

## Indonesia Equity Market Reform: Navigating MSCI & FTSE Accessibility Challenges

### Executive Summary

Indonesia's equity market underwent a significant structural reset in 1H26 as global index providers shifted their focus from economic growth prospects toward market investability. Although MSCI ultimately maintained Indonesia's Emerging Market status, concerns surrounding ownership concentration, limited effective free float, transparency, and liquidity triggered a broad market repricing. As a result, the JCI declined by -32,5% YTD to 6,177.14 as of 19 Jun '26 accompanied by foreign net outflows of IDR95.19 tn over the same period.

In response, Indonesian regulators introduced a comprehensive reform agenda through OJK, IDX, and the P2SK Law, including stricter free-float requirements, enhanced beneficial ownership disclosure, and stronger market oversight. These initiatives are aimed at addressing the concerns raised by global index providers while strengthening the credibility, transparency, and investability of Indonesia's capital market, thereby reducing the likelihood of a market reclassification and the risk of large-scale capital outflows.

Looking ahead, 2H26 is expected to mark a transition from market correction toward credibility rebuilding. Investor preferences are likely to increasingly favor companies with stronger governance, greater transparency, and deeper liquidity, while valuation premiums historically associated with concentrated ownership structures and limited free float are expected to diminish. The pace of recovery will depend largely on the consistency and effectiveness of reform implementation, which will be critical in restoring investor confidence and reinforcing Indonesia's position within global equity markets.

### September 2025: The Beginning of a Confidence Crack

Throughout 2025 to early 2026, the Indonesian capital market delivered strong performance, with the JCI reaching an all-time high of 9,134.70 on 20 Jan '26. The rally was supported by resilient domestic liquidity, strong retail participation, and solid earnings growth, particularly in the banking, consumer, commodity, and infrastructure sectors. Strong credit growth, resilient household spending, elevated commodity prices, and continued government investment programs helped sustain positive market sentiment and supported broad-based gains across the market. These factors reinforced Indonesia's appeal as one of the most promising emerging markets, offering attractive economic and capital market growth prospects.

However, beneath the strong market performance, global investor attention gradually shifted toward the quality of Indonesia's market investability. Concerns intensified as several large-cap stocks recorded substantial increases in market capitalization despite concentrated ownership structures, limited effective free float, and relatively low turnover ratios. This raised questions over whether the reported free float was fully investable and prompted closer scrutiny of Ultimate Beneficial Ownership (UBO) disclosures, shareholder links, and the gap between headline market capitalization and investable capitalization used by global index providers. As Indonesia's weight in global benchmark indices such as the MSCI Emerging Markets Index and FTSE Emerging Index increased, investors became more focused on whether the shares included in those indices were genuinely accessible and liquid enough for large institutional funds.

These concerns emerged as several large-cap stocks with limited public float and concentrated ownership structures gained greater prominence within global indices. While such companies appeared sizeable based on market capitalization, institutional investors found that the number of shares available for trading was often relatively limited, making portfolio implementation more challenging.

In response, MSCI published its "Consultation on Certain Topics Related to Free Float" in Sep '25. The consultation proposed a review of Indonesia's free float assessment methodology and explored the use of KSEI ownership data as an additional reference to better identify shares that were genuinely available to investors. At this stage, MSCI was seeking market feedback rather than announcing any immediate policy changes.

Within this context, MSCI identified three key areas of concern during its evaluation of the Indonesian market.

**Table 1. Indonesia Investability Quality Assessment Matrix (2025)**

No.	Assessment Area	Structural Deficiencies Identified	Expectations of Global Index Providers
1	Free Float Accuracy	Reported free float levels may not accurately reflect actual market conditions, as a portion of shares classified as public ownership may ultimately be controlled by beneficial owners through nominee accounts, affiliated investment vehicles, related-party entities, or offshore holding companies whose ultimate beneficial owners may not be fully transparent.	Minimum free float requirements should be enforced on a substantive basis, free from affiliated ownership influence, and should accurately reflect investable liquidity available in the regular market.
2	Ownership Concentration	Ownership structures remain highly concentrated among several major Indonesian conglomerates, including Barito Pacific, Sinar Mas, Djarum/Hartono, Lippo, and Salim groups, where layered holding structures and affiliated entities contribute to challenges in assessing effective free float and ultimate beneficial ownership.	Full transparency and comprehensive disclosure of Ultimate Beneficial Ownership (UBO) are required to ensure accurate ownership identification and governance assessment.
3	Liquidity Anomalies	Several companies, including Barito Renewables Energy (BREN), Petrindo Jaya Kreasi (CUAN), Dian Swastatika Sentosa (DSSA), and Amman Mineral Internasional (AMMN), exhibited substantial market capitalizations despite relatively limited trading liquidity compared with their index weight, raising concerns over effective free float, price discovery, and overall investability.	Price discovery mechanisms should function efficiently, with share prices primarily driven by genuine supply and demand dynamics.

Source: MSCI (2026)

The consultation marked the beginning of a shift in investor perception toward Indonesia, as concerns moved beyond short-term market performance toward structural investability issues. This was reflected in MSCI and FTSE Russell reviews on market accessibility, declining index representation, foreign outflows following index deletions, and valuation compression among affected stocks. For years, limited free float had contributed to a scarcity premium (a valuation premium driven by the limited supply of tradable shares) in several stocks. However, as market accessibility and investability became subjects of greater scrutiny, investors began reassessing whether these characteristics should be viewed as an advantage or a potential source of risk.

**Table 2. Simulated Impact of MSCI FIF Reductions and Global Liquidity Adjustment (as of 30 Sep '26)**

Company	Current FIF (Free Float Inclusion Factor)	Proforma FIF (Stricter Methodology)	FIF Change	FIF Market Cap Impact (USD mn)
Bank Central Asia (BBCA)	0.45	0.325	-0.125	USD7,050 mn
Amman Mineral Intl (AMMN)	0.20	0.075	-0.125	USD3,930 mn
Bank Rakyat Indonesia (BBRI)	0.45	0.350	-0.100	USD3,547 mn
Bank Mandiri (BMRI)	0.40	0.325	-0.075	USD1,848 mn
Telkom Indonesia (TLKM)	0.50	0.400	-0.100	USD1,819 mn
Astra International (ASII)	0.50	0.375	-0.125	USD1,754 mn
GoTo Gojek Tokopedia (GOTO)	0.75	0.450	-0.300	USD1,158 mn
Petrindo Jaya Kreasi (CUAN)	0.20	0.115	-0.085	USD929 mn

Source: MSCI (2026)

### Early 2026 : MSCI Escalates Its Review of Indonesia

The concerns first raised through MSCI's consultation paper in Sep '25 reached a critical stage on 27 Jan '26, when MSCI published the results of its review of Indonesia's free float methodology. Based on its findings, MSCI concluded that additional measures were necessary to preserve the investability and integrity of the indices used by global investors. The review heightened international investors' focus on ownership transparency, market accessibility, and the overall investability quality of the Indonesian capital market.

In line with the review findings, MSCI announced the implementation of an interim freeze on Indonesian equities, effective from the Feb '26 index review cycle and expected to remain in place at least until the Jun '26 review. As part of this interim freeze, MSCI implemented the following measures:

1. Temporarily suspended increases in Foreign Inclusion Factor (FIF) and Number of Shares (NOS).
2. Deferred the addition of new constituents to the MSCI Investable Market Indexes (IMI).
3. Prohibited stocks from being promoted to higher market capitalization segments.

These measures were intended to limit significant index changes while the evaluation process remained ongoing.

**Table 3. MSCI's Key Concerns on Indonesia's Market Investability (Jan '26)**

No.	Assessment Area	Structural Deficiencies Identified	Expectations of Global Index Providers
1	Ownership Transparency and Free Float Assessment	Reported free float may not fully reflect shares genuinely available to investors.	Lower confidence in free float reliability and investability.
2	Coordinated Trading Behaviour	Trading patterns may not fully reflect organic market supply and demand.	Distorted price discovery and higher valuation uncertainty.
3	High Shareholding Concentration (HSC)	Concentrated ownership limits effective liquidity and investable float.	Higher replication costs and lower market accessibility.

Source: MSCI (2026)

The announcement of MSCI's review results and interim freeze triggered an immediate and significant reaction in the Indonesian equity market. Selling pressure was broad-based, with infrastructure, energy, and technology stocks recording some of the steepest declines. Although the market partially recovered after regulators signalled their commitment to strengthen free float requirements and market

governance, the JCI remained under pressure and subsequently fell to a low of 7,922 in early Feb '26, representing a decline of nearly 12% from its pre-announcement level.

More importantly, MSCI's findings raised the possibility of a future downgrade from Emerging Market (EM) to Frontier Market (FM) status should mean improvements in ownership transparency, free float assessment, and market accessibility fail to materialize. Such a reclassification could have significant implications for passive fund flows, foreign investor participation, and Indonesia's attractiveness within global investment portfolios.

Following the announcement of the interim freeze, the MSCI Feb '26 Index Review (effective on 2 Mar '26), became the first index review to reflect MSCI's more cautious stance toward Indonesian equities. As part of its regular index rebalancing process, MSCI adjusted the composition of several Indonesia-related indices. The constituent changes resulting from the review are summarized in Table 2.

**Table 4. Indonesia Constituent Changes in the MSCI Review (Feb '26)**

No.	Company	Ticker	Index Action
1	PT Indofood Sukse Makmur Tbk	INDF	Removed from MSCI Global Standard Index and added to MSCI Small Cap Index
2	PT Aspirasi Hidup Indonesia Tbk	ACES	Removed from MSCI Small Cap Index
3	PT Sariguna Primatirta Tbk	CLEO	Removed from MSCI Small Cap Index

Source: MSCI (2026)

Although the constituent changes were relatively limited, the review provided an early indication of MSCI's increasingly conservative stance toward Indonesian equities. The absence of any new additions to the Global Standard Indexes suggested that opportunities for Indonesian companies to expand their representation in global benchmarks had become more constrained during the interim freeze period. More importantly, the review signalled a shift in MSCI's focus from market capitalization alone toward broader investability considerations, including ownership transparency, free float quality, and effective liquidity.

In response to the heightened market uncertainty following MSCI's announcement, Indonesian authorities moved quickly to address the structural concerns raised by global investors. Beyond implementing market stabilization measures such as trading halts during periods of extreme volatility, OJK and IDX introduced a series of reforms aimed at improving ownership transparency, strengthening free float standards, and enhancing overall market investability. These measures were complemented by intensive engagements with MSCI throughout Feb '26 to clarify implementation details and demonstrate the authorities' commitment to market reform.

**Table 5. OJK and IDX Policy Responses Following MSCI's Interim Freeze**

No.	Policy Area	Key Measures
1	Free Float Reform	Increase the minimum free float requirement from 7.5% to 15%, accompanied by a transition period and exit policy for issuers that fail to comply within the prescribed timeframe.
2	Ownership Transparency	Lower the share ownership disclosure threshold from 5% to 1% to improve transparency and visibility of ownership structures.
3	High Shareholding Concentration (HSC) Framework	Introduce an HSC monitoring framework to identify and supervise issuers with highly concentrated ownership structures.
4	KSEI Investor Classification	Expand KSEI investor classifications to improve ownership mapping and strengthen market transparency.
5	Free Float Disclosure	Begin publishing comprehensive free float data through its official website on a monthly basis starting 2 Jan '26.
6	Market Surveillance	Strengthen monitoring of trading activities and market behavior to identify unusual transactions and potential manipulation.
7	MSCI Engagement	Conduct a series of meetings with MSCI on 2, 5, and 11 Feb '26 to align understanding regarding methodology, implementation, and regulatory reforms.
8	Market Stabilization	Implement trading halts during periods of extreme market volatility to maintain orderly market conditions.

Source: OJK, IDX (2026)

The reforms represented one of the most comprehensive responses by Indonesian authorities to concerns over market investability in recent years. However, MSCI maintained a cautious stance, keeping the interim freeze in place despite the announced measures. This suggested that the reforms were viewed as an important step toward rebuilding credibility rather than sufficient evidence that the underlying concerns had been fully resolved. As a result, investors remained focused on implementation progress, while other index providers, including FTSE Russell, continued to closely monitor developments in Indonesia's market accessibility framework.

### **February–March 2026: FTSE Russell Enters the Review Process**

The pressure on Indonesia's capital market did not end with MSCI's interim freeze. On 9 Feb '26, FTSE Russell, one of the world's leading global index providers, alongside MSCI, officially announced the postponement of its Mar '26 Quarterly Index Review for Indonesian securities, signalling that concerns regarding Indonesia's market investability had expanded beyond a single global index provider.

Unlike MSCI, which continued to conduct index reviews while temporarily freezing selected index maintenance mechanisms, FTSE Russell adopted a more comprehensive approach by postponing virtually all review-related changes for Indonesian securities. The decision was made under Rule 2.4 on Exceptional Market Disruption within FTSE Russell's Index Policy framework. The provision allows review activities to be delayed when market conditions create significant uncertainty regarding investability assessments, index calculations, or portfolio implementation.

The decision was largely driven by ongoing regulatory reforms announced by OJK and IDX following MSCI's findings. FTSE Russell cited uncertainty surrounding free float determination, ownership transparency, and the potential impact of regulatory changes on market liquidity during the transition period. As a result, FTSE Russell opted to temporarily maintain the existing index structure until greater clarity regarding the implementation of the reforms became available.

**Table 6. FTSE Russell Temporary Restrictions on Indonesian Securities (Feb '26)**

No.	Area	Temporary Restriction
1	New Index Additions	Postponed, including IPO candidates and eligible additions from periodic reviews.
2	Index Deletions	Postponed for review-related changes.
3	Size-Segment Migration	Suspended across Large Cap, Mid Cap, and Small Cap segments.
4	Shares-in Issue Adjustments	Deferred for changes arising from updated share issuance and outstanding share data.
5	Investability Weight Changes	Deferred for adjustments related to secondary offerings and shareholder information updates.
6	Industry and Nationality Classification Changes	Postponed during the review period.
7	Weight Adjustment Factors	Suspended until further notice.
8	Right Issues	Assumed to be sold under FTSE Russell methodology rather than exercised.

Source: FTSE Russell (2026)

From an investability perspective, FTSE Russell's review focused primarily on two areas. First, FTSE Russell evaluated whether reported public ownership accurately reflected shares that were genuinely available for trading by institutional investors, particularly in cases where portions of the reported free float could still be effectively controlled by affiliated parties. Second, the index provider applied stricter review to liquidity conditions, especially among large-cap companies whose trading activity appeared inconsistent with their market capitalizations. Together, these assessments reflected FTSE Russell's emphasis on ensuring that index constituents remained sufficiently accessible and investable for global investors.

Importantly, FTSE Russell explicitly clarified that the review was unrelated to Indonesia's Equity Country Classification status. In its Mar '26 Interim Announcement, Indonesia retained its Secondary Emerging Market classification and was not placed on the downgrade Watch List. This distinction was significant because it suggested that FTSE Russell's concerns were concentrated on market accessibility and investability rather than on Indonesia's broader market classification.

For investors, the FTSE Russell decision delivered a mixed signal. On one hand, the postponement reinforced concerns that global index providers continued to question aspects of Indonesia's market structure despite the reforms announced by OJK and IDX. On the other hand, the absence of any downgrade warning provided temporary relief by reducing concerns over forced selling from benchmark-driven funds.

As a result, the Feb–Mar '26 period became a transitional phase for the Indonesian market. While the sharp panic triggered by MSCI's Jan '26 announcement had largely subsided, investor sentiment remained cautious as market participants waited for evidence that the new transparency and free float reforms would be implemented effectively. Attention increasingly shifted toward the next MSCI and FTSE Russell review cycles, which were expected to determine whether Indonesia's reform efforts would be sufficient to restore confidence among global investors.

## **April 2026: FTSE Russell Intensifies Scrutiny, MSCI Extends the Freeze**

Entering Apr '26, FTSE Russell moved into a more intensive observation phase of the Indonesian capital market following the index moratorium imposed in Feb '26. The primary focus remained on free float quality, trading liquidity, and the transparency of share ownership structures. The assessment no longer focused solely on trading volumes, but also on the extent to which shares were genuinely available and accessible to global institutional investors in sufficient quantities.

At the same time, FTSE Russell deepened its evaluation of relationships among shareholders and potential ownership concentration through affiliated entities. The objective was to ensure that reported free float levels reflected actual economic conditions rather than merely satisfying administrative requirements.

Unlike MSCI's interim freeze, which triggered immediate market correction, FTSE Russell's approach exerted a more gradual yet prolonged pressure on the market. Uncertainty surrounding index eligibility and investability standards prompted global investors to become more selective, particularly toward companies with governance practices, ownership transparency, and liquidity profiles that were considered inadequate.

Market sentiment came under additional pressure on 20 Apr '26 when MSCI announced an extension of its freeze on Indonesian equity rebalancing for the May '26 review cycle. The decision signalled that MSCI still required additional time to assess the effectiveness of reforms introduced by domestic regulators, particularly those related to ownership transparency, free float quality, and broader market structure improvements. The announcement was met with a negative market reaction, with the JCI declining 0.46% dtd to close at 7,559.38 on 21 Apr '26. The development reinforced investor concerns that more substantial index adjustments could still lie ahead as Indonesia approached the next MSCI and FTSE Russell review cycles.

During the same period, OJK and IDX gradually shifted their focus from short-term market stabilization toward longer-term structural reforms. Various initiatives were undertaken to align free float methodologies with global standards, enhance Ultimate Beneficial

Ownership (UBO) transparency, and strengthen the integration of corporate ownership data. These measures became an important foundation for restoring market credibility and improving the investability of Indonesia's capital market ahead of subsequent index reviews.

## May 2026: Global Index Rebalancing and Peak Liquidity Pressure

May '26 marked the peak of market pressures on Indonesian equities. What initially began as concerns over free float quality, ownership transparency, and investability standards gradually evolved into tangible market consequences through large-scale index deletions, passive fund rebalancing, and persistent foreign selling activity.

- **MSCI Semi-Annual Index Review (SAIR)**

On 13 May '26, MSCI announced the results of its Semi-Annual Index Review (SAIR), with changes becoming effective on 29 May '26. The review resulted in the deletion of 19 Indonesian companies from the Global Standard and Small Cap indices without any new additions, significantly exceeding market expectations and highlighting MSCI's heightened focus on investability and free-float quality.

The following table presents the constituents of the MSCI Global Standard Index changes:

**Table 7. MSCI SAIR 2026 – Summary of Indonesian Index Changes**

**A. MSCI Global Standard Index**

No.	Company	Ticker	Action	Free Float (%)	UBO	Key Reason
1	PT Amman Mineral Intl Tbk	AMMN	Deleted	19.06% (Apr '26)	Agoes Projosasmito (0.40%)	MSCI-adjusted free float estimated below 15% after excluding strategic and corporate holdings, rendering the stock ineligible for the Standard Index despite compliant LBRE free float.
2	PT Barito Renewables Energy Tbk	BREN	Deleted	11.94% (Apr '26)	Prajogo Pangestu (0.11%; via Barito Pacific 64.64%)	High shareholding concentration (HSC) and free float below 15%
3	PT Chandra Asri Pacific Tbk	TPIA	Deleted	9.91% (Apr '26)	Prajogo Pangestu (5.03%)	Free float below 15% and not eligible for Small Cap inclusion
4	PT Dian Swastika Sentosa Tbk	DSSA	Deleted	20.42% (Mar '26)	Franky Oesman Widjaja (via PT Sinar Mas Tunggal 59.90%)	High shareholding concentration (HSC) and limited effective free float
5	PT Petrindo Jaya Kreasi Tbk	CUAN	Deleted	14.94% (Mar '26)	Prajogo Pangestu	Free float below 15% and insufficient free float-adjusted market capitalization
6	PT Sumber Alfaria Trijaya Tbk	AMRT	Reclassified to Small Cap	40.98% (Apr '26)	Djoko Susanto (0.89%)	Moved from Global Standard to Global Small Cap Index

Source: MSCI, IDX LBRE (2026)

The following table presents the constituents of the MSCI Global Small Cap changes:

**B. MSCI Global Small Cap Index**

No.	Company	Ticker	Action
1	PT Aneka Tambang Tbk	ANTM	Deleted
2	PT Astra Agro Lestari Tbk	AALI	Deleted
3	PT Bank Aladin Syariah Tbk	BANK	Deleted
4	PT Bumi Serpong Damai Tbk	BSDE	Deleted
5	PT Dharma Satya Nusantara Tbk	DSNG	Deleted
6	PT Industri Jamu & Farmasi Sido Muncul Tbk	SIDO	Deleted
7	PT Midi Utama Indonesia Tbk	MIDI	Deleted
8	PT Mitra Keluarga Karyasehat Tbk	MIKA	Deleted
9	PT MNC Digital Entertainment Tbk	MSIN	Deleted
10	PT Pabrik Kertas Tjiwi Kimia Tbk	TKIM	Deleted
11	PT Pacific Strategic Financial Tbk	APIC	Deleted
12	PT Sawit Sumbermas Sarana Tbk	SSMS	Deleted
13	PT Triputra Agro Persada Tbk	TAPG	Deleted

Note: MSCI did not disclose company-specific deletion reasons for the Small Cap constituents. The removals were broadly associated with the implementation of stricter investability, liquidity, and free-float assessments under the May 2026 Semi-Annual Index Review.

Source: MSCI (2026)

- FTSE Russell – June 2026 Quarterly Review**

Following MSCI's review, FTSE Russell removed eight Indonesian companies from the FTSE Global Equity Index Series (GEIS), effective 22 Jun '26, due to free-float and index eligibility concerns. The deletions reinforced the view that issuers migrated to the IDX Development Board faced a higher risk of exclusion from global benchmark indices.

The following table presents the first wave deletion on FTSE index:

**Table 8. FTSE GEIS 2026 – Summary of Indonesian Index Changes**

**A. First Wave Deletions (23 May '26)**

No.	Company	Ticker	Segment	Key Reason
1	PT Dian Swastika Sentosa Tbk	DSSA	Large Cap	High shareholding concentration (HSC)
2	PT Daaz Bara Lestari Tbk	DAAZ	Micro Cap	Failed minimum free float requirement
3	PT Hillcon Tbk	HILL	Micro Cap	Failed surveillance stock screen
4	PT Mulia Industrindo Tbk	MLIA	Micro Cap	Failed surveillance stock screen

Source: FTSE Russell (2026)

The following table presents the second wave deletion on FTSE index:

**B. MSCI Global Small Cap Index**

No.	Company	Ticker	Segment	Key Reason
1	PT GoTo Gojek Tokopedia Tbk	GOTO	Mid Cap	Listed on the IDX Development Board and ineligible market segment for GEIS
2	PT Trimegah Bangun Persada Tbk	NCKL	Mid Cap	Listed on the IDX Development Board and ineligible market segment for GEIS
3	PT BUMA Internasional Grup Tbk	DOID	Micro Cap	Listed on the IDX Development Board and ineligible market segment for GEIS
4	PT Nusantara Sejahtera Raya Tbk	CNMA	Micro Cap	Listed on the IDX Development Board and ineligible market segment for GEIS

Source: FTSE Russell (2026)

The sequential execution of index adjustments by the world's two largest index providers generated concentrated selling pressure on conglomerate-linked companies and issuers with highly concentrated ownership structures. The absence of any new Indonesian additions to the MSCI Global Standard Index further reinforced investor concerns regarding the widening gap between Indonesia's domestic growth narrative and the investability standards expected by global institutional investors.

The market impact extended beyond the affected constituents and gradually spread across the broader financial system. Following the MSCI SAIR announcement on 13 May '26, the JCI fell to 6,732.32 (-23.04% Ytd) amid broad-based selling pressure, with declining stocks significantly outnumbering gainers. Market sentiment deteriorated further as investors reassessed the potential implications of future index exclusions, declining benchmark representation, and weaker foreign participation in the Indonesian equity market. During the implementation period, foreign investors recorded net outflows of IDR1.53 tn, reflecting a combination of passive fund rebalancing and active portfolio adjustments as fund managers reduced exposure ahead of potential downside risks from future index reviews and investability concerns.

Pressure was also visible in the foreign exchange market. The Rupiah weakened from around IDR16,700/USD prior to the sell-off to above IDR17,500/USD following the MSCI announcement, representing a depreciation of around 5%. The currency continued to weaken toward the end of May as foreign outflows intensified, reaching around IDR17,970/USD before depreciating further above IDR18,000/USD in early Jun '26. This marked a total depreciation of around 8% from pre-pressure levels and the Rupiah's weakest level in more than two decades. Unlike the Jan–Feb '26 episode, when the impact was largely concentrated in equities following MSCI-related concerns, the May–Jun period reflected a broader deterioration in investor confidence, with simultaneous pressure across equities, capital flows, and the foreign exchange market.

In response, OJK emphasized that the index adjustments were an anticipated consequence of the ongoing capital market reform process. The authority stated that the latest round of index rebalancing should serve as a new baseline for improving the quality of listed companies, while strengthening the integrity and transparency of Indonesia's capital market in the eyes of global investors. OJK further reiterated that comprehensive mitigation measures had already been prepared as part of the broader market integrity reform agenda that had been accelerated since the beginning of 2026.

## **June 2026: Regulatory Reform and the Beginning of Market Differentiation**

On 4 Jun '26, Indonesia's House of Representatives (DPR RI) officially passed the Financial Sector Development and Strengthening Law (UU P2SK), marking a major milestone in the government's effort to strengthen the regulatory framework of the financial sector. The legislation was introduced amid heightened market scrutiny and was widely viewed as a key component of Indonesia's strategy to restore investor confidence and address market transparency concerns raised by global index providers.

Rather than focusing on the law's broader financial sector provisions, market participants paid particular attention to several capital market reforms that directly addressed concerns raised by MSCI and FTSE Russell. These reforms were primarily aimed at improving ownership transparency, enhancing free float quality, strengthening market governance, and aligning Indonesia's regulatory framework more closely with international investability standards.

**Table 9. Key Capital Market Reforms Under the Revised P2SK Law**

No.	Regulatory Area	Regulatory Mechanism	Impact on Market Credibility
1	Beneficial Ownership Transparency	Expanded authority for OJK to identify and verify the Ultimate Beneficial Owners (UBO), including ownership structures involving nominee arrangements and affiliated entities.	Improves ownership transparency and reduces information asymmetry.
2	Free Float Reform	Revision of free float regulations to ensure reported public ownership more accurately reflects investable liquidity.	Aligns domestic standards with global index provider methodologies.
3	Ownership Structure Disclosure	Enhanced disclosure requirements for layered and complex corporate ownership structures.	Improves visibility of ownership concentration and market accessibility.
4	Oversight of Affiliated Transactions	Stronger monitoring and enforcement against market manipulation and improper affiliated-party transactions.	Supports market integrity and strengthens price discovery mechanisms.
5	IDX Demutualization	Opens the possibility for broader ownership participation in IDX beyond exchange members.	Strengthens governance and supports long-term market development.

Source: OJK, DPR RI (2026)

The implementation of these reforms gradually changed market behaviour. Unlike the broad-based selling pressure that followed MSCI's interim freeze earlier in the year, investors increasingly began to differentiate between structural and cyclical risks. Companies characterized by concentrated ownership structures, limited free float, and weaker transparency remained under pressure, while issuers with stronger governance and more investable ownership structures demonstrated greater resilience. As a result, market pressure became increasingly selective rather than indiscriminate.

Despite these early signs of differentiation, market confidence had yet to fully recover. Foreign outflows remained elevated at IDR95.19 tn YTD as of 19 Jun '26, while the JCI was still down to 6,177.14 (-32.5% Ytd). Volatility also remained particularly high among conglomerate-linked companies and stocks with limited effective free float, reflecting ongoing investor reassessment of ownership structures and investability risks under the new regulatory environment.

On 18 Jun '26, MSCI released its 2026 Global Market Accessibility Review, providing the first comprehensive assessment of Indonesia's market accessibility following the implementation of the P2SK reforms. While Indonesia remained classified as an Emerging Market, MSCI highlighted several areas requiring improvement, particularly in Information Flow, which received an "improvements needed" assessment due to concerns over ownership transparency, information disclosure, and coordinated trading activities that may affect price discovery. In addition, MSCI also identified several constraints within Indonesia's foreign exchange market, including the absence of an efficient offshore foreign exchange market, restrictions requiring foreign exchange transactions to be linked to underlying securities transactions, and the lack of overdraft facilities during the clearing and settlement process. Despite MSCI's concerns, the review suggests that the implementation of the P2SK reforms has begun to address several structural issues in Indonesia's capital market, helping preserve the country's Emerging Market status. As a result, the risk of a market reclassification and the associated large-scale capital outflows remains limited, although further improvements in transparency, market infrastructure, and regulatory standards are still needed.

**Table 10. Selected MSCI Market Accessibility Assessment for Indonesia (Jun '26)**

No.	Assessment Area	MSCI Status	Key Observation
1	Equal Rights to Foreign Investors	+	Certain corporate disclosures are not consistently available in English.
2	Foreign Exchange Market Liberalization	-	Indonesia lacks an efficient offshore FX market and continues to maintain several transaction restrictions.
3	Information Flow	-	Downgraded from positive due to concerns regarding transparency, ownership disclosure, and information accessibility.
4	Market Regulation	+	Market infrastructure and regulatory framework remain broadly adequate.
5	Investor Registration and Account Setup	+	Investor registration and account opening procedures remain relatively efficient.

Source: MSCI (2026)

Market attention also shifted toward the FTSE Russell June 2026 Review, with the rebalancing scheduled to become effective on 22 Jun '26. The review follows the deletion announcements made during the May–Jun '26 review cycle and is expected to trigger an additional round of passive portfolio adjustments following the removal of several Indonesian constituents from the FTSE Global Equity Index Series (GEIS). While the potential outflows are generally expected to be smaller than those associated with MSCI's recent index actions, the rebalancing nevertheless reinforces ongoing investor concerns regarding free float quality, ownership concentration, and index eligibility standards. More importantly, FTSE Russell continues to maintain its extended observation period through at least the Sep '26 review cycle, indicating that global index providers remain cautious and are still evaluating the effectiveness of Indonesia's market reforms before fully normalizing index treatment.

Consequently, market attention has now shifted toward the MSCI Annual Market Classification Review scheduled for 24 Jun '26, which will provide MSCI's latest assessment of Indonesia's Emerging Market status. While the recent Market Accessibility Review highlighted concerns regarding transparency, information flow, and foreign exchange market accessibility, the risk of a downgrade to Frontier Market status appears limited. Indonesia still has 11 constituents meeting MSCI's size and liquidity requirements, and only one of the 18 accessibility indicators was downgraded. As a result, investors are likely to focus less on downgrade risk and more on whether Indonesia's ongoing reforms are sufficient to restore confidence among global institutional investors. Confirmation of Indonesia's Emerging Market status could serve as a positive catalyst for domestic equities following the prolonged correction in 1H26.

### **August 2026: MSCI Review and Early Signs of Stabilization**

Market attention in Aug '26 is expected to focus on the MSCI Quarterly Index Review, scheduled to be announced on 12 Aug '26 and effective on 1 Sep '26. The review will represent MSCI's first formal assessment of the Indonesian market since the implementation of key reforms under the P2SK Law, making it an important milestone in evaluating whether improvements in transparency and market structure have begun to gain recognition from global index providers.

In contrast to the significant index adjustments seen in May '26, constituent changes in the Aug '26 review are expected to remain relatively limited due to the ongoing restrictions on index additions and the absence of major changes in market capitalization rankings. However, companies with insufficient free float, high ownership concentration, or investability concerns may still face adjustments, particularly through revisions to free float assumptions and index weightings.

As a result, the market's primary focus is unlikely to be on the number of additions or deletions, but rather on whether MSCI's assessment begins to reflect the progress of Indonesia's regulatory reforms. Any indication of improving confidence in ownership transparency, free

float quality, and market accessibility could be interpreted as an early sign that the structural concerns raised since late 2025 are gradually easing, although a full normalization process will likely require several additional review cycles.

**September 2026: FTSE Russell Review and the Path Toward Normalization**

Market attention in Sep '26 is expected to shift toward the FTSE Russell Semi-Annual Review, scheduled for 21 Sep '26. Compared with the MSCI Quarterly Review in Aug '26, which is primarily focused on routine index maintenance, the FTSE review is expected to carry greater significance as it will determine whether restrictions imposed since Feb '26 can begin to be eased.

The review will largely focus on the effectiveness of reforms introduced under the P2SK Law, particularly those related to ownership transparency, free float quality, and market accessibility. Improvements in these areas could provide FTSE with greater confidence to reassess free float assumptions, ownership structures, and the eligibility of Indonesian issuers within its index framework.

Accordingly, market participants are likely to focus less on the number of constituent changes and more on FTSE's broader assessment of Indonesia's reform progress. Two scenarios may emerge from the review:

**Table 11. Projected Scenarios for the FTSE Russell Review (Sep '26)**

Scenario	Key Outcome	Market Implications
Full Normalization	FTSE begins lifting restrictions and gradually restores index re-ranking, free float adjustments, and constituent eligibility assessments.	Signals improving confidence in Indonesia's market reforms and could support a recovery in foreign investor sentiment, particularly among quality mid-cap and liquid stocks.
Extended Monitoring	FTSE maintains most existing restrictions while continuing to observe the implementation of regulatory reforms.	Market pressure remains selective, with investors continuing to favor issuers that demonstrate stronger governance, transparency, and investability characteristics.

Source: KBVS Research (2026)

Ultimately, the outcome will depend on the credibility and consistency of reform implementation, particularly OJK's ability to improve ownership transparency and IDX's enforcement of enhanced free float standards. As such, the Sep '26 review may serve as a key transition point between the observation phase that has dominated most of 2026 and the beginning of a gradual normalization process for Indonesia's capital market.

**2H26: Outlook Transition and Credibility Rebuilding Phase**

Looking ahead, 2H26 is expected to mark the beginning of a transition phase for Indonesia's capital market, characterized by efforts to restore investor confidence and strengthen market credibility. While the rerating process of Indonesian equities is likely to remain gradual, market dynamics are expected to become increasingly driven by fundamental and investability considerations rather than speculative sentiment. Investor preferences may continue to shift toward companies with stronger governance standards, greater disclosure transparency, and deeper liquidity, while valuation premiums historically associated with concentrated ownership structures and limited free float are expected to normalize over time.

The pace of recovery will depend largely on the consistency and effectiveness of ongoing reform implementation. As regulatory initiatives continue to address key investability concerns, Indonesia's capital market is expected to become more aligned with evolving global

standards, supporting the development of a more transparent, liquid, and institutionally driven market environment. This progress should also help mitigate the risk of future market reclassification and associated capital outflows, providing a more stable foundation for long-term foreign investor participation.

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