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The Difference of Market Reaction Before and After IFRS Application Manufacturing and Financial Services that go Public in Indonesian Stock Exchange

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ABSTRACT

This research aims to provide evidence on whether there is a difference of market reaction before and after the implementation of IFRS in the manufacturing and financial services company that go public on the Stock Exchange. This study uses stock returns and abnormal returns as a proxy for the market's reaction. This study population is a public company manufacturing and the financial services on the Indonesia Stock Exchange in the period before and after the implementation of IFRS (2011 and 2012). The research sample used 124 manufacturing companies and 63 financial services companies. The sampling was using judgment sampling method and data analysis using different test with a non-parametric test (Wilcoxon test). The results showed that there are different market based on the reaction of abnormal return and stock return between before to after the implementation of IFRS for manufacturing companies, however, there is no difference of market reaction is based on cumulative abnormal returns and stock returns between before to after the implementation of IFRS on financial services companies.

Keywords: Market reaction, stock returns, abnormal returns, the implementation of IFRS

1. INTRODUCTION

Indonesia is a country that has adopted the IFRS regulations. GAAP to IFRS convergence program has been launched by IAI in December 2007. The IFRS convergence in Indonesia has been done gradually and completed in 2012. The Government of Indonesia strongly supports the convergence program of GAAP to IFRS. The same thing is with the agreement of the countries that are members of the G20, one of which is to create a single set of high quality accounting standards that applied internationally. The application of IFRS meant that Indonesia had received maximum recognition from the international community who are already applying IFRS. Such changes may be related to accounting procedures.

The adoption of IFRS impact on aspects of the measurement of financial reporting items, such as net income and equity [1], as well as IFRS of which have been adopted had improved the quality of financial statements [2]. The investors believed that the standard setting will cause some of the benefits of convergence, such as lowering the cost of comparative financial position and results of the company's work, and determination of the IFRS-based IAS will enable the Indonesian capital market more competitive advantage globally. This view is supported by research conducted [3] who found that the positive market reaction to the convergence of capital in Europe.

This research is to examine the market's reaction or response in the market for companies that applying IFRS in the period before and after the implementation of IFRS to analyze the market reaction reflected by the cumulative abnormal return and returns before and after the companies applying IFRS in Manufacturing and Financial Services.

II. HYPOTHESIS

The quality of financial statements of which is better, it will positively responded by the users, especially investors [4] because of they become easier to understand the performance of the company and is expected to provide benefits in estimating the rate of return and risk of its investments. The value trust of a stock by investors heavily influenced by the performance of the company that issued the stock. If the prospect of a public company in a strong condition and good, then the company's stock price is expected to reflect the strength [5]. When stock prices are high thenthe investor's confidence will be higher [6]. This situation may be a promising rate of return which is higher and the risk is minimal because the realization of shares received outcome does not deviate from the desired outcome.

IFRS is a product of regulatory accounting standards that apply internationally which could have a significant impact on the financial reporting of companies that would also have an impact on different types of industries, types of transactions, elements of financial statements that are owned, and also a selection of accounting policies. Such changes may be related to accounting procedures. Thus Researchers need to explore two industry groups, namely industrial manufacturing and Financial Services. To determine each type of industry in providing the market reaction is reflected in the cumulative abnormal return and returns, then emerged as the following hypothesis:

H1: There are differences in market reaction reflected the cumulative abnormal return and returns before and after the company implemented IFRS on the company's manufacturing.

H2: There are differences in market reaction reflected the cumulative abnormal return and returns before and after the company implemented IFRS on Financial Services company.

III. RESEARCH METHODS

III.a. Population and Sample

The study population was the whole manufacturing and financial services that go public that published the financial reports on the Indonesia Stock Exchange in 2011 and 2012. The sample in this study were obtained by purposive sampling method by way of judgment sampling, by providing criteria be a particular consideration , With a sample of the following criteria:

a. Manufacturing and Financial Services companies listed on the Indonesian Stock Exchange.
b. Stock prices have data on the Indonesia Stock Exchange.
c. applying IFRS

III.b. Analysis method

Calculating abnormal stock return and stock return to manufacturing company and financial services, and testing this hypothesis using a non-parametric statistical tests (Wilcoxon test).

IV. RESULTS AND DISCUSSION

The samples in accordance with the criteria specified in the previous chapter of the manufacturing and financial services company listed on the Stock Exchange from 2011 until 2012 amounted to 129 for manufacturing companies and totaled 68 for financial services. Population manufacturing and financial services company were listed on the Stock Exchange have been sampled with the criteria described and obtained a sample of 124 for manufacturing companies and 63 for financial services firms. From the results of the normality test that have been conducted on cumulative abnormal return and return for a second sample manufacturing industry and financial services before and after the adoption of IFRS significance value less than 0.05.

IV. a. Cumulative Abnormal Return and Manufacturing Return

From the results of hypothesis testing have been done, it can be concluded that there are differences in cumulative abnormal return and return on manufacturing companies significantly between before and after the implementation of IFRS into GAAP. Thus there is a positive response to the market reaction to the implementation of IFRS.

IV. b. Cumulative Abnormal Return and Financial Services Return

From the results of hypothesis testing that have been done, it can be concluded that there is no difference in cumulative abnormal returns and returns on financial services companies significantly between before and after the implementation of IFRS into GAAP. The results are consistent with the research of Puspitarini, (2014) which stated that the banking stock return has implemented IFRS is no different with stock return of banking yet to adopt IFRS. This situation makes the company's stock price has not changed, so that the abnormal stock returns and returns did not experience the difference.

CONCLUSION

Based on the results of data analysis and discussion in the previous section, it can be concluded were as follows:

1. There is a difference between the market reaction cumulative abnormal return on manufacturing companies before and after the implementation of IFRS.
2. There is a difference between the market reaction to the return of manufacturing companies before and after the implementation of IFRS.
3. There is no difference between the market reaction cumulative abnormal return on a company's financial services before and after the implementation of IFRS.
4. There is no difference between the return on the market reaction to financial services firms before and after the implementation of IFRS.

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