CHAPTER I

INTRODUCTION

1.1. Research Background

Credit Crisis of 1772. After a period of rapidly expanding credit, this crisis started in March/April in London. Stock Crash of 1929. This crash, starting on Oct. 24, 1929, saw share prices collapse after a period of wild speculation and borrowing to buy shares. It led to the Great Depression, which was felt worldwide for over a dozen years. Its social impact lasted far longer. 1973 OPEC Oil Crisis. OPEC members started an oil embargo in October 1973 targeting countries that backed Israel in the Yom Kippur War. Asian Crisis of 1997–1998. This crisis started in July 1997 with the collapse of the Thai baht. Lacking foreign currency, the Thai government was forced to abandon its U.S. dollar peg and let the baht float. And of course, most recently in the 2007-2008 Global Financial Crisis. This financial crisis was the worst economic disaster since the Stock Market Crash of 1929. It started with a subprime mortgage lending crisis in 2007 and expanded into a global banking crisis with the failure of investment bank Lehman Brothers in September 2008.

The Asian financial crisis was a period of financial crisis that gripped much of East Asia and Southeast Asia beginning in July 1997 and raised fears of a worldwide economic meltdown due to financial contagion. However, the recovery in 1998-1999 was rapid and worries of a meltdown subsided. The causes of the debacle are many and disputed. Thailand's economy developed into an economic

bubble fueled by hot money. More and more were required as the size of the bubble grew. The same type of situation happened in Malaysia and Indonesia,

The crisis started in Thailand on 2 July, with the financial collapse of the Thai baht after the Thai government was forced to float the baht due to lack of foreign currency to support its currency peg to the U.S. dollar. Capital flight ensued almost immediately, beginning an international chain reaction. At the time, Thailand had acquired a burden of foreign debt. As the crisis spread, most of Southeast Asia and later South Korea and Japan saw slumping currencies, devalued stock markets and other asset prices, and a precipitous rise in private debt.

Indonesia, South Korea, and Thailand were the countries most affected by the crisis. Hong Kong, Laos, Malaysia and the Philippines were also hurt by the slump. Brunei, mainland China, Singapore, Taiwan, and Vietnam were less affected, although all suffered from a loss of demand and confidence throughout the region. Japan was also affected, though less significantly. Foreign debt-to-GDP ratios rose from 100% to 167% in the four large Association of Southeast Asian Nations (ASEAN) economies in 1993–96, then shot up beyond 180% during the worst of the crisis. In South Korea, the ratios rose from 13% to 21% and then as high as 40%, while the other northern newly industrialized countries fared much better. Only in Thailand and South Korea did debt service-to-exports ratios rise.

Although most of the governments of Asia had seemingly sound fiscal policies, the International Monetary Fund (IMF) stepped in to initiate a $40 billion program to stabilize the currencies of South Korea, Thailand, and Indonesia,

economies particularly hard hit by the crisis. The efforts to stem a global economic crisis did little to stabilize the domestic situation in Indonesia, however. After 30 years in power, Indonesian President Suharto was forced to step down on 21 May 1998 in the wake of widespread rioting that followed sharp price increases caused by a drastic devaluation of the rupiah. The effects of the crisis lingered through 1998.

The economic literature pays a great deal of attention to the performance of banks, expressed in terms of competition, concentration, efficiency, productivity and profitability. The key reason is that banks are seen as special, given their pivotal role in providing credit to enterprises (Bikker & Bos, 2008). The profitability of the banking sector has improved significantly in the first seven years of the new millennium before the crisis start up. This was a result of the general reform of the banking system (Kyriazopoulos, 2013). We will be looking on the 2007 global financial crisis, and how the banking committee attempted to mitigate this problem, so it doesn't happen again. And this respond is called the banking regulation Basel3.

Basel III is an internationally agreed set of measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09. The measures aim to strengthen the regulation, supervision and risk management of banks. Like all Basel Committee standards, Basel III standards are minimum requirements which apply to internationally active banks.

The NSFR is a significant component of the Basel III reforms. It requires banks to maintain a stable funding profile in relation to their on- and off-balance

sheet activities, thus reducing the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure and potentially lead to broader systemic stress. The NSFR will become a minimum standard by 1 January 2018. Proposals on the NSFR were first published in 2009, and the measure was included in the December 2010 Basel III agreement. At that time, the Committee put in place a rigorous process to review the standard and its implications for financial market functioning and the economy. In January 2014 the Committee issued a revised standard that was recalibrated to focus on the riskier types of funding profile employed by banks while improving alignment with the Liquidity Coverage Ratio (LCR) and reducing cliff effects in the measurement of available and required stable funding.

Based on the scarce available literature It finds that the Basel 3, the new minimum capital requirement banks need to keep more capital than what had prior to regulation changes. This would lead to bank having less capital to perform their day-to-day activities in banking such as in investment and lending money to their client. But there are some positive effects on the regulation such as security in case of liquidity shocks that would prevents many forms of economic crisis. In the research by Gary Gabriel (Gabriel, 2016) The results of the study show that a positive relationship exists between the level of capital, the return on assets and the return on equity. Financial institutions which hold a higher level of capital seem to generate more profitability. Due to banks having less usable capital meaning that they would be effeicient in their transactions.

In another paper from Rasidah Mohd Said (Said R. M., 2018) the relationship appears to be negative, where an increase in NSFR results in a decrease of ROA. NSFR being one of the components of Basel 3 means that if the NSFR benchmark amount would be increased then that would result in lower ROA for banks which is a factor to determine banks performance.

There are many events of regulation announcement that would make great research. However, we will only discus 1 event which took place in 7th December 2017 which is the date when the regulation is finalized and banks are mandated to follow said regulations. We will also be using Share price as a form of calculations to find whether there are significant changes or not. ROA as the ratio that would determine banks performance and using regression model to find the relationship of Share price and ROA for each sample. Other tests will also be taken to make sure that such changes are significant.

1.2. Problem formulation

Based on the background written above, the formulation for the problem in this researcg is as follows:

- Is there a significant difference in market reaction after annual report announcement due to the effect of Basel 3 banking regulations?

1.3. Research objective

The objective of this research is to find if there any effect on each regulation changes announcement and find out whether there are impact because of the regulations or not and if able to find what kind of changes would affect the share price changes.

1.4. Research contribution

Theory Contribution, the results of this study are expected to be a reference and empirical evidence of financial institution in Indonesia about the relationship new banking regulation and the market reactions.

Practical Contribution Users of Basel 3 regulation impact should be a massive consideration when making investment decisions. Because it is a regulation it hopes to help other bank smaller banks to understand the effect of Basel 3 and also a consideration for them moving forward

1.5. Writing structures

CHAPTER I INTRODUCTION

Chapter I is the introduction of the research that includes: research background, research problem, research objective, research contribution, and writing systematic.

CHAPTER II THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Chapter II is the theoretical background and hypothesis development, which consist if literature review that consist of Basel 3 explanation, efficient market hypothesis, DuPont model, Share price, and regression model. There is also previous research that are related with this research and hypothesis development.

CHAPTER III RESEARCH METHODOLOGY

Chapter III is the research methodology used in the research, which includes research object population and sample, research variable, research model, data collection methods, data analysis using classical assumption which also include hypothesis testing, fitness for use test, Regression model and Z-test at the end.

CHAPTER IV RESULT AND DISCUSSION

Chapter IV is the result and discussion, which contain the result of this research as well as discussion about the result.

CHAPTER V CONCLUSIONS

Chapter V is the conclusion, which includes: conclusion, limitation, and suggestion