FAIR VALUE ACCOUNTING AND EARNINGS MANAGEMENT USING LLP AND REALIZED GAINS AND LOSSES: STUDY IN BANKING INDUSTRY LISTED ON INDONESIA STOCK EXCHANGE

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Abstract: Fair Value Accounting and Earnings Management Using LLP and Realized Gains and Losses: Study in Banking Industry Listed on Indonesia Stock Exchange. This study examines whether earnings management can be limited by the implementation of fair value accounting in banking industry. The main contribution of this study is providing empirical evidence about the impact of fair value accounting on earnings management in Indonesia. Earnings management is proxied by loan loss provision (LLP), the realized of gains and losses, and the trade-off between realized gains and losses and LLP following Bratten et al (2013). The study provides empirical evidence that earnings management is still performed by banks, by using LLP, realized gains and losses and also occurs trade-off between LLP and realized gains and losses as means to perform earnings management in accordance with the needs of management. If banks are exposed to fair value accounting, managers will have more flexibility in reporting banks’ financial performance to present a desired earning, by providing them with additional earning managements tools. These findings can be informative for policymakers, banking practitioners, and academics.

Keywords: earnings management, fair value accounting, LLP, realized gains and losses, trade-off LLP and realized gains and losses.

INTRODUCTION
Earnings management occurs in almost every sector of the company. The banking sector is one of them, even the banking sector is quite vulnerable to earnings management action (Santy, 2012). Differences in characteristics

between the banking industry with other industries as stated by O'Hara (2003) that is a bank is a business sector that has a high level of regulation compared with other business sectors. However, in certain circumstances, the regulation actually provide an opportunity for the bank manager to take actions that could harm other stakeholders (Supriyatno, 2006). The latest regulation is mandatory the use of fair value accounting to measure assets and liabilities reported in the financial statements. Banks were attracting attention to the implementation of fair value accounting policies, especially in the measurement of assets and liabilities that will be assessed and reported appropriately. Measuring disclosure regarding fair value accounting of a company is to measure the proportion of assets and liabilities reported in the current fair value (Nissim and Penman, 2007). Therefore, the use of the fair value impact to the financial asset because of the impact of the increase and decrease in value will be measured annually. This study measures the earnings management (use earnings management tools) by loan loss provision (LLP), the realized of gains and losses, and the trade-off between LLP and realized gains and losses associated with the use of accounting policies fair value in Indonesia. This study follow Bratten et al. (2013) model. LLP is the largest accrual and most prior research on earnings management in the banking industry focuses on the LLP. Therefore, the Securities and Exchange Commission (SEC) and bank regulators have considerable attention to how bank managers use their discretion in calculating LLP (Kanagaretnam et al, 2004). Because of the potential for regulatory intervention associated with managing earnings through the LLP, managers may not prefer to use LLP to manage earnings and use the discretion over the timing of realized gains and losses on sales of investments. Bratten et al. (2013) also observed trade-off between LLP and realized gains and losses will depend on the degree of exposure to fair value accounting.

Fair value accounting would otherwise be able to improve the quality of accounting information, but it is still being debated. Arguments supporting the claim that the current reporting fair value increases the relevance of accounting information due to the reporting of assets and liabilities when fair value reflects the latest price changes in market expectations (Linsmeier, 2011). Information on fair value can be used as an early warning to investors and policymakers in any recent changes in the market, when the asset prices are down and increase the financial risk of a company. But criticism of the accounting fair value is due to reasonable regulations put too much value on the policy or discretionary manager (Johnson, 2008).

Their manipulation of empirical evidence proving their approximate fair value of earnings management performed by the manager related to the asymmetry of information that is owned by the manager of the fair value. Nissim and Penman (2007) state that the implementation of fair value accounting in the US banking industry in some cases lead to distortions and reduce the quality of financial reporting. Nissim (2003) found evidence that the bank "set up" the disclosure of the fair value of loans and found that disclosure overstates the fair value of loans degrade the performance of
the Bank Holding Company (BHC’s) and increase the risk of banks and also increase the chance of manipulation using fair value.

Earning management is the action of intentionally affect the process of financial reporting to achieve some personal interest (Schipper, 1989). Banks may use two (2) earnings management tool that is a policy provision for LLP and policies towards the realized of gains and losses (Bratten et al. 2013). Allowance for uncollectible accounts and provision for LLP required by Bank Indonesia to cover the risk of losses of a bank when there are arrears to credit debtors to avoid bankruptcy as well as maintaining the health of the bank. Managers will use this rule to make earnings management practices to accumulate reserves for security reasons. LLP is often used to manage earnings because LLP is the largest accrual and the most prominent as shown in several studies that use LLP (Beatty et al. 1995; Ahmed et al. 1999; Beatty et al. 2002; Kanageratnam et al. 2003, 2004; Oosterbosch 2009; Cheng et al. 2011; Anggraita 2012; Shanty et al. 2012; Bratten et al. 2013). Manager in the banking industry can use the flexibility of decision making based on consideration LLP with fair value accounting policies. The flexibility that it can degrade the quality of accounting information (Dechow and Shakespeare, 2010).

Policy managers use the realized of gains and losses as earnings management tool can be facilitated by fair value accounting. Banks with a high proportion of assets and liabilities at fair value will have more flexibility to adjust the gain, so-called high fair value banks. While the banks that have lower assets and liabilities at fair value and have not much flexibility to adjust the gain, called non-high fair value bank. Both will show a different pattern to the actions of earnings management. High fair value bank is considered more able to realize gains and losses than a non-high fair value banks because they have more securities assets and a portion of gains and losses, unrealized (Bratten et al. 2013). Flexibility has significant impacts on the choice of the manager in determining the earnings management tool. The trade-off between using LLP and realized gains and losses as earnings management tool depends on the level of disclosure of fair value accounting performed by the manager. Bratten et al. (2013) stated that the level of disclosure of the fair value of improving their management of transaction-based income (realized gains and losses). Therefore, observations trade-off between use LLP and realized of gains and losses will also depend on the level of disclosure of fair value accounting.

With regard to the nature of the historical accounting, fair value accounting estimates involve the economic benefits and costs that will come in the current financial statements. Fair value accounting proponents argue that the use of the fair value increases the relevance of accounting information for financial assets and liabilities reported to reflect the latest information based on the market price information (Barth, 2006; Linsmeier, 2011). Parties criticized, especially in the banking community, believes that the fair value creating undesirable volatility profit without increasing the relevant information. Because the fair value estimates involve a high subjectivity, fair value accounting also involves a fairly high profile
policy and managers can use the discretionary occasion when reporting profits (Nissim, 2003; Bushman and Williams, 2012). The fair value can also enhance the relevance of the question for costs to be trusted since fair value accounting regulations put too much on the policy of manager (Johnson, 2008).

This study examined whether a high fair value bank is using LLP to smooth earnings at a higher level than the fair value of a non-high fair value bank. When profit is not an option, discretionary management (referred to as "pre-managed earnings" (PME)) is expected to be high, managers will pursue policies to overstate LLP resulting in low profit. Conversely, when PME is expected to be low, the manager will lower the LLP resulting in report higher earnings. Researchers found evidence that high fair value bank uses credit LLP higher than non-high fair value bank.

The study also examined whether a high fair value banks do trade-off using LLP and realized gains and losses at a level which is higher than the non-high fair value bank. Because if the bank has a proportion of assets and liabilities at a high fair value, it can have more flexibility to determine income. And the result the researchers also found proof that high fair value banks does trade off LLP and realized gains and losses higher than non-high fair value banks.

The results of this study can provide empirical evidence of earnings management done related to the implementation of fair value accounting rules, giving rise to an asymmetry of information to users of financial statements. In addition, this study can be used as a reference and additional references regarding the implementation of fair value accounting in the banking industry listed on Indonesia Stock Exchange. The results of this study are also able to contribute to the policymakers that regardless of any statute implementation of SFAS 50 and SFAS 55 after the adoption of IFRS IAS 39 and the use of fair value accounting rules but there are loopholes that can be used by the management to manage earnings.

METHODS
We obtain the data for empirical test from the Indonesia Stock Exchange (www.idx.co.id) and financial statement data from OSIRIS filings. The population in this study are all banks listed on Indonesia Stock Exchange from 2009 to 2014. We use purposive sampling, so we excluded 2 banks that did not have full data and 3 banks observation that are not go public from 2009. This leave a sample of 162 bank-year from 27 banks. First we conduct banks into high fair value bank and non-high fair value bank. Furthermore, we use two direct proxies for pre-managed earnings (PME) in our analysis. The first is high fair value banks with high PME (46 bank-year) and high fair value banks with low PME (35 bank-year).

To measure the use of fair value accounting by banks proxied by FVAT. Following previous research (Bratten et al. 2013; Nissim and Penman 2007; Khan 2011):

$$FVAT = \frac{\text{Assets and liabilities measured at fair value}}{\text{Total assets}}$$

Information: Total assets are total assets during the period.
Disclosure of fair value is proxied as follows:

1. The fair value of the asset is measured using the sum of (1) investments that have matured; (2) The investment can be sold; (3) assets that are traded; (4) Mortgage servicing rights; (5) the derivative asset; (6) other financial assets; all of which are reported at fair value using the fair value option.

2. The fair value of liabilities are measured using the sum of (1) the obligation traded; (2) securities that are not traded; (3) deposit; (4) other financial liabilities; (5) loan commitments that are not used as a derivative; (6) of loans and leases that will be sold (Nissim and Penman 2007; Khan 2011).

If none outlined above are not disclosed in the financial statements, it will be given a value of 0.

In this study earnings management proxy with LLP as used in research Bratten et al., (2013) and Beatty et al., (1995, 2002) measured the proportion of discretionary by using residual regression of assets, NPL, LLR, working capital loans (LOANW), investment loans (LOANI), consumer loans (LOANC), export loans (LOANE), a government program (LOANG), employee loans (LOANP) divided by total loans. LLP reflect the approximate managers in estimating uncollectible loans. To measure the proportion of residual LLP retrieve data from the following regression equation (Beatty et al. 1995, 2002):

\[
\text{Prov}_t = \beta_0 + \beta_1 \log(\text{ASSETS}_t) + \beta_2 \Delta NPL_t + \beta_3 \text{LLR}_t + \beta_4 \text{LOANW}_t + \beta_5 \text{LOANI}_t + \beta_6 \text{LOANC}_t + \beta_7 \text{LOANE}_t + \beta_8 \text{LOANG}_t + \beta_9 \text{LOANP}_t + \epsilon_t \]

(1)

Information:

\(\text{Prov}_t\) is the provision for credit losses divided by total loans. \(\text{ASSETS}\) is total assets in the period. \(\Delta NPL\) is the change in non-performing loans (NPL) divided by total loans. \(\text{LLR}\) is total Loan Loss Reserve divided by total loans.

\(\text{LOANW}, \text{LOANI}, \text{LOANC}, \text{LOANE}, \text{LOANG}, \text{LOANP}\) is the total working capital loans, investment loans, consumer loans, export loans, government programs, employee loans. Which overall is also divided by total loans.

Earnings Management Degree is measured by the affecting level the fair value of the bank in the use of LLP to perform earnings management. It is measured by using the following model (Bratten et al. 2013):

\[
\text{DLLP}_t = \psi_0 + \psi_1 \text{High}_t F\text{VAT}_t + \psi_2 \text{High}_t PME_t + \psi_3 \text{High}_t F\text{VAT}_t \times \text{High}_t PME_t + \epsilon_t \]

(2a)

\[
\text{DLLP}_t = X_{0t} + X_1 \text{High}_t F\text{VAT}_t + X_2 \text{Low}_t PME_t + X_3 \text{High}_t F\text{VAT}_t \times \text{Low}_t PME_t + \epsilon_t \]

(2b)

Information:

\(\text{DLLP}_t\) is discretionary LLP of models (1). \(\text{High}_t F\text{VAT}_t\) is an indicator variable (dummy), was given number 1 if on the top of the sample observation and given the number 0 if otherwise (Kanageratnam et al. 2004). \(\text{High}_t PME\) is an indicator variable (dummy), was given number 1 when PME in the lower
Researchers do not predict $\psi_1$ and $X_1$, which captures a major influence on the level of fair value accounting for the number of using LLP. However, if a bank with a high PME income smoothing using LLP then $\psi_2$ on (model 2a) will be positive, and if the bank with a low PME income smoothing using LLP then $X_2$ on (model 2b) will be negative. Furthermore, if the high fair value using LLP for leveling bank profits at a lower rate than other banks, $\psi_3$ will be negative and $X_3$ will be positive. Conversely, if the fair value high LLP use the bank to smooth earnings at a higher rate than other banks, $\psi_3$ will be positive and $X_3$ will be negative.

To calculate the level of discretionary management by reporting gains and losses, the researchers used a model in research Bratten et al. (2013), which adopted from Beatty and Harris (1998) and Beatty et al. (2002). The model is as follows:

$$RSGL_t = \mu_0 + \mu_1 \log (\text{ASSETS}_{t-1}) + \mu_2 \text{UNGL}_t + \epsilon_t \tag{3}$$

Information:
RSGL is the level of realized gains and losses recorded in the period divided by assets at the beginning of the year. ASSETS is total assets in the period. UNGL is the level of gains and losses that are not realized at the beginning of the year divided by assets at the beginning of the year.

To test the degree to which high fair value banks use the realized gains and losses for income smoothing was measured using the following model (Bratten et al. 2013):

$$DRSGL_t = \delta_0 + \delta_1 (\text{High}_FVAT_t) + \delta_2 (\text{Low}_PME_t) + \delta_3 (\text{High}_FVAT_t * \text{Low}_PME_t) + \delta_4 (\text{DLLP}_t) + \delta_5 (\text{High}_FVAT * \text{DLLP}_t) + \epsilon_t \tag{4a}$$

Information:
DRSGL is discretionary release of gains and losses from the model (3). In this case, the researchers did not predict $\gamma_1$ and $\delta_1$, which captures a major influence on the level of fair value accounting for the number of using the realized of gains and losses. However, the difference between model (2a) and (2b) with model (4a) and model (4b), if the bank with high PME using the realized of gains and losses do earnings management, then $\gamma_2$ on (model 4a) will be negative, and if the bank with lower PME do earnings management using the realized of gains and losses, then $\delta_2$ on (model 4b) will be positive. Furthermore, if the high fair value bank uses the gains and losses realized to smooth earnings at a lower rate than other banks, $\gamma_3$ on the model (4a) will be positive and $\delta_3$ will be negative on the model (4b). On the other hand, if high fair value banks do earnings management using realized gains and losses to a greater rate, $\gamma_3$ on (model 4a) will be negative and $\delta_3$ will be positive on the model (4b).

To examine the trade-off LLP with realized gains and losses, researcher following Bratten et al. (2013) using the models as follows:

$$DRSGL_t = \lambda_0 + \lambda_1 (\text{High}_FVAT_t) + \lambda_2 (\text{Low}_PME_t) + \lambda_3 (\text{High}_FVAT_t * \text{Low}_PME_t) + \lambda_4 (\text{DLLP}_t) + \lambda_5 (\text{High}_FVAT * \text{DLLP}_t) + \epsilon_t \tag{5a}$$

$$DRSGL_t = \phi_0 + \phi_1 (\text{High}_FVAT_t) + \phi_2 (\text{Low}_PME_t) + \phi_3 (\text{High}_FVAT_t * \text{Low}_PME_t) + \phi_4 (\text{DLLP}_t) + \phi_5 (\text{High}_FVAT * \text{DLLP}_t) + \epsilon_t \tag{5b}$$
Unlike models (2a), (2b), (4a) and (4b), the researchers did not focus on the use of LLP and realized of gains and losses for the purpose of leveling the profit (high or low PME). However, researchers focused on a "trade-off" between the choice of accounting discretionary because banks can use the tool (LLP and realized gains and losses) as a complement to or a substitute for income smoothing between the two tools. If a bank makes a trade-off in estimating LLP policy with the policy in reporting the realized of gains and losses, the profits realized will go up (down) when LLP high (low), so that $\theta_4$ and $\lambda_4$ will be positive. And as hypothesized in the second hypothesis (H2), if a high fair value of the bank does trade off of this policy at a higher level than any other bank, then $\theta_5$ and $\lambda_5$ will be positive.

RESULTS AND DISCUSSIONS
Analysis High Fair Value Bank Using LLP to Manage Earnings at a Higher Level than Non-High Fair Value Banks. The first hypothesis was tested using a model 2a and 2b models. The results of multiple linear regression for Model 2a are shown in Table 1. Based on the results of the F test, it shows that a significant level generated more than 5% which means $High_{_FVAT_t}$, $High_{_PME_t}$, and $High_{_FVAT_t} \times High_{_PME_t}$ does not simultaneously affect the DLLP. The accuracy level of model 2a is only 12% which means $High_{_FVAT_t}$, $High_{_PME_t}$, and $High_{_FVAT_t} \times High_{_PME_t}$ influence DLLP 12%.

Then, table 2 shows the results of multiple linear regression for Model 2b. Based on the F test results, it shows that the resulting significant level is less than 5% which means $High_{_FVAT_t}$, $Low_{_PME_t}$, and $High_{_FVAT_t} \times Low_{_PME_t}$ simultaneously affect the DLLP. Accuracy of model 2b is 23.1% which means $High_{_FVAT_t}$, $Low_{_PME_t}$, and $High_{_FVAT_t} \times Low_{_PME_t}$ to DLLP influence 23.1%.

Results of testing the model to answer the first hypothesis are explained below.

Model 2a:
$$DLLP_t = \frac{0.010 - 0.073 \times High_{_FVAT_t} - 8.636 \times 10^{-13} \times High_{_PME_t} + 3.099 \times 10^{-12} \times High_{_FVAT_t} \times High_{_PME_t}}{0.120}$$

Table 1. Multiple Linear Regression For Model 2a

<table>
<thead>
<tr>
<th>Model 2a</th>
<th>T</th>
<th>Sig</th>
<th>F</th>
<th>$R^2$</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>DLLP</td>
<td>1.911</td>
<td>0.142</td>
<td>0.120</td>
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<tr>
<td>Independent</td>
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<td>$High_{_FVAT_t}$</td>
<td>0.031</td>
<td>-2.236</td>
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<td>$High_{_PME_t}$</td>
<td>0.088</td>
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<tr>
<td>$High_{<em>FVAT_t} \times High</em>{_PME_t}$</td>
<td>0.031</td>
<td>2.226</td>
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</table>

Table 2. Multiple Linear Regression for Model 2b

<table>
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<tr>
<th>Model 2b</th>
<th>T</th>
<th>Sig</th>
<th>F</th>
<th>$R^2$</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>Dependent</td>
<td>DLLP</td>
<td>3.101</td>
<td>0.041</td>
<td>0.231</td>
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<td>$High_{_FVAT_t}$</td>
<td>0.035</td>
<td>2.211</td>
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<td>$Low_{_PME_t}$</td>
<td>0.722</td>
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<tr>
<td>$High_{<em>FVAT_t} \times Low</em>{_PME_t}$</td>
<td>0.109</td>
<td>-1.652</td>
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</table>
Table 3. Multiple Linear Regression for Model 4a

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<th>Dependent</th>
<th>Model 4a</th>
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<th>F</th>
<th>R²</th>
<th>Sig.</th>
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<tr>
<td></td>
<td>DRSGL</td>
<td>1.501</td>
<td>0,228</td>
<td>0,097</td>
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<tr>
<td>High_FVATᵣ</td>
<td>0,155</td>
<td>-1,448</td>
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<tr>
<td>High_PMEᵣ</td>
<td>0,580</td>
<td>0,557</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>High_FVATᵣ*High_PMEᵣ</td>
<td>0,183</td>
<td>1,355</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Model 2b:

DLLPᵣ = -0.005 + 0.051 (High_FVATᵣ) + 5,777.10⁻¹² (Low_PMEᵣ) - 1,906.10⁻¹⁰ (High_FVATᵣ * Low_PMEᵣ)

Based on the above models these results indicate that ψ2 (- 8,636.10-13) are negative, indicating that banks with a high PME do not use LLP for income smoothing and X2 (+ 5,777.10-12) is positive which indicates that the bank with the PME low also does not use LLP to perform earnings management. To answer the first hypothesis, the results showed the value ψ3 (+ 3,099.10⁻¹²) is positive and X3 (- 1,906.10⁻¹⁰) is negative so that it can be concluded that High LLP fair value using the bank to smooth earnings at a higher rate than other banks. The results obtained are consistent with the hypothesis put forward. It states that the first hypothesis is accepted.

Analysis of High Fair Value Bank Trade-off between use LLP with the use of Realized of Gains and Losses to Manage Earnings at a Higher Level than Non-High Fair Value Banks. The second hypothesis was tested using 4a, 4b, 5a and 5b models. The results of multiple linear regression for Model 4a are shown in Table 3.

Table 4. Multiple Linear Regression for Model 4b

<table>
<thead>
<tr>
<th>Dependent</th>
<th>Model 4b</th>
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<th>Sig</th>
<th>F</th>
<th>R²</th>
<th>Sig.</th>
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<td></td>
<td>DRSGL</td>
<td>1.089</td>
<td>0,369</td>
<td>0,095</td>
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<td>High_FVATᵣ</td>
<td>0,119</td>
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<tr>
<td>Low_PMEᵣ</td>
<td>0,210</td>
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<tr>
<td>High_FVATᵣ*Low_PMEᵣ</td>
<td>0,357</td>
<td>0,935</td>
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</table>

Table 4 shows the results of multiple linear regression for Model 4b. The results of the F test show that a significant level is generated over 5% which means High_FVATᵣ, Low_PMEᵣ, and High_FVATᵣ * Low_PMEᵣ simultaneously have no effect on DRSGL. The accuracy level of model 4a is 9.7% which means High_FVATᵣ, High_PMEᵣ, and High_FVATᵣ * High_PMEᵣ influence to DRSGL 9.7%.

Table 5 shows the results of multiple linear regression for Model 5a. The F test results show that a significant level is generated over 5% which means High_FVATᵣ, High_PMEᵣ, High_FVATᵣ* High_PMEᵣ, DLLPᵣ, and High_FVATᵣ * DLLPᵣ are not simultaneously affecting DRSGL. The accuracy level of model 5a is 18.2% which means High_FVATᵣ, High_PMEᵣ, High_FVATᵣ* DLLPᵣ, and High_FVATᵣ * DLLPᵣ effects on DRSGL 18.2%.
Table 6 contains the F test results. It shows that the resulting significant level of more than 5% which means High_FVAT_t, Low_PME_t, High_FVAT_t * Low_PME_t, DLLP and High_FVAT_t * DLLP_t simultaneously have no effect on DRSGL. Level of accuracy of model 5b is 9.6% which means High_FVAT_t, Low_PME_t, High_FVAT_t * Low_PME_t, DLLP and High_FVAT_t * DLLP_t influence against DRSGL 9.6%.

Results of testing the model to answer the second hypothesis are explained below.

Model 4a:
DRSGL_t = 0.001 - 0.007 (High_FVAT_t) + 1,355.10^{-13} (High_PME_t) + 3,664.10^{-13} (High_FVAT_t * High_PME_t)

Model 4b:
DRSGL_t = 0.002 - 0.009 (High_FVAT_t) - 5,287.10^{-12} (Low_PME_t) + 2,772.10^{-11} (High_FVAT_t * Low_PME_t)

Model 5a:
DRSGL_t = 0.001 - 0.010 (High_FVAT_t) - 1,104.10^{-13} (High_PME_t) + 5,398.10^{-13} (High_FVAT_t * High_PME_t) - 0.059 (DLLP_t) + 0.142 (High_FVAT_t * DLLP_t)

Model 5b:
DRSGL_t = 0.002 - 0.009 (High_FVAT_t) - 5,464.10^{-12} (Low_PME_t) + 2,827.10^{-11} (High_FVAT_t * Low_PME_t) - 0.015 (DLLP_t) + 0.048 (High_FVAT_t * DLLP_t)

Based on the above model, the results of this study indicate that the value of θ5 (+ 0.142) is positive and the value of λ5 (+ 0.048) positive and it can be concluded if the high fair value of banks do trade off LLP policy by reporting the realized of gains and losses policy at a higher level than other banks. Results were consistent with the hypothesis proposed that the second hypothesis is also accepted.

This study examines that earnings management in the banking industry can be limited by the implementation of fair value accounting. The importance of this study is to provide empirical evidence for the argument about the impact of the implementation of fair value accounting on earnings.
management in Indonesia that is still debated. The result of this study can be informative to the policymaker, the banking industry member, and academics who are interested in the consequences of banks exposure to fair value accounting. The result finding that high fair value with high PME (large banks) in Indonesia have an opportunity to lend a great and varied to customers. This study measures the LLP loan granted so it can also be concluded that the major banks in Indonesia have the flexibility to use LLP in managing profit despite the strict rules now being applied. Although the IAS 55 (revised 2011) which regulates the formation of credit LLP require entities in this regard the bank to show objective evidence at the time of formation LLP, there is still interstice to make earnings management. Because there are separate policies from the management to determine whether the borrower has the right to undergo restructuring or reduction due to the borrower having trouble, determine the extent of the financial difficulties experienced by the issuer, and determines the borrower into bankruptcy. These results are in line with research Nissim (2003) found evidence that bank disclosures of the fair value of loans and found that the disclosure of the fair value of loans exaggerates.

Just as the reasons the researchers have revealed earlier, that the high fair value of banks in Indonesia are large banks that have large assets. Such assets other than in the form of fixed assets are also great derivative assets so that they have time to realize gains to determine discretion and losses are entirely in the hands of management so that the opportunity for earnings management very open.

The trade-off between LLP and realized gains and losses are dependent on fair value accounting disclosures made by the manager. Due to their special attention and strict restrictions on LLP policy, the realized of gains and losses are considered as an alternative to earnings management tool that is quite favorable. Consistent with Dechow and Shakespeare (2009) argue that managers time of asset securitizations to desired earnings target. Because retained interest is not trade in an active market, so managers have considerable discretion.

**CONCLUSION**

Earning management that is expected can be limited by fair value accounting it still has an interstice that can be used by management, especially large bank which is included in the high fair value banks. In this study high fair value bank using LLP and the realized of gains and losses are more flexible than non-high fair value. Without ruling out the possibility of banks classified as a non-high fair value using the earnings management tools. This is in line with research of Nissim and Penman (2007) on the implementation of fair value accounting in the US banking industry over the period 2001 to 2005 which found that the obligatory application of fair value does not significantly improve the bank's financial statements, even in some cases it cause distortion and reduced quality financial statements. In general, it can be concluded that the results of this study provide evidence that earnings management is still done by the go public banking companies using LLP and realized
gains and losses also occur a trade-off between LLP and realized gains and losses as a earnings management tool during the observation period from 2009-2014. The limitations occurred during this research are that many banks do not have comprehensive information regarding the data required for research purposes. We have already tried another source (OSIRIS) that could provide other data but still lots of data are still messed up.

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