〈論　　　文〉

Effectivity of Financial Regulation in Indonesia: Case Study of Bakrie's Non-Transparency in the Stock Market

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Abstract

This study examines the effectivity of financial supervision in Indonesia since the 1998 Asian Economic Crisis. Based on the fieldwork, it argues that fierce battle of political economy, not the regulatory issues, is the decisive factor. Taking transactions of the Bakrie group, a business group which had been influential both in the stock market financially and in the Yudhoyono administration politically, qualitative data of political economy clarifies that economic negotiations have become much more significant than political intervention, in terms of hindering the effectivity of financial supervision of the group's non-transparent transactions, since a liberal technocrat who resisted the group's political bid failed to retain power in domestic politics. Thus, despite the economic reforms following the 1998 crisis, the regulators remain "toothless" against business interests which have become increasingly complex and opaque in the upcoming digital era.

Keywords : Financial regulation, non-transparency, stock market, political economy, Indonesia

Ⅰ. INTRODUCTION

It has been widely stated that the global financial crisis in 2008 did not hit the Indonesian economy as hard as the Asian economic crisis in 1997－98, even though the Indonesian stock market index plunged to a point where the market regulators were forced to halt trading. Many researchers have cited the financial supervisory system as one of the key factors in preventing further damage (Pempel 2015; Pepinsky 2015).

However, the Indonesian financial authorities were relatively “toothless” against the “big boys” (*The Jakarta Post,* 27 January 2009).

There had been some discussion about regulation and economic governance in Southeast Asian states. Firstly, the International Monetary Fund (IMF), the World Bank and other international financial institutions urged several reforms; such as strengthening legal framework of financial supervision, reform silo of sectoral supervision to cross sectoral supervision among financial sectors ranging from banks to insurance (IMF 2010; 2017). And, as rising financial conglomerates and money laundering has brought transparent issues and some investors’ anxiety, they has recognized capital market in Indonesia had been not “at par with other countries” (ADB 2018, 9)[1]. However, although some research had pointed out that legal framework in financial markets had impede the effectivity, the effectivity against powerful conglomerates has not been examined so far. For example, William argued that “legal culture” is the variable for success of implementation of the OECD Principles of Corporate Governance which was adopted by public listed companies in Indonesia after Asian Economic Crisis (William. 2003). And examining cases of discrimination against minority shareholders, Apri pointed out that although the financial supervisors has a powerful authority, the cases result from “loophole” in the law and weak enforcement of capital market law (Apri 2014)[2].

Meanwhile, some influential scholars of political economy has insisted that effectivity of financial supervision is dependent variable on the political system in the emerging states[3]. Hamilton-Hart pointed out that the political failure to provide financial governance in the New Order era was a major factor in the Asian economic crisis (Hamilton-Hart 2008). As Hamilton-Hart noted, while IMF had been forced to impose its agenda in the area of prudential regulation, “the effectiveness of significant parts of the reform agenda is largely unknown”, and that signs of the post-crisis policy of empowering regulatory agencies and tightening prudential regulation were barely evident (Hamilton-Hart 2008, 49). Many other significant studies have cited political

1　Taking this IMF’s stance, the Indonesian Government had improved legal enforcement (Ministry of Finance of the Republic of Indonesia. 2010. 126-148).

2　Inda took some cases financial supervision on crimes in stock market, such as insider trade, fraud and manipulation (Inda 2013, 79-87). See also Adrian 2014, 39.

3　For example, Gourevitch raises the question about the oversight; “as government pulls back its direct supervision, indirect methods are required, and it is not clear how the political systems can manage it” examining emerging states ranging from China, Singapore, Malaysia, to South Korea (Gourevitch 2008, 77). Rosser pointed out that effective regulation and institutional reform required a shift in political and social power away from the coalition of politico-bureaucrats and conglomerates to that of domestic capitalists and international financial institutions in the Western states. As a result, the process of financial liberalisation in the 1980s was only partially implemented (Rosser 2004, 102－103, 112).

intervention as an impediment to effectivity (e.g., Pempel 2015), that have not yet been empirically proved in the context of Indonesian political economy in the post Soeharto era.

This research focuses on dynamics of Bakrie group's transactions in the Indonesian stock market, one of the most powerful indigenous, or pribumi, conglomerates. The corporate group has undertaken a dynamic fund raising for around 40% of the total market capitalization of the Indonesian stock market, which the regulators have observed carefully. And the founder's family politically interfered to the market in order to secure the group's interests[4].

Thus, this study addresses the following question:

How effective had financial supervision been on the powerful business in the post-Asian economic crisis era, especially around the Global financial crisis?

In order to answer this question, this paper examines political economy in the stock market in Indonesia, which is the main focus of this study, based on the fieldwork. Firstly, the market in this emerging economy has been underdeveloped as one of the principle fundraising tools for businesses that have close relationships with political powers. It is much important to find factors which had hindered development of the market in Indonesia. Secondly, the market is controlled by a clear list of regulations, and thus it is easier to identify corporates breaches of the regulations and the supervisory responses.

Three outcomes are expected. Firstly, this study contributes to the discussion on the utility of the regulatory implementation of a liberal policy agenda, which IMF and World Bank have implemented. Secondly, it helps to identify any shifts in political power between the coalition in Indonesia, and interactions between politics and the economy in emerging states, by considering corporations as links between business and politics. Finally, the effectivity would bring some impact on the discussion about global financial regulation, which had been eased globally in order to supply ample money for rejuvenating economies since the Global financial crisis in 2009.

Next chapter will discuss the development of supervisory system of Indonesian capital market. Then, discuss would move to the breaches by the Bakries in the Indonesian stock market and supervisors treatment.

Ⅱ. THE UNDERDEVELOPMENT OF CAPITAL MARKET AND DEVELOPMENT OF SUPERVISORY SYSTEM

Although the Indonesian stock market was formed as one of a series of political measures introduced by the New Order government with the aim of democratising

4 Concerning the interference, IMF urged that insufficient capacity of the legal institution had allowed political intervention into the capital market (IMF 2010, 8).

the Indonesian economy, the development has been underperformed compared with other markets in the Southeast Asian states. This chapter provides an overview of the underdevelopment of the market, and development of its supervisory system which has emerged to regulate the financial sector in accordance with the implementation of financial liberalisation in the 1980s.

1. The Underdevelopment of the Indonesian Capital Market as a Financial Institution

Capital markets were introduced to Indonesia by the Dutch during their period of colonial rule[5] in the form of *Vereninging Voor de Effectenhandel* on 14 December 1912. Initially, there were only 13 Dutch companies listed, and even after the Republic of Indonesia gained independence in 1945, the market continued to be dominated by Dutch firms. (Irsan et al. 2014, 2-76; Sawidji 2015, 24-25)[6] Following the outbreak of World War II, the market was forced to close on 10 April 1940. As a result, the listed firms' liquidity stagnated, and many companies closed their Indonesian offices (Sawidji 2015, 25).

After Soeharto came to power, Bank Indonesia created *Tim Persiapan Pasar Uang dan Modal*, or a Financial and Capital Market Preparation Team in July 1968 with the aim of restoring confidence in the local currency, the *rupiah*. Based on this team's discussions, the Government formally reactivated the domestic capital market in 1977. However, the reactivation policy was aimed at distributing the assets of formerly Dutch-owned companies that had been nationalised to *pribumi* businesses rather than raising funds for domestic firms (Dickie 1981; Cole & Slade 1996, 152-153).

Once the market was reactivated, listing on the stock market, or *Go public*, was promoted to domestic firms in accordance with the financial liberalisation that commenced in the late 1980s. Although this attracted significant amounts of foreign capital to the Indonesian stock market, the results were disappointing[7] because market regulation strictly limited to allow firms to list on the market (Noerhadi 1994, 203-204; Cole & Slade 1996, 3-6; Rosser 2004, 61-63; Irsan et al. 2014, 70-71). The market only started to develop after the Finance Minister issued a Decree, *Keputusan Menteri Keuangan of 1989, No.1055/KMK.013/1989*, relating to the purchase of stocks by foreign investors in 1989, which allowed foreign investors to hold up to 49% of a listed company's shares.

When the Asian economic crisis of 1997-1998 hit the Indonesian economy, not only foreign capital but also domestic capital withdrew from the Indonesian market (Fisman

5 Even before the Batavia branch of Amsterdamse Effectenbeurs was opened in 1912, there had been some private share trades.

6 The Surabaya Stock Exchange was founded on 11 January 1925, and the Semarang Stock Exchange, was founded on 1 August 1925 (Sawidji 2015, 25).

7 The value of issued securities was just 0.1% of GNP in 1988.

2001), As a result, the market plunged. However, after the collapse of the New Order in 1998, the market recovered dramatically as a result of economic reforms led by the World Bank and the IMF in the period 1999–2001.

Since 2006, both the number of listed companies[8] and the total market capitalisation of the Indonesia Stock Exchange (IDX) have continued to increase[9]. These have been driven by the inflow of foreign capital, which has been focused on Indonesia's natural resources businesses because of the global commodity boom led by the rapid growth of the Chinese economy since 2004. However, the market capitalisation of the IDX fell sharply as a result of the global financial crisis in 2008 and the European debt crisis in 2011. In response to these crises, the US financial authorities embarked on a programme of monetary easing, which caused capital to flow into emerging economies' markets, including that of Indonesia (Figure 1).

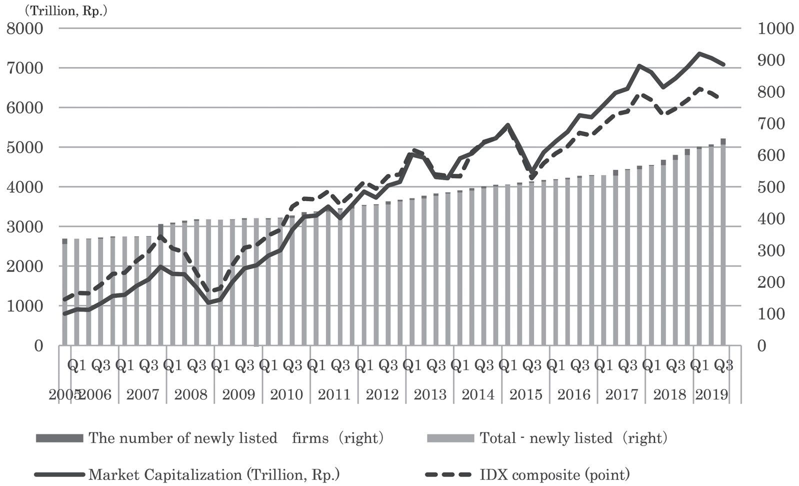

Figure 1. Development of Indonesian Stock Market in the period of Q1 of 2006 – Q3 of 2019.
Source: *IDX Quarterly Statistics* Q1 of 2006–Q3 of 2019.

8 The IDX's Decree No. Kep-00001/BEI/01-2014 regulates requirements which a company that intends to be listed on the IDX, either on the Main Board or the Development Board, must fulfil. See Appendix.

9 Along with the dramatic increase in market capitalisation since 2006, there have also been multiple developments in the IDX's market system. These developments have been caused by the inflow of foreign capital into the Indonesian market, which was seen as having high potential for growth (Interview with Fuad Rahmany, 16 July 2016, Jakarta). In addition, the government encouraged further inflows from abroad when it implemented a tax amnesty policy in July 2016.

However, these developments have been underperformed, compared with other Asian markets. As Table 1. shows, market capitalization in Indonesian stock market performed the second lowest level of 45.67% per GDP in 2017, far below from the most developed market in Singapore of 215.65% and the second biggest market in Malaysia of 121.33%. As many observers point out, this underdevelopment of Indonesian stock market has been hindered by high risk of non-transparency widely spread in the market[10].

year	States	Bank Loan	Bond Market		Stock Market
			Public	Private	
2015	**Indonesia**	**55.4**	**14.7**		**40.8**
2017	**Indonesia**	**47.94**	**15.14**	**2.51**	**45.67**
	The Philippines	63.5	27.47	6.15	78.63
	Viet Nam	140.06	21.09	1.06	32.34
	Malaysia	145.26	51.5	43.39	121.33
	Thailand	169.3	54.62	20.08	106.37
	Singapore	135.13	45.12	33.42	215.65
	India	75.38	15.15	43.02	69.21
	China	215.03	46.46	20.13	65.37

Table 1. Financial structure of Asian markets (per GDP, %)
Source：Bank Indonesia. 2018; and Shimizu 2015.

2. The Development of the Supervisory System for the Capital Market

In 1970, a Financial and Capital Market Team was formed, led by Bank Indonesia[11]. The team worked to a) support the Ministry of Finance in preparing pathways to develop financial and capital markets and b) reactivate the securities market. In the early 1970s, the government's policies in relation to the capital market were focused on promoting the market as an institution for transferring people's assets and deposits (Sawidji 2015).

In 1972, the government started to look at overseeing the capital market, and founded Badan *Pembina Pasar Uang dan Modal* (the Capital Market Coaching Agency), or *Bapepum*[12], within the Ministry of Finance. In 1976, *Bapepum became*

10 There have been reported many non-transparent cases, such as Agis share case, Panin Insurance case, and many cornering, or "saham goreng", cases. See Konishi, mimeo.

11 Before the team was created, the Financial and Capital Market Preparing Team had been formed based on the Decree of Directory Board of Bank Indonesia No. 4/16 of 1968. The roles of the former team were collecting data and providing suggestions to the Central Bank on developing the capital market.

12 The Finance Ministry's Circular No. Kep.25/MK/IV/1/1972 outlined Bapepum's activities,

Badan Pelaksana Pasar Modal (the Market Executive Agency), or *Bapepam*. (Rosser 2002, 87)

In conjunction with the financial liberalisation that had commenced in the 1980s, the development of a supervisory system had been promoted by technocrats in Soeharto's Development cabinets. Firstly, supervisory authorities were installed in capital markets in Indonesia in accordance with the implementation of the liberal economic policy package, *Paket Desember (Pakdes) 1987*[13]. In this context, *Bapepam became Badan Pengawasan Pasar Modal* (the Capital Market Supervisory Agency), and a state-owned securities company, PT Danareksa, was founded in 1976 to underwrite at least 50% of any new initial public offerings (Cole & Slade 1996, 155; Sawidji 2015, 32). In addition, Law No. 8 of 1995 concerning Capital Markets (Capital Markets Law hereafter) was introduced to guide the market.

Secondly, the government instituted reforms in relation to financial reporting and treasury in the period 1990–1995 to provide greater transparency in the capital market. Although the Indonesian economy boomed in the late 1980s, with average annual growth of 8%, concerns were expressed about the strong ties between the Indonesian business world and political powers. The financial reports of companies listed on the IDX lacked credibility[14], which caused an exodus of capital from the Indonesian market (Rosser 2004, 98–103).

Along with these regulatory developments, the policy of liberalisation was successful in boosting the inflow of foreign capital to the Indonesian capital market. As a result, the role of Bapepam as a capital market regulator was simply to ensure that disclosure documents were completed accurately (Rosser 2002, 92).

Soon after the Asian economic crisis in 1997–98, there was discussion about restructuring the financial supervisory system into a more integrated format in accordance with the IMF program calling for institutional reform[15]. The IMF stated

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including a) coaching the financial and capital markets, b) founding the organisations that comprise the financial and capital markets, and c) supervising the capital market.

13 The *Pakdes* 1987 was also a policy package of liberalisation aimed at inducing companies to list on the stock market, approving the purchases of foreign investors up to a maximum of 49% of the company's shares, accommodating fluctuations in share prices, and introducing an over-the-counter market (Sawidji 2015, 32).

14 For example, even after Finance Minister's Decree in 1989 about financial reports of listed companies was implemented, although Bank Duta held a negative foreign exchange balance and incurred losses in 1990, it was able to *go public* on the IDX.

15 There were two views on the reasons for the crisis: one view cited excessive government intrusion, which protected an inefficient banking sector, promoted moral hazard, and failed to develop appropriate risk management by state-owned banks, while the other school cited liberalisation and deregulation, which fueled a boom in the banking sector based on rising asset prices in the stock and property markets (Hamilton-Hart 2008, 46).

that the crisis had been triggered by excessive debt brought on by the rapid expansion of credit, which was dominated by the US dollar, after prudential policies were relaxed during the financial liberalisation of the 1980s. The problem was that rules related to prudential policies[16] existed, but were not applied consistently (Hamilton-Hart 2008, 47).

In accordance with the strengthening of the banking system, which was led by the IMF, the new Central Bank Act of 1999 confirmed the legal independence of Bank Indonesia, and enabled the separation of the supervisory authority from the central bank's regulatory function (Hamilton-Hart 2008, 50–52). However, the aim of an integrated financial supervisory system was not achievable in the short term because of the political implications of Bank Indonesia's role and authority in relation to financial governance.

Changes to the supervisory system commenced early in 2006. The role of supervising the banking sector was transferred from the Directorate General of Finance in the Ministry of Finance to *Bapepam*, which in turn became *Badan Pemeriksa Pasar Modal dan Lembaga Keuangan* (the Supervision Agency on Capital Market and Financial Institutions), or *Bapepam-LK*. Bapepam-LK was responsible for supervising the non-banking sector including the capital market, insurance companies, pension funds, venture capital, and multi-finance operations. It held 17 authorities in three fields: cultivating, regulating and oversighting. (Article 5 (a)–(q) in Capital Markets Law)

After the Asian economic crisis, it was widely held that Bank Indonesia has failed to properly regulate the banking sector. In particular, Bank Indonesia's liquidity measure, or *Bantuan Likuiditas Bank Indonesia* (BLBI), was alleged to have enabled illegal donations to banks that had political connections. (e.g., the Bank Bali case in 1999, and in the Bank Century case in 2008.) Other factors were also cited including the emergence of conglomerates in the financial sector, complicated financial products, and the development of non-banking sectors such as insurance and multi-finance operations. It was suggested that a unified financial supervisory system was needed in response to these factors, and that an effective system should be characterized by its independence from the Ministry of Finance, with direct responsibility to the President (Irsan et al. 2003, 74–75, Adrian 2014, 36–37).

Thus, *Otoritas Jasa Keuangan* (OJK) was founded in January 2014 as an independent agency under Article 34 of Law No. 3 of 2004, otherwise known as the OJK law (Adrian 2014, 38). Its independence can be seen not only in legal terms but also in relation to its finances. Specifically, the OJK Law requires OJK's funding to be provided by fees from financial institutions, rather than by the state's budget (Adrian 2014, 49–53, 270).

16　The rules related to areas such as related-party lending, concentrated credit risks, financial reporting, provisioning and capital adequacy.

Meanwhile, in 2007, the Jakarta Stock Exchange and the Surabaya Stock Exchange merged to create the IDX. Under the IDX administrative structure, PT Kliring Peminjam Efek Indonesia (the Indonesian Agency for Security Liquidation), or KPEI[17], and PT Kustodian Sentral Efek Indonesia (the Indonesian Central Securities Depository), or KSEI were established as its implementing agencies (Nukaya 2009).

Bapepam-LK requires the IDX to both supervise and protect its listed companies to ensure that capital market transactions are fair and effective (Articles 6 and 7 in Capital Markets Law). Thus, the IDX has been granted the authority to conduct market surveillance (Interview with Ito Warsito, 30 December 2016, Jakarta).

As the organiser, or *pihak yang penyelenggarakan*, of the capital market (Article 4 in Capital Markets Law), the IDX can also issue sanctions in response to irregularities and cases of non-compliance. The IDX's sanctions consist of five levels, the first three of which involve Written Warnings (*Peringatan Tertulis,* Levels 1−3) (II.2,1-2.3 in Regulation No. I-H about Sanctions, the 2004 Decision of the Board of Directors of PT Bursa Efek Jakarta No. Kep-307/BEJ/07-2004, or the 2004 BEI Regulation hereafter). Listed companies that fail to submit their financial reports by the deadline are given Written Warnings by the IDX, the most common form of supervision by the IDX. Level 1, first Written Warning for the first 30 days overdue; Level 2, second Written Warning and Rp. 50 million fine for the second 30 days overdue; Level 3, third Written Warning and Rp. 150 million fine for the third 30 days overdue) (II.6 in the 2004 BEI Regulation). There has been no change in these sanctions since 2006 (*IDX Factbook 2006,* 44−45). Written Warnings are issued before the regulator considers imposing further sanctions. Heavier sanctions are imposed for illegal activities by listed companies. A temporary trading suspension (Level 4) is imposed together with a maximum fine of Rp. 500 million when the reports are more than 90 days overdue[18]. The heaviest sanction (Level 5) is suspension from trading (II.2.5 in the 2004 BEI Regulation).

Ⅲ. EFFECTIVITY OF FINANCIAL SUPERVISION OF THE BAKRIE GROUP

The Indonesian capital market, especially the stock market, has faced uncertainty not only because of the upheavals in global finance, but also because of some questionable transactions by some of its listed companies. Thus, the market watchdogs are paying close attention to all market transactions, and the Bakrie Group has been a significant

17 It is wholly owned by the IDX (KPEI website, from http://www.kpei.co.id/page/kpei-overview. Retrieved 2 September 2019).

18 The fine must be deposited into the IDX account no more than 15 days after the sanction is imposed (II.3 in the 2004 BEI Regulation).

target of the regulators' investigations.

This chapter analyses how the financial supervision of the stock market has been effectively toothless, while explaining what happened in the case of Bakrie Group's shares.

1. The Bakrie Group in the Indonesian Political Economy

Since its foundation in 1942, the Bakrie Group has developed its business interests using the political ties of its founder's family, the Bakries. They have overcome threats to the family business, such as the Asian economic crisis in 1997-98, Corporate Governance Reforms led by the World Bank, and the Global financial crisis in 2008 using their own financial means and the family's business networks. As a result, the group maintained its position as the second largest domestic business group in terms of assets in 2011 (Konishi 2016).

What is remarkable is their influence in the stock market. The booming Chinese economy has led to international price hikes for commodities since 2004. In particular, a hike in the price of thermal coal, as from $50 per metallic ton in 2004 to $ 200 per metallic ton in 2008 (IMF, 2013), boosted the share prices of coal mining firms belonging to major business groups in Indonesia, of which the Bakrie Group's PT Bumi Resources Tbk (BUMI) was the most significant. As a result, trades in BUMI and seven other major Bakrie Group, known as "Bakrie Seven", companies dominated the stock market in Indonesia, representing around 40% of total market capitalisation before the 2008 crisis. (Figure 2)

Thus, many brokers operating on the IDX showed much more interest in the Bakrie Group's repo transactions, which the Bakrie family had actively undertaken since 2004. These transactions were highly profitable for investors[19], and thus the IDX supported and mediated these transactions as a means of promoting the market.

Because of its dominance, when BUMI's share price plunged on 8 October 2008 because of US investors deserting the stock, the IDX Composite Index declined sharply, triggering panic in the Indonesian market. To address this situation and to prevent investors from making hasty decisions regarding their investments, the IDX halted all trading activity until 10 October 2008 (Information provided by IDX economists). Prior to this, the IDX had supported the BakrieGroup's financial activities, which had been led by the founder's second son, Nirwan Bakrie, as BUMI's share price had risen strongly since 2007 (This was confirmed by a credible source during an interview).

19 This was confirmed by a credible source during an interview. According to the source, repo transactions were the easiest and most profitable transactions on the market, as interest rates were at 18－20% and the cost of lending was at 10-20%, so that the margin, or repo rate, was around 8%.

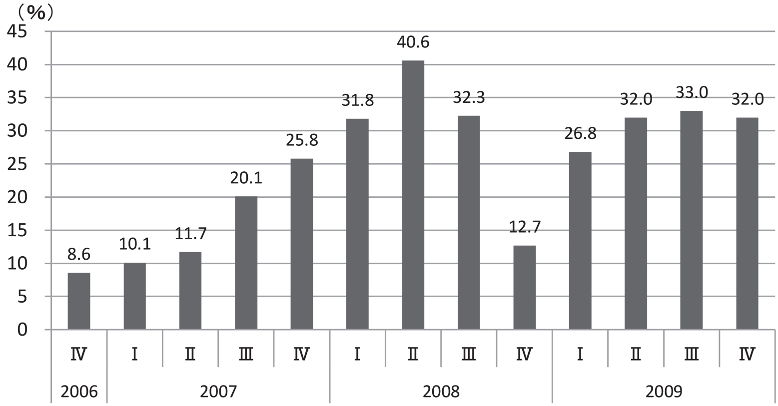

FIGURE 2. Shares of Bakrie group's stock trading in total market capitalisation in Indonesia Stock Exchange in the period of 2006-2009
Source: IDX Factbook 2006-2010.

Note. The Bakrie Group's nine listed companies included PT Bakrie & Brothers Tbk, BUMI, PT Bumi Resources Minerals Tbk, PT Bakrie Telecom Tbk, PT Energi Mega Persada Tbk, PT Bakrie Sumatera Plantations Tbk, PT Bakrieland Development Tbk, PT Darma Henwa Tbk, and PT Visi Media Indonesia Tbk. The first seven firms comprise the so-called "Bakrie Seven".

Although the group has incurred enormous debts since the Global financial crisis, they have managed to survive despite fierce competition in the Indonesian business world.

Thus, the Bakrie Group's position in relation to the Indonesian political economy is unique. This can be viewed historically, and includes the family's political influence since its foundation and their economic influence in the modern stock market, although the latter is declining as a result of the enormous debt they currently have outstanding.

2. Effectivity of Financial Supervision in Relation to Bakrie Group Transactions

The supervisory agency for the Indonesian securities market, Bapepam-LK, in particular Fuad Rahmany, its chairperson in 2006 – 2010 and a colleague of Sri Mulyani Indrawati, then Finance Minister in the first Yudhoyono administration[20], has

20 Mulyani had criticised the Bakrie Group for tax evasion and the Lapindo mud flow case, which damaged Aburizal's political aspirations. Under her leadership in seeking liberalisation reform, Fuad, as General Director for Taxation, promoted taxation reform in cooperation with his friend Darmin Nasution, who at that time was General Director of Customs and Tariffs (Sato 2011, 159). However, an angry Aburizal attacked Mulyani for her role in the Bank

raised concerns about the legality of the Bakrie Group's transactions.

The IDX, as the direct supervisor of the stock market, has also continued to oversee the Bakrie Group's financial operations and has taken action against the group because of a number of questionable financial transactions the group has undertaken in the Indonesian stock market (Information provided by OJK staff)[21].

(1) Keen on The Bakrie Group's Transactions in Coal Mining Companies

In January 2009, Fuad warned that three purchases by the Bakrie Group might be illegal: the purchase of 89% of the shares in PT Pendopo Energi Batubara, of 80% of the shares in PT Darma Henwa and of 76.9% of the shares in PT Fajar Bumi Sakti, the funding for these purchases having been obtained from the state-run China Investment Corporation (CIC). According to Bapepam-LK's rules, specifically Section IX E.2 concerning Material Transactions and Change of Main Business Activities, mergers that were worth more than 10% of net income of the target company or more than 20% of the total value of its shares would be regarded as material transactions, which needed the regulator's permission beforehand. (*The Jakarta Post,* 13 January 2009; information from IDX economists). The regulators insisted that BUMI had not obtained the necessary permission. In response to this accusation, BUMI explained that these should be seen as internal transactions because Bakrie Capital held 90% of the shares in Pendopo Energi Batubara, and Darma Henwa was affiliated with BUMI, which was the largest holder of Darma Henwa's bonds, with a 7.22% holding in 2010[22]. Thus, Bapepam-LK was forced to allow the transactions to proceed.

In the aftermath, the watchdogs had kept their eyes on transactions of the Bakrie's coal mining sectors. On 18 September 2009, BUMI and CIC undertook a transaction involving a $ 1.9 billion loan[23]. The IDX asked BUMI's management team whether

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Century case, the scandal surrounding the bail-out of the Central Bank. As a result, she was transferred to the World Bank as its Managing Director.

21 There had also been the case of delay in presenting the 2012 Financial Reports of the seven Bakries' listed companies, or "Bakrie Seven", On 8 April 2013, the IDX announced that the "Bakrie Seven", along with other 45 listed companies, had failed to submit their 2012 annual financial reports by the deadline of 1 April, and that the regulator would impose sanctions on each company based on the 2004 IDX Directors' Decision, such as first, second and third Written Warnings (Levels 1, 2 and 3) (*Meredeka.com*, 8 April 2013 from https://www.merdeka.com/uang/tujuh-perusahaan-bakrie-kena-sanksi-dari-bei.html. Retrieved 26 October 2019).

22 PT Artumin Tbk., a BUMI-affiliated company, held 1.7% of the bonds in PT Darma Henwa Tbk. in 2010, and PT Kaltima Prima Coal Tbk. was one of the biggest business partners of Darma Henwa, whose share trades represented 66.77% of its market capitalisation in 2010 (PT Darma Henwa Tbk. 2010, 50-51).

23 The loan of $ 1.9 billion was at an annual interest rate of 1.2%, with the first $ 600 million

a convertible bond was included in the loan, suspecting that the so-called loan might actually be a “debt-like instrument”, because the money was to be used for the purchase of three coal mining companies from foreign owners, as outlined above (Information provided by OJK staff).

The IDX also asked the BUMI management team whether the contract with CIC included shares traded in Bumi Resources Minerals (BRMS) on 30 September 2009. BUMI's responded by stating that the contract was “pure debt”. Although the IDX required BUMI to respond by providing formal documentation within three operating days[24], BUMI had not responded by the deadline of 7 October 2010. Thus, the watchdogs had been very keen on BUMI's transactions[25].

(2) Suspicions Regarding the Legality of Bumi Plc's Transactions[26]

due in 2013, the next $ 600 million due in 2014, and the final $ 700 million due in 2015 (PT Bumi Resources Tbk. 2011, 15).

24 *Kontan.com,* 2 October 2009 from http://investasi.kontan.co.id/news/bei-minta-bumi-jelaskan-kucuran-utang-cic-1. Retrieved 26 October 2019; *VIVA.co.id,* 2 October 2009 from http://m.bola.viva.co.id/news/read/93994-bei_belum_puas_jawaban_bumi. Retrieved 26 October 2019.

25 In December 2009, a Bapepam-LK Chairperson's Decision amended the rule in relation to issuing shares without pre-emptive rights by permitting shorter maturity dates and larger amounts. Based on this amendment, BUMI issued the shares, raising $ 3.6 billion in September 2010 and $ 1.6 billion in December 2013. The company obtained net benefits of $ 1 billion and $ 500 million from these issues, a total of $ 1.5 billion (PT Bumi Resources Tbk. 2010, 109; ibid. 2013; *Suara Pembaruan,* 5 December 2013). Based on the Decision of Bapepam-LK's Chairperson No. IX D.4, which requires companies to provide a full explanation regarding pre-emptive rights issues, the IDX and Bapepam-LK asked BUMI to provide a clear explanation of the structure, use of the funds, and relationships involved in the transaction (Information provided by OJK staff). In light of BUMI's responses, the watchdogs confirmed the legality of the transaction. They doubted the legality of the transaction because this was the first instance of issuing shares without pre-emptive rights after the new rule was enacted (Interview with Erry Firmansyah, 13 July 2016, Jakarta).

26 Bapepam-LK also had suspicions about a transaction between the Bakrie Group's PT Petromine Energy Trading and AKR Corporation. Bapepam-LK's Regulation No. IX E.2 about material transactions and transforming corporate activities states that a transaction that amounts to no more than 10% of sales from the corporation's major activity shall not be defined as a material transaction. Meanwhile, as the current financial accounting standard notes, transactions worth more than 10% of a corporation's sales should be reported in its financial reports. However, the Bakrie Group's financial report did not report this transaction, while that of AKR did. A credible source suggested that this discrepancy was the result of a technical error.

Bapepam-LK doubted the legality of the transaction involved in the founding of an investment company in London, Bumi Plc. in November 2010 and asked Bumi Plc. to submit the relevant documents to BNBR. They were concerned about whether the transaction between the Bakries and the Rothschild Group in the UK was regarded as a "material transaction", and whether there had been a transfer of control from BNBR to BUMI (*Bisnis Indonesia,* 20 November 2010; Konishi 2016)

The IDX was also concerned about the irregular nature of the transaction. In September 2012, the IDX ordered BUMI and Berau Coal to provide clear explanations to their investors and stakeholders regarding the irregularities and related issues within Bumi Plc., such as the independent investigation into Bumi Plc., its financial and management performance, its debts and subordinated term bonds, and its views regarding the downgrading of its bonds by two international rating companies (*The Jakarta Post,* 28 September 2012, 3 October 2012).

Prior to the transaction with the Rothschild, in July 2010, the IDX fined BNBR, BUMI, and Berau Coal Energy Rp. 500 million each for the latter two companies' "erroneous entries" worth about $ 780 million in their financial reports for the first quarter of 2010. The regulators would not have been aware of this breach had it not been for a tip-off from a whistle-blower.

(3) Accusations Regarding BRMS's Share Trading

In September 2012, BUMI and its affiliated company PT Bumi Resources Minerals Tbk. (BRMS) were accused of entering into questionable transactions by the market regulators.

As a result of the initial public offering in November 2010 and the issuance of convertible bonds, the composition of shareholders in BRMS changed from BUMI holding 99.8% and Lumbung Capital holding 0.19% to BUMI holding 81.83% and Lumbung Capital holding just 0.0001% by the end of 2011.

However, the IDX accused BRMS of a lack of transparency in relation to its new shareholder composition. While BUMI's financial report for the third quarter of 2012 reported that BUMI held 87.09% of the shares in BRMS (PT Bumi Resources Tbk. 2012, 14), the report of Sinar Mas Group's Sinartama Gunita showed that BUMI's shareholding in BRMS was only 60.9%. Further, Sinartama Gunita's report stated that Long Haul Indonesia (LHI)[27] was registered as a BRMS shareholder, having purchased 10.85% of the shares in BRMS from BUMI in August 2012. The IDX pointed out that there was no mention of LHI in the reports of either BUMI or BRMS[28].

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27 It is alleged that this company is unrelated to PT Long Haul, a coal mining company in the Borneo Group that is owned by Samin Tan, one of the Bakrie Group's business partners (*The Jakarta Post.com,* 6 April 2013 from http://www.thejakartapost.com/news/2013/04/06/bumi-monetizes-brms-shares.html. Retrieved 26 October 2019).

28 *FT.com,* 28 February 2013 from http://ftalphaville.ft.com/2013/02/28/1403362/the-battle-

In 2013, BUMI raised funds by renting out its 87.09% share in BRMS, renting 50.55% of the shares in BRMS to Sinartama Gunita and 12.8% to LHI, which already owned 14.83% of the shares in BRMS. Furthermore, BUMI took out a stock-loan contract, whereby it divided the remaining 23.74% of its shares in BRMS into lots of about 5%, which it then rented out for 12 months in return for loans. However, because the details of the partners in these contracts were not disclosed, it was alleged that they were Bakrie-affiliated companies[29], and thus the IDX accused BUMI of a lack of transparency and directed them to provide details of the repo contracts, especially those involving lenders other than Sinartama Gunita and LHI (*Bisnis Indonesia,* 11 April 2013).

(4) Bank Capital Scandal

In the context of the effectivity of financial supervision on the Bakrie Group, the most significant issue is the Bank Capital case. In July 2010, it was reported that seven Bakrie companies' deposits in their accounts in a private domestic bank, Bank Capital, had been lost. The Bakrie Group's financial reports stated that a total of Rp. 8.59 trillion had been placed in term deposits with Bank Capital[30]. However, Bank Capital's reports stated that the Bakrie Group's term deposits only amounted to Rp. 2.17 trillion out of the group's total deposits of Rp. 2.69 trillion. The IDX claimed that the difference of Rp. 6.42 trillion was missing from the Bakrie Group's accounts at the bank (*Kompas,* 14 July 2010, 16 July 2010; *The Jakarta Post,* 21 July 2010), but also pointed out the possibility of the Bakrie Group falsifying deals, and thus reported the matter to Bapepam-LK. On 13－14 July, concerned about losing credibility in the eyes of investors regarding the financial reports of Indonesian corporations, the IDX repeatedly asked Bobby Gafur Umar, CEO of Bakrie & Brothers (BNBR), as well as other managers from Bakrie Sumatera Plantations and Energi Mega Persada, to explain the differences by providing relevant documentation. On 23 July, after determining that the explanation provided was inadequate, the IDX imposed a $ 2 billion fine on each company (*The Jakarta Post,* 21 July 2010)[31]. Meanwhile, the three Bakrie companies

for-bumi-flares-again/. Retrieved 26 October 2019.

29 *The Jakarta Post.com,* 6 April 2013 from http://www.thejakartapost.com/news/2013/04/06/bumi-monet izes-brms-shares.html. Retrieved 26 October 2019; *The Jakarta Post.com,* 27 February 2013 from http://www.thejakartapost.com/news/2013/02/27/bumi-reduces-stake-purchase. Retrieved 26 October 2019. This enables companies to transfer their shares as a means of raising funds without transferring their voting power. Thus, the Bakries have maintained their shareholdings in the Bakrie Group by lending out their shares without transferring their control (Konishi 2016).

30 BNBR's deposits in Bank Capital totalled Rp. 3.75 trillion, those of Bakrie Sumatera totalled Rp. 3.5 trillion, and those of Energi Mega Perseda totalled Rp. 1.34 trillion (*Kompas,* 14 July 2010).

31 At that time, Bank Capital had told the IDX that they had commenced an internal

continued to insist that the problem simply involved technical errors. Bapepam-LK ordered them to re-submit their financial reports to the IDX after revising their term deposits with Bank Capital to just $ 724.3 billion[32]. Bapepam-LK was highly critical of the Bakrie Group's delayed response.

Meanwhile, the IDX issued a statement saying that PT Benakat Petroleum Energy[33], an oil and gas company, had a similar problem in relation to its deposit accounts[34].

Bapepam-LK ordered an investigation into the three Bakrie companies and Benakat in an effort to maintain the credibility of the Indonesian stock market (*The Jakarta Post,* 30 July 2010). However, the regulatory agency was finally forced to admit that the problem had indeed been the result of a technical error, as it was found that data from Darma Henwa that had been included in BUMI's financial report (Information provided by OJK staff) were inaccurate.

(5) Suspension of Bakrie Life's License

On 15 September 2016, Bapepam-LK suspended the license of PT Asuransi Jiwa Bakrie, or Bakrie Life, the group's life insurance company, which had failed to utilize their financial products, *Diamond Investama* and had refused to pay compensation totalling $ 2.9 billion to investors.

Fuad announced that a law suit had been filed against Bakrie Life by former depositors (*The Jakarta Post,* 27 December 2010). As a result, the watchdog made a strong bid to cancel Bakrie Life's insurance license to protect the investors' interests.

However, the Bakrie Life case differs from other cases involving governance issues in Indonesian listed companies because investors should have been more careful before

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investigation and had already confirmed that the Bakrie Group's deposits totalled Rp. 2.69 trillion (*The Jakarta Post,* 23 July 2010).

32 In the revised financial report, BNBR's term deposits were recorded as Rp. 424.3 billion, Bakrie Sumatera's term deposits were recorded as $ 170 million, and Energi Mega Perseda's term deposits were recorded as $ 130 million (*The Jakarta Post,* 29 July 2010). As a result, shares in BNBR and Bakrie Sumatra fell 1.92% and 1.52%, respectively, on the day the IDX issued its statement, while Benakat's shares fell by 1.75%, underperforming the Jakarta index, which fell by 0.1 % (*Reuters.com,* 22 July 2010 from https://af.reuters.com/article/energyOilNews/idAFJAK15737120100722. Retrieved 26 October 2019).

33 Benakat made an initial public offering in January 2010 with the largest portion of Rp. 2.6 trillion being offered in Indonesia (*The Jakarta Post,* 22 July 2010).

34 One of its commissioners was Erry Firmansyah, who had been the President of the IDX from 1998 to 2008 (*The Jakarta Post,* 21 July 2010). Erry held Commissioner positions in eight companies in 2010, the largest number in Indonesia, including an Independent Commissioner position with PT Berau Coal Tbk (*Kompas.com,* 21 June 2010 from http://bisniskeuangan.kompas.com/read/2010/06/21/15585835/Erry.Firmansyah.Komisaris.8.Perusahaan. Retrieved 26 October 2019).

investing in Bakrie Life's products in response to the higher risks involved (Interview with Fuad, 16 July 2016, Jakarta).

(6) Temporary Level 4 Suspensions of Bakrie Telecom's Share Trading

The IDX has imposed temporary Level 4 suspensions of PT Bakrie Telecom Tbk's share trading several times. The first temporary suspension was imposed on 4 September 2012 because the company had not made principal and interest payments on its Rp. 650 billion BTEL I-2007 bonds issued in 2007 (*The Jakarta Post,* 5 September 2012). The Indonesian Central Securities Depository confirmed that they had only received Rp. 200 billion from the Bakrie's CDMA carrier. The temporary suspension imposed by the IDX was aimed at "avoiding market speculation"[35]. As BUMI's financial report noted in relation to the significant potential loss, "the problem besetting one big member could easily spread to other members of the group"[36]. As a result, some rating firms downgraded Bakrie Telecom bonds, citing heightened financial risks (*Bisnis Indonesia*, 7 September 2012)[37].

On 1 August 2016, a second Level 4 temporary suspension was issued because Bakrie Telecom's interim financial report had not been submitted by the deadline of 31 March 2016[38]. The IDX had previously issued a third Written Warning (Level 3) and imposed a fine of Rp. 150 million. Another 13 listed companies including the Bakrie Group's BUMI and Bakrieland were also temporarily suspended by the IDX at the same time for the same reason[39].

On 3 July 2017, the IDX imposed a third Level 4 temporary suspension on BTEL

35 *TeleGeography*, 4 September 2012 from https://www.telegeography.com/products/commsupdate/articles/2012/09/04/bakrie-telecom-shares-suspended-amid-debt-concerns/. Retrieved 26 October 2019.

36 Antara News.com, 5 September 2012 from https://en.antaranews.com/news/84327/bei-suspends-trading-of-bakrie-telecom. Retrieved 26 October 2019.

37 However, rating companies such as Standard & Poor's upgraded the firm's bonds from CCC+ to B− the following day. The company redeemed its Rp. 650 billion bond issue using the proceeds of a non-preemptive rights issue of Rp. 557 billion and a $ 50 million bank loan. *Reuters.com,* 5 September 2012 from https://www.reuters.com/article/idUSWLA279120120905. Retrieved 23 July 2018.

38 *Okezone.com,* 1 August 2016 from https://economy.okezone.com/read/2016/08/01/278/1451876/saham-btel-distop-suspensi-13-saham-lainnya-diperpanjanga. Retrieved 19 November 2017.

39 The other 11 firms were Berau Coal Energy, PT Borneo Lumbung Energi & Mineral Tbk., PT Garda Tujuh Buana Tbk., PT Sekawan Intipratama Tbk., PT Siwani Makmur Tbk., PT Global Teleshop Tbk., PT Inovisi Infracom Tbk., PT Capitalinc Investment Tbk., PT Skybee Tbk., PT Pertama Prima Sakti Tbk., and PT Trikomsel Tbk.

after the company failed to pay the annual listing fee to the IDX[40] prior to the deadline of 30 June 2017.

The IDX also fined BTEL Rp. 150 million for failing to submit its interim financial report for the second quarter in 2017 by the due date. The company duly submitted the report without further delay. However, fines imposed by the IDX in relation to the second and third Written Warnings (Levels 2 and 3) remained unpaid, and so the IDX imposed a Level 4 temporary suspension on BTEL's share trading on 31 October 2017[41], which was lifted on 13 November 2017 when BTEL paid the annual listing fee (The IDX's announcement *No.Peng-UPT-00010/BEI.PP1/11-2017*) and outstanding fines.

Thus, the IDX imposed a total of four Level 4 temporary suspensions on BTEL, two in response to late submission of its financial reports and two in response to outstanding fees and fines.

3. Attempts to Intervene in Financial Supervision through Economic Influence

In an attempt to tackle the group's enormous debts, the founder's second son, Nirwan Bakrie, and his management team have taken a more active role in the group's financial transactions (Erry admitted this point clearly in an interview on 13 July 2016), which has raised credibility and transparency issues in relation to the Indonesian stock market (Interview with Fuad, 16 July 2016, Jakarta) and made it necessary for the regulators to oversee each Bakrie transaction. In particular, the IDX has raised various issues, ordered the group to provide clear explanations (Interview with Ito, 30 December 2016, Jakarta), and reported its findings to Bapepam-LK.

Whenever Bapepam-LK summoned the Bakrie Group's management team, Nirwan Bakrie always visited Bapepam-LK's office to deliver the group's explanation, and obtained an extension of time to address each point that the regulators were concerned about. The market regulator granted these favours because of the significant economic influence of the Bakrie Group in terms of market capitalisation and the regulator's concerns about damage to the market's credibility (Interview with Fuad, 16 July 2016, Jakarta).

In addition, the regulators had learned to either warn or issue sanctions to the group on these occasions because they were concerned about the political battle between the Bakries and Mulyani over the Bank Century case in 2010, which resulted in Mulyani leaving the domestic political scene to become the new managing director of the World

40 *Kontan.com,* 26 July 2017 from https://investasi.kontan.co.id/news/belum-bayar-biaya-pencatatan-btel-disusPensi. Retrieved 3 January 2019.

41 *Okezone.com,* 13 November 2017 from https://economy.okezone.com/read/2017/11/13/278/1812989/distop-12-hari-kini-saham-bakrie-telecom-kembali-diperdagangkan-di-beiga. Retrieved 24 October 2019.

Bank in New York. Bapepam-LK's officers were not prepared to criticise the Bakrie Group's irregular financial activities because they were concerned about suffering a similar fate to that which befell Mulyani.

4. Shift of the Impediments of Financial Supervision on Stock Market

Although the explanations the Bakries provided to the regulators and the public were not sufficiently detailed to satisfy their concerns, it seemed that the Bakrie Group's influence in the market was such that the regulators had no choice but to allow them to continue to operate.

There are three significant features of the effectivity of the financial supervision of the stock market. Firstly, the Indonesian financial regulators, especially the IDX, could have shown more "teeth" in several cases such as a) the political intervention following the plunge in the Bakrie Group's shares in 2008, b) the failure of their insurance company, and c) their failure to lodge financial reports by the due date. Secondly, while the IDX has been more proactive in issuing sanctions, and has taken more strict stands in response to the Bakrie Group's non-transparent transactions, Bapepam-LK has not been as active, and has been less strict in this regard. The lower strictness in relation to Bapepam-LK's treatment of the various cases seems to have been mirrored by the current OJK (Interview with Ito, 30 December 2016, Jakarta). Finally, the total fines imposed by Bapepam-LK or OJK in response to the Global financial crisis in 2008 were the highest in 10 years[42].

Ⅳ. CONCLUSION

This study empirically revealed for the first time that the powerful corporate had used its economic influence as resource to impede the effectivity of regulations which had been some fierce battle in the field of financial supervision. And this analytical framework of political economy figured out that economic negotiations by the founder's family as its dominant owner have become much more significant than political intervention, in terms of hindering the effectivity of financial supervision of the

42 Bapepam-LK's sanctions totalled Rp. 8.59 billion for 246 firms in 2005, Rp. 6.66 billion for 195 firms in 2006, Rp. 14.28 billion for 201 firms in 2007, Rp. 13.9 billion for 330 firms in 2008, Rp. 8.7 billion for 269 firms in 2009, Rp. 12.6 billion for 223 firms in 2010, Rp. 10.6 billion for 316 firms in 2011, Rp. 11.3 billion for 323 in 2012, Rp. 5.9 billion for 248 firms in 2013, and Rp. 6.34 billion for 218 firms in 2014 (information provided by OJK staff). In 2013, OJK increased its sanctions for listed companies. For example, companies that were late in lodging their financial reports would be fined Rp. 10,000,000 per day, up from Rp. 1,000,000 per day (*Kompas.com*, 3 August 2015 from http://bisniskeuangan.kompas.com/read/2015/08/03/184300426/OJK.Emiten.Telat.Sampaikan.Laporan.Keuangan.Denda.Rp.1.Juta.Per.Hari. Retrieved 10 December 2018).

Indonesian stock market. The turning point occurred in 2010. Before then, political intervention hampered the effectivity of regulators, for example, as noted by Hamilton-Hart (2008), the political conflict between Mulyani and Aburizal, which made the financial watchdogs hesitant about imposing sanctions on the Bakrie Group. After Mulyani left Indonesia, however, despite the IMF's concerns, the Bakries exerted direct influence on the financial watchdogs as a result of their economic leverage.

The significance of this analysis is summarized as follows. Firstly, this study provides qualitative evidence of the economic influence, rather than the regulatory element, on the effectivity of the financial supervision of the capital market in the post-Global financial crisis era, which previous studies have lacked.

Secondly, this study shows that the regulators' "teeth", which the IMF's agenda had aimed at strengthening following the Asian economic crisis, have not become stronger. Tip-offs from whistle-blowers have been required to expose non-transparent transactions. Thirdly, this study revealed that not only has the Bakrie Group's method of intervening in the regulatory system shifted from political interference to business leverage, but the nature of the financial transactions they enter into has changed, becoming more sophisticated and opaque.

The Bakrie Group is one of the most significant business group in Indonesia because they needed to address the enormous debts they were carrying following the Asian economic crisis in 1998.

Using this study as a starting point, further investigations into the effectivity of financial supervision are needed. Firstly, quantitative data related to breaches by other political businesses should be collected and analysed to provide further empirical evidence of the effectivity of financial supervision on the capital market. Secondly, an investigation of state bank loans and BLBI issues, which imply corporate political connections, is also required. Thirdly, using data from these studies, the coalitions of politico-bureaucrats and businesses in the post-crisis era and its power relationship with the coalitions of capital controllers and international financial institutions should be empirically analysed.

Finally, to enable a comprehensive analysis of the effectivity of financial regulation, the political interventions of OJK should be examined. With the emergence of so-called "Fintech" in relation to financial transactions in the upcoming digital era, which has led to the development of more sophisticated transactions involving greater risks, discussion may need to be delivered on independence and authority of the regulators in the power struggles, rather than their capacity to supervise the transactions being undertaken by businesses such as the Bakrie Group.

Acknowledgement

I thank Geoff Whyte, MBA, from Edanz Group (www.edanzediting.com/ac) for editing a draft of this manuscript.

Funding

This work was supported by The Resona Foundation for Asia and Oceania, 2015－2016 under Research study grants No. 2715; and JSPS KAKENHI under grant number 18K18265, 2018.

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Appendix.

Requirements for Listing in Indonesia Stock Exchange

	Main Board	Development Board
Governance	a) independent commissioners comprising at least 30% of the board of commissioners; b) at least one independent director on the managerial board; c) an audit committee; d) an internal audit unit; and, e) a corporate secretary.	
Years in operation	36 months	12 months
Operating income	shall be presented for the previous year	not required
Financial reports	three years report	publish the previous year
Net operating income	more than Rp. 100 billion	more than Rp. 5 billion
The public for listing	at least 300 million shares	at least 150 million shares
Minority shareholdings*	after its public offering, minority shareholders hold no less than 300 million shares	after its public offering, minority shareholders hold no less than 150 million shares
	*those minority shareholdings must consist of; a) at least 20% of the total issued and paid up capital for companies whose total equity before the public offering is not more than Rp. 500 billion; b) at least 15% of the total issued and paid up capital for companies whose total equity before the public offering is more than Rp. 500 billion but not more than Rp. 2 trillion; or c) at least 10% of the total issued and paid up capital for companies whose total equity before the public offering is more than Rp. 2 trillion.	
Total number of shareholders	at least 1000	at least 500

Source: IDX's Decree No. kep-00001/BEI/01-2014