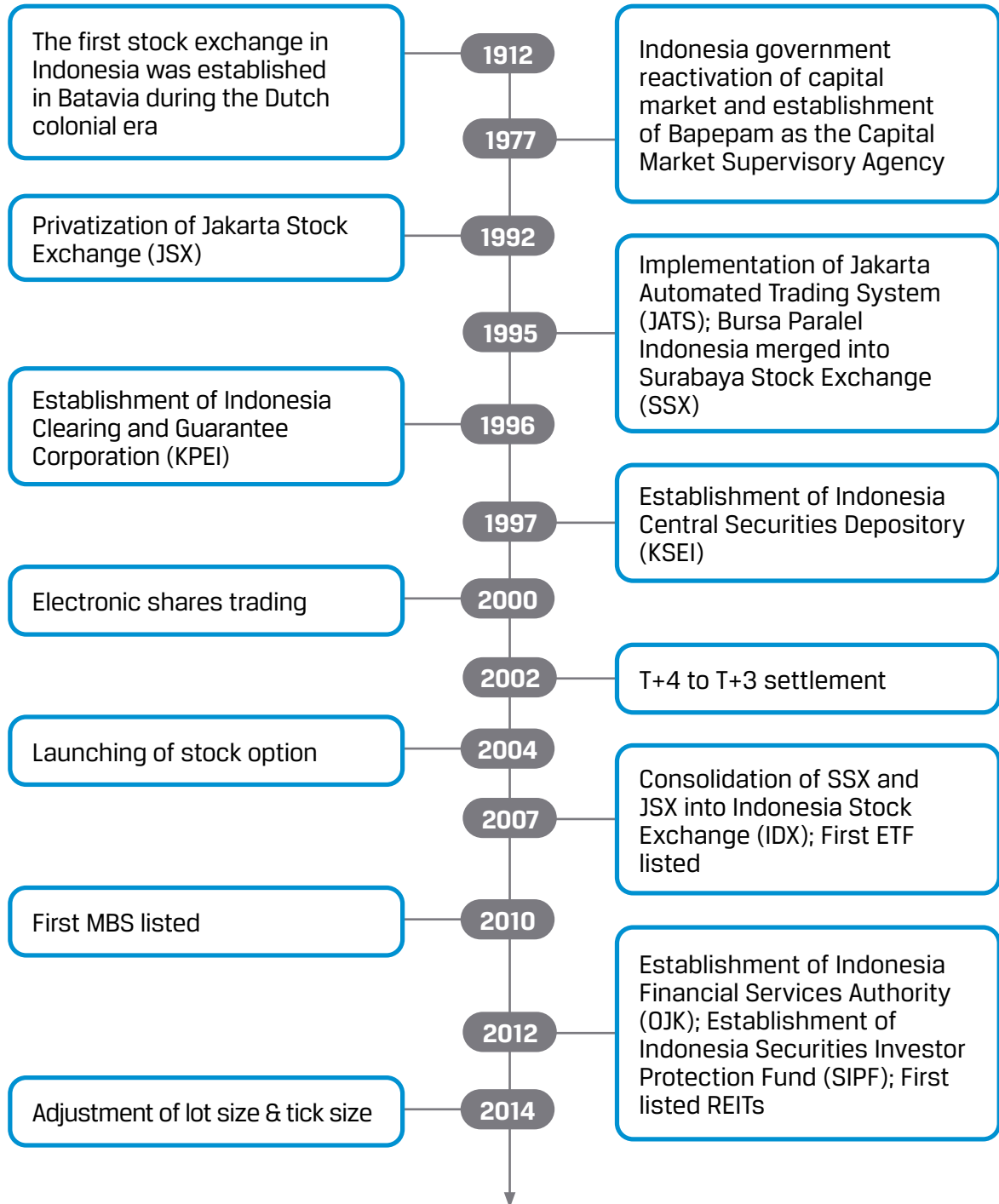
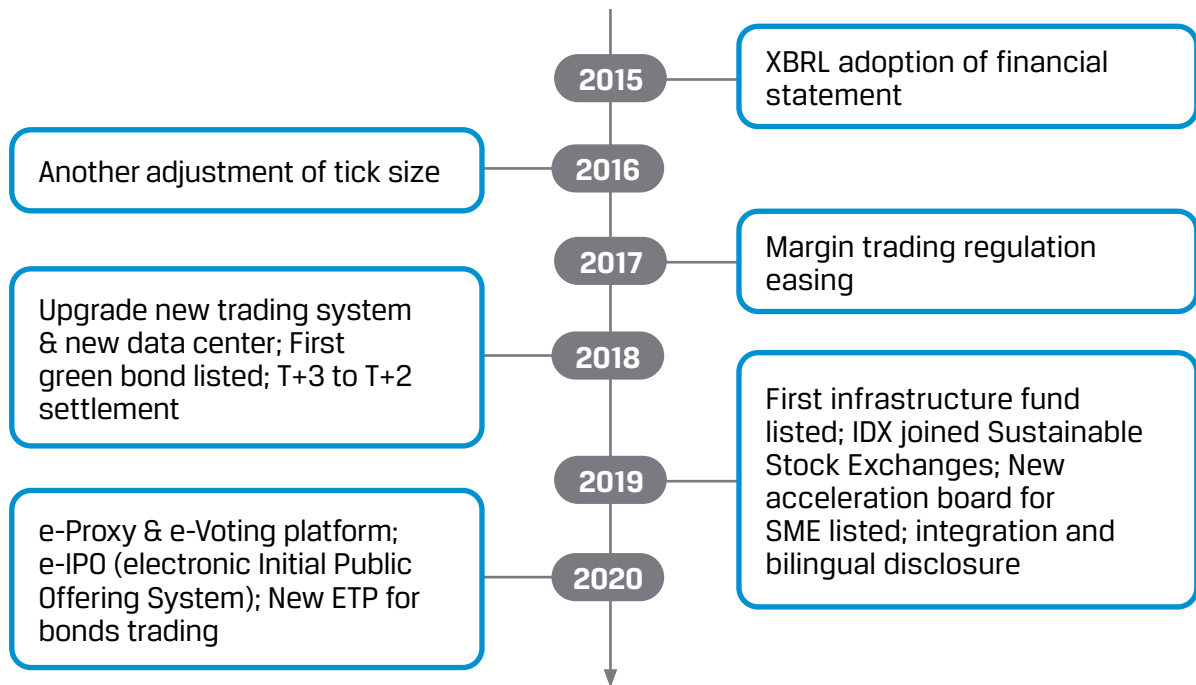


INDONESIA



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Head of Business Development Division, Indonesia Stock Exchange

Equity Market Capitalization (USD)	520.98 Bn*	228.78 Bn*	Debt Market Capitalization (USD)
Domestic Equity Market Cap/GDP	46%	20%*	Domestic Debt Market Cap/GDP
Equity Market Share Volume Traded	3,562,370 Mn*	522,830 Mn**	Debt Market Instrument Volume Traded (USD)
Number of Listed Companies	668*	120**	Number of Issuers (Bonds)

* As of 2019

** Issuers of government and corporate bonds; volume based on government and corporate bonds and sukuk

HISTORY OF THE CAPITAL MARKET IN INDONESIA

The first stock exchange in Indonesia was established in 1912 in Batavia (now Jakarta) during the Dutch colonial era. At that time, the exchange was established for the interest of the Dutch East India Company (VOC) in the expanding plantations sector. After that era, however, the capital market became inactive for a period of time. The Indonesian government reactivated its capital market in 1977. The establishment of Bapepam as the Capital Market Supervisory Agency (later known as Bapepam-LK) showed the government's commitment to building an independent Indonesian capital market. At that time, Bapepam carried out its dual function as capital market executor and supervisor. In 1992, the managing function of the stock exchange was handed to the private sector, marked by the privatization of the Jakarta Stock Exchange (JSX) to complement

the Surabaya Stock Exchange (SSX) established in 1989. In 1995, the JSX began using an electronic platform, the Jakarta Automated Trading System (JATS), to strengthen trading infrastructure.

The establishment of the Indonesia Clearing and Guarantee Corporation (*Kliring Penjaminan Efek Indonesia*, KPEI) in 1996, followed by the Indonesia Central Securities Depository (*Kustodian Sentral Efek Indonesia*, KSEI) in 1997, completed the development of self-regulatory organizations (SROs) for the Indonesian capital market.

To increase stock trading efficiency and effectiveness, electronic shares trading started in 2000 and was followed by remote trading in 2002. In 2007, SSX merged with JSX to become the Indonesia Stock Exchange (IDX). In its development, IDX continues to reform and refine the capital market supporting systems, facilities, and infrastructure. These efforts

include the development of digital technology for the advancement of the Indonesian capital market.

The Indonesia Financial Services Authority (Otoritas Jasa Keuangan, or OJK) was established in 2012. The main function of OJK is to promote and organize a system of regulations and supervisions that is integrated into the overall activities of the financial services sector. Taking over these roles from Bapepam-LK and Bank Indonesia, OJK performs regulatory and supervisory duties over financial services activities in banking, capital markets, and non-bank financial industry sectors.

In addition to the OJK, three SROs—IDX, KPEI, and KSEI—provide rules and regulation for their members, as shown in **Figure 1**.

INDONESIA EQUITY MARKET

Equity is the main instrument in the Indonesian capital market. As shown in **Figure 2**, for the

last 10 years, market capitalization increased to IDR7,265 trillion (equivalent to USD521 billion) in 2019 from IDR2,019 trillion (equivalent to USD214 billion) in 2009. Average daily trading value increased to IDR9.11 trillion (equivalent to USD653 million) per day in 2019 from IDR4.05 trillion (equivalent to USD300 million) per day in 2009.

The trading figures are supported by a rising number of listed companies. The number of listed companies on the IDX rose to 668 companies in 2019 from 398 companies at the end of 2009. On average, IDX has listed 30 new companies per year since 2010.

Over the last 10 years, USD53 billion in equity funds have been raised in Indonesia. The increasing trend indicates the capital market is a prominent place for sources of capital. The trade, service, & investment sector is the biggest sector (25.0%), followed by infrastructure, transportation, & utilities (13.7%) and then properties & real estate (11.9%).

FIGURE 1. FINANCIAL SYSTEM IN INDONESIA

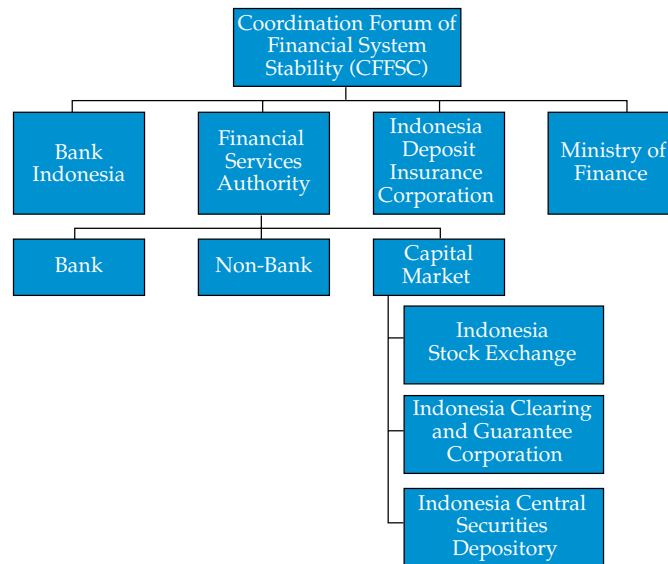
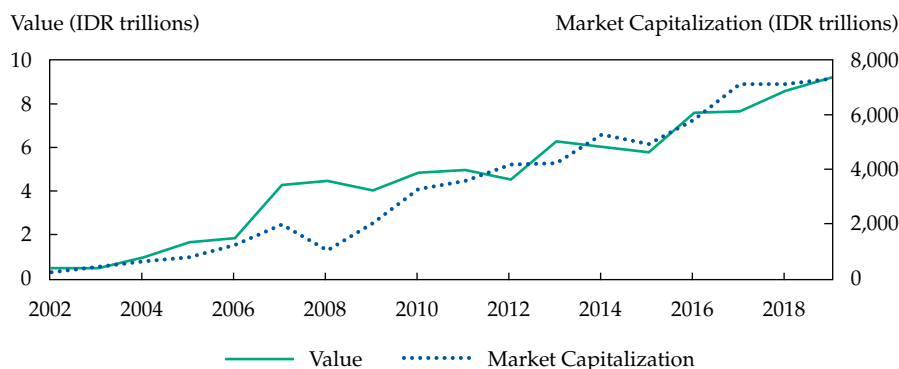


FIGURE 2. AVERAGE DAILY TRADING VALUE AND MARKET CAPITALIZATION



Source: IDX.

Market Development

Various outreach programs have been implemented to attract issuers and investors. Some of the major milestones include equity listing development, trading rules development, and other initiatives.

Equity Listing Development

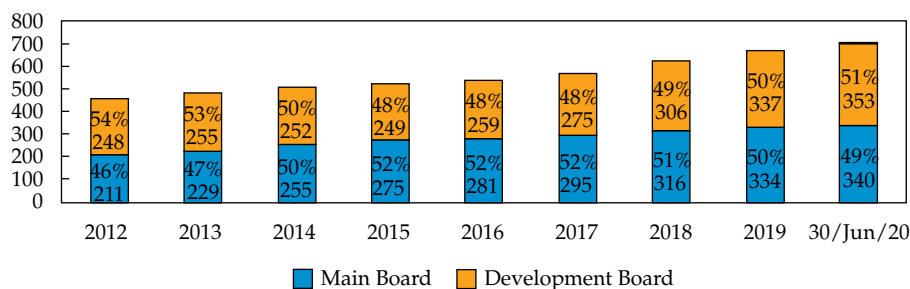
Several initiatives have supported the growth in equity listings:

- **Creation of a second listing board (2000)**

Before 2000, IDX had only one listing board. In 2000, to accommodate more companies, IDX divided the listing board into two segments: the main board (for relatively larger size companies) and the development board. Listing requirements for the development board are less stringent than for the main board. **Figure 3** shows that many companies use this new board. As of June 2020, 50.9% of listed companies were listed on the development board.

- **Indonesia tax amnesty (2016)**

FIGURE 3. NUMBER OF EQUITY LISTED COMPANIES BASED ON BOARD



Source: IDX.

The Indonesian government issued a tax amnesty program in 2016 to repatriate Indonesians' foreign assets at a favorable tax rate. This program changed investor composition in equity ownership. In 2015, overseas investors held 63.79% of equity and domestic investors held 36.21%. In 2017, the figures were 51.30% and 48.70%, respectively.

- **IDX Incubator (2017)**

To support Indonesian start-ups, IDX established IDX Incubator in 2017. IDX Incubator is a facilitator to help digital-based start-ups that want to go public in an IPO by giving access to underwriters, supporting professionals, and providing IPO preparation training.

- **Creation of “acceleration board” for small- and medium-sized enterprises (2019)**

In 2019, IDX added one more board, the acceleration board, to facilitate the listing of small- and medium-sized enterprises. The acceleration board has less stringent listing requirements compared with the main and development boards. Given that these initiatives align with the IDX Incubator program, some of the start-ups from the IDX incubator are listed on the acceleration board.

- **Simplification of going public and listing process (2019)**

In 2019, IDX and OJK integrated their listing and public offering document submissions. This integration simplified the listing process.

Trading Rules Development

IDX trading value and market capitalization have been steadily increasing. Some highlighted milestones are as follows:

- **Minimum floating shares and shareholders' requirements (2014)**

In 2014, IDX introduced a new regulation to maintain minimum floating shares and minimum shareholders as a continuous listing requirement. Listed companies were given two years to comply with this new regulation. As a result, several companies—including two large-cap companies, Bank Cimb Niaga Tbk PT (BNGA) and Hanjaya Mandala Sampoerna Tbk PT (HMSP)—increased their floating shares by right issue, thus bringing more liquidity in the market.

- **Changes of lot size and tick size**

IDX changed lot size from 500 shares/lot to 100 shares/lot in 2014, which made many expensive stocks more affordable for investors. This change was reflected in the substantial increase of trading frequency from 2013 to 2014.

- **Margin trading regulation easing and establishment of IDX securities financing**

In 2017, IDX eased margin trading regulations. The number of stocks that could be traded on margin jumped from 45 to 200 following the regulatory change.

In addition to regulation easing, IDX established the Indonesia securities financing company to support this initiative. IDX securities financing was established in 2016 and received its license from OJK in 2019. Because of the limited financial institutions that accept shares as collateral for loanable funds, IDX securities financing exists as an alternative source of funding for securities transactions, and it offers competitive costs of funds.

- **T+3 to T+2 settlement process**

In 2018, IDX started the T+2 settlement cycle to replace the T+3 settlement cycle. This initiative brings more efficiency in the market and is well supported by all the market players. Liquidity increased significantly after implementation of T+2 settlement.

Other Initiatives

- **XBRL disclosure adoption; integrated and bilingual disclosure**

To reduce the burden for listed companies, IDX and OJK integrated their disclosure system in 2019. The system has several features that can benefit investors, including eXtensible Business Reporting Language (XBRL) for financial statements (starting in 2015) and bilingual disclosure (in Bahasa Indonesia and English) forms.

- **Special notation for investor protection**

To further increase investor protection, in 2018 IDX implemented eight special notations for PLCs in certain conditions, such as an adverse auditor opinion, moratorium of debt payment, or negative equity. These disclosures are distributed via data feed, and securities companies will provide that notation in their online trading system. IDX continuously gathers needs from OJK and the market to determine whether to provide other notations.

- **Environmental, social, and governance (ESG) issues**

ESG improvement is one of the focuses in the Indonesian capital market. In 2017, OJK released new regulations that gradually mandate all financial institutions to publish sustainability reports—starting in 2019 for large banks onward. IDX joined the Sustainable Stock Exchanges (SSE) initiative in 2019 to strengthen its commitment to ESG issues.

- **Islamic capital market development**

Indonesia has the largest Muslim population of any country in the world; thus, Shariah and the Islamic capital market play a significant role in the Indonesian capital market. In 2007, Bapepam-LK (now OJK), together with the National Sharia Board of Indonesian Ulama

Council (DSN-MUI), released criteria for and a list of Shariah-compliant stocks. These initiatives were followed by the development of Shariah indexes, online trading systems, and securities sub-accounts. Note that the Islamic capital market is not a separate system from the Indonesian capital market; rather, it includes special characteristics to ensure that products and transaction mechanisms do not go against Islamic principles.

IDX has received several awards from Global Islamic Finance Awards (GIFA). Three years in a row (2016–2018), IDX was awarded “Best Supporting Institution of the Year.” In 2018, IDX was also awarded “Best Emerging Islamic Capital Market.” In 2019 and 2020, IDX received the “Best Islamic Capital Market” award.

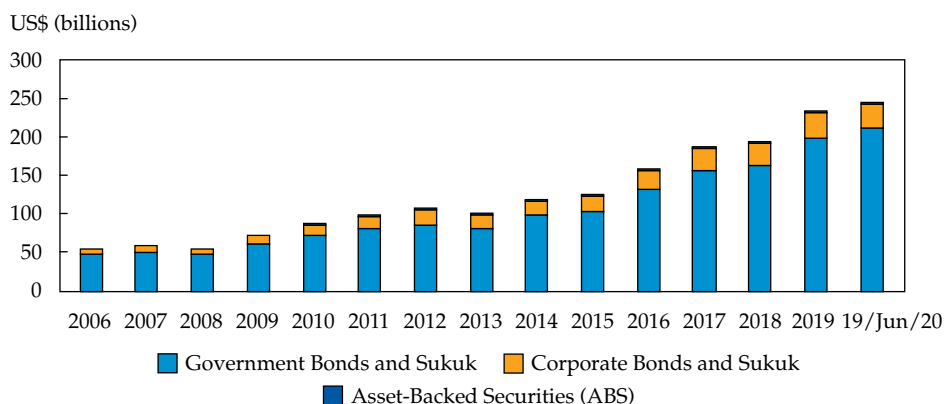
- **E-voting & e-proxy**

In 2020, KSEI launched an e-voting and e-proxy system. With this system in place, all shareholders can actively vote in the Annual General Meeting of Shareholders via e-proxy or e-voting.

INDONESIAN BOND MARKET: REGULATED OTC TRADING PLATFORM IS UNDERWAY

The Indonesian bond market is dominated by government bonds. As **Figure 4** shows, corporate bond issuance demand has steadily increased but is still far below government bond issuance. Most companies still approach banks for debt financing.

Bonds trade over the counter, with all traded bonds reported to the regulator and published on the IDX website. OTC market liquidity has increased over time, particularly for government bonds (see **Figure 5**).

FIGURE 4. OUTSTANDING GOVERNMENT AND CORPORATE BONDS AND SUKUK, AND ASSET-BACKED SECURITIES

Source: IDX.

The increasing bond demand has resulted from Indonesia's improved sovereign credit rating. Fitch Ratings (Fitch) gave a rating of investment grade in 2011, followed by Moody's in 2012 and Standard & Poor's (S&P) in 2017. At the end of August 2020, the Indonesia sovereign credit rating was Baa2/Stable by Moody's, BBB/Negative by S&P, and BBB/Stable by Fitch.

Islamic Bonds (Sukuk)

As a Shariah equity investment, the Indonesian bond market offers Islamic bonds (sukuk). PT Indonesia Satellite Corporation Tbk (Indosat) issued the first listed Shariah corporate bond in 2002, and the Indonesian government started issuing Islamic bonds in 2008. In Indonesia, sukuk have been considered as alternative fundraising instruments. As of 2019, Indonesian government-issued Islamic bonds outstanding equaled USD34.8 billion, or 17.64% compared with total outstanding government bonds and Islamic bonds. Listed corporate Islamic bonds (sukuk) outstanding equaled USD2.6 billion, or 6.8% compared with total outstanding corporate bonds and sukuk.

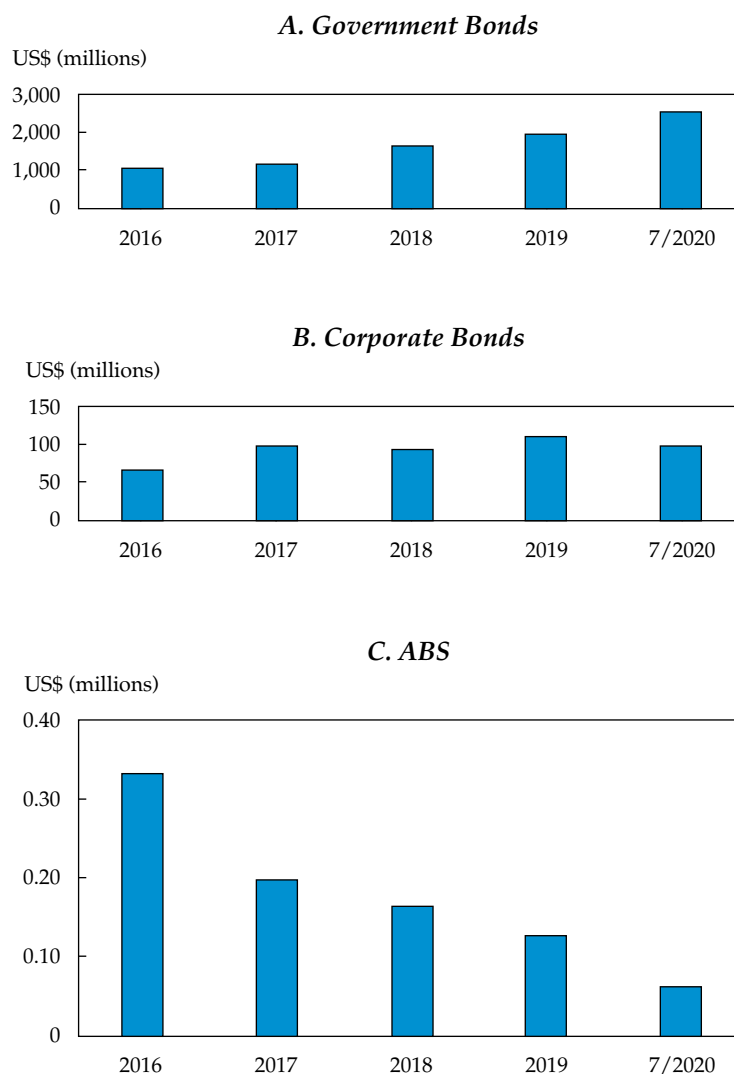
Asset-Backed Securities (ABS)

Indonesian asset-backed securities mainly consist of mortgage-backed securities (MBS). In 2008, the Indonesian government established PT Sarana Multigriya Financial (Persero) to promote secondary mortgage finance. The first issuance of MBS took place in 2010.

There are two types of ABS:

1. Collective investment contract, in which ABS are issued and monitored by the investment manager and custodian bank.
2. Letter of Participation, which is allowed only for special companies that promote secondary mortgage finance and does not require an investment manager.

In 2017, PT Mandiri Manajemen Investasi (Mandiri Investasi) issued the first ABS with an underlying based on future cash flows (toll road revenue). Subsequently, the Indonesian government issued several ABS through state-owned enterprises to finance Indonesian infrastructure development.

FIGURE 5. BONDS DAILY TRADING AVERAGE: OTC

Source: IDX, converted to USD.

Green Bonds

Green bonds regulation was established in 2017. The first green bond was issued in 2018 by PT Sarana Multi Infrastruktur (Persero). However, there is still limited demand for green bonds issuance in Indonesia.

Establishment of Indonesia Bond Pricing Agency

To increase pricing transparency and mark to market, the Indonesia Bond Pricing Agency (IBPA) was established in 2008. IBPA holds the role and function of valuating and determining

the fair market price of debt securities issued in Indonesia on a daily basis. IBPA's fair market prices are used by the financial industry as a reference in debt securities transactions, asset valuation, auctions, audit activities, and fund performance appraisal.

Bonds Electronic Trading Platform

To increase liquidity in the Indonesian bond market, given license by OJK (previously Bapepam-LK), the Indonesia Stock Exchange also now provides an electronic trading platform to accommodate regulated OTC bond trading. The first phase of this initiative began in 2017 for retail government bonds only. In 2020, IDX provided a new electronic trading platform system for all bonds and sukuk.

OTHER MARKETS OR INSTRUMENTS

Exchange-traded funds (ETFs) have recently experienced tremendous growth in Indonesia. Starting in 2007 with only 2 listed ETFs (1 equity,

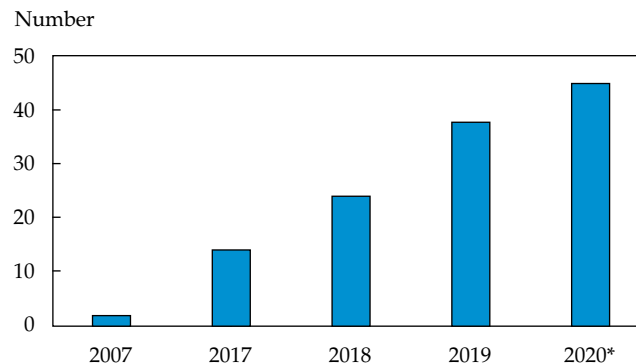
and 1 bond), the number of ETFs increased to 14 in 2017. In 2018 and 2019, there were 10 and 14 newly listed ETFs, respectively, as can be seen in **Figure 6**. This trend is expected to continue.

Strong demand for index-based funds is one important factor behind ETF growth in Indonesia. The number of equity index funds has increased tremendously over the past five years, and their market share increased to 10.21% in 2019 from 1.31% in 2009.

Currently, Indonesia has only stock and bond ETFs. It does not yet have commodity-based ETFs or inverse or leveraged ETFs because current regulations do not allow such products to be listed.

Other instruments that are listed in Indonesia are real estate investment funds and derivatives products, such as options and futures. The volume of derivatives products transactions is very low. Ongoing regulatory initiatives are underway to grow derivatives and other product markets, including the uptick rule exception for liquidity providers to short the underlying for hedging purposes.

FIGURE 6. ETF MARKET GROWTH: NUMBER OF LISTED ETFS



*As of August 2020.

Source: IDX.

WAY FORWARD

Indonesia is a promising market in Asia. With nominal GDP of USD1.12 trillion in 2019, Indonesia has the largest GDP in the Association of Southeast Asian Nations (ASEAN). Furthermore, Indonesia has the highest population in ASEAN, at 267 million. There is much room for capital market growth from both investors and companies.

Indonesia consists of more than 17,000 islands separated by sea. Recent technology development initiatives have been effective in

reaching all potential investors in Indonesia. This increased reach will provide a new source of growth to increase both demand and supply in the Indonesian capital market.

Several other initiatives are underway, such as boosting liquidity of non-equity products, developing stronger investor protections, and increasing ESG (environmental, social, and governance) investments. Product variation—such as structured warrants, futures, and ETFs—is expected to increase to complement existing equity products.