Investigate the Financial Instruments Trade on the Indonesia Stock Exchange

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Abstract:
The IDX plays a significant role to encouraging capital development and provides opportunities for investors to diversify their holdings and create long-term value. This study intends to understand further about the Indonesia Stock Exchange, as well as to understand and investigate the financial instruments traded on the Indonesia Stock Exchange. The methods used in this research are literature and internet studies. In order to gather data for this article, observations from data sources were used. From these observations, concepts were developed, and these concepts generated conclusions. The results and conclusions of this investigation show that the Indonesia Stock Exchange plays a significant role in the Indonesian economy. The Indonesia Stock Exchange provides a source of investment opportunities as well as funding for businesses and other organizations including the government. The number of participants and the volume of trading on the Indonesia Stock Exchange are both increasing. As a consequence, this will have a beneficial impact because Indonesian's enthusiasm in investing has reportedly expanded over the past few years. In recent years, members of the stock exchange have been increasing.

Keywords: Investment; Indonesia Stock Exchange; Shares; Bonds, Mutual funds; Derivatives; Right

Introduction
Investment is a fundamental financial concept that plays a vital role in securing and achieving long-term financial goals. Investment is defined as an activity in which assets or resources are placed in a company unit or finance with the goal of generating future profits. In a scientific article entitled "Capital Markets, History, Development and prospects in the third millennium era" by Warsono (2020), in the current era of globalization, investment tools have evolved from traditional ones (land and gold), to more modern ones, namely investment in the money market (banking) and the capital market or stock exchange.

The Capital Market or stock exchange is a product of a capitalist country whose activities are concerned with the accumulation of capital for certain parties, however, the capital market envisioned by the Indonesian nation has a broader mission in accordance with article 33 of the 1945 Constitution, which includes: (1) Accelerate the process of expanding community participation in company shares, (2) Directed towards the
aspect of community income participation in the ownership of company shares; and (3) To further stimulate community participation in mobilizing funds to be used productively.

The capital market or stock exchange is an important transformation process in the national economy because it provides a platform for companies to raise capital by selling ownership shares to investors. This capital infusion allows companies to expand their operations, invest in new technologies, and create jobs. In addition, stock exchanges facilitate the trading of securities, providing liquidity for investors and allowing them to buy and sell shares easily. Overall, capital markets play an important role in promoting economic growth and development. According to Sjahri (1995), a significant economic transformation process is the capital market or stock exchange because for the first time, real sector companies were traded in the financial sector, and the second reason because the transformation of values occurred in the community that began to accept the company as a solid economic institution, meaning that the wider community accepted the company as goods (shares) that were traded.

In Indonesia, both the number of participants and the value of trading on the capital market are rising. This must be balanced by good knowledge for anyone who wants to "play" in the capital market, with knowing what products the capital market produces. Knowledge of the financial instruments traded on the Stock Exchange can be an asset for all of us to be involved in the Indonesian capital market.

In Indonesia, the stock exchange is a potential financial mechanism, both as an alternative source of funds for companies and alternative investments for investors. There are two different types of exchanges in Indonesia, namely the Jakarta Stock Exchange (BEJ) and the Surabaya Stock Exchange (BES). However, the government decided to merge BEJ and BES in order to improve operational effectiveness. And the result of the merger became the Indonesia Stock Exchange (IDX). The two organizations' operations would become more efficient operations and effective as a result of the merger. The Indonesia Stock Exchange (IDX) is a market for a variety of tradable long-term financial instruments, both in the form of debt and equity. On the IDX, investors are able to trade equities of publicly traded companies, governmental bonds, and corporate bonds. This allows individuals and institutions to invest in the growth potential of Indonesian businesses and economy. The IDX plays an important role in facilitating capital formation and provides opportunities for investors to diversify their portfolios and generate returns over the long term. Based on this explanation, there are two objectives for this study: the first is to find out an overview of the Indonesia Stock Exchange, and the second is to understand and explore the financial instruments traded on the Indonesia Stock Exchange.

**Literature Review**

Investment is the process of investing money in a project to generate extra revenue. According to Tandelillin (2010), Investment is a commitment to several funds or other resources made at this time, to obtain several benefits in the future. An investor buys several shares at this time with the hope of benefiting from an increase in share prices or some dividends in the future, in return for the time of risk associated with the investment. Investors can buy and sell shares of publicly traded companies through the IDX as a way to invest in Indonesian companies and potentially earn returns.

The definition of IDX is explained more specifically in the Capital Market Law No. 8 of 1995 as an activity related to Public Offerings and Securities Trading, public companies related to the Securities they issue, as well as institutions and professions related to Securities. According to Husnan Suad (1998), the stock exchange is a company whose main service is to organize securities trading activities in the secondary market.

The IDX provides a major role for a country's economy because the capital market provides two functions. First, economic function and financial function. The capital market have an economic function because the capital market provides a facility or vehicle that brings together two interests, namely those who have excess funds (investors) and those who need funds (issuers). With the existence of the capital market, public companies can obtain public funds through the sale of shares through the IPO procedure or debt securities (bonds).

Second, the financial function. The IDX provides the possibility and opportunity to obtain rewards (returns) for fund owners, in accordance with the characteristics of the selected investment. Therefore, since the capital market offers alternative finance for businesses, it is expected that economic activity will increase as a result. This will enable enterprises to earn revenues and, in turn, provide prosperity to the larger society. The Indonesia Stock exchange trades a variety of financial instruments, including: (1) Shares, (2) Bonds, (3) Mutual funds, (4) Derivatives, and (5) Other financial products such as rights.
Method

This study follows an internet and Systematic Literature Review method that based on written works, such as literature books, published and unpublished research results, and online resources. (Gehrisch MG, 2022). The collection method in this article uses observations from data sources and then ideas are drawn, which in turn draw conclusions from these observations.

Results and Discussion

A. Financial instruments traded on the Indonesia Stock Exchange

The capital market or Indonesia Stock Exchange is a market for various long-term financial instruments that can be traded, including debt securities (bonds), equities (stocks), mutual funds, derivative instruments, and other instruments (Fakhruddin, 2001). The financial instruments traded in the capital market are explained as follows:

1. Shares

Stocks are one of the most popular financial market instruments. Shares can be defined as evidence or a sign of ownership of a share of capital in a company or limited liability company (Siamat D, 2005). By including the capital, the party has a claim on the company's income, a claim on the company's assets, and the right to attend the General Meeting of Shareholders (GMS). The benefits of shares are dividends and capital gains.

Shares (stocks) can be divided into two types that are commonly marketed. The first, common stock is a type of stock with limited liability that represents an ownership claim on the earnings and assets of the firm. This indicates that in the event of a corporate bankruptcy, the maximum loss received by shareholders will be equal to their share investment. Second, Preferred Stock is a stock that has the combined characteristics of bonds and common stock. It is similar to common stock in that it represents equity ownership and is issued without a maturity date written on the stock sheet; and it pays dividends. The similarities with bonds are that there is a claim on previous profits and assets, the dividend is fixed for the life of the stock, and it has redemption rights and is convertible into common stock.

Compared to other investment instruments, preferred shares have the following advantages and disadvantages. First, preferred shares are safer than ordinary shares because they have the right to claim the company's assets and distribute dividends first. Second, compared to investment in the form of loans, preferred shares are less secure because dividends are legally not an obligation. Third, fixed dividend payments are difficult to increase. Fourth, preferred shares do not have voting rights. Fifth, preferred shares have no maturity. Sixth, preferred shares are difficult to trade compared to ordinary shares because there are usually much fewer preferred shares. Seventh, when the company is liquidated or bankrupt, only the nominal value of preferred shares is paid.

2. Bonds

Bonds are evidence of debt from issuers guaranteed by insurers that contain promises of interest payments or other promises and repayment of principal loans made on the maturity date (Siamat Dahlan, 2005). Bonds are long-term agreements in which the bond issuer promises to pay interest and principal at a certain time to bondholders (Handaru, 1996).

There are various types of bonds issued by companies. First, mortgage bonds are bonds that are secured by fixed assets. The bond issuer will determine the fixed assets that would be used as collateral. Second, debenture is a bond that is not secured by a particular asset but depends on the characteristics of the asset and the credibility of the issuing company. For companies with high credibility, the issuance of debentures will still attract potential creditors. Third, subordinated debenture, which has almost the same characteristics as debenture, the difference is that subordinated debenture will only be paid if another type of debt has been paid off. Fourth, convertible bond is a bond that can be converted into common stock at a certain time. Fifth, warrant is an option that gives the holder the opportunity to buy common stock at a certain price. Bond with warrant is a convertible bond. Sixth, income bonds are bonds that do not promise regular interest (coupon) payments. Interest will only be paid if the company has the funds to pay it. Seventh, putable bond is a bond that gives the holder the right to sell the bond owned to the bond issuer at the nominal value of the bond. This right is only used if it jeopardizes the creditor's position. Eighth, indexed (purchasing power) bonds
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are bonds that are often found in high inflation countries. In general, it can be interpreted as a bond that adjusts its interest payments to the inflation index. Ninth, zero coupon bond is a bond that does not provide interest payments. Instead, the bond will be sold at a certain discount. At maturity, the investor will receive a payment equal to the par value of the bond.

3. Mutual funds

According to Law No. 8 of 1995 concerning capital markets, mutual funds are instruments that investment managers use to gather funds from the investor community to invest in security portfolios. In the book Fundamental of Investing by Gitman (2008), a mutual fund is defined as an investment company that invests shareholders' money in a diversified portfolio.

Based on the nature of its operations, mutual funds divided into two types. First, closed-end mutual funds are mutual funds that have the characteristic of only being able to offer mutual fund shares to investors up to the limit of the amount of authorized capital that has been determined in the company's articles of association. If want to sell shares exceeding the authorized capital, we must change or increase the authorized capital specified in the articles of association. Second, open-ended mutual funds have the characteristic of being able to sell their participation continuously as long as there are investors who intend to buy. Conversely, investors can sell their participation units back to the investment manager whenever they want, or in other words, open-end mutual funds are willing to buy back their participation units according to the net asset value at that time.

Mutual funds according to the provisions can be established in two forms. First, a Mutual Fund Company (PT) is a separate legal entity established to carry out mutual fund activities. As with a PT legal entity, a mutual fund company has an articles of association, shareholders, board of directors, own assets, and obligations. The working mechanism of mutual funds and companies is located in Figure 1.1.

Second, Collective Investment Contract (KIK) Mutual Funds are mutual funds whose principle is not a separate legal entity. Mutual funds conduct their activities based on contracts made by investment managers and custodian banks. Investors collectively entrust their funds to investment managers to manage. The collected funds are stored and administered at the custodian bank. The working mechanism of collective investment contract mutual funds is located in Figure 1.2.

![Figure 1.1 Mutual Fund Mechanism of PT](image-url)
4. Derivatives

In the official website of the Indonesia Stock Exchange (www.idx.co.id) explained that derivative securities are derivative securities of the main securities, both in the nature of participation and debt. Derivative securities can mean direct derivatives of the main securities or further derivatives. Derivatives are contracts or agreements whose value or profit opportunities are linked to the performance of other assets. These other assets are referred to as underlying assets.

In a more specific, derivatives are financial contracts between two or more parties to fulfill a promise to buy or sell an asset or commodity that is used as a traded object at a time and price that is a mutual agreement between the seller and the buyer. The future value of the traded object is strongly influenced by the parent instrument in the spot market. In addition, financial derivatives are derivative instruments, where the underlying variables are financial instruments, which can be stocks, bonds, stock indices, bond indices, currencies, interest rates and other financial instruments. Derivative instruments are often used by market participants (investors and securities companies) as a means of hedging their portfolios.

There are several types of derivative products traded on the IDX. First, Stock Option Contract is a formal contract that gives the right to buy or sell an asset at a certain price within a certain period of time. Stock Option Contract is a security that contains the right to buy (call option) or the right to sell (put option) on the Underlying Stock in a certain amount and Strike Price (price set by the Exchange), and is valid within a certain period.

Second, index futures or LQ 45 Futures are contracts to buy or sell an underlying (can be an index, stocks, bonds, etc.) in the future. An index contract is a futures contract that uses an underlying in the form of a stock index. LQ Futures uses the underlying LQ45 index, LQ45 has been recognized as a benchmark for stocks in the Indonesian Capital Market. In the midst of rapid developments in the Indonesian capital market, the LQ45 index can be a fairly effective tool in order to track the overall stock market in Indonesia.

Third, Mini LQ Futures is a contract that uses the same underlying as LQ Futures, namely the LQ45 index, except that Mini LQ Futures has a smaller multiplier (IDR 100 thousand / index point or 1/5 of LQ Futures), that the transaction value, initial margin requirements, and transaction fees are also smaller. Mini LQ Futures products are intended for beginner investors and retail investors who want to do LQ transactions with smaller requirements. Thus Mini LQ can be used as a learning tool for retail investors who are just starting to make transactions in the LQ index. Fourth, LQ 45 Future Periodic is a contract issued on a certain trading day and matures within a certain trading day period. There are several types of contracts, namely: (1) Periodic 2-Weekly Periodic 2-Weekly contract, which...
is a contract that matures on the last trading day of the second week since the issuance of the contract. (2) Weekly 5 Exchange Day Periodic Weekly 5 Exchange Day Periodic Contract, which is a contract that matures on the fifth Exchange Day since the issuance of the contract. (3) Daily Periodic 2 Trading Days Daily Periodic 2 Trading Days contract, which is a contract that matures on the second Trading Day since the issuance of the contract. Fifth, Japan (JP) Future has the characteristic that this product provides opportunities for investors to invest globally while expanding the range and range of IDX derivative products to products that become world benchmarks. JP Futures allows investors to benefit from the movement of the Japanese market as the most active stock market after the US market.

5. Right

A right is a right given to existing shareholders to purchase additional new shares issued by a company. This purchase is called a proof of right or preemptive right. The issuance of rights in the Indonesian capital market is also called a limited securities offering with preemptive rights. Usually the company determines that each old shareholder is given the right to buy a number of new shares in a predetermined ratio (Siamat Dahlan, 2005).

For example, a rights issue with a ratio of 1:3 means that everyone old share has the right to three new shares. As an overview below is a simple example of calculating the value of a right, with the following assumptions:

- Market price of shares = IDR 15,000/share
- Right issue price = Rp 5000 / sheet (usually lower than the market price. Right issue ratio 1:3).

From this data can be calculated:

- Theoretical price of new shares = (Rp 15,000 + Rp 5,000):4 = Rp 5,000
- Price right = Rp 15,000-Rp 5,000 = Rp 10,000

Furthermore, if the right holders exercise their rights, they will get a profit of Rp15,000-Rp 10,000 = Rp 5,000.

Conclusion

The Indonesia Stock Exchange plays a significant role in the Indonesian economy since it serves as a capital market and simultaneously conducts economic and financial functions. The Indonesia Stock exchange trades a variety of financial instruments, including: (1) Shares, (2) Bonds, (3) Mutual funds, (4) Derivatives, and (5) Other financial products such as rights. With this many instruments, it is expected that there will be an increase in interest in investing in Indonesian society, and this has been proven by the rapid development of the capital market in Indonesia.

The Indonesia Stock Exchange provides a source of investment opportunities as well as funding for businesses and other organizations including the government. The number of participants and the volume of trading on the Indonesia Stock Exchange are both increasing. As a consequence, this will have a beneficial impact because Indonesian’s enthusiasm in investing has reportedly expanded over the past few years. In recent years, members of the stock exchange have been increasing. This is confirmed by Warsito, President Director of the Indonesia Stock Exchange (IDX), Indonesians' interest in investing in the capital market has increased over the past few years (Investor Daily, 2011). This must be balanced by good knowledge for anyone who wants to enter the capital market. So, every investor needs relevant information especially regarding financial instruments to invest directly in the capital market.

References


