



Reform of Indonesian Capital Market Governance in Response to MSCI's Evaluation of Transparency and Trading Manipulation

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Abstract

This study examines the reform of Indonesian capital market governance in the context of market accessibility assessment conducted by MSCI (Morgan Stanley Capital International). Using a normative juridical method and a qualitative-descriptive approach, the research analyzes three main issues: the regulation of stock trading transparency, forms of market manipulation that have become concerns for MSCI, and the ideal framework for regulatory reform. The findings reveal that the Indonesian capital market legal framework, which is based on Law Number 8 of 1995 concerning Capital Markets and Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law), has established a foundation for transparency through the principles of full disclosure and material information disclosure. However, the existence of 32 alleged market manipulation cases handled by the Financial Services Authority (OJK) up to early 2026 indicates persistent regulatory gaps, particularly in addressing digital trading practices such as spoofing and front running. MSCI's evaluation also highlights limitations in ESG and non-financial data disclosure among Indonesian listed companies. This study recommends the reformulation of the legal status of tippees, the adoption of the misappropriation theory, the integration of artificial intelligence-based RegTech and SupTech systems, and the strengthening of the enforceability of capital market arbitration awards. These reforms are expected to enhance market integrity, transparency, and investor confidence, thereby improving Indonesia's competitiveness in the global capital market.

Keywords: Capital Market, Governance, MSCI, Market Manipulation, Transparency, Regulatory Reform.

I. INTRODUCTION

The capital market is a strategic pillar of national economic development that functions as a financial intermediary institution between parties with surplus funds and those requiring long-term financing. From the perspective of economic law development, the existence of a healthy, transparent, and accountable capital market is an essential prerequisite for promoting sustainable investment growth. The Indonesian capital market, coordinated by the Indonesia Stock Exchange (IDX) and supervised by the Financial Services Authority (OJK), has experienced significant growth over the past two decades. Nevertheless, it continues to face serious structural challenges related to market integrity and investor confidence (Kurniawan et al., n.d.).

In the context of the global capital market, the evaluation conducted by MSCI (Morgan Stanley Capital International) through its *Global Market Accessibility Review* serves as an important benchmark that influences the flow of foreign capital into a country. MSCI classifications—ranging from *Frontier Market*, *Emerging Market*, to *Developed Market*—directly affect the investment decisions of global institutional investors in allocating their portfolios. Indonesia is currently classified as an *Emerging Market*, and any negative findings in MSCI's assessment may potentially jeopardize this status and diminish the attractiveness of Indonesia's capital market in the eyes of foreign investors. The urgency of this research is reinforced by the fact that the Indonesian Financial Services Authority (*Otoritas Jasa Keuangan*—OJK) had handled at least 32 alleged cases of stock trading manipulation by early 2026. This figure is more than a mere statistic; it reflects the systemic vulnerability of

Indonesia's capital market to increasingly sophisticated fraudulent practices that have evolved alongside the digitalization of the investment ecosystem. Market misconduct such as *pump and dump* schemes, *wash sales*, and algorithm-based *spoofing* not only harms individual investors but also undermines efficient price formation mechanisms and erodes public trust in capital market institutions (Gozaes et al., 2025).

Numerous international studies have confirmed a positive relationship between strong investor legal protection and higher corporate valuations as well as greater market liquidity (La Porta et al., 2002). These findings underscore that legal and governance reforms in the capital market are not merely technical regulatory issues but strategic imperatives for Indonesia's economic development. A transparent, fair, and well-regulated capital market is essential to maintaining investor confidence, attracting foreign investment, and enhancing the competitiveness of the national financial system. Against this background, this study seeks to address three main research questions: **(1)** How is the governance framework of Indonesia's capital market structured to ensure transparency in stock trading? **(2)** What forms of market manipulation have become major concerns in MSCI's assessment of Indonesia's capital market? **(3)** What regulatory and supervisory reforms are needed to strengthen market integrity and enhance investor confidence in Indonesia's capital market?

II. RESEARCH METHODOLOGY

This study employs a normative juridical method with a qualitative-descriptive approach. The normative juridical method was selected because the study aims to examine the positive legal norms governing the capital market, identify regulatory gaps, and formulate comprehensive legal policy recommendations. This approach focuses on analyzing legal provisions and their implementation within the framework of Indonesia's capital market regulation.

The data used in this research are secondary data derived from three main categories of legal materials.

First, primary legal materials consist of statutory regulations, including Law Number 8 of 1995 concerning Capital Markets, Law Number 21 of 2011 concerning the Financial Services Authority (OJK), and Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law). Second, secondary legal materials include the OJK Performance Reports for the second, third, and fourth quarters of 2024, the MSCI Global Market Accessibility Review 2025, scholarly articles in the fields of law and finance, and other relevant academic literature that support the analysis of capital market governance and regulatory reform. Third, tertiary legal materials comprise legal dictionaries, encyclopedias, and other reference sources that facilitate the understanding of technical legal terminology and concepts.

The research employs content analysis as the primary analytical technique. The analysis is prescriptive in nature, meaning that it not only describes the existing legal conditions (*das sein*) but also formulates recommendations regarding the legal conditions that ought to exist (*das sollen*). Furthermore, both vertical and horizontal legal synchronization analyses are conducted between the Capital Market Law and the P2SK Law, as well as their implementing regulations issued by the Financial Services Authority (OJK), to identify potential regulatory overlaps, inconsistencies, and normative gaps within Indonesia's capital market legal framework.

III. RESULTS AND DISCUSSION

A. Governance Arrangements in Ensuring Trading Transparency

1. The Full Disclosure Principle as a Legal Foundation

Transparency is an indispensable requirement for maintaining a healthy capital market ecosystem. Normatively, the principle of full disclosure in Indonesia is based on Article 1 Paragraph 25 of the Capital Market Law (*Undang-Undang Pasar Modal/UUPM*), which defines disclosure as a general guideline requiring issuers, public companies, and other parties subject to the law to provide the public, in a timely manner, with all material information regarding their business activities or securities that may influence investors' decisions or affect the price of such securities (Syazali).

This principle is consistent with modern corporate law theory, which recognizes that investors require access to information in order to reduce information asymmetry and make rational investment decisions. From the perspective of Good Corporate Governance (GCG), transparency constitutes one of the four principal pillars alongside accountability, responsibility, and fairness which collectively establish the foundation of market trust (Mikha & Matondang).

2. Transparency Implementation Mechanisms in the Trading Cycle

The implementation of transparency in the Indonesian capital market is generally divided into two major stages. In the primary market, every issuer conducting a public offering is required to submit a prospectus containing complete and accurate information regarding its financial condition, business risks, intended use of proceeds, and corporate governance structure. The prospectus serves as the first and most important disclosure instrument for prospective investors in evaluating the feasibility and attractiveness of an investment.

In the secondary market, disclosure obligations continue on an ongoing basis through the principle of continuous disclosure. This obligation is fulfilled through periodic reporting, including annual and semi-annual financial statements, as well as incidental reporting of material facts or events. The principle of timely disclosure requires issuers to report any material event no later than the end of the second business day following the occurrence of such event.

Failure to provide timely, accurate, and complete information may result in administrative sanctions imposed by the Financial Services Authority (*Otoritas Jasa Keuangan/OJK*), and may also expose issuers to civil liability claims from investors who suffer losses as a consequence of inadequate disclosure. Therefore, transparency functions not only as a regulatory obligation but also as a legal mechanism for investor protection and the preservation of market integrity.

3. Legal Liability and Enforcement of Good Corporate Governance (GCG)

Legal subjects who may be held liable for inaccurate information in the capital market encompass a broad spectrum of parties, including directors and commissioners as the primary corporate organs, underwriters, capital market supporting professionals such as public accountants and legal consultants, as well as securities appraisal institutions. The doctrine of **strict liability** in capital market law places these parties as inherently liable persons for the accuracy and completeness of every statement contained in securities offering documents.

The implementation of Good Corporate Governance (GCG) principles within the regulatory framework of the Financial Services Authority (OJK) is strengthened through the mandatory

appointment of independent directors and audit committees within issuers and public companies. This governance structure is designed to minimize conflicts of interest, ensure the independence of internal oversight, and provide structural protection for minority shareholders against opportunistic actions by management and controlling shareholders.

B. Forms of Trading Manipulation Issues in MSCI Evaluation

1. Market Manipulation Patterns Detected by OJK

According to OJK data, there were 32 alleged cases of stock trading manipulation under investigation as of early 2026. The most common manipulation schemes include three classical forms:

- a. Pump and Dump: Artificial inflation of stock prices followed by massive sell-offs by the perpetrators.
- b. Wash Sales: The creation of fictitious trading activities without actual changes in beneficial ownership to generate the appearance of high trading volume.
- c. Pre-arranged Trades: Transactions that have been coordinated and agreed upon in advance among colluding parties.

These practices fundamentally undermine the market's price discovery function and create a misleading illusion of liquidity for investors.

2. Manipulation Crimes in the Digital Era

The digitalization of the investment ecosystem has given rise to increasingly sophisticated and difficult-to-detect forms of market misconduct. One such practice is spoofing, which involves placing large buy or sell orders that are subsequently canceled before execution to create false signals of market demand or supply. This practice has been facilitated by advances in automated trading algorithms.

Similarly, front running occurs when individuals with access to client order information exploit such information before the orders are executed in the market. Furthermore, the dissemination of misleading rumors through social media and online platforms has emerged as an effective tool for price manipulation, often remaining beyond the reach of conventional enforcement mechanisms.

The cases involving PT Sentral Mitra Informatika Tbk and PT Sekawan Intipratama Tbk, uncovered through OJK supervision, exposed weaknesses in the early detection mechanisms of Indonesia's capital market surveillance system. These cases indicate that existing legal instruments, which were largely designed within the paradigm of conventional securities trading, have not yet adequately responded to the speed, complexity, and sophistication of manipulation practices driven by algorithmic trading systems and digital networks.

3. Transparency Gaps from the MSCI Evaluation Perspective

MSCI evaluations do not merely assess market liquidity and technical accessibility; they also examine non-financial risk dimensions, including the quality of Environmental, Social, and Governance (ESG) data disclosed by listed companies (Clément & Grenon, 2025). MSCI findings reveal a significant gap in data coverage: Indonesian companies listed in international capital markets exhibit substantially lower levels of ESG disclosure—particularly regarding biodiversity-related risks

and comprehensive Greenhouse Gas (GHG) emissions reporting—compared with the average disclosure standards of issuers in other emerging markets (Tabash et al., 2024).

This limitation in non-financial disclosure has dual implications. First, it creates information asymmetry that discourages global institutional investors with ESG-oriented investment mandates from entering the Indonesian market. Second, it contributes to adverse selection and moral hazard within the capital market. Investors lacking complete information face difficulties in distinguishing issuers with hidden risks from those with stronger governance and sustainability profiles, thereby distorting efficient and fair price-discovery mechanisms.

C. Ideal Regulatory and Supervisory Reforms

1. Reformulating the Legal Scope of Tippees and Adopting International Doctrines

One of the most critical regulatory loopholes in Indonesia's Capital Market Law is the limited definition of legal subjects who may be held liable for insider trading violations. The current definition of "insiders" does not explicitly encompass passive tippees—individuals who receive material non-public information without actively seeking it—or secondary tippees who obtain such information through extended chains of communication. Regulatory reform is therefore necessary to incorporate the principle of constructive knowledge, whereby parties who "should have known" the material nature of the information received can be held accountable (Tri Noval Hendrian Tombi et al., n.d.).

In addition, the adoption of the **misappropriation theory**, as developed in United States jurisprudence, is highly relevant. This doctrine allows criminal liability to be imposed on any person who misuses confidential information for securities trading purposes, even in the absence of a direct fiduciary relationship with the issuer concerned. By broadening the scope of liability, insider trading enforcement would be better equipped to address the increasingly complex networks of actors commonly involved in modern capital market crimes.

2. Integrating RegTech and SupTech into Capital Market Supervision

The effectiveness of capital market supervision in the digital era requires a shift from a reactive oversight model toward a technology-driven preventive approach. The utilization of Regulatory Technology (RegTech) and Supervisory Technology (SupTech), supported by artificial intelligence (AI), machine learning, and big data analytics, would enable Indonesia's Financial Services Authority (OJK) to detect suspicious transactions in real time, conduct market behavior analysis, and identify coordinated manipulation networks operating across multiple digital platforms (Purnama Sari et al., 2024).

Effective SupTech implementation requires substantial investment in integrated data infrastructure connecting the OJK, the Indonesia Stock Exchange, and securities depository institutions. It also necessitates a legal framework that explicitly recognizes the admissibility and evidentiary value of digital evidence in capital market enforcement proceedings. The experiences of the Monetary Authority of Singapore (MAS) and the U.S. Securities and Exchange Commission (SEC) in deploying AI-based supervisory systems may serve as valuable references for designing Indonesia's future SupTech architecture.

3. Strengthening Dispute Resolution Mechanisms and Investor Legal Literacy

Legal certainty for investors is also highly dependent on the efficiency and finality of dispute resolution mechanisms. Currently, the enforceability of arbitral awards issued by the Indonesian Capital Market Arbitration Board (BAPMI) and Alternative Dispute Resolution Institutions (LAPS) often remains subject to an *exequatur* process through the District Court, which can be lengthy and time-consuming. Strengthening the legal framework to ensure that capital market arbitration awards are final, binding, and self-executing—without requiring prolonged *exequatur* procedures—would significantly enhance investor confidence in the legal protection system in Indonesia (Lazuardi et al., 2025).

At the downstream level, strengthening legal culture and investment literacy among retail investors is an equally important complement to regulatory reforms. Comprehensive and continuous educational programs can equip investors with the knowledge and skills necessary to identify manipulative practices, understand their legal rights, and effectively utilize available complaint and dispute resolution mechanisms. Without adequate investor literacy, regulatory reforms at the upstream level may lose much of their effectiveness, as investors would be unable to perform their role as active market watchdogs. Therefore, improving legal awareness and investment literacy is essential for creating a more transparent, accountable, and investor-friendly capital market ecosystem in Indonesia.

IV. CONCLUSION AND RECOMMENDATIONS

A. Conclusion

Based on the analysis presented in this study, three major conclusions can be drawn. First, the legal framework governing capital market transparency in Indonesia, which is founded on the principle of *full disclosure* under the Capital Market Law (UUPM) and the Financial Sector Development and Strengthening Law (UU P2SK), provides an adequate normative foundation. However, its implementation continues to face significant challenges, particularly concerning the timeliness and completeness of disclosures, especially Environmental, Social, and Governance (ESG) information, which has become a major concern in MSCI evaluations.

Second, market manipulation practices in the Indonesian capital market have evolved beyond conventional schemes toward more sophisticated algorithmic and digital-based forms. The identification of 32 alleged manipulation cases, coupled with MSCI's concerns regarding non-financial information asymmetry, indicates the existence of systemic regulatory gaps that require immediate attention. This development highlights the necessity for a more adaptive and technologically responsive regulatory framework capable of addressing emerging forms of capital market misconduct. Third, the ideal reform of Indonesia's capital market should adopt a multidimensional approach encompassing substantive legal reform, modernization of supervisory infrastructure, improvement of dispute resolution mechanisms, and strengthening of legal culture and investor literacy. Such reforms should include the reformulation of the *tipee* concept, the adoption of the *misappropriation theory* in insider trading regulation, the implementation of RegTech and SupTech-based supervisory systems, and the enhancement of legal awareness among market participants.

B. Recommendations

Based on the above conclusions, this study proposes the following policy recommendations:

1. The Government of Indonesia and the Financial Services Authority (OJK) should promptly issue implementing regulations under the UU P2SK that explicitly govern digital capital market crimes and broaden the legal definition of insider trading actors, including indirect beneficiaries and digital intermediaries.
2. A specialized Insider Trading and Market Manipulation Task Force should be established under the coordination of OJK, involving relevant institutions to strengthen investigation, supervision, and enforcement efforts against increasingly complex capital market violations.
3. Significant investment should be allocated to the development of Artificial Intelligence (AI)-based SupTech systems to facilitate real-time market surveillance, early detection of suspicious transactions, and more effective regulatory enforcement.
4. Existing capital market arbitration regulations should be amended to enhance the enforceability and executory power of decisions issued by the Indonesian Capital Market Arbitration Board (BAPMI) and other Alternative Dispute Resolution Institutions (LAPS), thereby improving legal certainty and investor protection.
5. Legal and investment literacy programs should be expanded, particularly targeting retail digital investors, to increase awareness of market integrity, investment risks, disclosure obligations, and legal consequences associated with capital market violations.

Through the implementation of these recommendations, Indonesia's capital market is expected to become more transparent, efficient, resilient, and internationally competitive, while simultaneously strengthening investor confidence and supporting sustainable capital market development.

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