

Influence Policy Financial Services Authority (FSA) Return of Shares in the Banking Sector Sub 2014

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Abstract- Financial Services Authority (FSA) is an independent agency and out of from interference by other parties. FSA has the functions, duties and authority of regulation, supervision, inspection and investigation in the financial services sector. FSA to function organized system of regulation and supervision is integrated to the overall activities in the financial services sector. The purpose of this study was to Determine the abnormal return (AR) on stocks in the banking sub-sector and the effect of policies FSA. Method of research is event study that could see the influence before and after the event, and then were Analyzed by t-test pired. The result showed that there was no influence of the events under investigation on stock returns in the banking sub-sector and stock movement patterns that tend range more towards the negative visible from Cumulative Average Abnormal Return (caar).

Index Terms- Financial Services Authority (FSA), Abnormal Return (AR), Banking Sub-Sector, Event Study, Cumulative Average Abnormal Return (caar).

I. INTRODUCTION

The price of the securities indicates information that is important for investors to invest in a particular stock. One of the announcements that can affect the price of securities is government-related announcements (Jogiyanto 1998), such as: (1) The impact of the new regulations, (2) investigations on activities of the company, (3) Decisions and other regulators. The new regulations have a positive or a negative effect for the investor in making an investment decision.

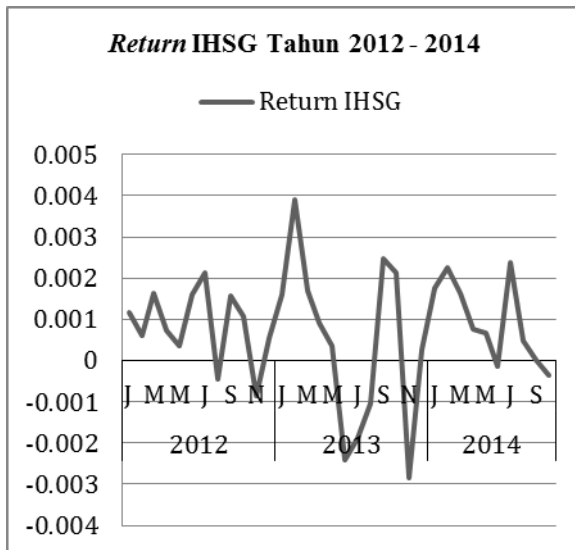
A signal theory states that the content of the information contained in the announcement of any information that could be a signal for investors and other potential parties in making an economic decisions. The announcement contain of an information that could trigger a market reaction and it can be affect for stocks price or it can be called as abnormal return. The announcement will give a positive impact if the stocks price increase, then it could be called as positive signal, vice versa for the a negative impact. The FSA policy is an important information, that could influence the decision-making process.

Indonesia entered a new development in making banking law by establishing a financial services supervisory agency.

Supervision of the banking sector which was originally performed by Bank of Indonesia turned into the independent agency called the Financial Services Authority (FSA). The reason for the separation of bank supervision functions with central banks is to avoid a possible conflict of interest between the duties of maintaining monetary stability and bank supervision duties (Indaryanto 2012). The establishment of independent institutions is not only in Indonesia, but it has already done in other countries, such as the United Kingdom, Australia, France, Japan, and South Korea.

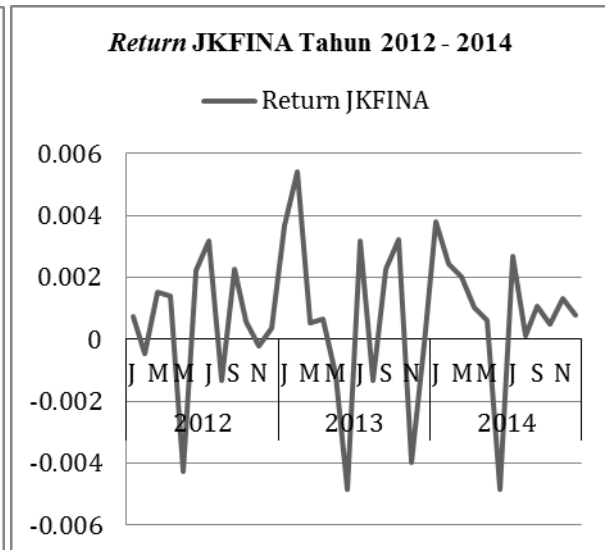
The plan to form the FSA has long proclaimed by regulation "article 34 UU No. 23 Tahun 1999" of concerning Bank of Indonesia. However, the FSA has not been established at that time although it has been mandated that the FSA is formed before the end of 2002. Regulation "No. 3 tahun 2004" changed to regulation "No. 3 Tahun 1999" explains that the FSA will be formed before 31st December 2010. In 2011, the official new released of the regulation of the FSA institutions. Under regulation "No. 21 Tahun 2011", the FSA is an independent institution and free from interference by other parties, which it has a functions, duties, and authority of regulation, supervision, inspection, and investigation. This institution will conduct supervision in the financial services sector to replace the function of supervision by Bank of Indonesia and the Capital Market Supervisory Agency and Financial Institution and it called Bapepam-LK to be integrated and comprehensive, as well as to protect the consumer services industry (Rahyani 2012). In 2014, the policy was issued by the FSA rules levies which originally was funded by using the budget will be charged to the levies on the financial industry are already listed on the Stock Exchange. The regulation "article 32 Ayat 1 RUU OJK" mentioned that FSA works plan and budget will be financed from the financial services industry fees. While the financial industry are institutions and financial services activities.

In Indonesia Composite Stock Price Index is well-known as IHSG. IHSG between the years 2012-2014 is likely to increase in December 2012, December 2013 and April 2014 which is reflected in a positive return of IHSG shares. On the other hand, at the end of 2013, IHSG is in position 4274.18 or decreased by 0.98% compared with the end of 2012 (FSA 2014). The stock price movement of IHSG and JKFINA Year 2012 – 2014 will be shown in Figure 1 and Figure 2:



Source: Stock Exchange in 2014 (processed)

Figure 1 Return Index (JCI)



Source: Stock Exchange in 2014 (processed)

Figure 2 Return Financial Sector Index (JKFINA)

The return results of the financial sector index (JKFINA) between the years 2012-2014 is likely to increase in December 2012 and April 2014 which is reflected in a positive return of JKFINA. However, the negative return is reflected in December 2013. It means that the movement of stocks JKFINA tends to decline during the year. The end of 2013, JKFINA is in position 540.33 or decreased by 1.77% compared with the end of 2012. The analysis of the returns can be seen that in the year 2013 are likely to decrease. It also coincided with the transfer of the functions of banking supervision by the central bank to the FSA. Furthermore, we will see the effect of the events the FSA in 2014.

needed in research; (2) Data on the daily stock price with 28 stocks in the banking sector in the period of October 2013- May 2014; (3) Data of IHSG in the period of October 2013- May 2014, which it can be accessed on the website Indonesia Stock Exchange. To determine whether the events the FSA in the shares in the banking sector, the data used is daily stock closing price in the period of October 2013- May 2014. The actual return is obtained from the data of closing price. To test the occurrence of FSA use a paired t-test abnormal return. The list of 28 stocks in the banking sector which all of them are already doing an IPO in the period of 2012-2014 and all of them will be shown in Table 1:

II. RESEARCH METHODS

Data used is secondary data, such as: (1) The financial statements of the FSA in 2014, to be used as the information

Table 1 Issuer Name Sub Sector Banking

No.	Issuer Name	No.	Issuer Name
1.	Bank Central Asia Tbk	15.	Bank International Indonesia Tbk
2.	ICB Bank Bumi Putra Tbk	16.	Bank Permata Tbk
3.	Bank Capital Indonesia Tbk	17.	Bank Sinar Mas Tbk
4.	Bank Ekonomi Rakyat Tbk	18.	National Pension Savings Bank Tbk
5.	Bank Bukopin Tbk	19.	Bank Victoria International Tbk
6.	Bank Negara Indonesia (Persero) Tbk	20.	Bank Artha Graha International Tbk
7.	Bank Rakyat Indonesia (Persero) Tbk	21.	Bank Mayapada International Tbk
8.	State Savings Bank (Persero) Tbk	22.	Bank Windu Kentjana International Tbk
9.	Bank Danamon Indonesia Tbk	23.	Bank Mega Tbk
10.	Pundi Bank Indonesia Tbk	24.	Bank OCBC NISP Tbk
11.	Bank Jabar Banten Tbk	25.	Bank Pan Indonesia Tbk
12.	Bank Mandiri (Persero) Tbk	26.	1906 Civil Society Bank Tbk
13.	Bank Bumi Arta Tbk	27.	Bank Rakyat Indonesia Agro Niaga Tbk
14.	Bank CIMB Niaga Tbk	28.	East Java Regional Development Bank Tbk

Source: Stock List 2014

A. Data and Information Processing Techniques

This research was used event study. Banking sector stock prices were observed around the period of the event to determine the occurrence of abnormal return. There are ten stages according MacKinlay event study (1997), namely: (1) defines the events that are of interest; (2) develop a theory to justify or explain the financial response to new information; (3) identify the set of companies that experienced the incident and identify the date of the event (event Dates); (4) selecting a suitable event window and justification of the distance; (5) eliminating or adjusting firms experiencing other relevant events during the event window; (6) calculate abnormal returns during the event window and test its significance; (7) reported the percentage of negative returns and statistical test t, binomial Z or Wilcoxon; (8) to sample a bit, use the method bootstrap and discuss the impact of

outliners; (9) describes a theory that explains the cross-sectional variation in abnormal returns and test the theory in econometrics; and (10) presented the results of the empirical. The next step tests the abnormal return on t-test. The steps in this study as follows:

1. Analyze the impact of FSA policy with *Event Study*

Event date used in this study, namely: the implementation of the rules of the FSA levies which *event* such *date* is denoted as $t = 0$. This study used three observation points *event window*, among others: 30 days (-30, + 30), 20 days (-20, + 20) and 10 days (-10, + 10) with the *estimation window* for 90 days. Period of observation for events levies FSA rules between the date of October 18th, 2013 until May 16th, 2014. The three observation points used in the study is shown in Figure 4:



Figure 4 Three Point Observation Used

2. Variables Research

The actual return is calculated on a daily basis during the estimation period and the period of the event. The formula used actual *return* listed banks are as follows:

$$R_{i,t} = \frac{(P_{i,t} - P_{i,t-1})}{P_{i,t-1}} \quad (3.1)$$

descriptions:

$R_{i,t}$ = actual return to the bank issuer- i on day t

$P_{i,t}$ = price index of banking issuers to- i on day t

$P_{i,t-1}$ = the price index of listed banks to- i on day $t-1$

Expected Return

To estimate the level of the yield expectation at the time of occurrence can not be used market model, namely:

$$E(R_t) = a_i + b_i R_{M,t} + u_t \quad (3.2)$$

description:

$E(R_t)$ = expected *return* to the bank stock index- i in period t

a_i = intercept banking stocks to- i

u_t = error term

b_i = beta of banking stocks to- i

$(R_{M,t})$ = *return* on the market index period t

Alpha and beta values obtained from an OLS regression between the rate of return on stocks with yield rate Composite Stock Price Index, as a proxy of the level of market returns, which is done by using the data in the estimation period. To get the expectation value at time t , used alpha and beta values obtained from OLS regression using the data and the market return at time t .

Abnormal Return

Abnormal return or excess return is the excess of the return that is really going to return to normal (Jogiyanto 1998). If an

announcement contains of information, it is expected that the market will react to the timing of the announcement is received by the market.

Mathematically abnormal return is expressed as follows:

$$AR_{it} = R_{it} - E(R_{it}) \quad (3.3)$$

description:

AR_{it} = abnormal return of bank stocks to- i at time to t

R_{it} = return of bank stocks to- i at time to t

$E(R_{it})$ = expected return of bank stocks to- i at time to t

Cumulative Abnormal Return (CAR)

Cumulative Abnormal Return (CAR) is the sum of the abnormal returns during the event window. Mathematically Cumulative Abnormal Return is expressed as:

$$CAR_{it} = \sum_{t=-s}^{t+s} AR_{it} \quad (3.4)$$

Average Abnormal Return (AAR)

Average Abnormal Return is the average abnormal return of stock portfolio consisting of n -shares. Each stock is assumed to have the same proportion in the portfolio. Average Abnormal Return can be calculated by the following formula:

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it} \quad (3.5)$$

description:

AAR_t = average abnormal return

$\sum_{i=1}^N AR_{it}$

= the number of abnormal returns during the event period

N = the number of occurrences of abnormal return

Cumulative Average Abnormal Return (CAAR)

CAAR is the sum of average abnormal return of the portfolio during the event window. Calculation of average cumulative abnormal return is done by adding the average abnormal return portfolio on day t with the average abnormal return on a portfolio of previous days. CAAR can be expressed as follows:

$$CAAR_t = \sum_{t=t-5}^{t+5} \overline{AR}_{it} \quad (3.6)$$

Testing abnormal return is done by using paired samples t-test. Hypotheses used are as follows:

H_1 : There is a noticeable difference in average abnormal stock returns, were significantly different before and after the announcement of the rules of the FSA levies

III. RESULTS AND DISCUSSION

A. Abnormal return Before and After Charges FSA Rules Announcement

In this *event* analyzed with three observation points. Analysis at the observation point (-30, +30) and (-10, +10) shows that the AR (average) negative tends to fluctuate before and after the *event* occurs. Unlike the two previous points, observation points (-20, +20) shows that the AR (average) positive tend to fluctuate before and after the *event* occurs. At the point (-30, +30) highest reaction occurs in H + 6 at 0.0142 and the lowest occurred in the H-11 amounted to -0.0108. At the point (-20, +20), the highest reaction occurs in H + 6 at 0.0138 and the lowest occurred in the H-11 amounted to -0.0098. At the point (-10, +10), the highest reaction occurs in H + 6 at 0.0137 and the lowest at H + 5 by -0.0065. The three graphs results of AR, CAR, AAR and caar 2013 of (-30, +30), (-20, +20), and (-10, +10) are shown in Figure 5, 6, and 7:

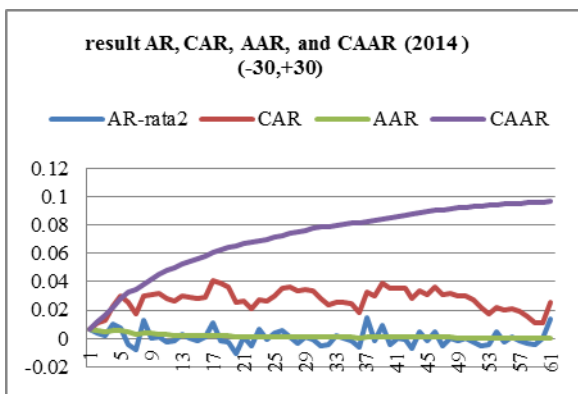


Figure 5 Graph 2014 at (-30, +30)

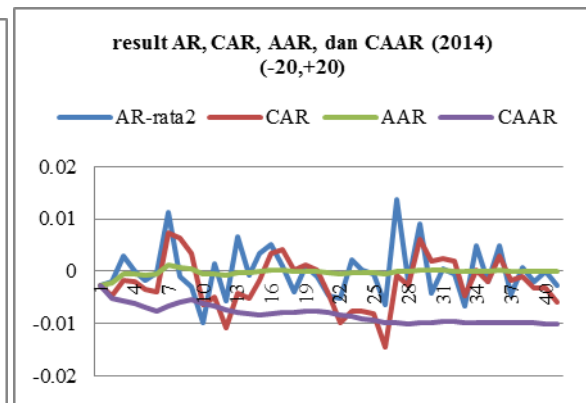


Figure 6 Graph 2014 at (-20, +20)

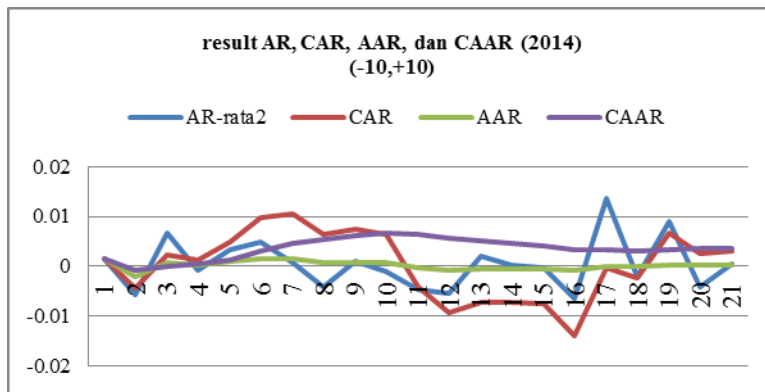


Figure 7 2014 at (-10, +10)

In Figure 5, 6, and 7, the results of the 2014 AAR seen that fluctuations before and after the announcement of the rules of the FSA levies. CAR values tend to be higher before the event and begin to move lower after the event. This is illustrated by the number of shares in the banking sector has a negative AR before the event. The stock in the sector of banks which the CAAR value has negative movement or it is above the chart CAR on the

third point of observation, namely: BBRI and the rest of the stocks have a negative movement. Furthermore, AR at 28 issuers will be analyzed to determine the presence or absence in the third significant observation point. The following Table 2 Results of one sample test in AR 2014:

Table 2 Results of Test One Sample Test on AR 2014

Observation point	Day	Date	Test One Sample Test		Description
			T	Sig (2tailed)	
(-30, + 30)	H-14	17/03/14	2,484	0019	Significant positive
	H-11	03/20/14	-2134	0042	Significant negative
	H + 2	04/08/14	-2123	0043	Significant negative
	H + 12	04/22/14	-2291	0.030	Significant negative
(-20, + 20)	H-14	17/03/14	2,489	0019	Significant positive
	H + 2	04/08/14	-2027	0053	Significant negative
	H + 12	04/22/14	-2309	0029	Significant negative
(-10, + 10)	H + 2	04/08/14	-2105	0045	Significant negative

Source: Results of data processing 2015

Description: **08/04/14** = the same date at the observation point 30, 20, and 10

Observation points (-30, + 30) in four days are significant before and after events levies FSA rules, among others: (1) H-14 with a value of 0.019 t 2.484; (2) H-11 amounted to 0,042 with the value t -2.134; (3) H + 2 with a value of 0.043 t -2.123; and (4) H + 12 amounted to 0,030 with a value of t -2.291. At the observation point (-20, + 20) in three days, the result also significant before and after the *event*, among others: (1) H-14 with a value of 0.019 t 2.489; (2) H + 2 at 0,053 with a value of t -2.027; and (3) H + 12 amounted to 0,029 with a value of t -2.309. Further observation points (-10, + 10) came a day significant after the *event*, namely: H + 2 at 0,045 with a value of t -2.105. From one sample test results at each point of observation, there is bad news at before and after the analyzed. The event is visible from t significant negative value, it is proved by the same date every observation point, namely: on 8th April 2014. The (Press Release FSA 2014) on the 8th April 2014 stated that no publication of the FSA rules on how billing administrative sanctions such as fines. FSA Regulation No. 4/POJK.04/2014 on the procedures for billing administrative sanctions such as fines in the financial services sector. This regulation was issued as part of the implementation of Article 8 letter i Law No. 21/2011 on the FSA. The existence of a negative response from the listed banks are reflected in the movement of stock around *the event* being analyzed because of the rules of the FSA involve direct payments listed banks to comply with these rules.

Levy required of the financial services industry is believed to benefit the back by industry with various work programs FSA value added in the field of integrated regulation and supervision, consumer protection and *good governance*. Value-added work program was geared for improving the understanding and consumer confidence in the financial services sector so as to create and establish the growth of sustainable financial services industry. FSA levy is intended to advance the financial services industry in accordance with the purpose and function of the establishment of the FSA. If the levy is charged to consumers or the public then has the potential to reduce the industry's competitiveness that ultimately hurt the company itself.

B. Different test Average Abnormal Return

Formulation of research hypothesis, namely: there is the influence of the rules of the FSA policy to the banking levy on market efficiency in the banking sector. Different test average abnormal return before and after the announcement of the FSA policy on the banking sector in 2014 was processed using paired t-test analysis with a significant 95%. The results of different test average abnormal return before and after the policy announcements on stock returns FSA banking sector in 2014 is shown in Table 3:

Table 3 different test results in average abnormal return before and after the announcement of the FSA policy on stock returns in the banking sector sub period in 2014

No.	FSA events in 2014	(-30, + 30)		Ket	(-20, + 20)		Ket	(-10, + 10)		Ket
		t	Sig (2-tailed)		t	Sig (2-tailed)		t	Sig (2-tailed)	
1	AAR 2014	1,381	0179	(-)	0565	0577	(-)	1,008	0322	(-)

Source: though 2015

Description: (+) = There is a Difference

(-) = There are Differences

Test results vary in average abnormal return before and after the policy announcement of the FSA on the event in question

was no difference as seen in Table 3. The table shows there is no difference or no effect at each point of observation. In the paired t-test shows that the 2014 AAR at the point (-30, + 30) has a

value of 0.179 with 1.381 t; at the point (-20, + 20) has a value of 0.577 with 0.565 t; and at the point (-10, + 10) has a value of 0.322 with 1.008 t. The third point of the analysis in 2014 showed consistent results. At the point observations 30, 20, and 10 showed no effect before and after the announcement of the rules of the FSA levies on stock *returns* in the banking sector in 2014. Such as Murogi research in 2014 there is no significant difference in *abnormal returns* in the period before and after the event. Prastowo (2007) said that inadequate responses of financial market instruments to an event, and Ikram and Nugroho (2014) have a statement that the Indonesian stock market is efficient in the form of a strong half. Due to the fact that the Indonesian stock market is efficient in the form of a strong half then there is no difference in the performance of the stock before and after the announcement, because in an efficient market is impossible for investors to outperform the market every time. In contrast to the results Sirait, Tiswiyanti, and Mansur (2012) have a statement there is a difference or an effect of an event change of finance minister to *return* banks listed on the Stock Exchange and Armour, Mayer, and Polo (2011) have a statement that there is influence the policy of a fine by the FSA to *return* issuers fined and listed on the London Stock Exchange.

IV. CONCLUSIONS

The research conclusion is at the point (-30, + 30), (-20, + 20), and (-10, + 10) in the event there are no real differences in average abnormal return in 2014. There no effect on the banking sector returns, it reflects that the banking sector stocks already efficient form of half strong.

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