



IMPLEMENTATION OF DISCLOSURE PRINCIPLE TOWARDS PUBLIC COMPANIES: JURIDICAL ANALYSIS ON LAW NO. 8 YEAR 1995 AND PERPU NO. 1 YEAR 2020

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Article

Abstract

Keywords:

Disclosure Principle, Emiten, Public Company, Capital Market, Capital Market Law.
Article History

Received: July 12, 2021;
Reviewed: July 15, 2021;
Accepted: July 18, 2021;
Published: August 10, 2021

The development of a country is influence by several sectors which include the economic sector and it is considered to be one of the most essential factors within the growth or development of the country. The development of Indonesia itself is known to be immensely affected by economic growth. This economic growth is likewise running and participated by a lot of parties from Indonesia as well as foreign parties which are obtained through their investment here in Indonesia. One of the most influential parties within the economic growth is the capital market itself which functions to help business actors. However, due to the current situation caused by the pandemic COVID-19, Indonesian Government issued a Regulation of The Government In Lieu of Law No. 1 year 2020 concerning *Kebijakan Keuangan Negara dan Stabilitas Sistem Keuangan Untuk Penanganan Pandemi Corona Virus Disease 2019 (COVID-19) dan/atau Dalam Rangka Menghadapi Ancaman Yang Membahayakan Perekonomian Nasional dan/atau Stabilitas Sistem Keuangan* (hereinafter referred to as PERPU COVID-19). As this regulation is implemented it arises several issues towards the relevant existing law. The research method that is enforced within this journal is analytical normative research, this research is a general exploration that is likely aiming to execute legal aspects functioning as a prescriptive order and in this method, the law from the stance of the norms will be inspected. This research is fulfilled through the implementation of a statute approach that is completed by evaluating the relevant laws and regulations relating to the issues set forth within this research. This journal will analyze the applicable regulations, as well as the contradictory matters, that arise from PERPU COVID-19 in relation to the disclosure principle towards public companies.

1. INTRODUCTION

The economic sector is one of the most crucial sectors within the development of Indonesia. Within the economic sector, there are involving parties that are involved which includes business actors, capital markets and etc. However, this journal will solely focus on the capital market itself. The capital market was established in 1912, however, due to several circumstances, the capital market could not run well and was finally reactivated in 1977.¹ Capital market is explicitly regulated in Indonesia which is under law No. 8 year 1995 concerning the Capital Market (hereinafter referred to as Capital Market Law). Capital market under capital market law is defined as a place where the conduct of exchange and offering towards securities to the society can be done, the act of done by a public company in favor of the securities that it has issued as well as the actions which are related to the securities institutions.²

Capital market is likewise defined as a place which functions to provide connection in terms of savings and investments between the parties with capitals and those parties that seek for capital, those entities which that own the capital comprises of retail as well as institutional investors (individuals or entities with the intention of obtaining financial returns by committing capital)³ and the parties that seek for capital consists of corporations, governments, and also the society.⁴ A market where long term financial instruments are traded which comprises of bonds, equities, mutual funds, and derivative instruments and it functions as an alternative towards the company's capital resources and investment in public as well as providing access for infrastructures that is essential in the act of selling and purchasing and others.⁵

A place where trading activities towards long-term financial instruments for example debt, equity (shares), derivatives instruments, and other instruments are conducted is accepted as

¹ Tjiptono Darmadji and Hendy M. Fakhruddin, *Pasal Modal Di Indonesia* (Jakarta: Penerbit Salemba Empat, 2011), Hal.29.

² Law No. 8 year 1995 concerning the Capital Market, art. 1, sec. 13.

³ James Chen, "What Is an Investor?," Investopedia, Jan 24, 2020, <https://www.investopedia.com/terms/i/investor.asp> (accessed on April 18, 2020).

⁴ Will Kenton, "What Are Capital Markets?," Investopedia, May 26, 2019, <https://www.investopedia.com/terms/c/capitalmarkets.asp> (accessed April 16, 2020).

⁵ Indonesia Stock Exchange, "Introduction to Capital Market," <https://www.idx.co.id/en-us/investor/introduction-to-capital-market/> (accessed April 16, 2020).

capital market. Capital market is functioning as a place that provides funding that is sought by the companies as well as other institutions like government and as the method in performing the act of investing and it could be said as the place that assists the progress of selling and purchasing activities by providing facilities and infrastructures as well as other complementary or associated activities.⁶

The capital market in Indonesia is known as the Indonesian Stock Exchange. The authorized party that is responsible for the capital market is Bapepam-LK (Bapepam Financial Institution. It is the topmost institution or authority within the capital market which responsible for the surveillance and control over the capital market. Bapepam is required to achieve the main purpose of the capital market itself which is constructing common, equal, adequate, and transparency within the overall activities done by the capital market and law enforcement as well as to assure the investors' interests in the capital market. Bapepam is likewise operating under the guidance of the Minister of Finance.⁷

The capital market itself has a strong correlation with public companies and emiten as they generally conducted the public offering through a capital market. Emiten is referring to an individual that conducted the public offering for the sake of selling securities that are done according to the relevant rules and regulations, entities, enterprises, joint ventures, corporations, or institutions that could act as an emiten. Securities that are proposed by the emiten could be in several variants, for instance, debt instruments, commercial securities, shares, bonds, debt proofs, participation units of collective investment contracts, futures contracts for securities, and other derivatives of securities like Sukuk which is basically a Sharia security.⁸

Under the unofficial translation of the Capital Market Law, the term emiten is acknowledged as the issuer. The issuer is described as the legal entity that functions to promote, sign up, as well as to sell securities for the sake of supporting the actions, the issuer could be in a form of enterprises, investment trusts, domestic or it could be a foreign government, and the issuer is the legal party which is accountable towards any problems that occur and for

⁶ Tjiptono Darmadji and Hendy M. Fakhruddin, *Pasal Modal Di Indonesia* (Jakarta: Penerbit Salemba Empat, 2011), 1.

⁷ *Ibid.*, 31.

⁸ Law No. 8 year 1995 concerning the Capital Market, art. 1, sec. 6; Otoritas Jasa Keuangan, "Emiten dan Perusahaan Publik," <https://www.ojk.go.id/id/kanal/pasar-modal/Pages/Emiten-dan-Perusahaan-Publik.aspx> (accessed April 16, 2020).

publicizing the financial circumstances, data advancement, along with other related practical actions that are prescribed by the relevant rules and regulations based on their jurisdictions.⁹ Furthermore, a public company essentially is a company that constitutes of 300 shareholders with a paid-up capital amounting to Rp 3,000,000,000,- at the very least or another amount of shareholders as well as paid-up capital that are governed by the Government Regulations.¹⁰

Pursuant to the applicable law which is the Capital Market law, both emiten and public company is obliged to propose registration statements, however, the registration statements from emiten functions to conduct a public offering, while the registration statements from the public company serve as the registration as the public company.¹¹ The requirements for a company to transform into a public company is in general not considered to be too complicated as long as it fulfills the overall requirements which are being the Limited Liability Company (hereinafter referred to as LLC) which has operated within 12 months at the very least with a minimum net asset amounting to Rp 5,000,000,000,- including audited financial statements arising from the last fiscal year which obtain an equal assessment with no exception from the public accountant as well as the Financial Services Authority (hereinafter referred to as OJK).¹²

Moreover, the company should have sold a least possible of 150,000,000 shares or 20% from the total amount of issued shares for the equity with less than Rp 500,000,000,000, 15% from the shares of the total issue for the equity starting from Rp 500,000,000 up to Rp 2,000,000,000,000, and 10% from the total issued shares for the equity that exceed Rp 2,000,000,000,000 along with the public shareholders amounting to at least 500 parties. In relation to emiten the term of a public offering, in essence, is the act where the securities offer that are ready to be sold towards the public is done by the emiten or issuer in accordance with the requirements as stipulated within the relevant rules and regulations.¹³

Furthermore, due to the ongoing pandemic Corona Virus Disease 2019 (hereinafter referred

⁹ Adam Hayes, "What Is an Issuer?," Investopedia, April 21, 2019, <https://www.investopedia.com/terms/i/issuer.asp> (accessed April 16, 2020).

¹⁰ Law No. 8 year 1995 concerning the Capital Market, art. 1, sec. 22; Law No. 40 year 2007 concerning Limited Liability Company, art. 1, sec. 8.

¹¹ Otoritas Jasa Keuangan, "Emiten dan Perusahaan Publik," <https://www.ojk.go.id/id/kanal/pasar-modal/Pages/Emiten-dan-Perusahaan-Publik.aspx> (accessed April 16, 2020).

¹² Indonesia Stock Exchange, "Panduan Go Public," <https://www.idx.co.id/Portals/0/StaticData/Information/ForCompany/Panduan-Go-Public.pdf> (accessed April 16, 2020).

¹³ Law No. 8 year 1995 concerning the Capital Market, art. 1, sec. 15; Otoritas Jasa Keuangan Regulation No. 76/POJK.04/2017 concerning Public Offering by Shareholders, art. 1, sec. 1.

to as COVID-19), the government in Indonesia issued the PERPU COVID-19 as a measure in handling all the issues which arise from the current condition. One of the sectors that are excessively afflicted is economic sectors, especially towards the capital market. Due to COVID-19, it arises a huge concern from the government that the current situation might lead to a capital market crisis that happened in 1998 and 2008. The issue which arises in 1998 is the cutback towards the exchange rates within the Asian currencies including rupiah and the crisis that occurred in 2008 was not as awful as the one that appeared back in 1998.¹⁴ Meanwhile, the current issues that are currently occurring towards the economic sector in Indonesia can be seen from several indicators which include the cutback towards the exchange rates, Composite Stock Price Index (hereinafter referred to as IHSG), foreign exchange reserves, the ratio of foreign debt to gross domestic product (hereinafter referred to as GDP), economic growth, an escalation in inflation, non-performing loan (hereinafter referred to as NPL), and the deficit expansion to the balance of payments and trade.¹⁵

Therefore, it can be seen that there are a few changes made towards the Capital Market Law set forth under the PERPU COVID-19 that includes the change with regard to the implementation of the disclosure principle. Disclosure principle is the common ground rule of which obligate the emiten or issuer, a public company, and other individuals that are dependent against this regulation to reveal the material information with regard to their businesses or securities within a certain period as the information disclosed by those parties might affect the investors' choices for those securities and/or the cost of the securities.¹⁶

The disclosure principle is eminently crucial as transparency from the substance point of view facilitate the society for the sake of obtaining essential information with regard to the company and capital market itself is believed to be equal and competent with the condition that the investors must attain the information simultaneously with an identical information aspect.¹⁷ Meanwhile, as seen from the juridical standpoint, transparency provides a warranty towards society's right in acquiring a substantial approach as well as a penalty towards the interference

¹⁴ M. Said Didu, "Anatomi Penanganan Krisis 1998, 2008, dan 2020," *Kumparan*, March 20, 2020, <https://kumparan.com/said-didu/anatomi-penangan-krisis-1998-2008-dan-2020-1t3vhw1ZOyi> (accessed April 17, 2020).

¹⁵ Wirdatul Aini, "Mitigasi Ancaman Krisis Ekonomi Covid-19," *Kompas*, March 25, 2020, <https://bebas.kompas.id/baca/riset/2020/03/25/mitigasi-ancaman-krisis-ekonomi-covid-19/> (accessed April 17, 2020).

¹⁶ Law No. 8 year 1995 concerning the Capital Market, art. 1, sec. 25.

¹⁷ Irsan Nasaruddin, *Aspek Hukum Pasar Modal Indonesia* (Jakarta: Kencana Prenada Media Group, 2006), 226.

or disregard conducted by the company. The Capital Market Law itself comprises of sanctions from criminal, civil, and administration perspective, hence this law provides legal protection with respect to disclosure for the shareholders or investors deriving out of the violation or an act manipulation practice administered within public companies.¹⁸

The disclosure principle within the capital market is commonly carried out within 3 steps which include the primary market level, secondary market level, and timely disclosure. The primary market level is the performance of the disclosure principle in conducting public offering through the acceptance of registration statement which was submitted to the Bapepam along with the other crucial documents,¹⁹ the utilization of disclosure principle in the secondary market level is done by the emiten or issuer where emiten is obligated to present regular financial statements to the Bapepam and this is known as the continuous disclosure, and the disclosure principle is likewise implemented in the event where valuable even occur as this is acknowledged as timely disclosure.²⁰

In accordance with the aforementioned paragraphs, it can be concluded that the Capital Market Law has stipulated about the obligation in fulfilling the disclosure principle as well as declaring the importance of fulfilling the disclosure principle. However, as the PERPU COVID-19 starts to enforce in Indonesia the regulation lays down an exclusion of the implementation of the disclosure principle towards public companies and hence it arises several questions towards the enforcement of this PERPU which are set forth down below within the research questions which are:

1. How does the disclosure principle implemented according to Capital Market Law and PERPU COVID-19?
2. What are the issues that might arise by the implementation of the PERPU COVID-19 and how does this change affect market volatility and the behavior of retail investors?

2. RESEARCH METHODS

The research used "Normative Juridical Legal Research" in accordance with Soerjono Soekanto's opinion that legal research is carried out by examining secondary materials or library

¹⁸ Ibid., 227.

¹⁹ Otoritas Jasa Keuangan Regulation No. IX.C.1 concerning Guidelines for the Form and Content of Registration Statements in the Public Offering Framework

²⁰ Irsan Nasaruddin, *Aspek Hukum Pasar Modal Indonesia* (Jakarta: Kencana Prenada Media Group, 2006), 229-230; Dr. Mas Rahmah, *Hukum Pasar Modal* (Jakarta: Kencana Prenada Media, 2019), 323; Janis Sarra, "Disclosure as a Public Policy Instrument in Global Capital Markets," *Texas International Law Journal* 48, no. 1 (2007): 880.

materials or library legal research, through searching for books, laws, literature, and other legal materials.²¹

3. DISCUSSION

3.1. Disclosure Principle Under Capital Market Law

The disclosure principle for public companies is stipulated under Capital Market Law Article 80(1) which basically explain that the registration statement of a public offering that contains false material or misleading information due to the breach of material information that is mandatory within this law and its implementing regulations then the responsibility towards this breach lies within those individuals that signed the registration statement, the *emiten* or issuer's directors and commissioners at the time the registration statement became effective, the managing underwriter; and capital market supporting professionals and other parties that agreed to provide their opinion or information contained under the registration statement. Conforming to Article 84 of the Capital Market Law *emiten* or public companies in conducting merger, acquisition, or consolidation must adhere to the disclosure principle.

Based on the previously-mentioned articles it can be seen that everything that is set within the registration statement, as well as the information provided by public companies or *emiten*, must be transparent and authentic as it is likewise supported by the principle of Good Corporate Governance in which transparency is one of the substantial principles in preserving the objectivity within the business that require companies to provide accessible material and other relevant information in favor of the decision-making process done by the shareholders, creditors as well as other stakeholders.²² The implementation of disclosure principles is proven to be crucial not just by the public companies, however it is likewise important and needs to be fulfilled by the companies that are about to do the initial public offering. It is specifically regulated under Article 75 and 76 that in essence states that BAPEPAM is required to ensure the fulfillment of disclosure principle towards the registration statement and in the event where the requirements have not fulfilled the offering of the securities shall be null and void.

²¹ Soerjono soekanto, *Penelitian Hukum Normatif, Suatu Tinjauan Singkat*, (RajaGrafindo Persada, Jakarta, 2011, hal.12)

²² Will Kenton, "What is a Moral Hazard?," *Investopedia*, April 10, 2019, <https://www.investopedia.com/terms/m/moralhazard.asp> (accessed April 18, 2020).

There are 2 stages of the implementation of the disclosure principle which are done before and after an *emiten* goes public according to the previously mentioned background. The fulfillment of the disclosure principle by public companies can be seen from the periodic report submitted by the public companies to the Bapepam as well as the information that is disclosed to the public. Pursuant to the aforementioned articles the main point of the application of disclosure principle can be justified into two prospects which are the competency and the sufficiency within the capital market as it is likewise governed under Article 4 of the Capital Market Law. Competency and sufficiency are referring to the act in which the parties that operate in the capital market can execute the best possible decisions arising from their appraisals as it can only be achieved from the administration of disclosure principle where the parties related can obtain the precise relevant information with respect to the trading activities as well as attaining the best result in terms of interests, dividends or other rights.

Furthermore, besides having competent and sufficient trading activities the most influential facet is to generate market trust. The reason why this is an essential aspect is for the reason that as an investor they expect something in return when they decided to invest which is the dividend. Definite information from the public companies is the ones that will establish the trust aspect deriving out of the investors as they would be enamored by the coherent information that will likewise encourage them within their decision-making process in order to accomplish the investment to certain public companies.

Essentially, the application of the disclosure principle is to eliminate the moral hazard and asymmetric information between the company and shareholders. This could lead to an uncertainty called moral hazard risk. This risk could be present when two parties reached an agreement with one another. In essence, moral hazard risk occurs when a party has not entered into a contract in good faith due to misleading information regarding assets, liabilities or credit capacity that could potentially lead to certain parties to gain from acting contrary to the principles in the contract.²³²² To

²³ Tjiptono Darmadji and Hendy M. Fakhruddin, *Pasal Modal Di Indonesia* (Jakarta: Penerbit Salemba Empat, 2011), 139; Hendry M. Fakhruddin and Saleh Basir, *Aksi Korporasi* (Jakarta: Penerbit Salemba Empat, 2005).

paint a clearer picture, when a company does not disclose a corporate action which is the act done by the *emiten* or issuer that affect the amount of shares within the market and it usually attracts the involving parties in the capital market particularly the shareholders,^{24,23} it may be acting contrary to the disclosure principle in the shareholders' agreement which basically consists of the rights and obligations of the shareholders in a company as well as organizing the relation between the company and the shareholders.²⁴ Moreover, asymmetric information is commonly accepted as an information failure that appears in the event when a party within an economic transaction acquires better substantial information compared to the other related parties.²⁵ In the case that these 2 issues occurred it may result in the conflict of interests between the parties.

3.2 Disclosure Principle Under PERPU COVID-19

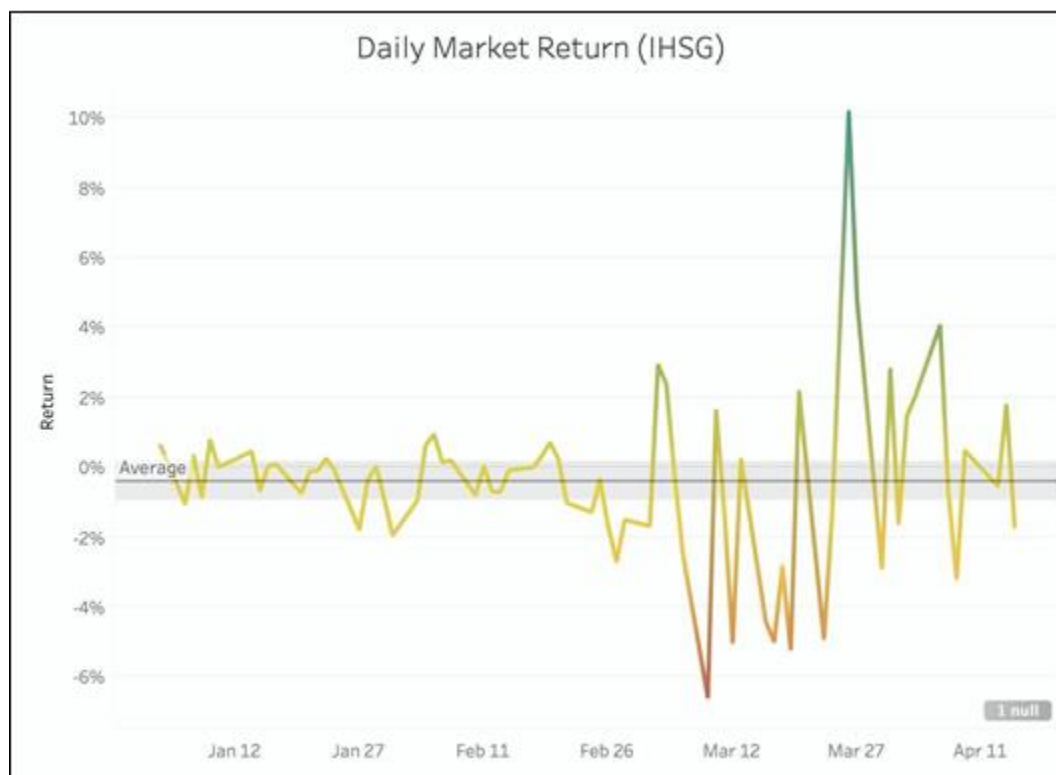
In relation to PERPU COVID-19, it regulates about the authority of OJK under Article 23 and disclosure principle is specifically regulated under Article 23(1b) which allow the exclusion of the disclosure principle towards certain parties in the fields of capital market in order to prevent and handle the current financial crises and those parties are *emiten* and public companies that the registration statement is considered to be effective conferring to the applicable laws and regulations.

3.3 Issues Arising out of the Implementation of PERPU COVID-19

As this regulation administer the exclusion of the disclosure principle to the *emiten* or public companies that the registration statement has become effective it arises certain issues, however, before jumping into the issues there are certain advantages for certain parties which are mainly, simplifying all the procedure in executing the corporate actions in a case of financial emergency which likewise facilitates the relevant parties in a complex situation due to the fact that with this regulation supervisory steps that are taken are relatively immediate which is functioning to avert further issues.²⁶

²⁴ Hamalatul Qur'ani, "Perbedaan 4 Dokumen Penting: SPA, SSA, SHA, dan JVA dalam Merger & Akuisisi," Hukum Online, August 17, 2018, <https://www.hukumonline.com/berita/baca/lt5b768e9bd1425/perbedaan-4-dokumen-penting--spa-ssa--sha-dan-jva-dalam-merger-akuisisi/> (accessed April 18, 2020).

Therefore, public companies in carrying out their corporate action will be less complicated and to minimize financial distress. Financial distress commonly is a situation where companies or individuals are unable to develop dividends or earnings by reason of its inability in completing its financial responsibility as it generally occurs as a result of high fixed costs, illiquid assets, or revenues sensitive to economic downturns.²⁷ This is exactly the ongoing case that is currently happening in Indonesia due to COVID-19. As discussed previously, the moral hazard is one of the uncertainties that could arise from this situation and this regulation might also give uncertainty to the shareholders as the company they invested in might execute corporate actions that are against their interest as shareholders.



Either way, this might be one of the effective contributing factors to help ease the panic selling in the market and reduce market volatility (statistical dispersion towards market index which is commonly measured as standard deviation or discrepancy between market index)²⁸ given the situation the capital market is currently facing as shown in the graph below:

Furthermore, in consonance with the aforementioned paragraph as this disclosure

principle functions to eliminate the moral hazard between the companies and the shareholders due to the enforcement of PERPU COVID-19 the possibility of the occurrence of moral hazard is relatively huge as a result of the exclusion of the disclosure principle due to the probability of not having good faith and obtaining misleading or misjudgment of information regarding the company's information such as assets, liabilities, or credit capacity that may arise. This issue within the capital market field in Indonesia may be considered as a fraudulent act.³⁰

Fraudulent act within the capital market is stipulated under Capital Market Law Article 90 as every individual are prohibited from conducting the act of defrauding or deceiving other individuals by any means or method, participating in fraud or deception against other individuals, and falsely stating material information or failing to disclose material information with the intention of achieving benefit from another party and to avert loss for himself or other parties through affecting the parties in selling or purchasing process towards the securities. In line with Article 104 of the Capital Market law, this kind of act would be considered as a criminal act in which the sanctions provided for this kind of activity is equal to a maximum imprisonment of 10 years and a maximum fine amounting to Rp 15,000,000,000,-.

Moreover, the act of fraudulent is likewise regulated under the Indonesian Civil Code Article 1328 in which fraudulent activities are referring to an intention for the cancellation of an agreement and it must be proven. Thus, in relation to the capital market it this is one of the essential aspects within the trading activities between the public companies and shareholders where all the substantial information must be provided accurately along with an accurate report. Indonesian Criminal Code likewise regulates the fraudulent act which is done by virtue of obtaining benefits for themselves or other methods that violates the rules and regulations will be sentenced with a maximum imprisonment of 4 years.

Additionally, another issue that may arise from the imposition of PERPU COVID-19 is that there is no specific date towards the end of the enforcement of this change towards the application of disclosure principle. As previously discussed, the importance of the utilization of the disclosure principle is extraordinarily urgent and precise. On that account, it will cause a legal certainty towards the relevant parties within the capital market and it will likewise provide opportunities as well as latitudes towards mischievous parties in

performing the trading activities throughout the enactment of this regulation.

4. CONCLUSIONS

In conclusion, the disclosure principle is obligatory within the CapitalMarket Law in Indonesia particularly with regard to the activities done within the capital market. The principle of disclosure is a crucial aspect in obtaining the goals of the trading activities in the capital market which are mainly the competency, sufficiency, as well as gathering market trust. Meanwhile, the PERPU COVID-19 set forth an exclusion with respect to the application of the disclosure principle to the public companies which provide reliefs to investors as the company could execute corporate actions immediately when a financial emergency occurs, reducing marker volatility with the current market situation as well as alleviate panic selling.

Lastly, the issues which may arise from the implementation of PERPU COVID-19 is moral hazard and information asymmetric as the uncertainties that may occur due to the misleading information that may be obtained withinthe trading activities. It will likewise result in a fraudulent or deceiving act. In addition, the utilization of this regulation will cause a legal certainty within therelevant parties in the capital market on the grounds that the end date of the enforcement of this PERPU COVID-19 is not specified that might result in further issues within the field of the capital market and hence, it is important for the Government to settle the end date towards this regulation.

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