implementation.

Cumulative abnormal return (CAAR) to examine the abnormal return. For research many securities using *cumulative average abnormal return* (CAAR) (Permata, 2008)

Improvement quality of Financial Statement and its response to return/abnormal return by comparing before and after IFRS convergency implementation and its Financial Statemenet is published. Also found that average CAAR is positive which indicated improvemnt after the event.

This reaearch also accordance and support the previous research did by Siregar (2012). However, this research is not accordance by reserach did by Manlu (2015) which concluded that there was no diffrences on market reaction before and after IFRS implementation.

5. Conclusion

Based on the result analysis and review can be pointed the following conclusions:

- There is found that score *average abnormal return* befeore IFRS implmentation more lower than *average abnormal return* after it implementation, therefore positive market reaction after IFRS implementation.
- Found market reaction before and after IFRS implementatioanalyn in 2012, its indicated by *cumulative average abnormal return* (CAAR) positively for sampling LQ45.

Acknowledgment

Investors need to watch the dynamics indicated by up and down the shares price in Indonesian Stock Exchange to avoid Loss, especially for IFRS implementation.

Companies are suggested to adhere Policies and regulations regarding IFRS, which can drive to publish their Financial Statement more accurate and early.

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