

The Differences Cost of Equity Capital between Before and After Adoption of IFRS

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ABSTRACT

Keywords:
Cost of Equity
Capital; Financial
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ing Standards
(IFRS)

JEL Classification:
D23, M41

The objective of this study was to analyze and compare between cost of equity capital between before and after adoption of IFRS on Statement of Financial Accounting Standard Financial Instrument (PSAK) for banking companies listed in Indonesian Stock Exchange. The period on this study was 2008-2009 for before adoption and 2013-2014 for after adoption. Data on this study was secondary data such as annual financial reporting and share price. Cost of equity capital was measured using Ohlson Model. Sample in this study was banking companies listed in Indonesian Stock Exchange in 2008, 2009, 2013, and 2014. Selecting sample was by purposive sampling with specific criteria. Results of this study proved that cost of equity capital was lower for after adoption of IFRS on Statement of Financial Accounting Standard Financial Instrument for banking companies listed in Indonesian Stock Exchange than before adoption. It meant that adoption IFRS could reduce cost of equity capital. This result had an impact on reducing non performing loan, increasing loan to deposit ratio, and increasing net interest margin.

ABSTRAK

Kata Kunci:
Biaya Modal
Ekuitas; Instrumen
Keuangan; Interna-
tional Financial
Reporting Standards
(IFRS)

Penelitian ini bertujuan untuk menganalisis dan membandingkan antara biaya modal ekuitas antara sebelum dan sesudah adopsi IFRS dalam PSAK instrumen keuangan pada perusahaan perbankan yang terdaftar di Bursa Efek Indonesia. Periode dalam penelitian ini menggunakan tahun sebelum adopsi yaitu tahun 2008-2009 dan sesudah adopsi yaitu tahun 2013-2014. Data yang digunakan dalam penelitian ini adalah data sekunder berupa laporan keuangan tahunan dan data harga saham setelah publikasi. Biaya modal ekuitas dihitung menggunakan model Ohlson. Sampel yang digunakan yaitu perusahaan perbankan yang terdaftar di BEI pada tahun 2008, 2009, 2013, dan 2014. Pemilihan sampel didasarkan pada metode purposive sampling dengan kriteria yang telah ditentukan. Hasil penelitian membuktikan bahwa terdapat biaya modal ekuitas lebih rendah untuk sesudah adopsi IFRS dalam PSAK instrumen keuangan pada perusahaan perbankan yang terdaftar di BEI dibanding sebelum adopsi. Ini berdampak pada turunnya non performing loan, meningkatkan loan to deposit ratio, dan meningkatkan net interest margin.

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The objective of this research was to examine whether there was a decrease in the cost of capital before and after the adoption of IFRS in PSAK of financial instruments in banking companies listed in Indonesia Stock Exchange in the year before the adoption namely 2008-2009 and after the adoption namely 2013-2014. It is important to do because the global economic development makes capital markets globally integrated. Global development also gives flexibility to the company to raise funds, so the acquisition of funds by the company is no longer constrained by borders (Bell, Silva, & Preimanis, 2006). Both domestic and abroad investors will choose a company with good performance that can be judged from a company's financial statement. Differences in accounting standards in measurement and reporting lead to misunderstanding, inefficiency, and uncertainty for participants of the global economy (Sharpe, 1998).

An independent board was formed in response to the needs of a global financial report in 1973 that had an objective to arrange an international accounting reporting standard namely International Accounting Standards Committee (IASC). International accounting standards developed by IASC is called International Accounting Standards (IAS). In 2001, IASC renamed the International Accounting Standards Board (IASB). The IASB adopted the entire IAS and published a new standard called International Financial Reporting Standards (IFRS). IFRS is the development of IAS, so IFRS covers the entire IAS.

In 2008, the Indonesian Institute of Accountants (IAI) declared Indonesia's plan to converge IFRS into the Statement of Financial Accounting Standards (PSAK). IAI stated that IFRS convergence was a strategic step towards the uniformity of "language" in global accounting and financial reporting and would be applied to all companies in Indonesia in 2012. But specifically for banking institutions, based on Bank Indonesia Circular Letter No. 11/4/DPNP, the application would be

in effect for periods beginning on or after January 1st, 2010.

The financial statement of banking is almost entirely a financial instrument (Larasati & Supatmi, 2014). Financial instrument is every contract that adds value to the financial assets of the entity and financial liability or other equity instruments of the entity (PSAK 50, 2006). Financial instrument contains information that can be taken into consideration by investors in decision making. Therefore the presentation, recognition, measurement, and disclosure of financial instrument appropriately and in accordance with the established standards will reflect the performance of the entity more accurately (Kurniawati, 2012).

Before adopting IFRS, financial instrument was in PSAK 50 (1998) and PSAK 55 (1999), which was oriented to GAAP US. In connection with the issuance of IAS 32 and IAS 39 (2005), IAI issued PSAK 50 and 55 (revised 2006) superseded PSAK 50 (1998) and PSAK 55 (1999). As the development of financial instrument, IAI issued PSAK 50 (revised 2010) adoption of IAS 32, PSAK 55 (revised 2011) adoption of IAS 39, and PSAK 60 (2010) adoption of IFRS 7. The 3 PSAKs were effective per January 1st, 2012.

Adoption of IFRS in PSAK financial instrument gives different rules in terms of presentation, recognition, measurement, and disclosure of financial instrument. Ankarath et al. (2012) states that IFRS adoption requires that financial statements produce high-quality, transparent, comparable, open-ended information by investors, creditors, financial analysts, and other users of financial statement. IAI mentions one of the benefits of the IFRS convergence program is to reduce the cost of capital, in which one component of the cost of capital is cost of equity capital.

Definition of cost of equity capital according to Ross, Westerfield, & Jordan (2003) is the required rate of return of investors on their investment in the company. Adoption of IFRS in-

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creases transparency in financial statement because of the increasing number of disclosure. Investors can understand well and correctly the company's financial performance and minimize its investment risk. Trade-off between risk and return states that when risk falls, the return also decreases so that the cost of equity capital for the firm will be minimized.

Research conducted by Kim & Shi (2007) proves that companies that implement IFRS experience the decrease of cost of equity capital than companies that have not adopted IFRS. It is because companies that adopt IFRS can disclose better financial information so that companies can lower costs to get capital. Research conducted by Pambudhi (2015) at companies listed on the Stock Exchange concludes that IFRS convergence has a negative effect on cost of equity capital.

It is in contrast to the study conducted by Al-Shiab (2008), which proves that there is no significant effect of IFRS, disclosure, leverage, and size of the company on cost of equity capital in Jordan. The results inconsistency of previous researches can be the reasons for researchers to conduct empirical research on the differences in the cost of equity capital before and after the adoption of IFRS in PSAK financial instruments in the banking companies listed in Indonesia Stock Exchange. Duration in this research namely 2008-2009 is the year before the adoption of IFRS, while the year of 2013-2014 is the year after the adoption of IFRS.

IFRS is an international accounting standard published by the IASB. In 2008, the IAI declared Indonesia's plan to converge IFRS into the PSAK. IAI states that IFRS convergence is a strategic step towards the uniformity of "language" in global accounting and financial reporting and commitment of G-20 group in enhancing global economic cooperation, which is applied to all companies in Indonesia in 2012. IAI mentions the benefits of IFRS convergence program is expected to reduce

investment barriers, increase corporate transparency, reduce costs related to the preparation of financial statements and reduce cost of capital.

PSAK financial instrument is one of the adoptions of IFRS and its application to the banking is applied faster than other companies namely January 1st, 2010 based on Bank Indonesia Circular Letter No. 11/4/DPNP. The definition of financial instrument is every contract that adds value to the financial assets of an entity and its financial obligations or other entity's equity instruments (PSAK 50, 2006). The financial instrument is regulated in 3 PSAK namely PSAK 50 providing for the presentation of all financial instruments, SFAS 55 regulating the recognition and measurement of all financial instruments, and PSAK 60 providing for the disclosure for all financial instruments.

Adoption of IFRS in PSAK financial instruments leads to some differences. First, the definition of financial instrument in PSAK 50 (revised 1998) is called as "effect" that refers more to the type, such as letters of debt recognition, stocks, bonds, evidence, and units of collective investment contracts. Whereas PSAK 50 (revised 2006 and 2010) emphasizes on "contract" and "contractual" referring to an agreement between two or more parties, which have clear economic consequences and little chance of being ignored by the parties involved. Thus, the updating of PSAK 50 after the adoption of IAS 32 results about a clearer and more detailed definition of financial instruments.

Second, the difference between PSAK 55 (revised 1999) and PSAK 55 (revised 2006 and 2011) is concerning the rules of reclassification and value impairment. PSAK 55 (revised 1999) does not regulate the reclassification for financial instruments that have been previously reclassified, only regulates the treatment of accounting of profit (losses) from changes in investment groups. After adopting IAS 39, PSAK 55 (revised 2011) provides additional refinement on the entity in reclassification. Before adopting IAS, the determination of reserves

(Allowance for Removing Productive Assets/ PPAP) uses expectation loss determined by the banks themselves and does not regulate recovery on value impairment. It causes that banks are able to accumulate large reserves when banks feel they have a large credit default on prudential grounds so that profits can go down in order to avoid taxes or to regulate the performance rhythm. After the adoption of IAS 39 in PSAK 55 (revised 2011) to determine the Allowance for Impairment Losses (CKPN) should be based on data for credit losses that have occurred (incurred loss), objective evidence drawn from the data three years earlier and requires a recovery on the decline value. In such case, the bank is difficult to manage its financial statements.

Thirdly, the disclosure in PSAK 60 (2010) which is the adoption of IFRS 7 is more than the disclosure in PSAK 50 (revised 1998), PSAK 55 (revised 1999), and PSAK 50 (revised 2006). PSAK 60 requires information disclosure of the types and risks level arising from financial instruments. Information disclosure is in the form of qualitative disclosure and quantitative disclosure. Qualitative disclosure includes disclosing risk exposures, how risks arise, objectives, policies, and risk management processes and risk measurement methods. Quantitative disclosure includes credit risk, liquidity risk, and market risk including creating sensitivity analyzes for each type of market risk.

In determining the proportion of good capital use of course the company will try to optimize its capital structure. Brigham & Daves (2007) stated that the optimal capital structure is a combination of debt, preferred stock and ordinary shares that cause the stock price maximized. Horne & Machowicz (2009) defined the cost of capital as the required rate of return on different types of funding. Ross, Westerfield, & Jordan (2003) mentioned that there are 3 main cost components of capital cost, namely cost of debt, cost of preferred stock, and cost of equity capital/ cost of common stock.

There are several measurement models of cost of equity capital, namely Gordon Growth Model, Capital Assets Pricing Model (CAPM), Price Earning Growth (PEG), and Ohlson Model of the 4 measurement models, Botosan (1997) considers that Ohlson model is the most appropriate model used in examining the effect of disclosure on cost of equity capital.

HYPOTHESES DEVELOPMENT

Capital structure theory has explained how combination of optimal capital proportion in the form of debt, preferred stock and common stock funds operation, and investment activity in a company. Cost of equity capital is one component of the cost of capital that is the rate of return that investors want from a common stock investment in a company (Ross, Westerfield, & Jordan, 2003). However, investors consider not only returns, but also risk. Hartono (2014) states that return and risks are a trade-off in investment. The greater the risk to be borne, the greater the compensated return.

Joshi, Yapa, & Kraal (2016) shows that perceptions of professional accountants in Singapore, Malaysia, and Indonesia agree to support IFRS adoption because they get benefit economically from harmonization and global accounting standard processes. One effort to reduce risk for investors is to increase the transparency of financial statements in order to minimize information asymmetry. International IFRS implementation is conducted in an effort to strengthen the global financial architecture and seek long-term solutions to the lack of financial statements transparency. In order to align financial accounting standards, especially banking dominated by financial instrument transactions, the Financial Accounting Standards Board (DSAK) adopts international accounting standards. The adoption of IAS 32 (2009) to PSAK 50 (revised 2010), IAS 39 (2009) to PSAK 55 (revised 2011) and IFRS 7 (2009) to PSAK 60 (2010)

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provides different rules in the presentation, recognition, and disclosure of financial instruments between before and after IAS/ IFRS adoption IAI mentions one of the benefits of IFRS convergence program is to reduce the cost of capital, in which one component of the cost of capital is cost of equity capital.

There are several empirical studies results showing IFRS adoption can lower the cost of capital and raise capital costs. Al-Shiab (2008) examined the effect of IFRS adoption in Jordan on the cost of capital during 1996-2000. The results of this study indicated that IFRS adoption did not significantly affect the cost of capital. Daske (2006) examined whether IFRS adoption could generate economic benefits namely whether IFRS reduced cost of capital. This study used samples of companies in Germany that had adopted IFRS from 2005-2007. The results showed that cost of capital was greater for firms that implemented international accounting standards during the transition period. The result of this study was due to the difficulty in estimating the cost of capital and the inaccuracy of estimated capital costs. Han & He (2013) tested the cost of capital for foreign companies registered on the United States Stock Exchange for the period of 2004-2009. This period was the time in which the Securities and Exchange Commission (SEC) changed the requirements of US GAAP to IFRS in financial statement. The result showed that the cost of capital from these foreign companies generally increased in the period when the SEC permitted the use of statement based on the 2007-2009 period.

Dargenidou, McLeay, & Raonic (2006) examined about the cost of capital and earnings expectations when accounting determining profit varied among regulatory regime which affected the cost of capital. This study was conducted in Europe which gradually harmonized its standards with IFRS. The result of this study indicated that accounting differences could be very important in

integrated financial markets. The results of this study also indicated that changes to international standards led to a decrease in the cost of capital in the short span of time. Implementation of international standards was very useful to lower cost of capital because international standards required a level of disclosure that had to be done by the company. Research conducted by Kim & Shi (2007) proved that there was a decrease in cost of equity capital for companies that adopted IFRS than companies that did not adopt IFRS.

Karamanou & Nishiotis (2009) examined the disclosure effect on the cost of capital. The study used 1,072 companies in Global Vantage using International Accounting Standard for at least 1 year during 1988-2002. The study found that there was a positive and significant abnormal return when it was announced by the company if they applied international accounting standards and significantly lowered long-term returns within the 2-year period following the announcement than 2 years before it was announced. The results of this study were consistent with the decrease in capital costs. Li (2010) tested whether IFRS adoption in the European Union in 2005 reduced the cost of capital. The results showed that the cost of capital decreased after the adoption of mandatory IFRS.

Mihai, Ionascu, & Ionascu (2012) proved that the average company in Romania had a decrease of cost of equity capital after adopting IFRS. Patro & Gupta (2014) tested whether IFRS adoption could reduce cost of capital for firms in Asia (China, Hongkong, Israel, and the Philippines) during the 2006-2011 periods. The results showed that cost of capital was decreasing for the countries of Hongkong and Philippines after IFRS adoption than National GAAP. Merino, Plans, & Guerrero (2014) analyzed the effect of IFRS adoption in Spain in 2005 on cost of capital. This study used a sample of companies registered in Spain during 1999-2009. The results showed that there was a decrease in cost of capital after IFRS adop-

tion in 2005. According to the results of this study, the increase of financial disclosure and increase of information comparability led to a substantial reduction in expected equity returns. Pambudhi (2015) proved that the company could enjoy a decrease in cost of equity capital after the IFRS adoption period compared to the period before the adoption of IFRS.

Based on the explanations, then the hypothesis in this study is as following:

H: the cost of capital is lower after IFRS adoption than that before IFRS adoption

METHOD

The samples in this study were banking companies listed on the Indonesia Stock Exchange (BEI), selected based on purposive sampling with some specific criteria. The data used in this study were secondary data covering the annual financial statements of 2008, 2009, 2013, and 2014 as well as the stock price data after the date of publication. Some criteria in determining the samples were as follows: (1) listed banks (go public) in Indonesia Stock Exchange in the form of conventional commercial banks. They were not banks conducting business based on Syariah principles (Syariah Commercial Banks); (2) banking registered (go public) at Indonesian Stock Exchange and they have published their annual reports that were complete and audited in 2008, 2009, 2013, and 2014 on the website www.idx.co.id; and (3) banking which did not have negative equity during the observation period. This requirement is estab-

lished because companies with negative equity had a level of risk that was very different from other banks, so it would potentially reduce the quality of conclusions to be generated.

Based on the taking sample criteria, then the sample selection process is shown in Table 1.

The variable used in this research was cost of equity capital. The definition of cost of equity capital according to Ross, Westerfield, & Jordan (2003), is the rate of return that investors want for their investment in the company. The capital cost estimated using Ohlson model is with the following formula.

$$r = \frac{(B_t + X_{t+1} - P_t)}{P_t}$$

Information:

r = cost of capital

B_t = book value per share period t

= earnings per share in period t + 1

P_t = average stock price during event window

The share price was calculated by the average of the stock price with the event window for 7 days namely 3 days before the publication event, 1 day at the time of the publication event, and 3 days after the publication event. According to Hartono (2014), the determination of the length of the window event depended on the type of event. Events in this study were the events whose economic value could be determined easily by investors, so that the window event could be short because investors could react quickly.

Table 1. Criteria and Number of Taking Sample Research

Information	Number of Companies
Population	42
Sample selection criteria:	
Not in the form of Conventional Commercial Banks	(1)
Unregistered from 2008, 2009, 2013, and 2014	(14)
Negative Equity	(2)
Total of Research Samples	25

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RESULTS

This study focused on the results of descriptive statistics on the mean value of each variable. For each variable, it was known that the number in this study was 25 observations in which the value of the average cost of equity capital before and after the adoption of IFRS on Ohlson models were 0.0952 and -0.0524. Descriptive statistical results showed that the average cost of equity capital after the adoption of IFRS was lower than before adopting IFRS by a margin of 0.1476.

In this study the normality test was performed using One Sample Kolmogrov-Smirnov (KS). Data were said to be normal distribution if it had significance level > 0.05 , and vice versa if level of significance was < 0.05 then it was interpreted that data were not distributed normally.

From the results of data normality test that had been done, it was obtained the significance value of 0.547 for the average cost of equity capital before the adoption of IFRS and the significant value of 0.779 for the average cost of equity capi-

tal after adopting IFRS. The significance value before and after the adoption of IFRS was greater than 0.05 so that it could be concluded the data were normally distributed.

Hypothesis Testing (Paired Sample t-test)

Hypothesis testing in this research used Paired Sample t-test. The results of Paired Sample t-test would be used to analyze whether the cost of capital declined after the adoption of IFRS in banking companies listed in Indonesia Stock Exchange. Table 3 shown a paired sample test results.

Based on Table 3, the significance value (one-tailed) was 0.0815 obtained from 0.163 (sig. 2-tailed) divided by 2. The significance value of 0.0815 was smaller than alpha (0,1), so that hypothesis was accepted. It means that the cost of capital to the banking companies listed in Indonesia Stock Exchange after the adoption of IFRS decreased.

Table 2. Normality Test Results

		Before Adoption	After Adoption
N		25	25
Normal Parameters ^a	Mean	0.0952	-0.0524
	Std. Deviation	0.58878	0.53020
Most Extreme Differences	Absolute	0.160	0.132
	Positive	0.160	0.132
	Negative	-0.089	-0.085
Kolmogorov-Smirnov Z		0.798	0.658
Asymp. Sig. (2-tailed)		0.547	0.779

Table 3. Paired Sample Test

		Paired Sample Test					t	df	Sig. (2-tailed)
		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	90% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Before Adoption - After Adoption	0.14760	0.51226	0.10245	-0.02768	0.32288	1.441	24	0.163

DISCUSSION

The results of hypothesis testing with paired sample t-test showed that the cost of capital in banking companies listed on the Stock Exchange after the adoption of IFRS in PSAK financial instruments decreased. The hypothesis that stated the cost of capital decreased after adoption of IFRS was acceptable. The results of this study were consistent with the results of research conducted by Kim & Shi (2007), Li (2010), Mihai, Ionascu, & Ionascu (2012), and Pambudhi (2015) proving that the cost of capital decreased after the adoption of IFRS. Based on the studies, it was explained that adopting IFRS expanded disclosures on financial statements thereby minimizing the information asymmetry between firms and investors thereby lowering capital costs. The results of this study could also prove the statement of IAI which mentioned one of the benefits of IFRS adoption was to lower the capital cost of capital, in which one component of capital was the cost of capital.

Adoption of IFRS led to differences in presentation, recognition, measurement, and recognition of financial instruments in PSAK. PSAK 50 (revised 2010) provided for the presentation of all financial instruments resulting in a clearer and more detailed definition and classification of financial instruments. PSAK 55 (revised 2011) regulated the recognition and measurement of all financial instruments adding to the rules of reclassification and tighter value reductions thereby providing clear boundaries for management in preparing financial statements. PSAK 60 (2010) provided for disclosure for all financial instruments that added to the disclosure requirements for the types and levels of risks arising from financial instruments in the form of qualitative disclosure and quantitative disclosure. With increasingly widespread disclosure, investors could understand well and correctly the company's financial performance and minimize its investment risk. Increasing the clearer and detailed rules expanded

disclosures about financial instruments, so that it was suspected to be the cause of declining cost of capital in this study.

The extent of disclosure in the financial statements would be able to reduce uncertainty for the provider of financial resources. It means that the company would get the financial resources of the resource provider at a lower cost. Improvements in information would reduce uncertainty about the company so that it could potentially reduce the premium risk required by investors (Al-Shihab, 2008).

The results of this study could be explained in the main relationship between financial theory and accounting. There was a strong commitment from the company to reveal more because it should be able to reduce more the capital costs arising from information asymmetry. Information asymmetries created costs through adverse selection in transactions between buyers and sellers of a company's stock. A commitment to raise disclosure levels reduced the likelihood of inequality of information arising either between the company and its shareholders or between the buyer and the stock seller of the company. It should reduce the discount on the shares of the company being sold and therefore the cost of issuing the shares will be lower (Al-Shiab, 2008).

Normally people expected a refund when they invested. They also expected to get a bigger return on investment as they were also responsible for the risk of the investment. One example was when banks tended to charge a higher interest rate to a borrower in which the bank felt the risks to be borne by the bank was also large. In contrast, banks tended to charge relatively low interest rates to prospective customers when the risk arising from these loans was low and it was borne by the bank. This example showed that the risk was low for a potential customer because the company's profit over time increased and all information was presented fairly. This would reduce

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the risk premium charged to the prospective customer. If viewed from the side of the lender namely the bank, the decrease in cost of capital after the adoption of IFRS would have an impact on the decrease of non-performing loan (NPL) and increase the loan to deposit ratio (LDR). In such case, this would increase net interest margin (NIM).

The decrease in NPL was due to the information provided by the prospective customer presenting relevant information and represent faithfulness so that the bank could easily predict the risk that would occur. Certainty that would happen in the future was easily predictable so that the potential wrong decision-making done by the bank to be small because the smoothness and ability of customers to pay off their obligations was predicted easily. NPL was the ratio indicating the loan given by the bank to the customer who had difficulty to return it. Low NPL values indicated that bank customers had a good ability to pay off the principal and interest on the loan.

Completeness of information provided by prospective customers would facilitate predictions of what happened in the future also allowed banks to decide on giving loan. This would increase the LDR. LDR was the ratio used to measure the amount of credit given by banks with funds received by banks. LDR reflected the bank's ability to repay funds from depositors based on credits given to customers.

Conditions like this would increase NIM. NIM was the ratio used to measure the ability of bank management in managing productive assets. This ratio could be used to assess the risks faced and the efficiency of the bank performance.

These results were supported by empirical studies Tarca, Morris, & Moy (2013) who conducted a study in Germany where the dominant overgrown firm was funded from debt was more interested in adopting IFRS. According to Florou & Kosi (2015), the implementation of IFRS can facili-

tate funding and reduce cost of capital because investors will face lower levels of information asymmetry and estimation risk. IFRS would influence the financial decision of the debt provider who trusted the financial statement information in its decision making. There was a positive outcome for the adoption of IFRS required the company's debt financing in particular the funding of bonds (Florou & Kosi, 2015) and debt funding (Moscariello, Skerratt, & Pizzo, 2014; Chan, Hsu, & Lee, 2015)

When viewed on the stock market, the decrease in cost of capital due to IFRS adoption also caused a decrease in the investor's required rate of return. The investor's required rate of return represented the minimum rate of return required by the investor. There were 2 components in the required rate of return of risk-free interest rate and risk premium. The risk premium represented the rate of return on capital required to compensate for the risk of loss of capital. In the capital asset pricing model, risk premium could be calculated based on the difference between expected return on the market (R_m) minus the risk-free rate (R_f).

Based on accounting information prepared under IFRS, investors could predict the likelihood of future risks. In that case, the risk premium rate would be relatively easy to assess so it would make it easier for investors to make investment decisions namely buying, holding, and selling. It happened because investors would be easy to make a comparison between the expected rate of return and the required rate of return. If the expected amount was greater than required then the investment decision would be made by the investor. If expectations were lower than required then investment decisions were void because this was a greater potential loss. These results were supported by empirical studies of Daske et al. (2008) and Karamanou & Nishiotis (2009) that the adoption of IFRS will provide benefits to lower the cost

of capital. This is also in line with the results of empirical studies conducted by Dargenidou, McLeay, & Raonic (2006) that the adoption of IFRS will further lower the cost of capital.

CONCLUSION AND SUGGESTIONS

Conclusion

This study aimed to empirically examine the comparative cost of capital before and after the adoption of IFRS in banking companies listed on Indonesia Stock Exchange using Ohlson models. The data used in this study was the banking annual financial statement in 2008-2009 as the year period before adopting IFRS and in 2013-2014 as the period after adopting IFRS. The test results proved that there was a decrease in the cost of capital to the banking companies listed in Indonesia Stock Exchange after adopting IFRS in PSAK financial instruments or in other words, this hypothesis was accepted. This is shown by the t-test results for associated paired sample t-test with a significance level of 0.0815 lower than the alpha (0.1).

Suggestions

This research has some limitations that is the population in this research is limited to one type of company, namely banking. This causes the result of the research cannot be generalized to all companies listed in Indonesia Stock Exchange. The next research is expected to use a wider population and sample, so that the results of the study have a higher level of generalization, for example involving the manufacturing industry. This study does not consider other factors that may affect the application of PSAK 50, 55, and 60 such as corporate governance, ownership structure, human resources, government, and technology. This study also examined the difference in equity capital costs before and after the adoption of IFRS in PSAK fi-

ancial instruments, so that it cannot control other factors that affect the cost of equity capital during the period of observation. For the next researcher, it is expected to consider other factors that may affect the application of PSAK financial instruments and other factors that affect the cost of equity capital.

At present, the development of international accounting standards governing financial instruments has been set back in PSAK 50, 55, and 60 (revised 2014). So it is suggested for the further research to see the impact of the implementation of PSAK 50, 55, and 60 (revised 2014) the adoption result of IAS 32 and IAS 39 (2013), as well as IFRS 9 (2013) with effect from January 1st, 2015 in lowering the cost of capital equity.

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