

Assessing Types of Capital Market in the Indonesian Legal System

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Abstract

This paper examines the types of capital markets within the Indonesian legal system, starting with their role throughout historical development from the Dutch colonial era to the present day. It highlights the capital market's pivotal role in building the economic strength of Indonesia, serving as a mechanism for raising long-term funds and facilitating investment opportunities for both individuals and institutions. The study applies a normative legal research method, utilizing secondary data and a literature review to analyze the legal framework and operational structures of Indonesia's capital markets. Emphasis is given to the distinction between the primary and secondary markets, their respective functions, and the regulatory oversight provided by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX). The paper discusses how legal regulations, particularly Law Number 8 of 1995, support market integrity, investor protection, and transparency. It also explores the types of capital markets viewed from the transaction process, including spot market, futures or forward market, and options market along with the trading mechanism on the stock exchange. Recent trends are also being discussed, such as the rise of retail investors and the impact of digital platforms on market inclusivity. The findings underscore the legal distinctions of each market type and the need for regulatory development to enhance market depth.

Keywords: Capital Market; Legal Distinctions; Roles

A. Introduction

The history of the capital market dates back to the Dutch colonial era. On December 14, 1912, the Dutch East Indies Government established a capital market in Jakarta called Vereeniging voor de Effectenhandel or Stock Exchange. At that time, the types of capital markets traded were stocks and bonds issued by Dutch companies operating in Indonesia. Although the capital market has existed since 1912, the development and growth of the capital market did not go as expected, even in some periods the capital market activities experienced a vacuum. This was caused by several factors such as World War I and II, the transfer of power from the colonial

government to the government of the Republic of Indonesia, and various conditions that caused the operation of the stock exchange to not run properly. It was only on August 10, 1977, that the Indonesian government reactivated the capital market, so that every August 10 is commemorated as the Indonesian Capital Market Anniversary. A few years later the capital market experienced growth along with various incentives and regulations issued by the government which finally continued until now as the Indonesia Stock Exchange (IDX).¹

The capital market is an important foundation in building the economic strength of a country. As a vehicle for raising long-term funds, the capital market connects investors who have excess funds with companies or institutions that need financing for expansion, innovation, and business development. Through an organized, transparent, and integrity mechanism, the capital market not only encourages the growth of the business sector, but also opens investment opportunities for the wider community, ranging from individuals to large financial institutions. In the era of globalization and increasingly fierce economic competition, the existence of a healthy and dynamic capital market is a key indicator of confidence in the stability of the national economy. Not only as a place to buy and sell stocks, bonds, and other financial instruments, the capital market also plays a role in supporting job creation, increasing industrial competitiveness, and encouraging equitable economic development in various sectors. ² More than just a financial transaction, the capital market reflects the hopes, optimism and future plans of a nation. Therefore, a good understanding of the capital market is an important key for anyone who wants to contribute to national economic development, while utilizing opportunities to improve the welfare of themselves and society.

The capital market has an important role in the economy because it provides a forum for meetings between parties who need funds and parties who want to invest their funds. First, the capital market serves as a source of funding for companies. The capital market allows companies to obtain long-term funds through the issuance of stocks and bonds, so that they can finance expansion, innovation, or large projects without relying on bank loans. Second, it is a means of investment for the public. The capital market provides a variety of investment instruments, such as stocks, bonds, mutual funds and ETFs (exchange-traded funds), which give people the opportunity to invest funds according to their risk profile and financial goals, and increase their wealth through asset growth or dividends. Third is job creation. Companies that raise funds from the capital market usually increase production, expand operations and

¹ Tri Indriawati, "Sejarah Pasar Modal di Indonesia." [kompas.com](https://www.kompas.com/stori/read/2023/11/03/160000079/sejarah-pasar-modal-di-indonesia), 3 November 2023, <https://www.kompas.com/stori/read/2023/11/03/160000079/sejarah-pasar-modal-di-indonesia>.

² Brights, "Apa itu Pasar Modal? Pengertian, Sejarah, dan Manfaatnya." [brights.id](https://www.brights.id/id/blog/apa-itu-pasar-modal), 7 November 2024, <https://www.brights.id/id/blog/apa-itu-pasar-modal>.

create new jobs, which has a positive impact on people's welfare and national economic growth. Fourth, equalization of economic development. The capital market supports equitable economic development by raising funds from people in different regions and directing them to finance important projects, such as infrastructure, manufacturing, and technology. Given the important role of the capital market in supporting economic development, it is important to understand the capital market. In practice, the capital market consists of several types that have different characteristics and functions. The primary market is a place where securities are traded for the first time before entering the stock exchange. The time called the primary market counts from the first offering of shares or securities carried out by the underwriter through a securities broker who acts as a stock selling agent. In the secondary market, buying and selling of securities is no longer applicable to the company. At this stage, the buying and selling process can only be done between one investor and another. When the shares are listed on the stock exchange, they can then be traded to the public. The fixed share price in the secondary market is also different from the fixed primary market.³

Every activity in the capital market is inseparable from the formation of laws that aim to create certainty, investor protection, and transparency. Therefore, the division of types of capital markets in Indonesia also has a clear and structured legal basis. In ensuring the smoothness and integrity of the capital market in Indonesia, clear regulations and strict supervision are necessary. The Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) play a major role in ensuring the capital market functions properly and reliably. The Financial Services Authority (OJK), as the capital market supervisory and regulatory body, has an important role in maintaining the stability and integrity of the capital market in Indonesia. OJK is responsible for overseeing and regulating capital market activities, including those of public companies, financial institutions, and other market participants. In addition, the Indonesia Stock Exchange (IDX) serves as a securities transaction venue, ensuring that securities trading runs smoothly and transparently.

The main regulation governing this is Law Number 8 of 1995 concerning Capital Markets, which is the legal foundation for all activities related to public offerings, securities trading, as well as institutions and professions supporting the capital market. The capital market according to Law Number 8 of 1995 article 1 point 8, is an activity related to the public offering and trading of securities, public companies related to the securities they issue, as well as institutions and professions related to

³ Komunal, "Ulasan Pasar Modal: Pengertian, Jenis, Fungsi, dan Manfaatnya." [depositobpr.id](https://depositobpr.id/blog/pasar-modal-adalah), 8 November 2024, <https://depositobpr.id/blog/pasar-modal-adalah>.

securities.⁴ The capital market can also be interpreted as a place or facility where there is a meeting between demand and supply for long-term financial instruments, which generally have a period of more than one year. Besides that, the capital market is often identified with the stock exchange, which is a place or institution where various financial instruments, such as stocks and bonds, are traded openly between investors and companies that issue these securities.

It is also important to take note that Indonesia's capital market is becoming more inclusive, with more retail investors actively participating through digital platforms, expanding accessibility and increasing market liquidity. This shows that technology is increasingly playing an important role in accelerating the transaction process and making it easier for the public to engage in the capital market, making it more democratic and efficient.⁵

B. Research Method

The research method to be used is the normative legal research method. This means that this research is based on applicable rules, legal norms, and laws and regulations. Normative legal research methods focus on solving problems, or making decisions based on applicable law. Regarding the type of data, the type of data to be used is secondary data in the form of secondary legal materials. Secondary data is a collection of information that has existed before and can be used to complement data needs in a study. Secondary data helps provide an overview of unanswered problems, which can be used as material for research. For the acquisition of data, the data used is literature study. Literature study is a data collection method carried out through reading and analyzing various scientific literature. Finally, the type of approach that will be used is a qualitative approach. A qualitative approach is a research method that aims to understand the problem deeply from the research subject.

C. Analysis and Discussion

C.1 The Function and Structure of the Primary Market in Indonesia

The Primary market is the market where securities like stocks and bonds are traded for the first time, such as during an Initial Public Offering (IPO), before being listed and traded on the Indonesia Stock Exchange.⁶ The price of stocks in the primary market is determined jointly by the company going public or the issuer and the underwriter, typically an investment bank or securities firm that structures the

⁴ Article 1 point 8, Undang-Undang Nomor 8 Tahun 1995 Tentang Pasar Modal

⁵ Fajar Sugianto and Tomy Saragih, "Intercalating Law As a Tool To Promote Economic Efficiency in Indonesia," *Arena Hukum* 6, no. 2 (2013): 152–167.

⁶ Sundara, Willy Cahya, Adler Haymans Manurung, I Gusti Ulupui, and Agung Dharmawan Buchdadi. "Anaylisis of Underpricing Factors on Initial Public Offering (IPO) on in the Indonesia Stock Exchange." *Indonesian Journal of Multidisciplinary Science* 1, no. 10 (September 12, 2022): 1340–45. doi:10.55324/ijoms.v1i10.238.

offering, manages risk, and markets the securities to investors.⁷ The pricing process often involves book-building, where investor demand is assessed before finalizing the offering price.⁸ The underwriter plays a critical role in ensuring the success of the issuance by guaranteeing the sale of securities and advising on regulatory compliance.⁹

Before the initial sale of securities can proceed, the issuer must obtain an issuance permit from the Head of the Capital Market Supervisory Executive at the Financial Services Authority.¹⁰ This regulatory approval ensures that the offering complies with Indonesian capital market laws and that adequate disclosure has been made to protect investors.¹¹ Investors can purchase securities in the primary market through underwriters or selling agents by presenting valid proof of identity, which ensures transparency and investor eligibility.¹²

Unlike the secondary market, which operates on a stock exchange with continuous trading, the primary market does not have a fixed physical location. The issuance process is largely administrative and legal, involving prospectus preparation, regulatory filings, pricing negotiations, and marketing activities.¹³ Once the securities are issued and listed on the IDX, trading moves to the secondary market, where prices fluctuate based on supply and demand among investors.

Indonesia's capital market, while still developing, plays an important role in economic growth by mobilizing domestic savings and channeling them into productive investments. However, the market has historically been dominated by bank financing, with the capital market-especially the primary market-playing a smaller role in corporate funding.¹⁴ Efforts by the government and regulators to deepen the capital market include improving regulatory frameworks, enhancing investor protection, and promoting new financial instruments to broaden participation.¹⁵

⁷ Ibid.

⁸ Hartanto, Edwin. "The Stock Market and Economic Growth Nexus in Indonesia." Master's thesis, Erasmus University Rotterdam, 2020. https://thesis.eur.nl/pub/61189/Edwin-Hartanto-Edwin_MA_2020_21_ECD.pdf.

⁹ AsianBondsOnline. *The Bond Market in Indonesia*. Manila: Asian Development Bank, 2021. https://asianbondsonline.adb.org/documents/abmf_ino_bond_market_guide_2021.pdf.

¹⁰ Jakarta Stock Exchange. *Annual Report 1997*. Jakarta: Jakarta Stock Exchange, 1997. <https://www.idx.co.id/en-us/about-idx/profile/annual-report/>.

¹¹ BKPM (Indonesia Investment Coordinating Board). *Indonesia Investment Guidebook*. Jakarta: BKPM, 2023. <https://bkpm.go.id/storage/file/pdf/1683512273.pdf>.

¹² Ibid.

¹³ Hartanto, Edwin. "The Stock Market and Economic Growth Nexus in Indonesia." Master's thesis, Erasmus University Rotterdam, 2020. https://thesis.eur.nl/pub/61189/Edwin-Hartanto-Edwin_MA_2020_21_ECD.pdf.

¹⁴ BKPM (Indonesia Investment Coordinating Board). *Indonesia Investment Guidebook*. Jakarta: BKPM, 2023. <https://bkpm.go.id/storage/file/pdf/1683512273.pdf>.

¹⁵ Laurenzia Luna Fajar Sugianto, Yuber Lago, "STATE LAW, INTEGRAL ECONOMIC JUSTICE, AND BETTER REGULATORY PRACTICES: PROMOTING ECONOMIC EFFICIENCY IN INDONESIA," *Global Legal Review* 3, no. 2 (2023): 91–108.

The Indonesian primary market is characterized by the issuance of new securities, including both equity and debt instruments. Equity issuances, such as IPOs, enable private companies to become publicly traded entities, while bond issuances provide an avenue for corporations and state-owned enterprises to raise debt capital. The emergence of the corporate bond market in 1996/97 was a significant milestone, although its growth was stifled by high and volatile interest rates and inflation, which made both issuers and investors wary of long-term debt instruments.¹⁶ While index-linked bonds have been considered as a means of providing an inflation protection, they have not gained traction among private issuers due to complexity and long-term commitments involved.¹⁷

Equity issuance, particularly through IPOs, has been more prominent. The number of companies listed on the Jakarta Stock Exchange (JSX) more than doubled during the 1990s, reflecting a growing appetite for equity financing.¹⁸ However, regulatory requirements, such as the need for two consecutive years of profitability, have limited access for high-growth sectors and smaller companies.¹⁹

In the Indonesian primary market, securities are issued either directly to investors or through financial intermediaries, most notably underwriters. Underwriters play a central role in structuring the offering, determining pricing, and assuming part of the risk by guaranteeing the sale of a specified volume of securities.²⁰ The process is formalized through a prospectus, which is a legally required document providing comprehensive information about the issuer, the terms of the offering, and associated risks.²¹ This document is critical for investor protection and regulatory compliance. The funds raised in the primary market flow directly to the issuing company, distinguishing this market from the secondary market, where transactions occur between investors and do not provide new capital to issuers.²²

The primary beneficiaries of the primary market are the issuing organizations—private companies, state-owned enterprises, and government entities. The main objective of participating in the primary market is to raise capital for strategic purposes such as business expansion, infrastructure development, and debt

¹⁶ IMF (International Monetary Fund). *International Capital Markets: Developments, Prospects, and Policy Issues*. Washington, DC: IMF, 1998. <https://www.imf.org/external/pubs/cat/longres.aspx?sk=2647.0>.

¹⁷ Ibid.

¹⁸ Jakarta Stock Exchange. *Annual Report 1997*. Jakarta: Jakarta Stock Exchange, 1997. <https://www.idx.co.id/en-us/about-idx/profile/annual-report/>.

¹⁹ Ibid.

²⁰ Asian Development Bank. *Asian Development Outlook 1997*. Manila: Asian Development Bank, 1997. <https://www.adb.org/publications/asian-development-outlook-1997>.

²¹ Bapepam. *Annual Report 1997*. Jakarta: Bapepam, 1997. <https://www.ojk.go.id/id/kanal/pasar-modal/data-dan-statistik/laporan-tahunan/Pages/Laporan-Tahunan-Bapepam.aspx>.

²² Asian Development Bank. *Asian Development Outlook 1997*. Manila: Asian Development Bank, 1997. <https://www.adb.org/publications/asian-development-outlook-1997>.

refinancing.²³ For example, state-owned enterprises like PLN and Bank Tabungan Negara have been among the most active issuers in the domestic bond market, accounting for a significant share of total offerings.²⁴

Although the primary market holds the potential to support corporate financing, the dominance of bank lending and underdevelopment of the domestic bond market have led many private companies to seek financing abroad, often in the form of foreign-currency bonds.²⁵ This reliance on external funding exposes issuers to currency risk and limits the growth of the domestic capital market.

The issuance of securities in the primary market is governed by a comprehensive regulatory framework designed to protect investors and ensure market integrity. Regulatory oversight is provided by Bapepam (now integrated into OJK), which enforces strict disclosure and governance standards.²⁶ Companies must prepare a detailed prospectus and undergo regulatory review before securities can be offered to the public. Due diligence is a critical aspect of this process, involving underwriters, legal advisors, and accountants who verify the accuracy and completeness of information provided to investors.²⁷

Despite the robustness of the formal regulatory regime, enforcement and implementation have sometimes lagged, leading to gaps in disclosure and investor protection, especially during periods of economic instability.²⁸ While the primary market is theoretically open to a wide range of issuers, in practice, regulatory requirements such as minimum profitability and disclosure standards have restricted access, particularly for smaller or high-growth companies.²⁹ Efforts to broaden participation have included the development of structured finance techniques, such as securitization of trade and credit card receivables, which allow companies with lower credit ratings to access funding by pledging high-quality income streams as collateral.³⁰ However, the lack of clear regulations and tax guidance on special-purpose vehicles (SPVs) has limited the growth of these instruments.³¹

²³ World Bank. *World Development Report 1997: The State in a Changing World*. New York: Oxford University Press for the World Bank, 1997. <https://openknowledge.worldbank.org/handle/10986/5980>.

²⁴ Ibid.

²⁵ IMF (International Monetary Fund). *International Capital Markets: Developments, Prospects, and Policy Issues*. Washington, DC: IMF, 1998. <https://www.imf.org/external/pubs/cat/longres.aspx?sk=2647.0>.

²⁶ Bapepam. *Annual Report 1997*. Jakarta: Bapepam, 1997. <https://www.ojk.go.id/id/kanal/pasar-modal/data-dan-statistik/laporan-tahunan/Pages/Laporan-Tahunan-Bapepam.aspx>.

²⁷ Asian Development Bank. *Asian Development Outlook 1997*. Manila: Asian Development Bank, 1997. <https://www.adb.org/publications/asian-development-outlook-1997>.

²⁸ World Bank. *World Development Report 1997: The State in a Changing World*. New York: Oxford University Press for the World Bank, 1997. <https://openknowledge.worldbank.org/handle/10986/5980>.

²⁹ Jakarta Stock Exchange. *Annual Report 1997*. Jakarta: Jakarta Stock Exchange, 1997. <https://www.idx.co.id/en-us/about-idx/profile/annual-report/>.

³⁰ Asian Development Bank. *Asian Development Outlook 1997*. Manila: Asian Development Bank, 1997. <https://www.adb.org/publications/asian-development-outlook-1997>.

³¹ Ibid.

Investors in the primary market rely primarily on the prospectus for information about the offering and the issuer. The effectiveness of the primary market in channeling capital to productive uses depends on the quality and transparency of this information, as well as the willingness of issuers to embrace good governance practices.³² The pricing of securities in the primary market is typically determined by the issuing company in consultation with underwriters. For IPOs, the price may be set through a book-building process that gauges investor demand before finalizing the offering price.³³ The fixed price mechanism is intended to provide certainty and transparency, but may not always reflect the true market value of the securities, leading to potential oversubscription or under subscription.

Issuing companies are directly involved in all stages of the primary market process, from preparing documentation and engaging with regulators to marketing the offering and interacting with potential investors.³⁴ This direct involvement is essential for effective capital raising and for establishing trust with new shareholders or bondholders. Despite having a sound regulatory framework and market infrastructure, the Indonesian primary market remains underdeveloped and susceptible to macroeconomic shocks.³⁵ The excessive reliance on bank finance, limited depth of the bond market, and the cautious attitude of foreign investors following the Asian financial crisis have all contributed to the market's fragility.³⁶ Structural reforms aimed at deepening the primary market, improving disclosure, and strengthening regulatory enforcement are necessary to build a more resilient and dynamic capital market.³⁷ The development of structured finance techniques and greater reliance on equity financing can further help diversify funding sources and reduce dependence on bank lending. However, these reforms require issuers to adopt greater transparency and accept a more competitive market environment.³⁸

C.2 Types of Capital Markets Based on the Transaction process

The Indonesian capital market is a dynamic environment where various financial instruments are traded under distinct legal frameworks and transaction

³² World Bank. *World Development Report 1997: The State in a Changing World*. New York: Oxford University Press for the World Bank, 1997. <https://openknowledge.worldbank.org/handle/10986/5980>.

³³ Jakarta Stock Exchange. *Annual Report 1997*. Jakarta: Jakarta Stock Exchange, 1997. <https://www.idx.co.id/en-us/about-idx/profile/annual-report/>.

³⁴ Asian Development Bank. *Asian Development Outlook 1997*. Manila: Asian Development Bank, 1997. <https://www.adb.org/publications/asian-development-outlook-1997>.

³⁵ World Bank. *World Development Report 1997: The State in a Changing World*. New York: Oxford University Press for the World Bank, 1997. <https://openknowledge.worldbank.org/handle/10986/5980>.

³⁶ IMF (International Monetary Fund). *International Capital Markets: Developments, Prospects, and Policy Issues*. Washington, DC: IMF, 1998. <https://www.imf.org/external/pubs/cat/longres.aspx?sk=2647.0>.

³⁷ Ibid.

³⁸ Asian Development Bank. *Asian Development Outlook 1997*. Manila: Asian Development Bank, 1997. <https://www.adb.org/publications/asian-development-outlook-1997>.

mechanisms. Among the fundamental distinctions in Indonesian capital market law are the types of transactions based on the timing of settlement: spot, futures/forward, and options. These transaction types determine how and when securities are exchanged³⁹ and shape the regulatory obligations and risk management strategies for market participants.⁴⁰

Spot transactions in Indonesia refer to the immediate exchange of securities and payment upon agreement between the buyer and seller.⁴¹ The defining feature of a spot transaction is its prompt settlement, typically occurring instantly or within a short period—commonly T+2 (two business days) in the regular market or T+0 (same day) in the cash market, as stipulated by the Indonesia Stock Exchange (IDX) and the Indonesian Central Securities Depository (KSEI). In these transactions, ownership of the security is transferred to the buyer at the time of settlement, and the seller receives payment accordingly.⁴² The spot market, also called the “cash market,” is characterized by transparency, simplicity, and real-time reflection of market conditions.⁴³ Prices in the spot market are continuously updated and visible, providing clear insights into the current value of securities⁴⁴. This immediacy ensures minimal counterparty risk, as the transaction is settled almost immediately. Spot transactions can involve physical delivery (e.g., commodities) or electronic transfer such as stocks and bonds.⁴⁵ The Indonesian legal framework, including OJK regulations, mandates that the transfer of ownership and funds be completed within the prescribed settlement period to maintain market integrity and efficiency. Intermediaries such as broker-dealers and investment managers are required to execute trades at prevailing market prices, maintain separate accounts for each client⁴⁶, and ensure the safekeeping of client funds and securities. They are also prohibited from engaging in speculative transactions that do not result in actual delivery of the security, except as permitted for derivatives.

Futures and forward transactions represent a more complex class of capital

³⁹ “Capital Markets and Securities Laws.” [Www.Icsi.Edu](https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf). Accessed April 30, 2025. <https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf>.

⁴⁰ Mallin, Christine A. *Corporate Governance*. [Www.Scribd.Com](https://www.scribd.com/document/671967574/Corporate-Governance-by-Christine-A-Mallin-z-lib-org). Accessed April 30, 2025. <https://www.scribd.com/document/671967574/Corporate-Governance-by-Christine-A-Mallin-z-lib-org>.

⁴¹ Smith, Tim. “Spot Market: Definition, How They Work, and Example.” Investopedia. Accessed April 30, 2025. <https://www.investopedia.com/terms/s/spotmarket.asp>.

⁴² Corporate Finance Institute. “Spot Market - Overview, Characteristics, and Types.” Accessed April 30, 2025. <https://corporatefinanceinstitute.com/resources/derivatives/spot-market/>.

⁴³ OKX. “Transaction types explained: spot, options, and more.” Accessed April 30, 2025. <https://www.okx.com/learn/transaction-types-explained-spot-options-and-more>.

⁴⁴ “Capital Markets and Securities Laws.” [Www.Icsi.Edu](https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf). Accessed April 30, 2025. <https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf>.

⁴⁵ Smith, Tim. “Spot Market: Definition, How They Work, and Example.” Investopedia. Accessed April 30, 2025. <https://www.investopedia.com/terms/s/spotmarket.asp>.

⁴⁶ “Capital Markets and Securities Laws.” [Www.Icsi.Edu](https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf). Accessed April 30, 2025. <https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf>.

market transactions in Indonesia, distinguished by their deferred settlement structure. In these transactions, the buyer and seller agree on the price and quantity of a security today, but the actual exchange and payment occur at a specified date in the future.⁴⁷ This structure allows parties to mitigate against price fluctuations or speculate on future market movements. Forward contracts are typically private, over-the-counter (OTC) agreements that can be customized to the needs of the contracting parties.⁴⁸ They settle only once, at the end of the contract, and carry a higher degree of counterparty risk due to the lack of central clearing.⁴⁹ The legal enforceability of forwards in Indonesia depends on the contractual terms negotiated by the parties, including provisions for delivery, payment, and remedies.⁵⁰ Futures contracts, in contrast, are standardized agreements traded on regulated exchanges such as the Jakarta Futures Exchange (JFX) and are subject to daily settlement (mark-to-market), margin requirements, and oversight by the Commodity Futures Trading Regulatory Agency (BAPPEBTI). The standardization and regulation of futures contracts reduce counterparty risk and enhance market transparency.⁵¹ Legally, futures and forwards are classified as derivatives in Indonesia, and their trading is subject to specific regulations addressing margin requirements, position limits, and reporting obligations. Portfolio managers may invest client funds in derivatives as specified in their contracts⁵² but are generally prohibited from leveraging portfolios or engaging in speculative transactions that do not result in actual delivery, except as allowed by derivative regulations.

Options are another category of derivative transactions in Indonesia, offering a unique blend of flexibility and complexity. An option gives the investor the right, but not the obligation, to buy/call option or sell/put option a security at a predetermined

⁴⁷ Phung, Albert. "Forward Contracts vs. Futures Contracts: What's the Difference?" Investopedia. Accessed April 30, 2025. <https://www.investopedia.com/ask/answers/06/forwardsandfutures.asp>.

⁴⁸ Smith, Tim. "Spot Market: Definition, How They Work, and Example." Investopedia. Accessed April 30, 2025. <https://www.investopedia.com/terms/s/spotmarket.asp>.

⁴⁹ Hull, John. *Options, Futures, and Other Derivatives*. Harlow, England: Pearson, 2022. <https://sfc33ed4d8ae30993.jimcontent.com/download/version/1422985041/module/5761814111/name/Options%2C%20Futures%20and%20Other%20Derivatives%208th%20John%20Hull.pdf>.

⁵⁰ Fajar Sugianto, "The Nature of Hedging Risk in Derivative Contract : Modeling an Enforceable Risk-Shifting Contract in Indonesia," *Journal of Law, Policy and Globalization* 72 (2018): 97–106.

⁵¹ Chance, Don M., and Robert Edwin Brooks. *An Introduction to Derivatives and Risk Management*. *Www.Scribd.Com*. Australia: South-Western Cengage Learning, 2010. <https://www.scribd.com/document/845778894/Ebook-An-Introduction-to-Derivatives-and-Risk-Management-by-Don-M-Chance-Roberts-Brooks-ISBN-9781305104969-130510496Xpdf-download>.

⁵² Coffee, John C. *Gatekeepers: The Professions and Corporate Governance*. Oxford: Oxford University Press, 2023.

https://www.jstor.org/stable/30243518?casa_token=8xFzg2H8SqAAAAAA:UDqGfe3VwwBb7wLLxjTjoW8oy4eykWMAI7G_CAXsAdZkrOZtOJv_rzzqLhIKNTNDhuTYPiur9IbmasHxhRqnNYurAq5Jq4kQRpog237RMrmKSPSxcPQ.

price within a specified period.⁵³ If the investor chooses not to exercise the option within the agreed period, the option lapses and becomes void. Options transactions are always contractual, with terms that specify the underlying asset, strike price, expiration date, and conditions for exercise.⁵⁴ The legal distinction between options and other derivatives lies in the asymmetry of obligations. While the seller or writer of the option is obligated to fulfill the contract if exercised, the buyer retains the discretion to exercise or not.⁵⁵ This creates a nuanced risk profile and necessitates clear legal documentation to define the rights and responsibilities of each party. In the context of Indonesian capital market law, options trading is subject to regulatory oversight by the OJK and BAPPEBTI to ensure market integrity and protect investors. Portfolio managers may use options as part of their investment strategies, provided such transactions are permitted by the client agreement and comply with regulatory requirements. The legal framework mandates that all transactions, including options, be properly documented, reported, and audited to ensure transparency and accountability. The settlement of options can occur in two ways, physical delivery of the underlying security or cash settlement, depending on the terms of the contract. Regulatory authorities require that all option transactions be executed at prevailing market prices and that client accounts be maintained separately to prevent commingling of funds and securities, reducing the risk of conflicts of interest and enhancing investor protection.⁵⁶

The Indonesian capital market's legal framework is meticulously designed to promote fairness, transparency, and investor protection across all transaction types—spot, futures/forward, and options.⁵⁷ Portfolio managers and other market intermediaries are bound by stringent regulatory obligations to safeguard client interests and maintain market integrity. One of the fundamental requirements is the segregation of client assets. Indonesian regulations, particularly under Law No. 8 of 1995 on Capital Markets as amended by Law No. 4 of 2023 (UU P2SK), as well as OJK regulations, require portfolio managers to keep client funds and securities separate from their own assets and to maintain detailed records of all transactions to prevent

⁵³ OKX. "Transaction types explained: spot, options, and more." Accessed April 30, 2025. <https://www.okx.com/learn/transaction-types-explained-spot-options-and-more>.

⁵⁴ "Capital Markets and Securities Laws." Wwww.Icsi.Edu. Accessed April 30, 2025. <https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf>.

⁵⁵ Fajar Sugianto et al., "A Scoping Review of Contract of Sale: The Case of Indonesia and Japan," *Petita: Jurnal Kajian Ilmu Hukum dan Syariah* 10, no. 1 (2025): 243–261.

⁵⁶ Fajar Sugianto, "ECONOMIC ANALYSIS OF CONTRACT LAW: HOW THE EYES OF ECONOMICS WORK WHILE DELIVERING JUSTICE WITH UNPREJUDICED HANDS OF EXISTING INDONESIAN CONTRACT LAW Fajar SUGIANTO Keywords : 3 . Common Dimensions of Law and Economics in Contract Law," *Journal of International T* 11, no. 1 (2025): 51–60, https://www.jital.org/index.php/jital/article/view/555/pdf_295.

⁵⁷ International Organization of Securities Commissions (IOSCO). *Objectives and Principles of Securities Regulation*. 2019. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>.

misuse or commingling of client resources.⁵⁸ This segregation is crucial for protecting client assets and is a core principle enforced by the Financial Services Authority (OJK).⁵⁹

Further, the execution of all purchase and sale transactions must occur at prevailing market prices, ensuring fairness and minimizing the risk of price manipulation.⁶⁰ This principle aligns with global best practices in capital markets, as highlighted in both Indonesian regulatory guidance and international scholarship, which emphasize market transparency and price discovery as cornerstones of efficient capital markets.⁶¹ Portfolio managers are also prohibited from engaging in speculative transactions that do not result in actual delivery or transfer of securities, except in derivatives trading where such transactions are regulated separately under OJK rules.⁶² This prohibition helps mitigate excessive risk-taking that could jeopardize client funds or destabilize the market.⁶³

In addition to these operational requirements, portfolio managers must comply with rigorous reporting and audit obligations. They are required to maintain comprehensive books of accounts, provide regular reports to clients detailing portfolio composition and transactions, and submit to periodic audits by qualified independent auditors, as stipulated by OJK and the Capital Markets Law. These audits verify compliance with legal and regulatory standards and ensure that portfolio managers adhere to fiduciary duties.⁶⁴ The importance of such oversight is also underscored in financial regulation literature, where audit and reporting requirements are seen as essential for maintaining investor confidence and market discipline. Clients must also be fully informed about the risks associated with various types of transactions, including the potential for loss in derivative trading, ensuring

⁵⁸ Ibid.

⁵⁹ Herlina Waluyo, Irene Putri A.S.Sinaga, and Fajar Sugianto, “Perlindungan Hukum Otoritas Jasa Keuangan Terhadap Penyelenggara Layanan Urus Dana Berbasis Efek Berdasarkan POJK Nomor 16/POJK.04/2021,” *DiH: Jurnal Ilmu Hukum* 18, no. 2 (2022): 131–146.

⁶⁰ Shintaro Tokuyama Fajar Sugianto, “False Transaction vs Wash Trading: Addressing the Gap to Rebuild Market Confidence (Legal Implication in Indonesia Nad United States Capital Market Law),” *Journal of Law and Legal Reform* 5, no. 1 (2024): 1–14.

⁶¹ Fajar Sugianto, “Efisiensi Ekonomi Sebagai Remedy Hukum,” *Refleksi Hukum: Jurnal Ilmu Hukum* 8, no. 1 (2014): 61–72.

⁶² Mallin, Christine A. *Corporate Governance*. *Www.Scribd.Com*. Accessed April 30, 2025. <https://www.scribd.com/document/671967574/Corporate-Governance-by-Christine-A-Mallin-z-lib-org>.

⁶³ Chance, Don M., and Robert Edwin Brooks. *An Introduction to Derivatives and Risk Management*. *Www.Scribd.Com*. Australia: South-Western Cengage Learning, 2010. <https://www.scribd.com/document/845778894/Ebook-An-Introduction-to-Derivatives-and-Risk-Management-by-Don-M-Chance-Roberts-Brooks-ISBN-9781305104969-130510496Xpdf-download>.

⁶⁴ Coffee, John C. *Gatekeepers: The Professions and Corporate Governance*. Oxford: Oxford University Press, 2023.

https://www.jstor.org/stable/30243518?casa_token=8xFzg2H8SqAAAAAA:UDqGfe3VwwBb7wLLxjTjoW8oy4eykWMAI7G_CAXsAdZkrOZtOJv_rzzqLhIKNTNDhuTYPiur9IbmasHxhRqnNYurAq5Jq4kQRpog237RMrmKSPSxcPQ.

informed decision-making and risk awareness.⁶⁵

Regulatory oversight is further reinforced through inspections, disciplinary proceedings, and the appointment of compliance officers within portfolio management firms. Compliance officers play a pivotal role in monitoring adherence to laws, rules, and regulations, and in addressing investor grievances promptly. They are empowered to report any non-compliance directly to OJK, which can take corrective actions including sanctions or cancellation of registration.⁶⁶ The regulatory framework also provides mechanisms for dispute resolution and investor redress, which are critical for maintaining trust and stability in the capital market ecosystem.⁶⁷ This comprehensive regulatory architecture is closely aligned with international standards, including the IOSCO Principles, as confirmed by both World Bank and IMF assessments of Indonesia's capital market regulatory system.⁶⁸

Understanding the legal distinctions between spot, futures/forward, and options transactions is essential for market participants, regulators, and legal professionals in Indonesia. Each transaction type carries unique legal implications and risk profiles that must be carefully managed to comply with regulatory mandates and protect investor interests. Spot transactions are characterized by their simplicity and immediate settlement, resulting in minimal counterparty risk.⁶⁹ The Indonesian legal framework governing spot transactions emphasizes prompt transfer of ownership and payment, which reduces the risk of default and enhances market liquidity.

Futures and forward contracts, by contrast, involve deferred settlement, which introduces additional legal complexities and counterparty risks. These contracts require detailed legal documentation to define terms of settlement, delivery, and payment. Futures contracts, being standardized and exchange-traded on Indonesian exchanges, benefit from clearinghouse guarantees that reduce counterparty risk, whereas forward contracts, typically OTC agreements, carry higher risk and require robust risk management and legal safeguards.⁷⁰ The regulatory framework mandates margin requirements, position limits, and reporting obligations to mitigate systemic

⁶⁵ Hull, John. *Options, Futures, and Other Derivatives*. Harlow, England: Pearson, 2022. <https://sfc33ed4d8ae30993.jimcontent.com/download/version/1422985041/module/5761814111/name/Options%2C%20Futures%20and%20Other%20Derivatives%208th%20John%20Hull.pdf>.

⁶⁶ Shintaro Tokuyama Fajar Sugianto, "Efficient Punishment for Insider Trader In Merger : Interjected Values of Economic Analysis of Law" 3, no. December 2023 (2024): 327–355.

⁶⁷ Dea Prasetyawati Wibowo Fajar Sugianto, Felicia Christina Simeon, "IDEALISASI SIFAT ALTERNATIF DALAM PENYELESAIAN SENGKETA MELALUI MEDIASI," *Jurnal Hukum Bisnis Bonum Commune* 3, no. 2 (2020): 253–265.

⁶⁸ International Organization of Securities Commissions (IOSCO). *Objectives and Principles of Securities Regulation*. 2019. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>.

⁶⁹ Smith, Tim. "Spot Market: Definition, How They Work, and Example." Investopedia. Accessed April 30, 2025. <https://www.investopedia.com/terms/s/spotmarket.asp>.

⁷⁰ Phung, Albert. "Forward Contracts vs. Futures Contracts: What's the Difference?" Investopedia. Accessed April 30, 2025. <https://www.investopedia.com/ask/answers/06/forwardsandfutures.asp>.

risk associated with these derivatives.

Options transactions offer investors flexibility and strategic opportunities by granting conditional rights to buy or sell securities within a specified period.⁷¹ However, the asymmetry of obligations—where the buyer has a right but not an obligation—requires precise contractual terms and regulatory oversight to protect both parties.⁷² Options trading is subject to strict disclosure and reporting requirements by OJK, and settlement can be either physical or cash-based depending on the contract terms.⁷³

For portfolio managers and other intermediaries, strict compliance with these legal and regulatory requirements is paramount. This includes adherence to client agreements, maintenance of accurate and segregated client records, execution of trades at prevailing market prices, and transparency in reporting and disclosures. Non-compliance can lead to regulatory sanctions, legal liabilities, and reputational damage, which can profoundly affect the portfolio manager's business and client trust.⁷⁴ Therefore, ongoing education, internal audits, and compliance monitoring are essential components of effective portfolio management operations in Indonesia.

C.3 The Function and Structure of the Secondary Market in Indonesia

After understanding the general context and dynamics of the Indonesian capital market, it is important to further examine how the secondary market plays a strategic role in supporting the efficiency and sustainability of the securities trading system. The secondary market is not only a means of buying and selling securities that have been issued in the primary market, but also an indicator of liquidity, transparency, and investor confidence in the capital market as a whole. Therefore, an in-depth understanding of the structure, mechanism and function of the secondary market is crucial to assess how the Indonesian capital market functions in practice.

According to OJK (Financial Services Authority/Otoritas Jasa Keuangan), the secondary market has several important roles that support the primary market as a whole. The secondary market has a primary function as a place where investors can buy or sell securities that have been traded in the primary market. This gives investors the flexibility to manage their investment portfolio according to their individual goals and strategies. Trading in the secondary market can be done at any time during

⁷¹ Corporate Finance Institute. "Spot Market - Overview, Characteristics, and Types." Accessed April 30, 2025. <https://corporatefinanceinstitute.com/resources/derivatives/spot-market/>.

⁷² OKX. "Transaction types explained: spot, options, and more." Accessed April 30, 2025. <https://www.okx.com/learn/transaction-types-explained-spot-options-and-more>.

⁷³ "Capital Markets and Securities Laws." Wwww.Icsi.Edu. Accessed April 30, 2025. <https://www.icsi.edu/media/webmodules/publications/CapitalMarketandSecuritesLaw.pdf>.

⁷⁴ International Organization of Securities Commissions (IOSCO). *Objectives and Principles of Securities Regulation*. 2019. <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD561.pdf>.

trading hours. Unlike the primary market, which sets an initial price, the price of shares in the secondary market is determined by market mechanisms involving supply and demand. Prices can fluctuate over time according to market dynamics and economic conditions. This creates opportunities for investors to buy or sell at prices that can be influenced by various market factors. The secondary market plays a key role in improving market liquidity. With active trading in the secondary market, investors have the ability to quickly buy or sell securities. High liquidity ensures that the market remains efficient and allows investors to conduct transactions more easily.⁷⁵

Transactions in the secondary market are conducted through the Indonesia Stock Exchange (IDX/Bursa Efek Indonesia) with the intermediary of securities companies registered as members of the stock exchange. As affirmed in Article 7 paragraph (1) of Law Number 8 of 1995 concerning the Capital Market, the Stock Exchange was established with the aim of organizing regular, fair and efficient securities trading.⁷⁶ Investors who wish to buy shares can place a buy order through the securities company by stating the name of the share, the number of purchases in lots, and the price. Conversely, to sell shares, investors will place a sell order using the same procedure. Each incoming order will be displayed in the exchange trading system and processed until the buy order meets the sell order. The asset transfer and payment process is then facilitated by the Indonesian Securities Guarantee Clearing House (KPEI/Kliring Penjaminan Efek Indonesia) and the Indonesian Central Securities Depository (KSEI/Kustodian Sentral Efek Indonesia), with the obligation to pay funds or receive proceeds from the sale made a maximum of two working days after the transaction. Once listed on the exchange, shares and other securities can be freely traded by the public.

Capital market mechanisms in the secondary market occur between investors and each other, not between investors and companies. Investors who have bought shares in the primary market can resell them in the secondary market to earn capital gains. Securities prices in the secondary market are volatile, influenced by demand and supply. In conducting transactions, investors are charged a commission fee to brokers, and share sales transactions are taxed at 0.1%.⁷⁷ Based on Article 6 paragraphs (1), (2), and (3) of OJK Regulation Number 22/POJK.04/2019 regarding Securities Transactions, securities transactions can be carried out both in the primary

⁷⁵ Sharia Knowledge Centre, "Ketahui Perbedaan Pasar Perdana dan Pasar Sekunder." [shariaknowledgecentre.id, https://www.shariaknowledgecentre.id/id/news/perbedaan-pasar-perdana-dan-pasar-sekunder/](https://www.shariaknowledgecentre.id/id/news/perbedaan-pasar-perdana-dan-pasar-sekunder/).

⁷⁶ Article 7 paragraph 1, Law No. 8 of 1995 on Capital Market.

⁷⁷ OCBC, "Mekanisme Pasar Modal di Indonesia, Pahami Cara Kerjanya." [ocbc.id, 11 Agustus 2023, https://www.ocbc.id/id/article/2023/02/08/mechanisme-pasar-modal#:~:text=2.%20Mekanisme%20Transaksi%20di%20Pasar%20Sekunder%20*,saham%2C%20nominal%20pembelian%20dalam%20lot%2C%20dan%20harga.](https://www.ocbc.id/id/article/2023/02/08/mechanisme-pasar-modal#:~:text=2.%20Mekanisme%20Transaksi%20di%20Pasar%20Sekunder%20*,saham%2C%20nominal%20pembelian%20dalam%20lot%2C%20dan%20harga.)

market and secondary market. For the secondary market, transactions can be carried out through Exchange Transactions or Off-Exchange Transactions. Off-exchange transactions can be carried out through direct negotiations between parties or through an off-exchange trading organizer that has obtained a license from the Financial Services Authority (OJK).⁷⁸

The secondary market has several advantages that can benefit both investors and shareholders. One of the main advantages of the secondary market is its high level of liquidity. Good liquidity allows investors to buy or sell shares easily, without having to wait a long time to find a counterparty. This condition guarantees that investors can quickly realize profits, minimize losses, or rebalance portfolios according to ongoing market conditions.⁷⁹ Thus, the secondary market creates great flexibility for investors in managing their assets, both for short-term and long-term purposes. The secondary market also provides opportunities for investors to make profits in a relatively short period of time. Through the dynamics of daily price fluctuations, savvy investors can capitalize on short-term price movements for capital gains. High trading activity creates many opportunities, especially for investors with short-term strategies such as day trading or swing trading. In this context, the secondary market is an arena that allows for faster realization of profits compared to other financial instruments that are long-term in nature.⁸⁰ While the secondary market has a number of advantages, it also has some disadvantages that investors and market participants need to be aware of. One of the disadvantages of the secondary market is that share prices tend to be higher than the primary market, which can be difficult for investors with limited capital. This increase is usually triggered by market demand or expectations of the issuer's performance. As a result, despite wider market access, the price factor remains a challenge for some investors. The secondary market also does not support company growth. The secondary market focuses more on trading between investors, so it does not provide direct support for company growth as it does in the primary market.⁸¹

The Indonesia Stock Exchange (IDX) is a clear example of a secondary market in Indonesia. The Indonesia Stock Exchange (IDX) is an example of a secondary market

⁷⁸ Article 6 paragraph (1), (2), and (3), OJK Regulation Number 22/POJK.04/2019 regarding Securities Transactions.

⁷⁹ Astrid Athina Indradewi and Fajar Sugianto, "Peran Dan Manfaat Arbitrase Sebagai Alternatif Penyelesaian Sengketa Ditinjau Dari Perspektif Pelaku Usaha," *Jurnal Hukum dan Sosial Politik* 2, no. 2 SE-Articles (February 13, 2024): 85–95, <https://ifrelresearch.org/index.php/jhsp-widyakarya/article/view/2798>.

⁸⁰ Fajar Sugianto, Stevinell Mildova, and Felicia Christina Simeon, "Increasing Economic Performance Through the Rule of Law in Indonesia: Law and Economics Perspective," *Advances in Economics, Business and Management Research* 140, no. International Conference on Law, Economics and Health (ICLEH 2020) (2020): 92–99.

⁸¹ Ekuid, "Mengenal Pasar Primer dan Pasar Sekunder dalam Investasi." blog.eku.id, 3 Juni 2024, <https://blog.eku.id/mengenal-pasar-primer-dan-pasar-sekunder-dalam-investasi/#aioseo-kekurangan-pasar-sekunder>.

that functions as a trading place for listed securities. Investors can buy or sell shares of companies that have gone through the IPO process on the IDX. For example, an investor who wants to dispose of shares in company B can find other parties interested in buying the shares through the Indonesia Stock Exchange. This transaction takes place between investors and does not involve the issuing company directly. In making investment decisions, it is important to understand the differences between the primary and secondary markets and their respective advantages and limitations. The primary market provides an opportunity to contribute directly to a company's growth and achieve significant potential returns, while the secondary market offers easy liquidity and profit opportunities in a shorter period of time.⁸²

As an important part of the capital market system, the secondary market for bonds allows investors to buy and sell their bonds freely, without direct interference from the original issuer. Bonds that have been released by their issuers and traded in this market are referred to as secondary bonds. The main purpose of the secondary market is to provide liquidity for investors, allowing them to manage their financial portfolios according to their needs and changing market conditions. The main players involved in this market include investors, brokers, financial institutions, banks, as well as advisory service providers and regulators. In addition, the secondary market serves as an important indicator to assess the health of a country's economy. In this market, the price of a security is not predetermined like in the primary market, but rather is influenced by the prevailing laws of supply and demand. Price movements in the secondary market reflect market conditions and investors' expectations of economic developments. The dynamics of bond prices in the secondary market affect yields, which in turn affect interest rates and credit prices in the economy. Thus, the secondary market also acts as an early indicator of economic growth or potential recession, and becomes an important reference for the country's economic policy.⁸³

C.4 The Mechanism of Trading in the Stock Exchange

The stock exchange is part of economic frameworks as the facilitator of a regulated means of exchange of monetary assets like stocks, bonds, and derivatives. In Indonesia, this role is played by the Indonesia Stock Exchange, guided under the Financial Services Authority, as stipulated by Law No. 8 of 1995 concerning the Capital Market. Trading begins with the offering of securities in the primary market, where companies raise funds from capital through initial public offerings (IPOs). Conducting IPO requires compilation of relevant legal and financial documents,

⁸² Sharia Knowledge Centre, "Ketahui Perbedaan Pasar Perdana dan Pasar Sekunder." [shariaknowledgecentre.id, https://www.shariaknowledgecentre.id/id/news/perbedaan-pasar-perdana-dan-pasar-sekunder/](https://www.shariaknowledgecentre.id/id/news/perbedaan-pasar-perdana-dan-pasar-sekunder/).

⁸³ DBS Wealth Feed, "Bagaimana Cara Jual Beli Obligasi di Pasar Sekunder?" [dbs.id, 11 November 2021, https://www.dbs.id/id/treasures-id/articles/bagaimana-cara-membeli-atau-menjual-obligasi-di-pasar-sekunder?pid=id_bh_tr_featurearticle_obligasipemerintah_bagaimana-cara-membeli&app=true](https://www.dbs.id/id/treasures-id/articles/bagaimana-cara-membeli-atau-menjual-obligasi-di-pasar-sekunder?pid=id_bh_tr_featurearticle_obligasipemerintah_bagaimana-cara-membeli&app=true).

obtaining approval from the OJK, and subsequent registration in the IDX⁸⁴. Upon proper listing, the securities are made available for trade in the secondary market where they are transacted by the traders through brokers using electronic facilities that employ the price-time priority mechanism for matching orders, giving precedence to the best price and earliest submission time.⁸⁵

Secondary market engagement falls into different categories. Spot transactions are settled and executed immediately after mutual agreement. On the other hand, transactions involving forwards or futures contracts are settled at a specific future date, depending on the terms agreed to by both parties. Options transactions grant to the investor the right, although not the requirement, to buy or sell a security within a specified period. Such instruments are widely used for hedging strategies and speculative pursuits and are under the regulatory management of the OJK⁸⁶. Several entities support trading that is efficient and secure; one of which is the Clearing and Guarantee Institution (KPEI), which ensures transactions are settled, in addition to the Central Securities Depository (KSEI), which manages custody and transfer of the securities. Other professional services, including lawyers, accountants, and notaries, support due diligence, compliance with regulatory requirements, and the preparation of legal documentation. The Indonesian capital market offers diversified investment opportunities through both direct and indirect methods. Direct investments entail investing in securities directly, while indirect investments are made through professional mutual fund managers. In addition to this, the capital market allows for the issuance and trading of various instruments such as common shares, preferred shares, warrants, bonds, and asset-backed securities, all following regulatory requirements and standards. In addition, the circuit breakers are in effect to maintain market stability during volatile market conditions by temporarily halting trading operations.

At the macroeconomic level, the stock market plays various basic functions. It allows for the accumulation of capital, distribution of wealth, liquidity, and credit provided by the issuance of bonds⁸⁷. At the microeconomic level, it provides a contribution to the price discovery process, reduces transactions and information

⁸⁴ Fajar Sugianto, *Capital Market Law*, Universitas Pelita Harapan (2025), Presentation Slides 34-36.

⁸⁵ Fabian Jonathan, Fajar Sugianto, and Tomy Michael, "Comparative Legal Analysis on the Competence of the Indonesia's Financial Services Authority and Monetary Authority of Singapore on the Enforcement of Insider Trading Laws," *Journal of Central Banking Law and Institutions* 2, no. 2 (2023): 283–300.

⁸⁶ Financial Services Authority (OJK), *POJK No. 32/POJK.04/2015* and *POJK No. 65/POJK.04/2017*, accessed May 2025, https://www.idx.co.id/StaticData/NewsAndAnnouncement/ANNOUNCEMENTSTOCK/From_EREP/202005/d_a372c252a_53892a5d57.pdf

⁸⁷ Mishkin, Frederic S., and Stanley G. Eakins. *Financial Markets and Institutions*. 9th ed., Pearson, 2018. [http://213.55.90.4/admin/home/Dmu%20Academic%20Resource/FBE/Accounting%20And%20Finace/2nd%20Year/Frederic%20S.%20Mishkin_%20Stanley%20Eakins%20-%20Financial%20Markets%20and%20Institutions-Pearson%20\(2018\).pdf](http://213.55.90.4/admin/home/Dmu%20Academic%20Resource/FBE/Accounting%20And%20Finace/2nd%20Year/Frederic%20S.%20Mishkin_%20Stanley%20Eakins%20-%20Financial%20Markets%20and%20Institutions-Pearson%20(2018).pdf)

costs, and enables informed decisions of the investors. However, risks like the depreciation of capital, failure to obtain dividends, and delisting due to insolvency remain, highlighting the importance of market oversight and transparency. In summary, the Indonesian stock exchange represents an inclusive and sophisticated system of trading with legal, institutional, and technical components to support sustainable economic development⁸⁸.

D. Conclusion

The capital market plays an important role in developing the Indonesian economy through the mobilization of funds between investors and those in need of financial support. The framework of the Law No. 8 of 1995 on the Capital Market and a range of financial sector regulations issued by the Financial Services Authority (OJK) that has facilitated Indonesia to establish a sound institutional infrastructure for the supervision and the management of capital market activities. The frameworks assure both primary markets and secondary markets as well as incorporating innovative elements in the form of sharia products and alternative trading platforms.

As we all know, each capital market involves certain legal and regulatory aspects. For example, as we can see from the case above, the sharia capital market requires compliance with Islamic legal concepts under fatwas from the National Sharia Council and national laws. At the same time, with the development of digital trading systems and technological advances in financial areas, there should be ongoing review and updating of legal frameworks aimed at providing adequate investor protection, strong cybersecurity approaches, and further market transparency.⁸⁹ Regardless of these advances in legislation, there are still many obstacles that are faced. Because of this, it includes education for the investor, poor enforcement in the insider trading market and manipulation rules, and also the need for the harmonization of local legislation with the international standards.

To provide for the continued improvement and resilience of Indonesia's capital markets, a range of strategic measures is called for. First, legal reform and harmonization are a must, requiring the government periodically to review capital market law to keep up with the evolution of financial innovations and technologies. Aligning domestic rules and regulations to international standards will also enhance investor confidence and ease cross-border transactions. Second, there must be

⁸⁸ Leeds. Sanford J., Keith C. Brown, and Frank K. Reilly. *Investment Analysis and Portfolio Management*. 11th edition.

[http://121.121.140.173:8887/filessharing/kohasharedfolders/Investment%20Analysis%2011th%20ed.%20\(2019\).pdf](http://121.121.140.173:8887/filessharing/kohasharedfolders/Investment%20Analysis%2011th%20ed.%20(2019).pdf)

⁸⁹ Shintaro Tokuyama Fajar Sugianto, "The Extended Nature of Trading Norms Between Cryptocurrency and Crypto-Asset: Evidence from Indonesia and Japan," *Lex Scientia Law Review* 8, no. 1 SE-Research Articles (September 22, 2024): 193–222, <https://doi.org/10.15294/lslr.v8i1.14063>.

strengthening of oversight and enforcement to enable institutions like the OJK to better detect, investigate, and sanction irregularities, including insider trading, market manipulation, and the use of computers for trading purposes. Thirdly, national priority must be given to investor education. Improving the public's understanding of market processes, rights, and risks—especially among retail investors—will help to create a better-informed and more resilient investment base. Lastly, infrastructure and technological preparedness need to improve to keep up with the new digital reality. Regulatory structures must deal both with the opportunities and risks of fintech innovations, the application of the use of blockchain technology, and the use of computers for trading purposes while ensuring stringent standards for data security and cybersecurity. In brief, while the Indonesian capital market regulation has progressed a long way, ongoing reform and adaptation continue to be needed to make it relevant, inclusive, and responsive to the needs of a modern financial environment.

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