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Legal Aspects of the Capital Market Position and Benefits in Indonesia: A Comparative Study

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Abstract

Introduction: *Capital markets play a crucial role in the economic growth of many countries, including Indonesia and Malaysia. Capital markets raise funds and serve as investment instruments. Through various instruments, such as stocks, bonds, and mutual funds, investors need information to obtain a clear portfolio that makes them confident in investing their funds in Indonesia or Malaysia.*
Purposes of the Research: *This study aimed to analyze the legal positions and benefits of capital markets in Indonesia and Malaysia.*
Methods of the Research: *This study was legalistic, doctrinal, or normative, using a comparative law approach to compare the legal position and benefits of the capital market in Indonesia with Malaysia.*
Results of the Research: *Capital markets are crucial in Indonesia's and Malaysia's economies. To protect market players, Indonesia issued Law Number 8 of 1995 on the Capital Market and related instruments, such as Law Number 4 of 2023 on Financial Sector Development and Strengthening and Law Number 21 of 2011 on the Financial Services Authority (OJK). Similarly, Malaysia issued the Capital Markets and Services Act of 2007 to provide legal certainty and increase investor confidence. The capital market significantly impacts economic growth in both countries, serving as a crucial component of the economic ecosystem by providing investment opportunities through corporate actions, such as initial public offerings, secondary share issuances, and bond offerings.*

Keywords: Legal Aspects; Positions; Benefits; Capital Market.

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INTRODUCTION

Capital markets are essential to boost a nation's economic growth. Essentially, they function as venues in which buyers and sellers conduct transactions to obtain capital.[1] In the capital market, sellers are entities known as issuers (emittens) that offer securities. Conversely, buyers are investors who provide capital to companies that they consider potentially profitable. Indonesia's stock exchange system comprises the Jakarta Stock Exchange and the Surabaya Stock Exchange, which together form the backbone of the nation's capital markets. The capital market serves as a financial platform where long-term financial instruments, such as bonds, stocks, mutual funds, derivatives, and other securities, are traded.[2]

[1] Fitria Puteri Sholikah, Windi Putri and Rosalinda Maria Djangi, "Peranan Pasar Modal Dalam Perekonomian Negara Indonesia," *Arbitrase: Journal of Economics and Accounting* 3, no. 2 (2022): 341–45.
[2] Putri Kemala Dewi Lubis et al., "The Role of the Capital Market in Increasing Economic Growth in Indonesia," *Indonesian Journal of Interdisciplinary Research* 2, no. 5 (2024): 557–68, https://doi.org/10.55927/marcopolo.v2i5.9322.

The capital market functions as a crucial conduit for public fundraising and presents a spectrum of investment alternatives for prospective investors. Within this framework, indirect investment, typically facilitated through capital market instruments such as stocks, bonds, and mutual funds, emerges as a favored option among investors seeking financial returns without direct engagement in corporate governance. This mode of investment enables the channeling of publicly sourced funds into diverse economic sectors, thereby fostering national economic development.[3]

The main challenge in these investments is to ensure that they provide both short-term returns and long-term sustainability. In today's global landscape, sustainability holds significant importance, as Environmental, Social, and Governance (ESG) issues are becoming increasingly major concerns for investors and stakeholders.[4] Consequently, sustainability is viewed not only as a means to maintain ecological equilibrium but also as a strategic approach to mitigating investment risks and enhancing long-term value creation, thereby generating returns for investors.

To facilitate capital investment, the role of capital markets in Indonesia in promoting indirect and sustainable investment is increasingly significant. As a developing nation with substantial economic potential, Indonesia requires a legal and regulatory framework that can support the growth of a robust and sustainable capital market. The Indonesian government issued Law Number 8 of 1995 on the Capital Market and other related legal instruments, such as Law Number 4 of 2023 on Financial Sector Development and Strengthening and Law Number 21 of 2011 on the Financial Services Authority (OJK). These two regulations aim to guarantee and protect business owners who invest in capital in Indonesia.[5]

Substantial national events can have detrimental effects on a country's capital market. The uncertainty arising from fluctuating political and socioeconomic conditions drives the capital market sector, especially investors, to gravitate towards more stable portfolio platforms within the capital market.[6] Investment portfolios that demonstrate reduced sensitivity to domestic news and events can potentially offer increased resilience to financial instability. The global financial crises of 1997 and 2008 illustrate that setbacks affected diverse asset categories across all markets. However, the stock market is expected to generate long-term gains because of its ability to function as an alternative investment option despite being more vulnerable to crises.[7]

Legal instruments are expected to play a significant role in establishing a favorable investment climate, safeguarding investors' interests, and ensuring that investment activities are conducted in a transparent, equitable, and dependable manner.[8] In the absence of effective regulation, the capital market may be susceptible to various risks, including

[3] H Safaruddin, B, L Millia, and Suriadi, "Analisis Faktor-Faktor Yang Mempengaruhi Investasi Dalam Negeri Di Indonesia," *Jurnal Ekonomi Pembangunan* 2 (2023): 967–77.

[4] Friska Dhea Narulita et al., "Pengaruh Tren Environmental Social Governance (ESG) Terhadap Strategi Portofolio Di Pasar Modal Indonesia," *Jurnal Akutansi Manajemen Ekonomi Dan Kewirausahaan* 5, no. 1 (2025): 1–9.

[5] Dita Miranti, "The Role Of Capital Markets In The Indonesian Economy," *Journal of Accounting and Management* 1, no. 1 (2024): 13, https://doi.org/https://doi.org/10.37676/jam.v1i1.362.

[6] Wina Meilia Waspadiana Handoko and Supramono Supramono, "Sentimen Investor Terhadap Peristiwa Terorisme Berbasis Fundamental Perusahaan (Studi Pada Peristiwa Serangan Bom Sarinah 14 Januari 2016)," *Jurnal Akuntansi Dan Keuangan* 19, no. 2 (2017): 122–32, https://doi.org/10.9744/jak.19.2.122-132.

[7] Mochamad Zaqi, "Reaksi Pasar Modal Indonesia Terhadap Peristiwa - Peristiwa Ekonomi Dan Peristiwa - Peristiwa Sosial Politik Dalam Negeri" (Universitas Diponegoro, 2006).

[8] Miftakhur Rokhman Habibi, *Hukum Pasar Modal Indonesia: Perkembangan Hukum Pasar Modal Era Kolonial Hingga Era Digital* (Malang: Inara Publisher, 2022).

market manipulation, insider trading, and legal uncertainty, which can ultimately undermine investor confidence and deter capital investments in Indonesia.[9]

Despite being governed by various regulations, the Indonesian capital market continues to face significant challenges in implementing capital market law. These challenges are particularly evident in the efforts to stimulate sustainable indirect investment, which has the potential to boost Indonesia's economic growth. Conversely, Malaysia's investment landscape is perceived as more favorable, attributed to its efficient functioning capital market and the legal assurances it provides investors. The unique obstacles and challenges faced by individual nations make them compelling subjects for scholarly inquiry, particularly when examining the role and potential advantages of capital markets in stimulating economic growth in countries such as Indonesia and Malaysia.

The capital market is a financial market that connects fund owners with fund users for medium-term and long-term investment purposes. The existence of the capital market can boost the national economy for the advancement of Indonesia. The capital market provides a solution for the community's economy, which also impacts the national economy by providing a vehicle for meeting development financing needs. Of course, the capital market is supervised by the government and the Indonesia Stock Exchange (IDX).[10]

The Capital Market is a forum used to seek profits by Issuers and Investors. Basically, the issuer, as the owner of the interest, will offer to sell the shares to be purchased by the investor, as the owner of the funds. The main objective of the transactions is to obtain mutual benefits from parties who need capital for development and investors who will receive dividends from the profits generated. There are various kinds of options in the Capital Market that can be selected and then purchased according to the considerations and agreements reached.[11]

LITERATURE REVIEW

The capital market functions as a hub for trading a wide range of long-term financial instruments, including debt and equity securities, as well as documents issued by government agencies, private firms, and public institutions.[12] The capital market functions as a venue for investors to assess and allocate resources across a spectrum of investment alternatives, with companies seeking capital to participate in this ecosystem.[13] From a corporate perspective, the capital market is a conduit for obtaining supplementary long-term financing to sustain and expand business operations.

The capital market serves as a mechanism for channeling funds and as an alternative for individuals with surplus funds (lenders) to allocate resources to entities that require funds (borrowers) for long-term investments. Lawrence J. Gitman defined the capital market as a venue where sellers and buyers convene to engage in the exchange of funds within an

[9] Hilda Hilmiah Dimyati, "Perlindungan Hukum Bagi Investor Dalam Pasar Modal," *Jurnal Cita Hukum* 1, no. 2 (2014): 341–56.

[10] Fitria Puteri Sholikah, Windi Putri, Rosalinda Maria Djangi, "Peranan Pasar Modal Dalam Perekonomian Negara Indonesia," *Arbitrase: Journal of Economics and Accounting* 3, no. 2 (2022): 23-37. 10.47065/arbitrase.v3i2.496 https://djournals.com/arbitrase.

[11] Asyfiq Mutho, et.all, "Knowledge and Explanation of Capital Markets in General to Deepen the Insight of Economic Studies", *Magister: Manajemen Strategis dan Terapan* 1, no. 1, (May 2024): 56-70.

[12] Sindi Martin, Dhita Dwi Prestya Aryani, and Samuel Arjuna T, "The Role Of The Capital Market For Economic Development In Indonesiatitle," *Research In Accounting Journal* 3, no. 1 (2021): 500–507, https://doi.org/http://journal.yrpipku.com/index.php/raj.

[13] Joelman Subaidi and Budi Bahreisy, "The Legal Position of Corporate Crime in Indonesia," *International Journal of Law, Social Science, and Humanities (IJLSH)* 1, no. 1 (2024): 50–55, https://doi.org/https://doi.org/10.70193/ijlsh.v1i1.143.

SASI, 31 (2) June 2025: 159 - 171
P-ISSN: 1693-0061, E-ISSN: 2614-2961
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official institution, specifically a stock exchange, which comprises various financial instruments (securities) with maturities exceeding one year.[14]

Capital markets can also be defined as marketplaces for trading various long-term financial instruments (securities), encompassing both debt and equity securities issued by private corporations.[15] Thus, the capital market is a place to trade securities issued by securities-related institutions and professionals. The Islamic capital market encompasses activities related to the public offering and trading of securities, public companies in relation to their issued securities, as well as institutions and professions associated with securities, all of which are conducted in accordance with Sharia principles The aforementioned perspectives on the capital market exhibit a common thread, despite being articulated through diverse phrasing.[16] The central premise remains consistent: the capital market serves as a platform for transactions between entities possessing capital and those that require it.

Husnan describes the capital market as a venue for trading a variety of long-term financial instruments, which are issued by both the government and private corporations.[17] Haroen explained the fundamental similarity between capital markets and traditional marketplaces, emphasizing that both facilitate transactions between buyers and sellers. He highlighted that the primary distinction lies in the nature of the traded commodity, which, in the case of capital markets, is financial capital.[18] As defined by Darmadji and Fakhruddin, the capital market functions as a trading venue for an array of long-term financial instruments. These instruments include debt securities, equity shares and other financial products.[19]

Based on Article 1 paragraph 13 of the Capital Market Law Number 8 of 1995 which regulates the Capital Market, the definition of the Capital Market is "an activity related to the conduct of public offerings and securities trading, public companies related to the securities they issue, as well as securities-related institutions and professions." The Decree of the Minister of Finance of the Republic of Indonesia, Number 1548/KMK/90, which pertains to capital market regulations, conceptualizes the capital market as a comprehensive financial framework. This framework encompasses not only commercial banks but also all financial intermediaries operating within the sector along with the entirety of securities circulating within the capital market itself.

The primary players in the capital market, along with the institutions that facilitate the transaction process, are listed below: 1) Emitmen: Organizations that offer securities or issues on exchange (referred to as backers). In transmission, the backer has various objectives that are typically articulated in the General Shareholder Meeting (GSM), including business expansion, utilization of capital obtained from investors for market development or production capacity enhancement, improvement of capital structure,

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[14] Lawrence J. Gitman, *Principles of Management Finance* (U.S.A: John Wiley & Sons Ltd, 1983).

[15] M.Irsan Nasaruddin and Indra Surya, *Aspek Hukum Pasar Modal Indonesia* (Jakarta: Prenada Media Group, 2004).

[16] Dwi Oktareza et al., "Transformasi Digital 4.0: Inovasi Yang Menggerakkan Perubahan Global," *Cendekia : Jurnal Hukum, Sosial Dan Humaniora* 2, no. 3 (2024): 661–72, https://doi.org/https://doi.org/10.5281/zenodo.12742216.

[17] Ambok Pangiuk, "Kepemilikan Ekonomi Kapitalis Dan Sosialis (Konsep Tauhid Dalam Sistem Islam)," *Nalar Fiqh; Jurnal Ekonomi Islam Dan Kemasyarakatan* 4, no. 2 (2011): 4.

[18] Aditya Taufan Nugraha and Irman, "Perlindungan Hukum Zona Ekonomi Eksklusif (ZEE) Terhadap Eksistensi Indonesia Sebagai Negara Maritim," *Jurnal Selat* 2, no. 1 (2014): 156–67.

[19] Ai Permanasari, Aep Sulaeman Sirrinawati, and Suarman Gulo, "Air Traffic Law Segmentation in the Era of Industrial Revolution 4.0 Challenges and Solutions Based On Futuristic Legal Perspective," *International Journal of Law, Social Science and Humanities (IJLSH)* 2, no. 1 (2025): 136–43, https://doi.org/https://doi.org/10.70193/ijlsh.v2i1.210.

SASI, 31 (2) June 2025: 159 - 171
P-ISSN: 1693-0061, E-ISSN: 2614-2961
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balance between equity and debt capital, and facilitation of investor activities. Switching from old to new investors; 2) Investors: Financial entities acquire or allocate capital to issuing corporations (designated investors). Before purchasing the protection offered, most financial backers or investors conduct special investigations. These checks include the original organization, business prospects of the backer, and other investigations. Furthermore, investors’ primary objectives in the capital market include the generation of returns. The focus is on the potential benefits gained through the interest paid by the issuer as a profit. Securities are traded at premium prices with the expectation that shares will appreciate value, thereby increasing profits from trading these equity instruments; 3) Supporting institutions: These institutions focus on facilitating capital market operations, thereby simplifying the processes for guarantors and funders involved in various capital market-related activities: a) Underwriter: An institution that underwrites the sale of shares or bonds until a specified date and can secure the desired funds for the issuer. Underwriters are divided into four types: full, best effort, standby, and all or none. Based on their functions and responsibilities, underwriters can be divided into lead, managing, and CO underwriters; b) Broker: A broker serves as the intermediary in the purchase and sale of securities, functioning as a mediator between the seller (issuer) and buyer (investor). Brokers’ responsibilities include providing information about issuers offering securities to investors; c) Dealer: Securities dealers and traders in the capital market function as intermediaries in the purchase and sale of securities. Institutions engaged in securities trading within the capital market include securities trading intermediaries, banks, non-bank financial institutions, and limited liability banks; d) Guarantor: Intermediate institution positioned between the trustor and trustee. Guarantor services are typically required in the issuance of bonds; e) Trustee: Trustees serve as crucial intermediaries between bondholders and issuers in bond investments. This role includes a multifaceted set of responsibilities, such as the assessment of the issuer's financial health, evaluation of their operational capabilities, ongoing monitoring and facilitation of the issuer's growth, provision of expert counsel to investors regarding issuer-related matters, vigilant oversight of interests and principal repayments, and the execution of payment agent duties; f) Securities Company: Securities companies specialize in trading securities on stock exchanges. Securities companies include securities traders, underwriters, and securities trading broker fund managers; g) Stock administration office: An administrative office that facilitates the operations of issuers and investors, provides assistance in various capacities such as supporting issuers within the issuance framework, executing activities related to the deposit and transfer of investors' share rights, aiding in the compilation of shareholder lists, preparing the issuer's correspondence to shareholders, and generating requisite reports.

METHODS OF THE RESEARCH

This study employed a legal, doctrinal, or normative approach. According to Yaqin, a normative study aims to identify, describe, assess, analyze, and systematically propose certain facts, principles, concepts, theories, and laws to discover new knowledge and ideas to be suggested as a change or renewal.[20] This study conducted a comprehensive analysis of all relevant documents, references, facts, theories, doctrines, and legal statutes pertaining to the reverse burden of proof within the frameworks of Islamic and Indonesian criminal law. This study used a comparative law approach. According to Watson, the comparative

[20] A. Yaqin, ‘Legal Research and Writting’, *Malayan Law Journal SDN BHD*, 1 (2018), 10.

law methodology involves examining the interconnections within a nation's legal framework or juxtaposing legislative systems across different countries worldwide.[21] The comparative law approach was not sufficient to provide a descriptive data analysis. From the perspective of comparative law, it is essential to compare legal systems across different countries and view the law as a comprehensive system. Consequently, a descriptive explanation alone is inadequate; rather, it is necessary to explore the contextual background of legal implementation and creation within the country that serves as the object of study.[22] The comparative law approach aimed to compare the positions and benefits of the capital markets in Indonesia and Malaysia.

RESULTS AND DISCUSSION

A. Positions of the Capital Market in Indonesia

In 1942, the capital market in Indonesia was initiated with Dutch companies and the Dutch East Indian government overseeing the exchange of stocks and bonds.[23] Subsequently, with the escalation of the global conflict, capital market operations were suspended. Following Indonesia's attainment of independence, in 1950, the Indonesian government reestablished the Stock Exchange, predicated on Emergency Law Number 13 of 1951, which was subsequently complemented by the enactment of Law Number 15 of 1952 concerning Indonesian Government Bonds. Over time, the capital market in Indonesia has continued to evolve, with capital market participants being afforded governmental assurance and protection through the implementation of Law Number 8 of 1995 concerning Capital Markets.[24]

In the modern economic landscape, the capital market serves as a pivotal institution, functioning as both a fundraising platform for corporations and governments, and as an investment channel for the general public. Through various financial instruments such as stocks, bonds, and mutual funds, the capital market enables investors to accrue profits without direct involvement in asset management. However, the success of the capital market in achieving these objectives largely depends on the effectiveness of the regulatory framework governing the capital market's operations. Law No. 8 of 1995 on the Capital Market (Capital Market Law) is the main legal protection that regulates various activities in the Indonesian capital market. In general, Capital Market Law is designed to create an efficient, transparent, and fair capital market. However, the effectiveness of this law in creating an optimal investment environment still needs further analysis.[25]

The adaptability of Capital Market Law to a rapidly evolving capital market landscape remains a critical issue. In the period following the enactment of the law, the investment sphere experienced profound changes, notably with the introduction of novel and sophisticated investment vehicles. Concurrently, there is a growing demand for enhanced transparency and sustainability measures in the market. The applicability of the Capital

[21] I Made Pasek Diantha, *Metodologi Penelitian Hukum Normatif Dalam Justifikasi Teori Hukum* (Jakarta: Prenanda Media Group, 2017).

[22] Theresia Anita Christiani, "Normative and Empirical Research Methods: Their Usefulness and Relevance in the Study of Law as an Object," *Procedia-Social and Behavioral Sciences* 219 (2016): 201–7, https://doi.org/http://dx.doi.org/10.1016/j.sbspro.2016.05.006.

[23] Dini Selasi, Puput Indiyani, and Siti Jolehah, "Peran Pasar Modal Dalam Pertumbuhan Ekonomi Di Indonesia," *Moneter : Jurnal Ekonomi Dan Keuangan* 3, no. 1 (2025): 74–89, https://doi.org/https://doi.org/10.61132/moneter.v3i1.1085.

[24] Daniel Parulian Lumbantoruan et al., "Analysis of the Role of the Capital Market in Indonesia's Economic Development: Challenges and Prospects in the Future," *Experimental Student Experiences* 3, no. 3 (2024): 579–83, https://doi.org/https://doi.org/10.58330/ese.v1i7.

[25] Nyoman Putu Budiartha, "Restriction and Incentives of Investment in Indonesia: Considering the Provisions of Basic Agrarian Law and Capital Market Law," *European Research Studies Journal* 21, no. 2 (2018): 178–88, https://doi.org/https://doi.org/10.35808/ersj/993.

SASI, 31 (2) June 2025: 159 - 171
P-ISSN: 1693-0061, E-ISSN: 2614-2961
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Market Law to modern financial instruments, such as exchange-traded funds (ETFs), Sukuk (Islamic or "Sharia-compliant" bonds), and derivatives, is questionable. Consequently, it is imperative to evaluate whether the current Capital Market Law adequately addresses the evolving needs of the financial sector or whether amendments are required to effectively regulate these modern financial innovations.

Furthermore, the efficacy of Capital Market Law must be evaluated from the perspective of implementation and enforcement. While Capital Market Law provides a robust legal framework, its practical application often encounters challenges in real-world scenarios. One issue that often arises is consistency in law enforcement and transparency in market surveillance. There are concerns that enforcement actions are predominantly reactive, rather than proactive, potentially diminishing investor confidence in the Indonesian capital market. Indirect investment through capital markets, such as mutual funds, bonds, and stocks, provides numerous advantages to investors, particularly regarding risk diversification and liquidity accessibility.[26] However, the effectiveness of these instruments is highly dependent on the regulations governing and overseeing their operations.

Mutual funds have emerged as a prominent investment option, attracting widespread popularity due to their ability to provide portfolio diversification and professional oversight by fund managers. However, there are significant challenges associated with transparency and accountability in mutual fund management. Despite the establishment of investment managers and reporting obligations under Law Number 21/2011 on the Financial Services Authority (OJK), instances of irregularities, such as mismanagement or inadequate information disclosure, remain prevalent. This phenomenon raises questions regarding the efficacy of existing regulations in protecting the interests of mutual fund investors.[27] Moreover, investors' accessibility of comprehensive information to make judicious investment choices remains a significant concern. Despite the OJK regulations mandating disclosure, the average investor often encounters difficulties in obtaining or interpreting disclosed information. This information disparity creates an environment susceptible to exploitation by unethical entities seeking to capitalize on uninformed investors.

The Financial Services Authority (OJK) and Indonesia Stock Exchange (IDX) constitute the primary institutions responsible for the supervision and implementation of capital market legislation in Indonesia. The function of these two entities is essential to ensure that the capital market operates in accordance with the principles delineated in the Capital Market Law and the associated regulations. As a supervisory institution, OJK has the authority to issue regulations, oversee their implementation, and take legal action against violations in the capital market. However, the effectiveness of OJK is often questioned, especially in relation to law enforcement and speed in responding to issues that arise in the capital market.[28]

The IDX serves a crucial function as a securities trading organizer and a market regulator. A significant challenge confronting IDX is the establishment of a liquid and equitable market for all participants. Despite the implementation of various regulations by the IDX to

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[26] T. Tauhiddah, B. Azheri, and Y. A. Mannas, "Kewenangan Penyelesaian Sengketa Konsumen Lembaga Pembiayaan Antara Badan Penyelesaian Sengketa Konsumen (BPSK) Dengan Lembaga Alternatif Penyelesaian Sengketa (LAPS)," *De Lega Lata* 5, no. 1 (2020): 94–105, https://doi.org/https://doi.org/10.30596/dll.v5i1.3472.

[27] T Darmadji and H Fakhruddin, *Pasar Modal Di Indonesia* (Jakarta: Salemba Empat, 2006).

[28] Fajar Tri Pamungkas and Ahmad Arif Zulfikar, "Peran Otoritas Jasa Keuangan (OJK) Dalam Mengawasi Adanya Fraud Dalam Bisnis Investasi Dalam Perspektif Hukum Ekonomi Islam," *Jurnal Penegakan Hukum Dan Keadilan* 2, no. 1 (2021): 19–40, https://doi.org/https://doi.org/10.18196/JPH.

ensure trading integrity, concerns persist regarding the extent to which the IDX can effectively address violations, such as price manipulation and insider trading. Furthermore, the IDX confronts challenges in educating investors, particularly regarding the risks and opportunities associated with capital market investment. Despite various initiatives to enhance financial literacy, numerous investors lack a comprehensive understanding of the risks inherent in capital market investments. This situation indicates that the IDX needs to intensify its efforts to provide more accessible education and information to average investors, thereby facilitating broader public access to capital markets.

B. Position of the Capital Market in Malaysia

The Kuala Lumpur Stock Exchange (KLSE) is responsible for managing Malaysia's capital market. Bursa Malaysia traced its origins back to 1930, when the Singapore Stockbrokers Association was recognized as the official securities body in Malaya. In 1937, Bursa was reregistered under the name of the Malayan Stock Brokers' Association, but it did not participate in public share trading at that time. The Malaya Stock Exchange was founded in 1960, with public trading beginning on May 9. In 1961, a board system was introduced in two trading locations: Singapore and Kuala Lumpur. The Malaysian Stock Exchange was formally founded in 1964. The following year, after Singapore's separation from Malaysia, the exchange continued its operations as the Malaysia and Singapore Stock Exchange (MSSE). In 1973, the stock exchanges of Malaysia and Singapore were divided into the Kuala Lumpur Stock Exchange and Singapore Stock Exchange, which coincided with the end of the currency exchange agreement between the two countries.[29]

KLSE, or FTSE Bursa Malaysia KLCI, serves as the Malaysian market benchmark and is alternatively referred to as Bursa Malaysia Berhad. This exchange company was incorporated under Section 15 of the Capital Markets and Services Act of 2007. As a fully integrated exchange platform, it offers a wide array of services related to trading, clearing, settlement, and depository operations. Bursa Malaysia merged with the Singapore Exchange in 1964; however, when the exchange of Singapore and Malaysian currencies ceased in 1974, exchanges between the two countries were subsequently separated. Bursa Malaysia accommodated foreign shareholdings ranging from 17 to 39.6% annually, from 2007 to 2011. This index was calculated according to the FTSE global standard. Furthermore, the index was standardized to meet international requirements.[30] Bursa Malaysia is a member of the World Federation of Exchanges for its international scope, the Asian and Oceanian Stock Exchange Federation for the Asian and Pacific region, and the Commonwealth Free Trade Area and Stock Exchange, which is an organization of the British Commonwealth of Nations.

Malaysia's capital market demonstrates openness to foreign investors, offers opportunities for portfolio diversification, eliminates policies that impede investor growth, and provides tax incentives to stimulate foreign investment. Regulatory modifications should be implemented for exchanges, including the elimination of regulations such as brokerage commissions; enhancement of investor protection measures; reduction of systematic risks; and establishment of fair, efficient, and transparent market conditions.

[29] Yutaka Shimomoto, *The Capital Market in Malaysia* (Kuala Lumpur: Asian Development Bank and Chief Economist, 5804).

[30] Shamsher Mohamad, Taufiq Hassaw, and Muhammad Arief, "Research in an Emerging Malaysian Capital Market: A Guide to Future Direction," *Int. Journal of Economics and Management* 1, no. 2 (2007): 173–202.

According to Norizarina Ishak,[31] "Malaysia's capital markets are essential for releasing funds for profitable ventures. They provide investors with a platform to invest their resources in stocks, bonds, and other financial instruments, which are then used to fund beneficial endeavors, such as company growth, infrastructure improvements, and research and development. The growth of the capital levels. Both local and foreign investments can be attracted to a well-run capital market with strong regulatory frameworks and effective arbitrage, thereby promoting economic growth. Capital is channelled into productive industries through the capital market, contributing to the efficient allocation of resources. Capital markets use market demand and investor interests to meet the consumption of resources and channel funds for companies with stable growth through price mechanisms and market forces. This proves that resource efficiency boosts national economic growth."

The Capital Markets and Services Act 2007 regulations stipulate that the Malaysian capital market seeks to attract both domestic and foreign investment. Consequently, all governmental economic instruments, particularly those related to capital markets, must facilitate foreign investors' entry into Malaysia. The Malaysian Minister of Finance Regulation of 2023 established that the government should provide incentives to accelerate economic development in Malaysia. One primary objective of this regulation was to create a streamlined process for foreign investors seeking to invest in Malaysia.

Regulatory conflicts and changes often confuse the capital market participants in Indonesia and Malaysia. Regulatory changes should focus on developing a stock market trading system, meaning that conventional stock markets should eliminate trading mechanism possibilities. This will help the stock markets in both countries achieve an efficient trading environment in terms of information. The implementation of an electronic trading system ensures a fair and transparent trading environment that is directly related to investors, followed by a price cap system to maintain price stability and prevent speculation. These measures will help the stock markets in both countries achieve an efficient trading environment in terms of information.

The implementation of an electronic trading system ensures a fair and transparent trading system directly related to investors, thus ensuring fair and transparent market prices. This is followed by the implementation of a price cap system to ensure price stability and counter price speculation from investors. Stock markets in both countries attain an efficient trading environment with respect to information dissemination. The implementation of an electronic trading system aims to ensure a fair and transparent trading process that directly affects investors, thereby facilitating equitable and transparent market prices. This is followed by the implementation of a price cap system to maintain price stability and to serve as a measure of price speculation by investors.

C. Benefits of the Capital Market

Capital markets play a crucial role in economic activity. In numerous nations, particularly those adhering to a market economy system, the capital market serves as a significant driver of economic progress as it provides an alternative source of funds for corporations. The capital market serves as a venue for the exchange of various long-term financial instruments, such as debt securities (bonds), equities (stocks), mutual funds, derivatives, and other financial products. It acts as a source of funding for businesses and other entities,

[31] Norizarina Ishak et al., "The Impact of Capital Market Instruments on Malaysian Economic Growth," *Malaysian Journal of Science, Health & Technology* 11, no. 1 (2025): 53–67, https://doi.org/https://doi.org/10.33102/mjosht.v11i1.462.

SASI, 31 (2) June 2025: 159 - 171
P-ISSN: 1693-0061, E-ISSN: 2614-2961
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including the government, while also providing investment opportunities. Consequently, the capital market offers necessary facilities and infrastructure for buying, selling, and other related activities.

In the capital market, financial instruments with a maturity period exceeding one year are considered long-term. These include stocks, bonds, warrants, rights, mutual funds, and various derivative instruments. Capital Market Law Number 8 of 1995 defines the capital market as "activities related to the public offering and trading of securities, public companies related to the securities they issue, and institutions and professions related to securities".

Capital markets play a crucial role in a country's economy because of their dual functions. First, it serves as a mechanism for business funding, enabling companies to acquire capital from their investors. Funds sourced from the capital market can be directed towards a variety of uses such as fostering business growth, pursuing expansion initiatives, and bolstering working capital. Furthermore, the capital market acts as a conduit for public investment in financial instruments including stocks, bonds, mutual funds, and other securities. Consequently, individuals can allocate funds according to the risk-return characteristics of each instrument.

According to Siddique, the capital market in Indonesia plays an important role in moving monetary assets from those that experience an overabundance to those that experience an absence of assets. The capital market can build the efficiency and success of a nation and drive monetary development in the country. In contrast to Indonesia, Malaysia's capital market is a crucial component of the nation's financial market, significantly contributing to its economic landscape. Securing capital from the market can serve various purposes, including fostering business growth, facilitating expansion, and boosting working capital. The capital market supports the exchange of financial instruments such as stocks, bonds, mutual funds, and other securities.[32]

The governments of Indonesia and Malaysia are currently developing Islamic capital markets (ICMs). These markets act as channels through which businesses can secure funding from investors and subsequently apply these resources to expand their operations and enhance their working capital. Accordingly, the Islamic capital market should function as an alternative funding source for the development of Indonesia’s halal industry. This approach is likely to be attractive to investors, as it combines business and spiritual aspects, potentially rendering it meritorious from a religious perspective. Stakeholders anticipate that the capital market will have a significant impact on industry, potentially facilitating the export of products to international markets.

CONCLUSION

The capital market plays a crucial role in the Indonesian economy, especially as a platform to raise funds and as an instrument to invest in a country. Indirect investment offers investors the benefits of risk diversification and easy liquidity through instruments, such as stocks, bonds, and mutual funds. Therefore, to guarantee and protect capital market players, the Indonesian government issued Law Number 8 of 1995 on Capital Markets and other related legal instruments, such as Law Number 4 of 2023 on Financial Sector

[32] Febrian Permana, Muhammad Aris, and Syahpawi, “Industri Pasar Modal Syariah Di Malaysia Dan Indonesia,” *Madani: Jurnal Ilmiah Multidisiplin* 2, no. 4 (2024): 91–95.

Development and Strengthening and Law Number 21 of 2011 on the OJK. Similarly, the Government of Malaysia issued the Capital Markets and Services Act 2007 to provide legal certainty to capital market players to increase their confidence in investing in Malaysia. The governments of Indonesia and Malaysia have implemented various regulations aimed at establishing equitable, transparent, and sustainable investment environments. The capital market presents a wide range of benefits, including risk diversification, liquidity support, and potential for competitive returns. These advantages boost investor confidence in channeling capital into Indonesia and Malaysia through various capital market instruments such as stocks, bonds, mutual funds, and other types of products available in both nations. The capital market offers potential benefits by providing an alternative source of funding and investment opportunities for companies operating in accordance with established market principles. As an integral part of the economic landscape, the capital market significantly affects the economic progress in both Indonesia and Malaysia. Financial resources available through various corporate actions in the capital market, such as initial public offerings, subsequent share issuances, and bond offerings, are generally considered more efficient than funds obtained through traditional bank lending mechanisms. However, while capital market regulations in Indonesia and Malaysia have provided a strong legal foundation to promote sustainable investment, challenges remain, particularly regarding transparency and investor protection. Therefore, improvement measures are needed, including strengthening supervision, increasing investor awareness of sustainable investments, and adopting technology to support market transparency and efficiency.

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