

## CHAPTER IV

### CONCLUSION AND RECOMMENDATION

#### A. Conclusion

By some previous explanations, therefore it can be concluded as follow:

1. The purpose of establishment of Indonesia Stock Exchange is to run the securities trading which orderly, fair and efficient. It means that a trading is organized based on a clear regulation and consistently conducted. Therefore the basic purpose of stock exchange is to provide a sense of security and an adequate level of protection for the investor. A fair and efficient performance of a stock exchange is a substantial benefit to the public. The spirit of capital market itself is on the disclosure principle. This disclosure principle is one of the main principles which shall be enforced in capital market, in the case of “trust crisis” or “un-trust” from investor towards capital market and financial, therefore the investor will draw out their capital from the market. By the consequences that the market and financial will collapse either partly or wholly. By the disclosure, people will not only know several activities conducted by certain parties, because there has been information which provided, but by disclosure, it is expected the existence of a public control towards certain activities. The demand for the implementation of *good corporate governance* is one of the issues to attract the interest of potential investor on capital market in a state. Because the more

implementation of the principle of *good corporate governance* done, it will automatically give the good impact for the life of capital market generally and as the indication of the good treatment towards shareholders. Driven from article 8 of law number 8 of 1995 that the member of Indonesia Stock Exchange is also the shareholder of the stock exchange, this structure would be definitely causing problems. Because when the member of Stock Exchange is the shareholder, they conduct trading activities and also the Stock Exchange is SRO, it clearly means that in the first place they make the rules and they supervise themselves. By that, many possibilities of problems may occur such as crime in the form of fraud, manipulation of market, and insider trading. Another possibility is the conflict of interest among the parties in the Stock Exchange's structure. Because in the mutual exchange, one of the main problem is the imbalance between members/owners' interest with the investors' interest. The fair stock transaction mechanism is difficult to be achieved due the conflict of interest and transparency issue on this structure. Simply saying, when the shareholder is the member of the Stock Exchange, this might causes problems. When the ownership structure of Indonesia Stock Exchange is centralized ownership, it will lead into monopoly control and less optimum in the implementation of good corporate governance principles, because it tends to lead the conflict of interest inside the company. Even worse, when the majority of boards of company are came from the parties which has direct interest with the organization of stock exchange. Thus, the

independency, integrity and also the fiduciary duties of the boards of company are really questionable. When Good corporate governance is not yet being well implemented by Indonesia Stock Exchange, it will be a significant barrier to run the capital market in Indonesia accordingly to the principle of orderly, fair and efficient.

2. Demutualization can be considered as a solution to increase the quality of corporate governance, for instance, in the the issue of conflict of interest by separating the ownership from the membership and trading rights so that it can lead into proper running of the stock exchanges' management. Also by transforming itself into a for-profit investor owned organization, the managers of the stock exchange are able now to focus on a single group, its owners. This simplification of governance structure allows faster and credible decision-making process. Trading rights and ownership can be separated; shareholders provide capital to the exchange and receive profits, but they need not conduct trading on the exchange. Therefore the demutualized exchange will have different governance structures in which outside shareholders are represented by boards of directors. The move to a for-profit structure in the basis of increasing the regulatory framework or corporate governance quality and the need to rise to finance the infrastructure expenses. Demutualization will not affect the functions of the Exchange as a self-regulatory organization. Instead, it will only shifting its function to be more focus on its duty as rulemaking and regulatory body during the securities exchange activities. Demutualization is at least perceived to

create separating lines between the profit motive of an exchange and its regulatory function, there have been numbers of major changes such as separating the function of SRO to focus on the regulatory function and then making the holding company for profit only thereby avoiding and reducing some of the conflicts of interest issues.

## **B. Recommendation**

1. There should be an amendment of article 8 of Law Number 8 of 1995, whereas the structure of ownership should be changed in order to increase the quality of corporate governance and strengthening the regulatory framework. Thus it will automatically give a positive impact to create orderly, fair, and efficient trading in Indonesia Capital Market.
2. The demutualization conducted by Indonesia Stock Exchange in the form of establishing the holding company.
3. Indonesia Stock Exchange and other SROs shall obey the existing regulations either from the Government or set of regulations which are created by their self as SROs.