THE PREPARATION OF BANKING INDUSTRY IN IMPLEMENTING IFRS 9 FINANCIAL INSTRUMENTS

UNDERGRADUATE THESIS

DEDY
1141002015

ACCOUNTING STUDY PROGRAM
FACULTY OF ECONOMICS AND SOCIAL SCIENCES
UNIVERSITAS BAKRIE
JAKARTA
2018

UNDERGRADUATE THESIS

Proposed as one of the conditions to obtain Bachelor Degree of Accounting

DEDY
1141002015

ACCOUNTING STUDY PROGRAM
FACULTY OF ECONOMICS AND SOCIAL SCIENCES
UNIVERSITAS BAKRIE
JAKARTA
2018
STATEMENT OF ORIGINALITY

This Undergraduate Thesis is the result of my own work,

and all sources either cited or referred

have been stated truthfully.

Name : Dedy
NIM : 1141002015
Signature : ...
Date : 20-05-2019
APPROVAL

This Undergraduate Thesis proposed by:

Name : Dedy
NIM : 1141002015
Study Program : Accounting
Faculty : Economics and Social Sciences

has been successfully defended in front of the Panel of Judges and accepted as one of the necessary conditions to obtain Bachelor Degree of Accounting in Study Program of Accounting, Faculty of Economics and Social Sciences, Universitas Bakrie.

PANEL OF JUDGES

Advisor : Rene Johannes, S.E., M.Si., Ak., M.Si., M.M., CA

Judge I : Dr. Tita Djitaningsih, S.E., M.Si., Ak., CA

Judge II : Dr. Hermiyetti, S.E., M.Si., CSRA

Signed at : Universitas Bakrie
Date : 25.05.2018.
ACKNOWLEDGEMENT

For the author, completing thesis is not the last ‘maze’ to escape from college life, but rather an opportunity to pour in everything he has learned up until now. Using a bit of knowledge and experience, he muscles his courage to write a topic which has not been researched before. He believes that an initiative will induce another initiative. That is why, having completed this masterpiece, he would like to sincerely thank everyone who has supported him.

First of all, I would like to thank Mr. Rene Johannes as my advisor. He is the first lecturer who teaches me the importance of discipline and spirit in doing anything. What makes me even grateful is his dedication in teaching, although I have not been able to implement a hundred percent of what he taught.

Secondly, I would like to express gratitude to my parents, Mr. and Mrs. Thong. Without their morale support, trust and freedom which have been gifted to me, it would be impossible to finish this assignment. Although they were hesitant to let me studying in Jakarta, I have always gotten their full support till this very moment.

Last but not least, I would like to thank my aunt, Ms. Chua. She is the person who turns my dream of studying in Jakarta into reality, as well as the one who convinces my parents. Besides that, her motivation ‘always try something new’ is one of the reasons behind my accomplishments.

Hopefully this paper can bring benefits to anybody who reads it. As a closing remark, the author would like to say thank you to his friends and colleagues who have made his college life as wonderful as it could be.

Jakarta, April 2018
Author
STATEMENT OF PUBLICATION AGREEMENT

As an academic civitas of Universitas Bakrie, I, the undersigned:

Name : Dedy
NIM : 1141002015
Study Program : Accounting
Faculty : Economics and Social Sciences
Type of Paper : Thesis

for the sake of science development, agree to grant Universitas Bakrie Non-exclusive Royalty-Free Right of my scientific paper titled:


along with the accompanying device(s) (if necessary). With this Non-exclusive Royalty-Free Right, Universitas Bakrie owns the right to save, format, manage in database, safeguard, and publish my paper as long as my name is cited as the author and the owner of Copyright for academic interests.

Hereby this statement is made truthfully.

Signed at : Jakarta
Date : 25/05/2015

Signed by

[Signature]

(...Dedy,...)
ABSTRACT

Global financial crisis 2008 was a very close call of total systemic collapse in financial markets. This had urged the leaders of G20 to involve the key global accounting standards bodies for creating a single high-quality global standard. IFRS 9 ‘Financial Instruments’ released in 2014 is a project of IASB to achieve that goal and its effective date is 1 January 2018. However, a poll found that 46 percent of 91 banks in the world (excluding some U.S. banks) believe not having adequate resources to implement the standard by 2018. That is why this research wants to figure out the preparation of banking industry especially HSBC Holdings plc to implement the standard. Using an exploratory research method, the researcher has found out that HSBC has been well-prepared to implement the standard. The findings of this research also realize a certain extent of agreement to MacNeal’s theory and positive theory introduced by Watts & Zimmerman.

Keywords: IAS 39, IFRS 9, financial instruments, recognition and measurement, financial reporting

ABSTRAK


Kata kunci: IAS 39, IFRS 9, instrumen keuangan, pengakuan dan pengukuran, pelaporan keuangan
CONTENTS

TITLE .......................................................................................................................... i
STATEMENT OF ORIGINALITY ............................................................................ ii
APPROVAL ................................................................................................................... iii
ACKNOWLEDGEMENT ............................................................................................ iv
STATEMENT OF PUBLICATION AGREEMENT ....................................................... v
ABSTRACT ................................................................................................................... vi
CONTENTS ................................................................................................................ vii
FIGURES .................................................................................................................... ix
TABLES ...................................................................................................................... x

CHAPTER I INTRODUCTION ..................................................................................... 1
1.1 Background of Problem ..................................................................................... 1
1.2 Research Focus .................................................................................................. 9
1.3 Problem Formulation ....................................................................................... 9
1.4 Research Objective ......................................................................................... 10
1.5 Research Benefits ......................................................................................... 10
  1.5.1 Theoretical Benefit ................................................................................ 10
  1.5.2 Practical Benefit .................................................................................... 10

CHAPTER II LITERATURE REVIEW AND FRAMEWORK OF THINKING .................................................. 12
2.1 Concept Definition and Theoretical Approach .................................................. 12
  2.1.1 Normative Accounting Theories ............................................................... 13
    2.1.1.1 MacNeal (1939) ............................................................................... 14
    2.1.1.2 Paton and Littleton (1940) ............................................................... 19
    2.1.1.3 Littleton (1953) ............................................................................ 23
    2.1.1.4 Chambers (1966) ......................................................................... 26
    2.1.1.5 Ijiri (1975) ................................................................................. 29
  2.1.2 Positive Accounting Theories .................................................................. 33
    2.1.2.1 Agency Theory ............................................................................ 34
    2.1.2.2 Disclosure of Nonproprietary Information .................................... 36
    2.1.2.3 Determination of Accounting Standards ..................................... 38
  2.1.3 International Financial Reporting Standard 9 Financial Instruments ....... 40
    2.1.3.1 Chapter 1 Objective .................................................................. 46
    2.1.3.2 Chapter 2 Scope ......................................................................... 47
2.1.3.3 Summary of the Major Changes................................................................. 51
2.1.4 International Accounting Standard 1 Presentation of Financial
Statements ........................................................................................................... 55
2.1.5 Relevant Researches in EU & Indonesia................................................... 59
2.2 Framework of Thinking ............................................................................. 61
CHAPTER III RESEARCH METHOD ................................................................. 62
3.1 Research Method......................................................................................... 62
3.2 Research Object ......................................................................................... 63
3.3 Data Source and Collection Technique...................................................... 63
3.4 Research Instrument .................................................................................. 64
3.5 Technique of Data Analysis ....................................................................... 65
3.6 Test of Data Validity .................................................................................. 66
CHAPTER IV RESEARCH FINDINGS AND DISCUSSION ......................... 70
4.1 General Description of Research Object................................................... 70
  4.1.1 General Description of Company.......................................................... 70
  4.1.2 Financial Statements.............................................................................. 73
4.2 Research Findings & Discussion ............................................................... 75
  4.2.1 Adoption of IFRS 9 in 2015-2017 Financial Statements ...................... 77
    4.2.1.1 Annual Report and Accounts 2015.................................................. 77
    4.2.1.2 Annual Report and Accounts 2016.................................................. 83
    4.2.1.3 Annual Report and Accounts 2017.................................................. 88
  4.2.2 Possible Impacts of IFRS 9 Full Adoption............................................. 95
CHAPTER V CONCLUSION AND SUGGESTION ......................................... 106
5.1 Conclusion ................................................................................................. 106
5.2 Suggestion ............................................................................................... 107
REFERENCES ................................................................................................... 109
FIGURES

Figure 2.1 Structure of MacNeal’s (1939) Theory..........................18
Figure 2.2 Paton and Littleton’s (1940) Theoretical Structure .............23
Figure 2.3 Littleton’s (1953) Scheme ...........................................25
Figure 2.4 Chambers’ (1966) Scheme .............................................28
Figure 2.5 Ijiri’s (1975) Theoretical Structure ..................................33
Figure 3.1 Information Flow of Grounded Theory Format .................66
Figure 4.1 Adoption of New Accounting Standards in 2015 ...............78
Figure 4.2 Adoption of New Accounting Standards in 2016 ...............83
Figure 4.3 Adoption of New Accounting Standards in 2017 ...............89
Figure 4.4 IAS 39/IAS 37 Allowances to IFRS 9 ECL Walk ...............103
TABLES

Table 1.1 Ranking The World’s 100 Largest Banks
Table 2.1 History of IFRS 9
Table 2.2 IFRS 9’s New Model for Classifying and Measuring Financial Assets After Initial Recognition
Table 2.3 IFRS 9 Approaches for Measuring and Recognizing Expected Credit Losses
Table 2.4 List of Relevant Researches in EU & Indonesia
Table 4.1 Summary of Research Findings
Table 4.2 HSBC Holdings Statement of Comprehensive Income – 2016
Table 4.3 Net Income/(Expense) arising on HSBC Holdings’ Long-Term Debt Issued and Related Derivatives – 2016
Table 4.4 HSBC Holdings Income Statement – 2016
Table 4.5 Net Income/(Expense) from Financial Instruments designated at Fair Value – 2016
Table 4.6 Significant Items and Currency Translation – 2016
Table 4.7 Partial Consolidated Statement of Comprehensive Income – 2017
Table 4.8 Net Income/(Expense) from Financial Instruments designated at Fair Value – 2017
Table 4.9 Partial Consolidated Income Statement – 2017
Table 4.10 Net Income/(Expense) from Financial Instruments designated at Fair Value 2016 – 2017
Table 4.11 Significant Items and Currency Translation – 2017
Table 4.12 Reconciliation of Impairment Allowance under IAS 39 and Provision under IAS 37 to Expected Credit Losses under IFRS 9
Table 4.13 Reconciliation of Assets in Consolidated Balance Sheet at 31 December 2017 and 1 January 2018
Table 4.14 Reconciliation of Liabilities in Consolidated Balance Sheet at 31 December 2017 and 1 January 2018