JOURNAL OF ACCOUNTING, FINANCE AND AUDITING STUDIES

http://www.jafas.org

The Impact of Industry-Specific Regulation on Income Smoothing Practice: Evidence from Indonesian Commercial Banks

Yossi Diantimala[a]

[a] University of Syiah Kuala, Banda Aceh, Indonesia, ydiantimala@yahoo.com

Keywords

LDR Regulation, Allowance for Impairment Loss, Income Smoothing, Loan to Deposit Ratio.

Jel Classification

M40, M49, L10.

Abstract

This Paper aims to examine the impact of the implementation of Loan to Deposit Ratio (LDR) Regulation on income smoothing practice of commercial banks in Indonesia. The LDR Regulation is industry-specific regulation. There are conflicting arguments regarding the ability of industry-specific regulation in reducing income smoothing of banks. The samples used in this research are 28 listed commercial banks in Indonesia for the periods 2008 - 2011. Overall, there are 112 bank-annual observations. The test focuses specifically on panel time series cross-sectional models. A T-test of Fixed effects model of panel data and paired sample t-test are used to test the hypothesis. The result indicates that commercial bank managers smooth their income through the allowance for impairment loss. However, the implementation of the LDR regulation can not reduce the level of income smoothing of publicly commercial banks in Indonesia. The level of income smoothing after the LDR regulation is lower than the level of income smoothing before the implementation of the LDR regulation, but the differences are not significant.