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OJK and IDX introduce Liquidity Provider to Enhance Market Liquidity

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As a major effort to enhance market liquidity, the Indonesian Stock Exchange ("**IDX**") has introduced the concept of liquidity provider in the stock exchange transaction. Under this concept a party which acts as liquidity provider can conduct "market intervention" by making series/continues of sell or buy order without being accused of conducting market manipulation. This concept has been used and implemented in other major stock exchanges across the world.

Although the IDX rule on liquidity provider has been effective as from June 2024 however due to the lack of clarity on the roles, functions and requirements of a liquidity provider, this concept has not been implemented. On 8 November 2024 the Financial Services Authority ("**OJK**") issued regulation No 18 of 2024 regarding the Liquidity Provider ("**POJK 18/2024**"). POJK 18/2024 will be effective 6 months as of 8 November 2024, i.e., by 8 May 2025.

Pursuant to POJK 18/2024 the party that can conduct liquidity provider activities are broker dealer or other party which have been approved by OJK. A liquidity provider also must obtain approval from IDX. Once approved, a liquidity provider will be able to submit quotation (continues bid/order to buy or sell the securities in the open market) with the aim to manage the liquidity of certain securities in the market.

To implement the liquidity provider activities by stock exchange member on 30 April 2025 IDX has issued IDX Rule No. III-Q regarding the Shares Liquidity Provider in Stock Exchange ("**Rule III-Q**"). Rule III-Q governs the role, requirements, rights and obligation of stock exchange member which acts as liquidity provider. Rule III-Q is silent on liquidity provider which is not stock exchange member. Furthermore, Rule III-Q specifies that the continues buy or sell bid (quotation) by a liquidity provider can only be made over shares that are listed in the list of liquidity provider shares which pre-approved by IDX within certain period (90 calendar days).

The implementation of liquidity provider is expected to increase free float in the market with the objective to reduce long list of public companies in the monitoring board of IDX due to incompliance of IDX free float requirement. However, it is still a question mark if this liquidity provider can be used as solution of such free float issue. There are number of practical issues such as valuation of such illiquid securities may not represent its real market value causing significant difference between the current trading price and the real market value (bid-ask spreads). To support the effectiveness of the liquidity provider activity, the regulators (OJK and IDX) need to consider some relaxation of their rules such as auto rejection mechanic – trading price adjustment mechanic, voluntary suspension request by public company or its shareholders and requirements on affiliated party transactions to the extent that such transaction is conducted for the purpose of increasing free float shares in the market.

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