



**Ministry of Finance of the Republic of Indonesia
Indonesian Capital Market Supervisory Agency**

PRESS RELEASE

**Business Model of Indonesian Capital Market
(Demutualization of Stock Exchange and Development of Securities Company)**

In order to achieve Indonesian Capital Market vision "To Develop Globally Competitive Markets, as an Activator of National Economy" declared in Indonesian Capital Market Blue Print for 2000-2004 period, Indonesian Capital Market requires two ideal conditions for the future. These two conditions are:

1. To develop strong Indonesian capital market as the activator of the national economy.
2. To develop the Indonesian capital market to be able to compete in the global environment.

In acquiring those conditions, Indonesian Capital Market has to deal with numerous challenges and obstacles. The challenges emerge from the globalization by the enactment of AFTA, remote trading and on-line trading system. These circumstances will allow Indonesian Securities Companies to operate in other nations of ASEAN as freely as other foreign securities companies operate in Indonesia. Therefore, for the Indonesian Capital Market participants to be able to compete with those of from other nations, it needs a strong commitment from the participants itself.

The current obstacle faced by Indonesian Capital Market is a multi-dimension crisis started in 1997. For the most part, the crisis can be easily spotted from the decline in JSX's daily transaction average (equity) from Rp598.7 billion in 1999 to Rp513.7 billion in 2000 and further decreased to Rp396.7 billion in 2001. It also reflected in JSX's composite index that at the end of 1999 was 676.919, declined to 416.32 at the end of 2000, and fell to 392.036 at the end of 2001.

These unconvincing conditions have caused a direct impact on Securities Companies' condition. In 1999, 2000, and 2001, the number of Securities Companies suffers a loss inflated to 25%, 54%, and 48% respectively. Whereas, the number of securities companies that has to endure a net-loss is less than those

of companies that endures operating loss, the reason was lots of securities companies have other revenue/other than their core business, such as revenue from interest of a deposit. Also added the poor conditions are too many Securities Companies operated in Indonesia and the non-dispersed transaction value amongst Securities Companies. These are displayed from the percentage of Securities Companies' transaction value for the last three years, 28 Securities Companies (a 14 % of the total of Securities Companies in Indonesia), have dominated a 60% of Indonesian capital market transaction value, and the rest, 40%, was shared by 175 Securities Companies (a 86% of the total of securities companies in Indonesia). Meanwhile, the smallest daily average of NAWC (Net Adjusted Working Capital) throughout 2001, is a minus Rp25,245,833,581.00 and the largest one is a Rp232,655,758,626.00. This condition illustrates such a big disparity in Securities Companies' NAWC daily average.

The small amount of transaction in Exchange was automatically influenced SROs' performance. In 1999, the operating profit of JSX, SSX, ICGC, and ICSD related to trading value was 74.53%, 48%, 99.99%, and 92.27% respectively. And for the year 2000, the number of those of company's generally declined to 54.22%, 37.18%, 99.99%, and 72.95% respectively. In 2001, the number, again, fell to 40.75%, 15.32%, 99.99%, and 44.80% respectively.

Considering Indonesian Capital Market's condition for the last few years, the focus of Indonesian Capital Market for the next five years will be on the development of market infrastructure and participants designed to reconstruct an Indonesian Capital Market that are be able to create a global competitive and stimulate a strong national economy. To carry out the idea, Bapepam in collaboration with SROs comprising of JSX, SSX, ICGC, and ICSD forms up two working-teams namely Demutualization Team which focus on a study in the development of Indonesian Capital Market infrastructure, and Securities Company Development Team. Currently both teams have finished their analyses and made the reports.

A. The results of a Study on Stock Exchange Demutualization.

- 1). With regard to promote efficiency and competitiveness of Indonesian Capital Market, one prime target of the development of Indonesian Capital Market is to reorganize the institution of Exchange, Clearing Guarantee Institution, and Settlement Institution in Indonesia. Moreover, the organizational change in Stock Exchange is also intended to ensure that Exchanges, Clearing Guarantee Institution, and Settlement Institution are prepared to face the revolutionary market development by cohesively improving their own institution performance through a creation of flexible business structure and a strategic orientation of expanding commercial activities in each institutions.
- 2). The reorganization will be followed by demutualization that principally separates shares ownership from membership. Stock Exchange Demutualization is a necessity for financing, improving good corporate

governance implementation in products development, developing infrastructure, increasing the shares value of stock exchange and exchange members, persistently developing the market, and creating a method to sell exchange shares without losing exchange membership.

- 3). Base on the Team's analysis, there are four models of exchange demutualization which are Direct Demutualization, Investment Holding Company, Operating Holding Company Non Self Regulatory Organization (SRO) and Operating Holding Company SRO. Also base on the team analysis, the model of exchange demutualization appropriate for Indonesian stock exchange is Operating Holding Company SRO model. In this model, the shareholders of stock exchange (JSX, SSX, Clearing Institution, and Settlement Institution) jointly establish a holding company that owned the majority shareholders of stock exchange. The holding company will assist its subsidiaries operational such as investment, and conduct supporting services for its subsidiaries, except for performing SRO business.
- 4). The recommendation to implement Stock Exchange demutualization is broken up into four phases, which are:
 - a). *Phase one*: Socialization of Stock Exchange demutualization to SRO shareholders, members of The House of Representative of Indonesia, Ministry of Justice and Human Rights of Indonesia and public. This phase will be carried out in first half of 2002.
 - b). *Phase two*: Establishment of SRO Restructuring Committee and Holding Company Founding Committee will be conducted in second half of 2002.
 - c). *Phase three*: Establishment of The Holding Company, will be carried out in the first half of 2003.
 - d). *Phase four*: Business development and distribution of shares ownership of the Holding Company, will be carried out in the second half of the 2003, afterwards the holding company will be turned into a public company in the first half of 2004.
- 5). In the implementing demutualization in Indonesia, the team recommends a number of things need to be noted for, such as:
 - a). Stock Exchange operational is run by its subsidiaries, whereas the non operational is run by the Holding Company or a subsidiary especially established by the Holding Company which then decide the subsidiary's general policy.
 - b). The Holding Company and Subsidiaries are two-separate entities, which have their own organization structure pursuant to Law Concerning the Limited Liability Company (UUPT), the holding company will be a majority shareholder of subsidiaries.
 - c). Stock Exchange ownership is limited to 5% up to 15% of its paid-in capital.

- d). All capital market provisions that are not corresponding with Stock Exchange demutualization should be subjected to change.

B. The Result of Study and Development of Securities Company.

- 1). The method of research includes: data collection, library research, classification, analyses, and formulation of recommendations. Derived from data and information which have been collected, Securities Companies are classified by using relevant variables that includes clients, human resources (HR), Financial Condition (FD), BOFIS (Brokerage Office System), Risk Management (RM), Compliance, Net Adjusted Working Capital (NAWC), and transactions. The results of assessment using those variables is shown below:

Grade (value)	Number of Companies base on variables								Whole Assessment
	Clients (15%)	HR (10%)	FD (10%)	BOFIS (12,5%)	RMC (10%)	Compliance (12,5%)	NAWC (15%)	Transactions (15%)	
6	7	14	6	43	4	13	9	40	9
5	11	28	12	36	7	28	15	13	31
4	27	32	33	53	46	55	95	11	66
3	47	34	28	38	68	49	8	59	65
2	74	50	43	8	9	24	62	24	14
1	22	30	58	10	53	12	2	39	11
NA	15	15	23	15	16	1	0	0	8

NA: Securities companies that do not submit their Financial Statement, have a different Financial Statement date, and inactive.

- 2). The classification of Securities Companies is divided into 6 (six) categories then squeezed into 3 (three) groups considering the securities companies business specification and homogeneous condition;
- Group A consists of Securities Companies that have 5 or 6 grade. 40 securities companies that seize 61,38% transaction in exchange in 2001 are classified into this group. This Securities Company characteristic in this group can represent a preliminary model of an ideal securities company and lay out basic requirements for Exchange member.
 - Group B consists of a 4 grade Securities Company amounting 44 securities companies that seize 27.70% transactions in Exchange. Securities companies in this group can continue to handle clients'

account and still become Exchange Members however they should take a number of improvements on their capital structure, NAWC, BOFIS, human resources or merge with other securities companies. The securities companies classified into this category can also choose to become a non-Exchange Member Securities Company, which does not manage clients' account, by forming up a mutual co-operation with the exchange member.

- c). Group C consists of 3, 2, 1, and NA grade Securities Company totalling 97 Securities Company that seize 10.92% transactions in Exchange. Securities companies that fit into this category are recommended to become non-Exchange Member that does not manage clients' account. Securities in this group can also choose to become exchange member by improving their capital structure, NAWC, BOFIS, human resources, and or merge with other securities company.
- 3). The team also performs NAWC simulation to attain value of NAWC that suits with current condition. This simulation was performed on Securities Companies that are graded below 6, 5, and 4 with an assumption of they are in break-even point condition.
 - 4). Recommendations and measures of development that need to be taken are:
 - a). Upgrading the requirements of becoming an Exchange Member such as increasing the minimum amount of Securities Company's paid-in capital and NAWC to Rp25 billion and Rp20 billion respectively without considering Sub-Ordinated Loan in NAWC calculation, changing the requirement in organizational structures to a minimum of 6 (six) divisions, increasing a minimum member in a board of directors into 3 (three) directors who posses sufficient knowledge that suits with the position and setting up a minimum specification standard of Brokerage Office System (BOFIS).
 - b). If an exchange member incapable to make adjustments in the requirements of company's minimum paid-in capital, NAWC, and other qualifications, an exchange member can release its exchange membership and becomes a non-exchange member securities company without losing their shares ownership in the exchange with regard to exchange demutualization plan.
 - c). Lowering the qualifications for becoming a non-exchange member securities company that manage clients' account and upgrading the qualifications for a non-exchange member securities company that has an underwriting business.
 - d). Bapepam has to prepare the supervision schemes on the non-exchange member securities companies.
 - e). Requiring securities companies to implement Good Corporate Governance and SOP concerning knowing its clients.

- f). Adding up provisions in connection with measures to increase supervision on Securities Company and protection of investors and also persistently develop domestic retail investor.
- g). Encouraging SROs, associations, and other parties to organize advanced education for directors of Securities Companies including the Indonesian Securities Firms Association (APEI) with the purpose of establishing securities company code of ethic.

Jakarta, 19 June 2002

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