SUMMARY

GALUH MAHARANI. The Effect of Corporate Governance on Stock Liquidity in Banking Sub-sector companies: Evidence from Indonesian Stock Exchange. Supervised by SRI HARTOYO and HENDRO SASONGKO.

The financial sector is the sector that has the highest market capitalization and has the second largest daily trading frequency. As one of the subsector in the financial industry, in 2016, the banking industry has a total capitalization 90.64% of the financial sector. This shows that investor are interested in stocks of the banking industry. The implementation of good corporate governance is crucial in the banking industry because bank has its function as intermediary, making them as a high level risk industry. Moreover, according to the data, the poor corporate governance is one of the main causes of the 1997-1998 Asian Financial Crisis, including Indonesia. This fact has made the quality of corporate governance as an important thing that investors consider when investing. Liquidity is an important factor for both investor and firm, if an investor owning an illiquid stock it will be harder for them to sell and if a firm has an illiquid stock it will make investing to them becomes less attractive. This study explores the effect of corporate governance on stock liquidity in Banks.

This research was done using 26 banks listed in BEI as samples, the method used to choose the bank is by using purposive sampling method. This research uses time series data from 2012-2016. The quality of corporate governance is scored using 21 indicators from OJK regulation, for liquidity Amihud illiquidity estimate and stock turnover are used as proxies. Variable of size, leverage, return volatility, and growth are used control variable. The use of control variable becoming important to reduce the bias of research result.

The analysis of the data used in this research was regresssion analysis for panel data using Eviews-9.0. Based on the result of the research, it was found that the banks in Indonesia has applied a good practice of corporate governance as defined by OJK. This shows that the relationship between board of comissioner, director and stock holder has been going well. The composition of board of comossioner has compiled with the regulation, that 50% of them are comissioner or independent party and has competence in accordance with their fields so that the function of supervision of banking operations runs optimally. Good corporate governance will increase investors' trust so the company's stock will be liquid. It can be seen from the test result that corporate governance has a significant negative effect on Amihud *iliiquidity estimates* liquidty and is significantly positive for *stock turnover* liquidity. Out of three corporate governance components, the components of the board of comissioners have the most significant influence on stock liquidity.

Keywords: stock liquidity, Indonesian banks, corporate governance