

MACROPRUDENTIAL AND MICROPRUDENTIAL POLICY IN FINANCIAL SERVICES AUTHORITY PERSPECTIVE

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Abstract

The establishment of Financial Services Authority (FSA) has brought about the consequences of macroprudential policies which are still under the authority of Bank Indonesia while the microprudential policies have been the Authority of FSA. The aim in this study is to analysis the appropriate definition, characteristics and coverage of macroprudential and microprudential supervision regulatory authority, in order to support country's economic stability. The method of this research was a normative research. The results showed that the definition of macroprudential regulation and supervision policy is the authority given to Bank Indonesia to conduct regulation and supervision of banking institutions out of the institution and health fields, prudential aspect, and bank examination. The characteristics of microprudential and macroprudential banking regulation and supervision can be seen from the policy focus.

Keywords: *burden of proof; Sleman District Court; verstek; Yogyakarta District Court, beyond reasonable doubt.*

A. Introduction

The existence of Act concerning Financial Services Authority is based on Act Number 21 of 2011. The promulgation of this Act on November 22 since mandated by Article 34 of Act Number 23 of 1999 concerning Bank Indonesia has shown the tug of the existence of the FSA which will function to implement an integrated system of regulation and supervision of the financial service sector. In its development, Act Number 23 of 1999 was amended by the enactment of Act Number 3 of 2004. The enactment of the Act has brought the consequences of the provisions relating to the financial services supervision institution to change. The issuance of the Act concerning FSA authorizes FSA to regulate and supervise

all financial institutions as stipulated in Article 5 stating that "FSA functions to organize an integrated regulation and supervision system for all activities in the financial service sector." Furthermore, Article 6 of the Act concerning FSA states that FSA carries out the task of regulating and supervising the entire financial service sector. The provision of Article 5 and Article 6 can be interpreted that FSA has the authority to regulate and supervise all activities in the financial service sector. These provisions have caused consequences for institutions having the authority to regulate and supervise financial service sector activities before the official establishment of FSA in different departments.

The consequence of this provision was also experienced by Bank Indonesia, which had one task¹ to regulate and supervise banks prior to the establishment of FSA. Article 55 paragraph 2 of the Act concerning FSA states that the functions, duties and authorities for regulating and supervising financial service activities in the banking sector (microprudential) have shifted from Bank Indonesia to FSA. Furthermore, it is stated in the Elucidation of Article 7 in conjunction with Article 40 of the Act concerning FSA. This provision means that since the existence of FSA, Bank of Indonesia has authority in the field of regulation and supervision of macroprudential banking institutions. Meanwhile, FSA has the authority in the field of regulation and supervision of microprudential banking institutions. The problem is the regulation regarding the distribution of regulatory and supervisory authority of the banking institution was juridically regulated in Article 55 Paragraph 2 of the Act concerning FSA stating that the functions, duties and authorities for regulating and supervising financial service activities in the banking sector (microprudential) have shifted from Bank Indonesia to FSA. In addition, the Elucidation of Article 7 in

conjunction with Article 40 of Act concerning FSA states Bank Indonesia as a macroprudential Authority. Limited regulations relating to macroprudential and microprudential authority will hamper the objective of establishing the FSA and Bank Indonesia. Ioannis Glinavos² stated that the explanation for this is the lack of legitimacy and public support any system of government causing instability and potentially incapable of keep in the peace. However, there is a research has examined whether government intervention leads to and enhance the environmental and tecnologicall more competitive in the global market place³. Besides that the purpose of law is to achieve justice⁴, legal certainty and expediency. Moreover, according to the theory of Roscoe Pound, if seen from its function, law is a tool of social engineering.⁵ Based on the above background, the problems in this study is what are the appropriate definition, characteristics and coverage of macroprudential and microprudential regulatory and supervisory authority in order to support legal objectives?

B. Methods

This normative research focuses on reviewing regulations. Secondary data is in the form of primary and

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- ¹ The duties of Bank Indonesia as contained in Article 7 of Act No.23 of 1999 are to determine and implement monetary policy; to regulate and maintain the continuity of payment system; and to regulate and supervise banks.
- ² Ioannis Glinavos, 2014, *Redefining the Market-State Relationship (Responses to the Financial Crisis and the Future of Regulation)*, Routledge, London and New York, Pp.1.
- ³ Hye-Young Joo, Yong wong Seo & Hokey Min, "Examining The Effect Of Government Inervention On The Firm Environmental and technological innovation Capabilities and Export Performance", *International Journal Of Production Research*, Volume 56, Issue 18, 2018.
- ⁴ Dominikus Rato. 2010. *Filsafat Hukum (Suatu Pengantar Mencari, Menemukan dan Memahami Hukum)*, Laks Bang Justitia, Surabaya. Pp.59
- ⁵ Soetandyo Wignjosebroto said that what Roscou Pound meant was the concept of social engineering which is a concept in political science and in legal science to describe the existence of a systematic effort by the bearers of state power to influence the attitudes and behavior of the community at large scale..(Soetandyo Wignjosebroto, 2008, *Hukum dalam Masyarakat*, Bayumedia Publishing, Malang, Pp. 240)

secondary legal materials, completed by information from interviewees in the Financial Services Authority and Bank Indonesia. The data is then analyzed by using qualitative data analysis – carried out at the first by sorting all the obtained data, both secondary data and primary data. All of these data is selected in accordance with the subject matter, namely the data relating to financial literacy and inclusion regulations as the primary legal materials and also the main data, and journals, books and opinions of Financial Services Authority official as the secondary legal materials. All selected data is later described and then analyzed qualitatively. Finally, the conclusion in this paper is conducted by a deductive conclusion technique.

C. Discussion

Bank Indonesia, according to the Act No 23 of 1999 concerning Bank Indonesia, has 3 duties in achieving its objectives to achieve and maintain the stability of the value of rupiah. With the Act concerning FSA, Bank Indonesia still has the first two duties in achieving stability in the value of rupiah. Meanwhile, the duty to regulate and supervise banks based on the Act concerning FSA has been transferred to FSA. The regulatory and supervisory authority transferred to FSA is the microprudential authority while the macroprudential regulatory and supervisory authority remains with Bank Indonesia.

The stability of the rupiah is one of the important elements in maintaining the economic stability of

the country. It is known that the relation between banks and the economic stability of a country is exceptionally close as Adrian Blundell Wignall and Caroline Roulet of the OECD mentioned as follows:

*“ The main causes of systemic risk are financial institutions that engage in three broad activities: i) credit intermediation; ii) maturity transformation; and iii) leverage. These activities extend well beyond banks, to what has been referred to as the shadow banking system, including importantly: hedge funds, insurance companies, real estate investment trusts (REITs), exchange traded funds, OTC derivatives, etc”.*⁶

Systemic risk caused by the activities of financial institutions occurs due to 3 things. Firstly, the credit intermediation; secondly, the maturity transformation; and thirdly, the leverage. The financial institutions carrying out these activities mostly are banking institutions. It can be understood if the stable existence of a bank is the core determinant of the systemic risk occurrence.

The aim of the macroprudential regulatory and supervisory duty is economic stability, as stated by ESRB, 2013a (European Systemic Risk Board):

“The ultimate objective of macroprudential policy is safeguarding financial stability, strengthening the resilience of the financial system and decreasing the build-up of systemic risks. Stable financial system contributes to sustainable economic growth. Financial stability is a precondition for a sound financial system which contributes to sustainable economic growth. The last financial crisis has revealed the need for deeper macroprudential oversight that mitigates and prevents systemic risk in the

⁶ Adrian Blundell Wignall and Caroline Roulet, “Macroprudential Policy Bank Systemic Risk and Capital

Controls”, *OECD Journal & Financial Market Trends*, Volume 2013/3, 2014, Pp.3-4.

financial system. The resilience against systemic risks depends on establishing a sound macro-prudential policy framework alongside with effective micro-prudential supervision.”⁷

The main objective of macroprudential policy is to safeguard financial stability, strengthen financial system resilience and decrease the emergence of systemic risk. Financial stability contributes sustainable economic growth. It is the precondition in sounding the financial system. The last financial crisis has revealed the need for crisis management and prevention. Resilience in dealing with financial crises depends on the macroprudential policy framework and the effective microprudential supervision. It shows the close relation between microprudential and macroprudential regulation and supervision in achieving financial stability. According to Jacel Osinki, et.al, the relation between the microprudential and macroprudential regulatory and supervisory authority of the banking sector is as follows:

“The health of individual financial institutions is a necessary but insufficient condition for financial stability. At the same time, a more stable financial system—and the buffers built up to enhance its resilience—contribute to the soundness of individual institutions that are part of it. The macroprudential authority seeks to detect threats to the stability of the financial system stemming from other public policy areas (e.g., microprudential,

macroeconomic, structural, etc.). By alerting relevant authorities or pushing for reaction, macroprudential policy can help contain systemic risk. If successful, the environment in which individual financial institutions operate will be more stable. This, in turn, will facilitate the policy conduct of the microprudential supervisor. From this perspective, both policies reinforce each other and can be seen as complementary parts of a common framework of policies aimed at preserving financial stability”⁸

The above opinion fundamentally says that the health of the individual financial institution alone is insufficient to realize financial stability. On the contrary, the overall financial stability will help the soundness of individual financial institutions. Overall economic stability will support individual economic stability and vice versa. It shows the reciprocal interaction relationship between microprudential and macroprudential which is very dependent on the supervision of each of these fields. It is mentioned that the macroprudential and microprudential relation is complementary in preserving financial stability. Complementary relation means the relation associated with one another to achieve an optimal goal. Likewise Doris Neuberger and Roger Rissi said that:

“One important lesson of the global financial crisis is that microprudential banking regulation aimed at preventing the costly failure of individual financial institutions does not suffice to ensure financial stabil”⁹

⁷ Milena Vucinic, “Importance of Macroprudential Policy”⁸ Jacek Osinki, Katharine Seal and Lex Hoogduin, 2013, Implementation for Safeguarding Financial Stability”, *Journal Of Central Banking Theory Practice*, Volume 5, Number 3, 2016, Pp.79-98.

⁸ Jacek Osinki, Katharine Seal and Lex Hoogduin, 2013, *Macroprudential and Microprudential Policies: Toward Cohabitation*, IMF, USA, Pp. 9.

⁹ Doris Neuberger dan Roger Rossi, “Macroprudential Banking Regulation: Does one size Fit All?” *Journal of*

The above opinion shows that one important lesson from the global financial crisis is that the objectives of microprudential banking regulations are insufficient to prevent the failure of financial institutions themselves. Firm macro policies are needed to achieve the financial stability wholly. Complementary relation between microprudential and macroprudential banking regulatory and supervisory policies must exist in maintaining and achieving economic stability.

The regulations relating to macroprudential supervision are the authority of Bank Indonesia and those relating to microprudential supervision are the authority of FSA. The existing regulations are in the form of acts, including the Act concerning Bank Indonesia, Act Number 21 of 2011 concerning FSA and Act Number 9 of 2016 concerning Financial System Crisis Prevention and Management.

It is known that Act Number 23 of 1999 concerning Bank Indonesia was amended several times. This Act becomes a regulation relating to microprudential supervision given to FSA and macroprudential becoming the authority of Bank Indonesia due to the task distribution of supervision and regulation of banking institutions transferred from Bank Indonesia to FSA based on the provision of Article 34 of Act Number 23 of 1999 as has been amended by Act Number 3 of 2004.

In its development, Act Number 23 of 1999 was amended by the

enactment of Act Number 3 of 2004. The application has caused a change on the regulation of the financial services supervision institution itself. The above description examines that Article 34 of Act Number 23 of 1999 as amended by the enactment of Act Number 3 of 2004 highly clearly states in Article 34 Paragraph 1 that the task of supervising the banks will be carried out by an independent financial service sector supervisory agency formed by the Act. It means that the supervisory duties originally becoming the task of Bank Indonesia will be transferred to FSA within the specific period regulated in the Act. This article becomes the legal basis on how the authority of Bank Indonesia based on the Act concerning Bank Indonesia has shifted the authority to supervise to FSA based on the Act concerning FSA. Normatively FSA has been given the basis of authority not only to supervise but also to regulate banking institutions. The provision of Act concerning Bank Indonesia was the beginning of the division of supervisory and regulatory authority between Bank Indonesia and FSA though normatively there is no provision concerning the distribution concept of regulatory and supervisory authority between FSA and Bank Indonesia. The Act of Bank Indonesia has also mentioned the word neither microprudential nor macroprudential.

Act No.21 of 2011 concerning FSA is an act giving authority to FSA to carry out the regulation and supervision of all existing financial institutions. Those institutions are

banks and other non-banking financial institutions. With the establishment of FSA, the regulation and supervision of banking institutions has been shifted from Bank Indonesia to FSA.

In the Act concerning FSA, the regulation of the authority distribution over the regulation and supervision of banking institutions juridically is only regulated in Article 55 Paragraph 2 of Act concerning FSA, Article and Elucidation of Article 7 in conjunction with Article 40 of the Act concerning FSA. Next, each of the articles relating to the macroprudential and microprudential regulatory and supervisory authority of banking institutions will be examined.

Article 55 Paragraph 2 of the Act concerning FSA states that since December 31, 2013 the functions, duties and authority of regulating and supervising financial service activities in the banking sector shifted from Bank Indonesia to FSA. Therefore, this Article has determined the functions, duties and authority of regulating and supervising financial service activities in the banking sector, shifting from Bank Indonesia to FSA since December 31, 2013.

Furthermore, Article 7 and Elucidation of Article 7 of Act concerning FSA help to understand the coverage of microprudential regulations which become the duties and authorities of the FSA. They are the regulation and supervision of institution, health, prudential aspects, and bank examination.

The next regulation is Article 40 of Act concerning FSA. The

mentioned regulation only showed that the authority of Bank Indonesia to regulate and supervise is in the field of macroprudential and FSA is in the field of microprudential, but not been clearly regulated the definition, characteristics and coverage relating to macroprudential and microprudential policies.

In the Act Number 9 of 2016 concerning Crisis Management and Financial Crisis Prevention, the words of microprudential and macroprudential can be found in article 3. From the words of macroprudential and microprudential are outlined in the Elucidation of Article 3 Paragraph 2 letter C as below:

“Macroprudential covers the macro regulation and supervision of Financial Services Supervisory Agency and focuses on systemic risk in order to encourage financial system stability. Microprudential covers the regulation and supervision of micro Financial Services Supervisory Agency and focuses on the health and performance of each individual Financial Services Supervisory Agency.”

As previously explained, the regulations relating to the microprudential and macroprudential regulatory authority are in the Acts concerning Bank Indonesia, FSA, and Crisis Management and Financial Crisis Prevention. Those regulations will be used as the main sources of law and the use of other legal sources will be used to help clarifying the understanding.

Act Number 23 of 1999 concerning Bank Indonesia and Act Number 3 of 2004 in Article 34 provide the bases for the establishment of FSA

which is going to accept the shift of regulatory and supervisory duties in the banking sector, previously becoming the authority of Bank Indonesia. The Act concerning Bank Indonesia does not provide a definition of what is meant by macroprudential and microprudential policies. The Act concerning FSA, established based on Article 34 of Act concerning Bank Indonesia, mentions the terms of microprudential and macroprudential in the Elucidation of Article 7 stating that regulation and supervision regarding institution, health, prudential aspects, and bank examination are the coverage of microprudential regulation and supervision becoming the duty and authority of FSA. The coverage of other macroprudential regulation and supervision not stipulated in this Article becomes the duty and authority of Bank Indonesia. In the framework of macroprudential regulation and supervision, FSA helps Bank Indonesia to make moral suations to banks.

Article 7 and Elucidation of Article 7 of Act concerning FSA does not also mention the definition of the regulatory and supervisory authority of microprudential and macroprudential. Those regulations state the coverage of microprudential and macroprudential regulations. The Elucidation of Article 3 Paragraph 2 Letter c of Act concening Crisis Management and Financial Crisis Prevention certify the general coverage of microprudential and macroprudential authority of all financial institutions, not specifically of banking institutions.

The definition below is obtained based on the interpretation of the provision of the previous Article. Macroprudential policy is the policy of Bank Indonesia to conduct other regulatory and supervisory authority than those becoming the duty and authority of FSA. Meanwhile, microprudential policy is the policy given to the FSA to conduct regulatory and supervisory authority regarding institution, health, prudential aspects, and bank examination.

Furthermore, related to the authority of Bank Indonesia in the field of supervision and regulation prior to the issuance of the Act concerning FSA as regulated in Articles 24 to 35 of Act No. 23 of 1999 concerning Bank Indonesia, the authority of Bank Indonesia in macroprudential matters is the authority of Bank Indonesia reduced by four authorities based on Article 7 of Act concerning FSA. To clarify the above analysis, the Articles showing the details of the regulatory and supervisory duties of Bank Indonesia will be explicated as folow.

The description above assesses that the definition of microprudential policy according to Acts concerning Bank Indonesia and FSA are the policies given to the FSA to conduct regulatory and supervisory authority regarding institution, health, prudential aspects, and bank examination. On the other hand, macroprudential policy defines as the policy of Bank Indonesia in carrying out its duties, regulations and supervision as stipulated in Act concerning Bank Indonesia, other than those becoming the regulatory and supervision of FSA. In additon,

macroprudential is also mentioned in the Elucidation of Article 40 of Act concerning FSA. Based on the Article above, there is no specific definition of both macroprudential and microprudential policies. However, it can be interpreted that the Elucidation of Article 40 Paragraph 1 above clarifies the microprudential policy definition that the bank examination policy is the authority of FSA. Bank Indonesia can conduct checking directly to banks with certain requirements and be adjusted to the authority of Bank Indonesia in the field of macroprudential. Article 40 Paragraph 2 also confirms that the authority to assess the soundness of a bank belongs to FSA. The Elucidation of Article 40 of Act concerning FSA essentially confirms the provisions on macroprudential and microprudential

In provisions relating to the regulation and supervision of microprudential and macroprudential already been described previously, there is no 'characteristic' in both macroprudential and microprudential policies. Thus, other sources to help the comprehension of the characteristics of macroprudential and microprudential policies will be sought. Below are some characteristics distinguishing macroprudential and microprudential policies¹⁰:

definition and policies originating from both Act concerning Bank Indonesia and Act concerning FSA in Article 7 along with the Elucidation.

Hereinafter is related to the characteristic. The word 'characteristic' cannot actually be found in the Great Dictionary of Indonesian Language (*Kamus Besar Bahasa Indonesia/KBBI*). The word derives from English language 'character'. In Great Dictionary of Indonesian Language, 'character' means is a condition naturally in something (object, people, etc). Besides, it also means that there is a specialty in something (to distinguish from the others). Therefore, the characteristic of microprudential and macroprudential policies is the characteristic or specialty distinguishing microprudential and macroprudential policies.

ASPECT	MACROPRUDENTIAL	MICROPRUDENTIAL
PURPOSE	Prevent instability to avoid economic costs arising from financial sector failures (crisis response costs)	Prevent instability by repressing losses incurred by financial institutions
FOCUS OF POLICY	System-oriented, focusing on the financial system as a whole through a top-down approach	Oriented to the level of health of individual financial institutions through a bottom-up approach
PROCESS OF RISK IDENTIFICATION AND POLICY FORMULATION	Using the dimension of time series and cross section	Using the dimension of cross section

¹⁰ Bank Indonesia, 2017, *Kedudukan Dan Peran Bank Indonesia*. Forum Komunikasi & Koordinasi BI dengan PT

Swasta Di Jawa Tengah dan DIY, Without Publisher, Yogyakarta. Pp.19.

PERIOD FOR FORMULATION AND IMPLEMENTATION OF INSTRUMENT	Policies are time varying or flexible, i.e. it can be adjusted to the occurring cycle. LTV activation for property loans, as an example, can be adjusted to the credit growth cycle in the property sector.	Policies are not time varying. The bank minimum microprudential Capital Adequacy Ratio (CAR), as an example, is by 8%. In any economic cycle condition, banks still need to maintain their CAR.
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Tabel I : Characteristics Distinguishing Macroprudential and Microprudential policies

In relating to the "coverage", the word itself comes from the basic word "to cover". The word 'coverage' itself has several meanings based on *Kamus Besar Bahasa Indonesia (KBBI)*; 1. Results of covering (*KBBI: hasil mencakup*), 2. Reach (*KBBI: Jangkauan*), 3. As much as it can cover (*KBBI: Sebanyak tangan mencakup*). Furthermore, the word "reach" means reachable extent. This means that the coverage of macroprudential and microprudential policy refers to the coverage able to be the microprudential regulatory and supervisory object authority in FSA and macroprudential provided to Bank Indonesia. The existing legal source is as described in Article 7 of Act concerning FSA.

Article 7 and Elucidation of Article 7 of Act concerning FSA clearly mention the microprudential provision coverage becoming the duties and authorities of FSA is the regulation and supervision of institution, health, prudential aspects, and bank examination. It means that Article 7 and the Elucidation explain the coverage of microprudential regulations. Therefore, it can be reviewed that Act concerning FSA regulates the macroprudential coverage, regulation and supervision of FSA, which are the regulation and supervision of institution, health, prudential aspects, and bank examination. It can be observed that regulatory and supervision other than the authority of

FSA become the coverage, regulatory and supervision of Bank Indonesia. The coverage is expressly stated in Act of Crisis Management and Financial Crisis Prevention in the Elucidation of Article 3 Paragraph 2 Letter c, sounding completely as below.

Macroprudential covers the macro regulation and supervision of financial service agency and focuses on systemic risk in order to encourage financial system stability. Microprudential covers the micro regulation and supervision of financial service institutions and focuses on the health and performance of each individual financial service agency. The Article mentions 'cover,' meaning 'coverage'.

Existing legal sources as described previously above explicitly mention the coverage of microprudential regulation (Elucidation of Article 7 of Act concerning FSA) and also explain the coverage of macroprudential and microprudential policies (Article 3 Paragraph 2 Letter c of Act concerning Crisis Management and Financial Crisis Prevention). It can be observed that normatively the regulations relating to the microprudential and macroprudential regulatory and supervisory authority in Acts concerning Bank Indonesia, FSA, and Crisis Management and Financial Crisis Prevention explicitly state the coverage of the regulation. Meanwhile, what is explained in the coverage of regulation is

more focused on the definition or understanding of macroprudential and microprudential regulatory and supervisory policies.

In Act concerning Crisis Management and Financial Crisis Prevention, the terms of microprudential and macroprudential are intended for the entire financial institutions, not specifically explaining the authority of microprudential and macroprudential regulation and supervision in banking institutions. It is generally because of several elements of the financial system, namely Bank; Corporation; Non-Banking Financial Institution (Industri Keuangan Non-Bank/IKNB); Household; Financial infrastructure; and Financial market.

The coverage of macroprudential policy is the financial system as a whole and does not focus on the individual health level in the financial system.¹¹ The Act concerning Crisis Management and Financial Crisis Prevention mentions the coverage of the microprudential and macroprudential regulatory and supervisory authority generally for all financial institutions, not specifically only for banking institutions.

The preceding description from secondary data, both primary, secondary and tertiary legal material shows :

- a. Regulations in the Acts of Bank Indonesia, FSA, and Crisis Management and Financial Crisis Prevention do not explicitly specify the definition and characteristics of microprudential and macroprudential regulatory and supervisory policies of banking institutions.
- b. The coverage explicitly stated is the coverage of microprudential and macroprudential regulation and authority though the sentence after the coverage of regulation (Elucidation of Article 7 of Act concerning FSA) and the sentence after the word 'to cover' (Elucidation of Article 3 Paragraph 2 Letter c of Act concerning Crisis Management and Financial Crisis Prevention) do not explain the coverage. More precisely it only explains the definition of microprudential and macroprudential regulatory and supervisory policies.
- c. In the Elucidation of Article 3 Paragraph 2 Letter c, if intended to mention the definition of microprudential and macroprudential regulatory and supervisory authority, the definition in the Article is then intended for the microprudential and macroprudential regulatory and supervisory authority for the whole existing financial institutions, not specifically mentioning the coverage or the microprudential and macroprudential definition and regulation of banking institutions.

In this regard, the proposed concept of appropriate definition and authority of microprudential and macroprudential regulation and supervision is the definition of microprudential banking regulation and supervision which authority granted to FSA to conduct regulation and supervision regarding institution, health, prudential aspects, and bank examination.

¹¹ *Ibid*, Pp.18.

The definition of macroprudential regulation and supervision policy is the authority granted to Bank Indonesia to regulate and supervise banking institutions other than in the field of institution, health, prudential aspects, and bank examination. The character or characteristics of microprudential and macroprudential banking regulatory and supervisory policies can be seen from the focus of the policy in which the microprudential regulation and supervision of banks focus on individual bank stability aiming to maintain financial stability. On the other hand, the macroprudential regulatory and supervisory policy of banks focuses on the bank stability entirely aiming to maintain the financial stability of the banking institutions as a whole. Though these have different characteristics, both microprudential and macroprudential regulation and supervision have the same goal, namely the stability of banking institutions in the existing financial system that can influence better financial system and national economy.

The coverage of microprudential and macroprudential regulation and supervision is related to the coverage of authority relating to the definitions and characters already been discussed previously. The coverage of the microprudential regulatory and supervisory authority is the regulation and supervision of individual banking institution whereas the coverage of the macroprudential regulatory and supervisory authority is the regulation and supervision of the whole banking institutions.

Based on the understanding, the regulations of microprudential regulatory and supervisory authority have been normatively set more detail than macroprudential authority. Thus, the matter relating to macroprudential authority becomes a proposal to be set forth in the future Act concerning Bank Indonesia regarding the details of macroprudential regulatory and supervisory authority under the authority of Bank Indonesia. From the description above, there is a need for more obvious microprudential and macroprudential authority in the existing regulations as said by Charles Goodhart:

*“Willem Buiter (2014, 2015) has argued against the extension of central bank powers, and would prefer the Swedish approach, but I find it difficult to see how the greater emphasis now attached to financial stability can be achieved effectively by any other route, except by expansion of central banking powers in the way that has been commonly done. However, this does, indeed, lead to a major problem of how, under this new regime, one can delimit the boundaries of appropriate central bank action, and clarify the constitutional position of the central bank under this new system. This remains unfinished business”*s.¹²

Regulations relating to the microprudential and macroprudential regulatory and supervisory authority as in the Acts concerning Bank Indonesia, FSA and Crisis Management and Financial Crisis Prevention do not explicitly regulate the definition. The existing regulations only explicitly mention the ‘coverage of regulation’ (Act concerning FSA) or ‘to cover/coverage’ (Act concerning Crisis Management and Financial Crisis Prevention). The Acts do

¹² Charles Goodhart, “Linkages Between Macroprudential and Microprudential Supervision”, *Butterworths Journal*

Of International Banking and Financial Law, Volume 30, Number 10, 2015, Pp.607-609.

not state the exact definition. Normatively, it can be assessed that the microprudential regulatory and supervisory authority already exists in the Act concerning FSA determining the authority of FSA in the regulation and supervision of banking institutions, as the coverage of microprudential regulation (FSA has the duty to regulate and supervise all financial institutions). In Indonesia a more rigid clarification of this matter is needed. Besides, the macroprudential regulatory and supervisory authority for banking institutions has not been explicitly stated. The confiscation of it needs to be immediately formed in the future Act concerning Bank Indonesia.

D. Conclusion

The definition of the regulatory and supervisory policy of microprudential bank is the authority granted to FSA to conduct regulation and supervision regarding institution, health, prudential aspects, and bank examination. On the other hand, the definition of macroprudential regulatory and supervisory policy becomes the authority granted to Bank Indonesia to regulate and supervise banking institutions other than in the areas of the institution, health, prudential aspects, and bank examination. The character or characteristics of microprudential and macroprudential regulatory and supervisory policies of banks can be seen from the policy focus. The microprudential regulation and supervision policies focus more on the individual bank stability intending to maintain financial stability. Macroprudential regulation and supervision policies, on the other hand,

focus more on the whole banking stability to maintain the financial stability of banking institutions wholly. The coverage of the microprudential regulatory and supervisory authority is the regulation and supervision of individual banking institutions while the coverage of macroprudential regulatory and supervisory authority is the regulation and supervision for whole banking institution.

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