

MSCI Update

Six Months to Prove Reforms Work

OJK-IDX dialogue: more cases coming, MSCI meeting today

We attended the latest dialogue between OJK, IDX and key domestic market participants on 18 October. Our main takeaway is that enforcement is under way, with more cases under investigation, but MSCI has not given explicit feedback on whether the reforms so far are sufficient. OJK and IDX meet MSCI today (19 October) to seek clarification. The views in this report are our own.

Enforcement: a strong start; consistency is the test

OJK's IDR2.1tr of sanctions on 16 October are the largest enforcement step since the January freeze: DSSA for trading manipulation, and BREN and CUAN for IPO share allocation breaches. The penalties fall on the responsible parties, not on the listed companies.

This is a meaningful start, but MSCI's questions are about whether enforcement is consistent, market-wide and lasting. The size of the fines matters less than a visible surveillance-to-sanction track record beyond the largest stocks.

MSCI's bar: three tests, not thresholds

The consultation sets questions, not thresholds. We read its seven questions as three tests: verifiable ownership and effective free float, meaningful enforcement, and reforms that hold once the freeze is lifted.

The HSC framework, now covering about 80 stocks, is real progress. The gap between reported and effective free float, and the next step on beneficial ownership verification, remain the key open questions.

Six months to build the evidence

The period to 30 April 2027 is best used to identify evidence gaps with MSCI, gather direct feedback from global investors, have key indicators independently assessed and submit one evidence pack well before the deadline. A coordinated working group would help, though MSCI's decision remains its own.

Flows: active funds will not wait

The c.USD3bn passive outflow depends on a final decision and implementation date, but active funds can cut exposure well before then. Foreign flows this week are the first test. MSCI also lands on a market already strained by UST yields above 5%, a Rupiah near 18,000 and tighter fiscal room.

Strategy: defensive on the index, selective outside MSCI

We stay defensive at the index level and underweight foreign-heavy large caps, while gradually accumulating names outside MSCI indexes (BRIS, ANTM, WINS) rather than buying aggressively. BBKA remains our preferred bank on fundamentals; we would accumulate on weakness. We keep our sell on PTBA. Catalysts: today's OJK-IDX meeting with MSCI, the IDX demutualization EGM (28 Oct), the Nov-26 review and FTSE's December update.

MSCI update

Takeaways from the OJK-IDX dialogue with market participants

On 18 October, we attended the latest dialogue between OJK, IDX and key domestic market participants, mostly buy-side institutions, on the MSCI consultation. Two points stood out. First, OJK stressed that enforcement is ongoing and that the 16 October sanctions are part of a broader effort rather than a one-off. More cases are in the investigation pipeline, so further sanctions may follow.

Second, a key difficulty for the authorities is that MSCI has not given explicit feedback on whether the reforms delivered so far are sufficient, which makes it hard to know what additional evidence would change its assessment. OJK and IDX are due to meet MSCI this afternoon (19 October) to seek clarification on the timing of the announcement and on how it relates to their recent discussions.

OJK also indicated plans to coordinate with the Financial System Stability Committee (KSSK) on the macro impact, and to follow up on implementing the P2SK Law so that state-linked institutional investors can invest more readily in domestic equities. The analysis and views that follow are our own and should not be read as the position of OJK or IDX.

Enforcement: a start, not yet a track record

On 16 October, OJK announced IDR2.1tr of administrative fines in three cases, the largest enforcement step since MSCI froze index changes for Indonesian securities in January. The cases differ in nature. DSSA concerned stock trading manipulation over 2024-26, while BREN and CUAN concerned breaches in IPO share allocation. The sanctions were imposed on the parties responsible, rather than on the listed companies themselves, and OJK also froze the licences of the broker directors involved.

Table 1. OJK sanctions announced on 16 October

Case	Issue	Fine
DSSA	Stock trading manipulation, 2024-26	IDR1.5tr
BREN	Breach in IPO share allocation	IDR500bn
CUAN	Breach in IPO share allocation	IDR100bn

Source: OJK (SP 193/OJK/DKPU/X/2026), Mirae Asset Sekuritas Indonesia Research. Fines imposed on the responsible parties, not on the issuers

This addresses the gap MSCI flagged most clearly: the lack of meaningful enforcement against coordinated trading. But one announcement does not yet make a track record. In our view, credibility will come from consistency: further cases beyond the largest stocks, a shorter time from detection to sanction, and evidence that problem trading patterns do not return. Sustained deterrence matters more than the size of individual penalties.

What would be enough? MSCI's three tests

Without explicit feedback from MSCI, the consultation questions are the best guide to what would count. The consultation poses seven questions rather than thresholds. We read them as three tests; the grouping is ours, not MSCI's.

Table 2. MSCI's questions come down to three tests

Test	What MSCI asks	Evidence that would count
Transparency	Reforms beyond index constituents; reliable effective free float (Q2, Q6)	Verified ultimate owners linking related accounts; effective free float reconciled with the registry
Enforcement	Meaningful action against coordinated trading (Q4, Q6)	A surveillance-to-sanction track record, including cases beyond the largest stocks
Sustainability	Complete, lasting measures; no relapse once the freeze is lifted (Q3, Q5, Q7)	A binding, dated free float schedule; consistent data over several cycles; independent IDX governance

Source: MSCI (Indonesia consultation, Oct-26), Mirae Asset Sekuritas Indonesia Research. Q1 (Standalone or Frontier) rests on Q2-Q7

On transparency, the HSC framework, now covering about 80 stocks after its scope widened to above IDR5tr on 12-13 October, is meaningful progress in identifying ownership concentration. Two questions remain open: how concerns are followed through once a stock is flagged, and how the gap between reported and effective free float will be closed. The next stage of beneficial ownership transparency, from disclosure to verification of related ownership structures, is where we expect MSCI and investors to look next.

The governance of the exchange itself is part of the sustainability test. The IDX demutualization EGM on 28 October will start to shape the exchange's future ownership structure. For international investors, the key is that ownership stays diversified enough to protect the independence of an institution that combines commercial, regulatory and supervisory roles.

Using the consultation window

With six months to the 30 April 2027 deadline, we think the consultation should be treated as an opportunity to demonstrate measurable improvements, not merely to communicate regulatory commitments. We see four priorities. These are our proposals, not MSCI requirements, and a submission of evidence does not guarantee that the proposal will be withdrawn.

Table 3. Four priorities for the consultation period (MASI proposal)

Priority	What it involves	Objective
MSCI engagement	Map each consultation question to reforms and outcomes; ask where evidence is still insufficient	Pinpoint which concerns remain unresolved
Global investor feedback	Engage active and passive managers, custodians and index users; seek objective feedback, including negative findings	Move from regulatory communication to investor validation
Independent validation	Independent review of ownership transparency, effective free float and surveillance; publish verifiable indicators	Show improved integrity, not just compliance
Evidence-based submission	One evidence pack linking each concern to reform, status and results; submitted well before 30 April 2027	A coherent, verifiable case for MSCI and index users

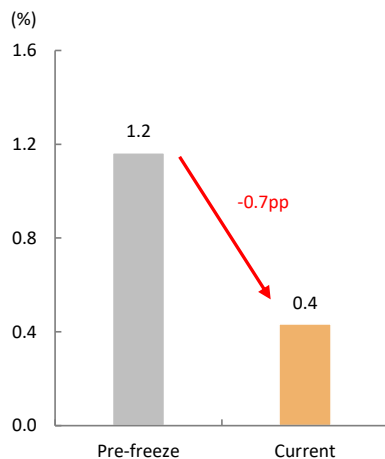
Source: Mirae Asset Sekuritas Indonesia Research

Coordination matters. We would favour a consultation working group bringing together OJK, IDX, KSEI, industry associations and market participants, each within its mandate, to consolidate evidence, collect investor feedback and flag unresolved weaknesses. Its focus should be verifiable outcomes rather than lobbying.

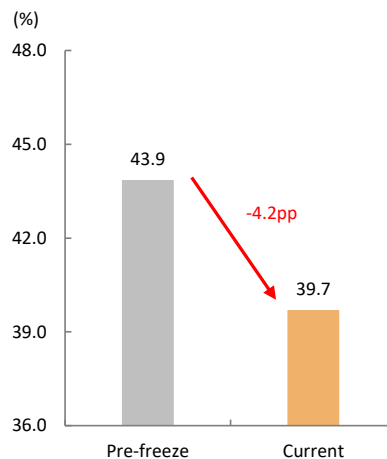
Flows: active funds may move before the decision

The Standalone proposal took many market participants by surprise. Passive outflow, which we estimate at c.USD3bn, would only follow a final decision and an implementation date, neither of which is set. Active long-only funds face no such constraint and may reduce exposure well ahead of June 2027, while passive managers prepare for possible benchmark changes. Foreign portfolio funds hold c.IDR670tr of Indonesian equities, about 20% of free float (KSEI, Sep-26). Only part of this is

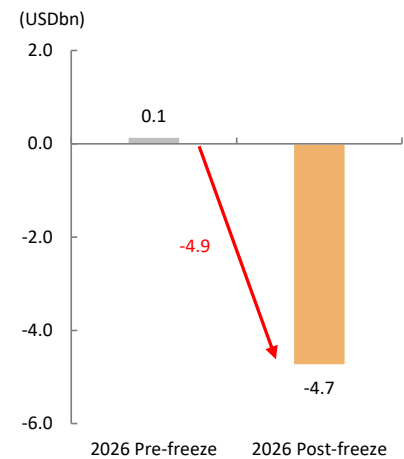
benchmarked to MSCI EM, but the active exposure at stake is likely to exceed the passive overhang. Foreign flows early this week will be the first signal. On the domestic side, greater participation by state-linked institutional investors, if OJK's planned P2SK follow-up delivers, could provide a partial buffer, but it would not replace the foreign investor base that MSCI status supports.

Figure 1. Indonesia weight in EM

Source: MSCI, Mirae Asset Sekuritas Indonesia Research

Figure 2. JCI foreign ownership

Source: KSEI, Mirae Asset Sekuritas Indonesia Research

Figure 3. JCI foreign flow

Source: Mirae Asset Sekuritas Indonesia Research

Table 4. Passive outflow sensitivity: c.USD3bn at risk

Passive AUM tracking MSCI EM (USDbn)	Indonesia weight in MSCI EM (%)	Implied passive outflow (USDbn)
500	0.4	2.0
750	0.4	3.0
1,000	0.4	4.0

Source: MSCI, Mirae Asset Sekuritas Indonesia Research estimates

MSCI amplifies an already difficult macro backdrop

MSCI did not create Indonesia's other pressures, but it adds to them. US Treasury yields above 5% raise the global hurdle rate. BI has already front-loaded 100bp of hikes to 5.75% and is defending a Rupiah near 18,000. Higher energy prices and large recurring commitments such as MBG, together with contingent risks around KDMP financing, are testing fiscal flexibility even with the deficit below the 3% cap. A Standalone outcome would add an Indonesia-specific equity risk premium on top. Its direct effect runs through equities; any effect on the Rupiah and SBN would be indirect, through a higher risk premium.

This is also why fundamentals offer limited protection for now. The MSCI Indonesia Index trades at 8.5x forward P/E and 1.38x forward P/B, 2.7 and 2.1 standard deviations below its 20-year averages, yet fundamentally sound companies can still face benchmark-related selling. Valuations have compressed sharply, but how far structural investability risks are priced in remains uncertain.

Strategy: defensive at index level, selective outside MSCI

We stay defensive at the index level, with foreign selling likely to persist ahead of the decision, and remain underweight foreign-heavy large caps. Within that stance, we favour a selective, gradual re-entry into stocks outside MSCI indexes, namely BRIS, ANTM and WINS. BBKA remains our preferred bank on fundamentals, and we would accumulate on weakness: it carries the largest MSCI overhang, but is likely to be the first

name foreign investors return to. We keep our sell call on PTBA, which remains an MSCI constituent. We would avoid aggressive buying until there is evidence that enforcement is consistent and that ownership and free float data can be verified.

Table 5. Stocks to promote: outside MSCI indexes

Stock	Why it fits now	MSCI and foreign exposure
BRIS	Structural growth in Islamic banking; majority held by state-linked shareholders	Not in MSCI indexes; foreign portfolio funds hold c.4% of free float
ANTM	Gold and nickel exposure; a laggard well below its 52-week high	Deleted from MSCI Small Cap in May-26; foreign funds still hold c.42% of free float
WINS	Our alpha pick, with a mostly domestic investor base	Not in MSCI indexes; foreign portfolio funds hold under 1% of free float

Source: KSEI (30 Sep 2026), MSCI, Mirae Asset Sekuritas Indonesia Research. Foreign portfolio funds = foreign mutual, pension and insurance funds

Near-term catalysts are the outcome of today's OJK-IDX meeting with MSCI, foreign flows this week, the IDX demutualization EGM on 28 October, the Nov-26 index review results, FTSE's update ahead of its December review and any interim report MSCI may issue during the consultation.

Appendix 1

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