



# Promoting Sustainable Investment in Indonesia Capital Market

*“One Step Towards More Sustainable Investments in  
Indonesia Capital Market”*

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# Indonesia's Capital Market in A Nutshell

In the past five years, number of listed companies has grown steadily, while number of investors has increased significantly

August 2022



## Involved parties



### Exchange Members

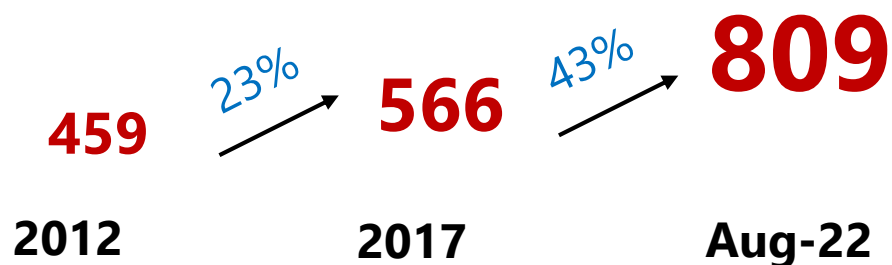


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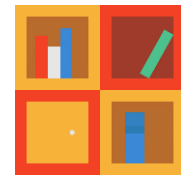
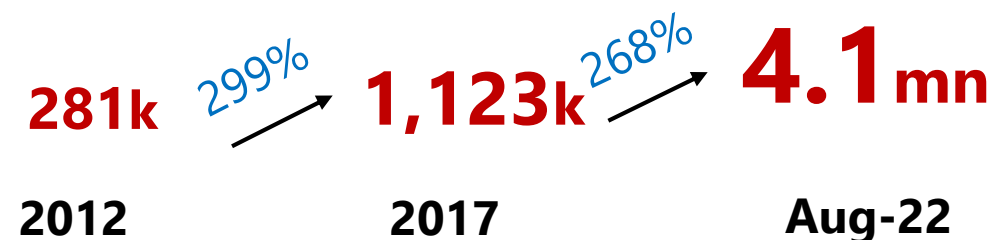
- Local: **69**  
- JV: **25**

(30 brokers comprise 80% of total trading turnover)

### Listed Companies



### Number of Equity Investors (SID)



## Products

Equities	<b>809</b>	Market Cap IDR9.362 tn ( <b>USD630 bn</b> ) Average Daily Trading Value IDR15,2 tn ( <b>USD1,02 bn</b> )
Bonds	<b>125</b>	<b>Govt:</b> Outstanding Value IDR4.941 tn ( <b>USD332,6 bn</b> ) Average Daily Trading Volume IDR53 tn ( <b>USD3,5 bn</b> ) <b>Corp:</b> Outstanding Value IDR456 tn ( <b>USD30,7 bn</b> ) Average Daily Trading Volume IDR1,8 tn ( <b>USD0,12 bn</b> )
ETFs	<b>50</b>	AUM IDR14 tn ( <b>USD0,94 bn</b> )
Asset Backed Securities	<b>11</b>	Outstanding Value IDR4 tn ( <b>USD0,27 bn</b> )
REITs	<b>3</b>	AUM IDR15 tn ( <b>USD1,01 bn</b> )
Infrastructure Investment Fund	<b>1</b>	AUM IDR970 bn ( <b>USD65,3 mn</b> )
Futures		IDX LQ45 Futures IDX30 Futures Indo Govt Bond Futures Basket Bond Futures

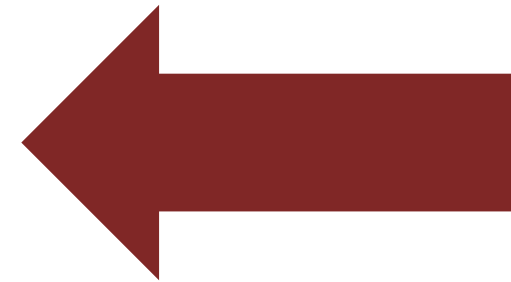
# ESG (Environment, Social, Governance) in Capital Market

## ESG is good for business

- ✓ Reduced cost and increased efficiency
- ✓ Better relationship with stakeholders
- ✓ Increase customer demand of ESG aspects
- ✓ Reduce operation risk
- ✓ Reduced negative externalities
- ✓ Benefit from Sustainability Megatrend
- ✓ Triple Bottom Line



**Issuer  
(Companies)**



Consider Issuers' ESG performances for investment decision & Stewardship and Becoming More Active Investors



**Investors**

## Integrate ESG Aspect

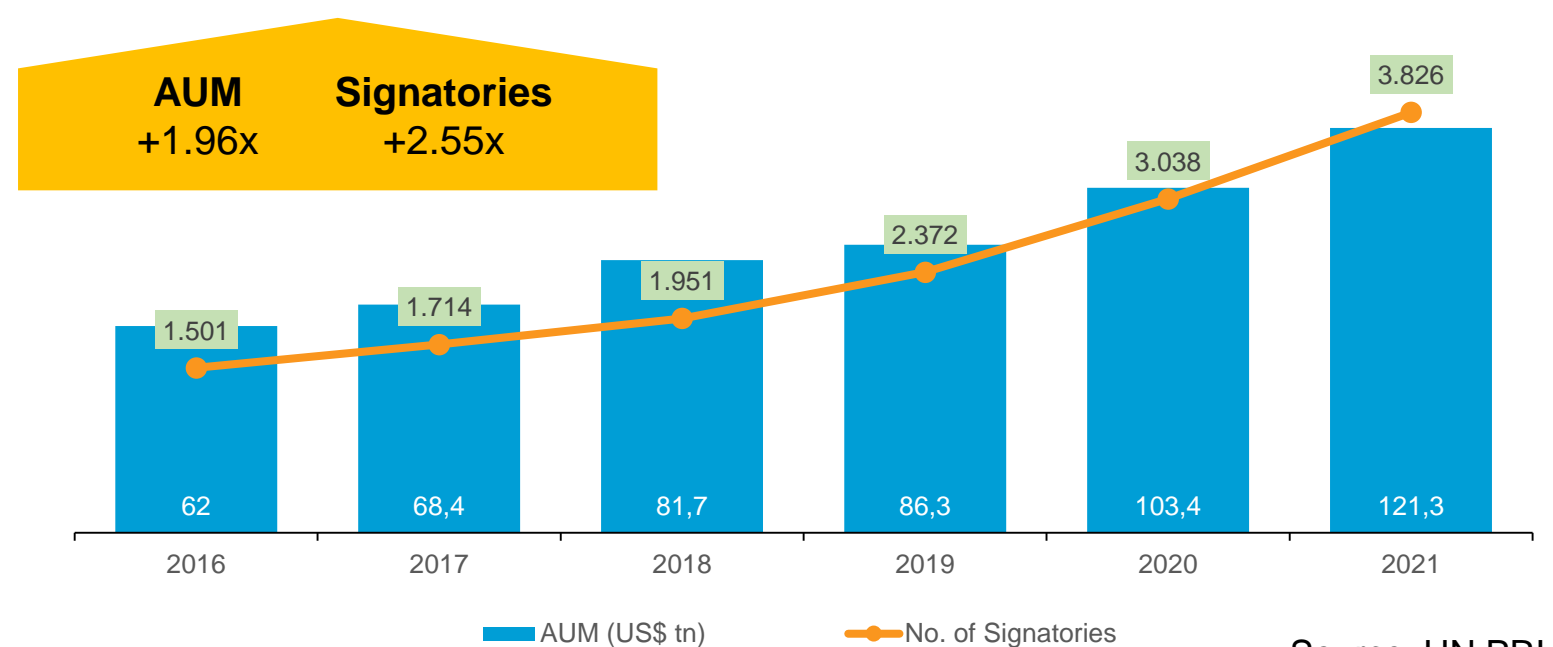
- ✓ Improve return
- ✓ Reduce investment risk
- ✓ Do good for better future
- ✓ Doesn't need to sacrifice return
- ✓ Another tools for investing



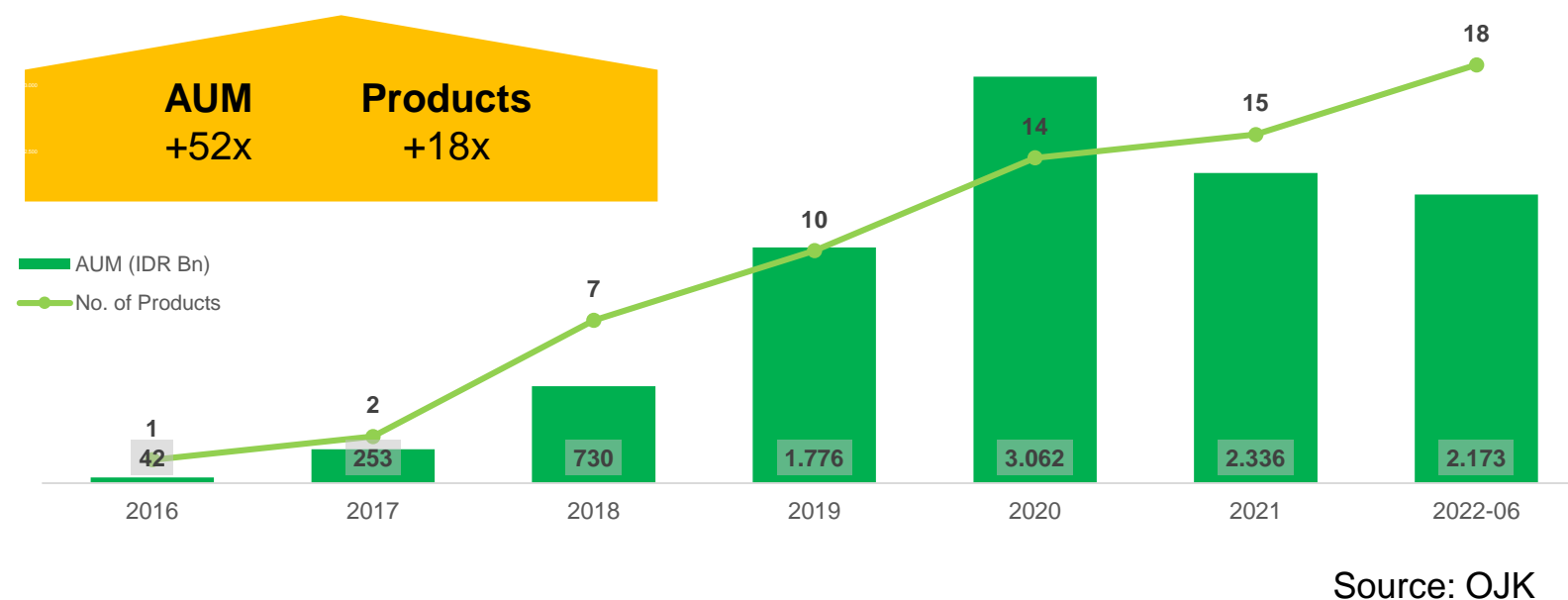
# Integrating ESG Aspect Becoming Mandatory for Investors



## AUM and Signatories of Global Fund in Principle for Responsible Investment (PRI)



## AUM and Products from Indonesian Mutual Fund and ETF which tracked Passive ESG Themed Index



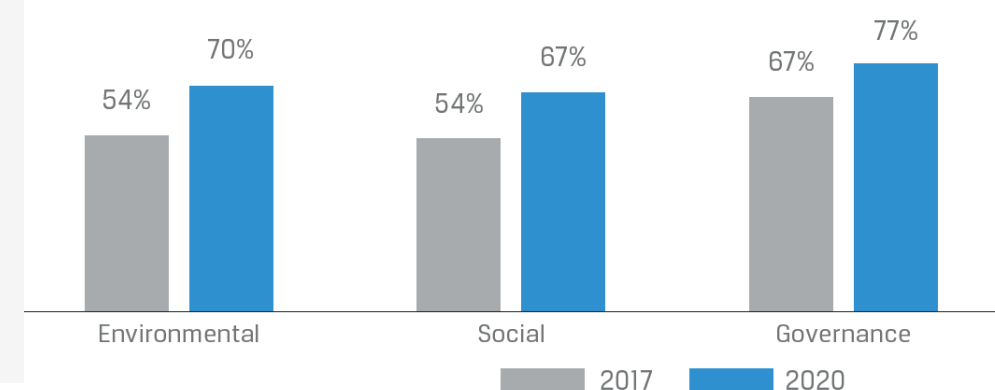
## ESG Aspect Consideration in Investment Decision

Investment Professionals

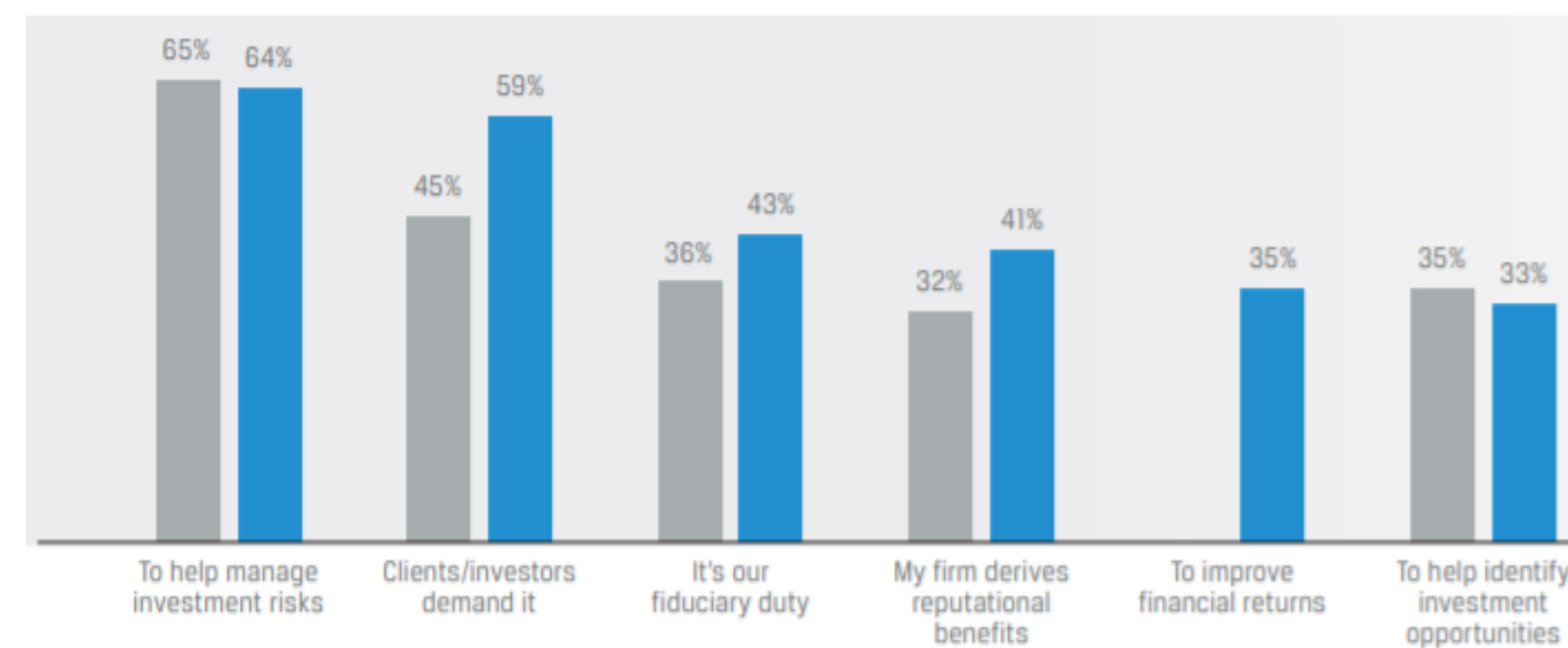
**85%**  
USE ESG FACTORS

Most CFA Institute members surveyed take E, S, and/or G factors into consideration in their investing, up from 73% in 2017

WHICH, IF ANY, OF THE FOLLOWING ESG AREAS DO YOU AND/OR YOUR ORGANIZATION TAKE INTO ACCOUNT IN YOUR INVESTMENT ANALYSIS OR DECISIONS?  
(SELECT ALL THAT APPLY)



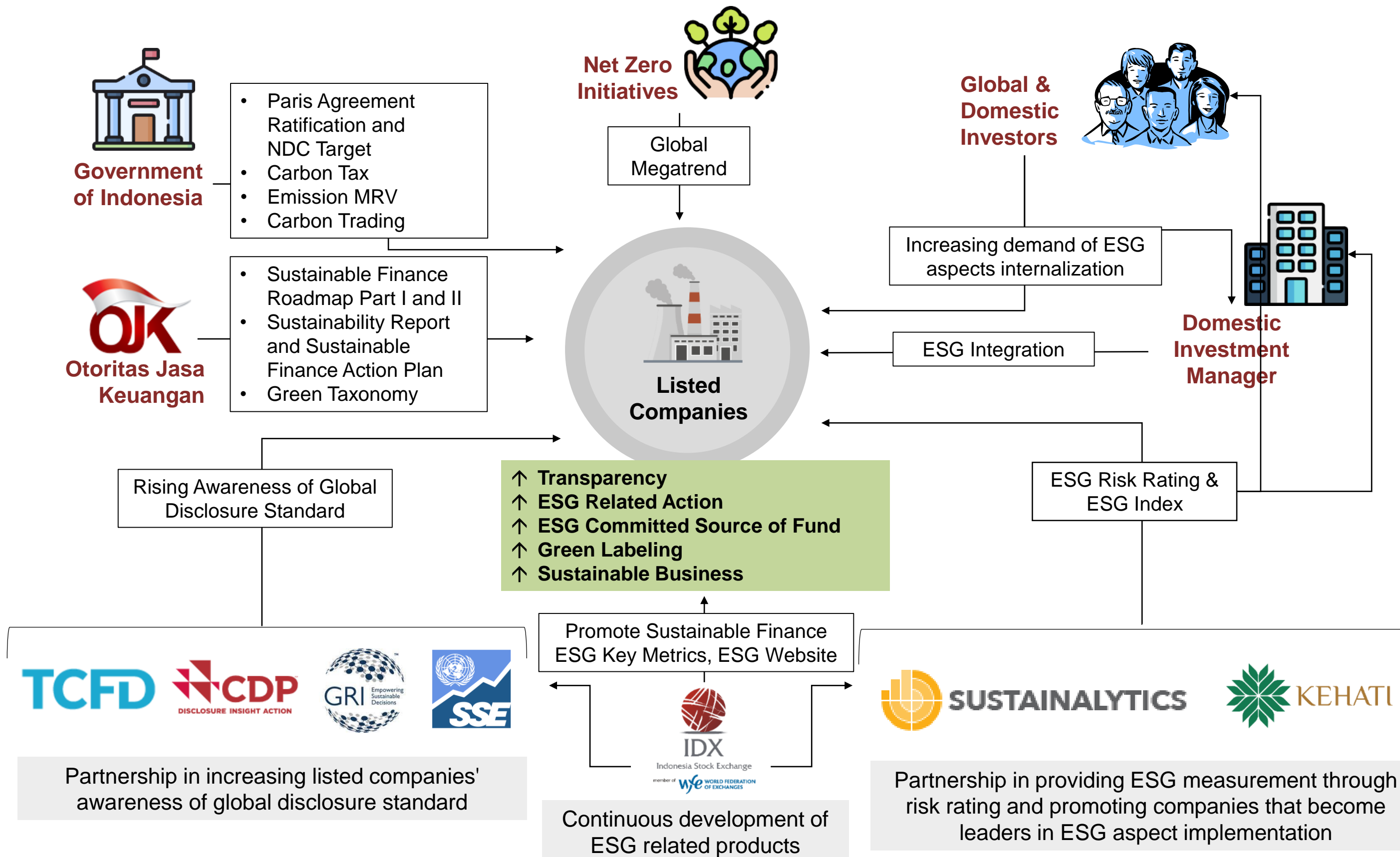
## Why Take ESG Issues Into Consideration In Your Investment Analysis/Decisions?



Source: Future of Sustainability in Investment Management: From Ideas to Reality (CFA Institute, 2020)



# Current Landscape & Initiatives Towards Better Sustainable Investment Ecosystem



**Forward Expectation**

- Better ESG disclosure
- More ESG Integration
- Better climate related initiatives
- More Sustainable Capital Market with Climate Resiliency



# IDX Has Become Part of Sustainable Stock Exchange and Fulfilling SSE's Recommendation



**Sustainable  
Stock Exchanges**



<p><b>SDG 5</b> BOARD ROOM DIVERSITY AND GENDER EQUALITY</p>	<p><b>SDG 8</b> SME GROWTH AND SUSTAINABLE DEVELOPMENT</p>	<p><b>SDG 10</b> SECURITY MARKET REGULATION</p>
<p><b>SDG 12</b> REPORTING ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE</p>	<p><b>SDG 13</b> CLIMATE ACTION AND GREEN FINANCE</p>	<p><b>SDG 17</b> PARTNERSHIPS FOR SUSTAINABLE AND TRANSPARENT CAPITAL MARKETS</p>

Activities	Check List
SSE Partners Exchanges	Yes
SME listing platform	Yes Acceleration Board
Training on ESG topics	Yes
Providing written guidance on ESG reporting	Yes - POJK 51 2017 - SE OJK 16 – 21
Publish Sustainable Reports	Yes
Covered by an ESG Index	Yes
ESG Bond segments	Yes Green Bonds
Mandatory ESG listing requirement	Yes Sustainable Report
Women on boards mandatory minimum rule	No However IDX always promoting Gender Equality

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Sumber: <https://sseinitiative.org/exchanges-filter-search/>

# OJK gradually mandating PLC and Financial Services Institutions to make Sustainable Finance Action Plan & publish Sustainability Report



## Sustainability Report Regulation Disclosure

### OJK Regulation No. 51 - 2017:

Implementation of Sustainability Report Obligation for Financial Services Institutions, Issuers, and Public Companies

### SE OJK No. 16 – 2021 (Appendix II):

Technical Guideline of Sustainability Report for Issuers and Public Companies

## Gradually Mandated Period

Institutions	Reporting Period
<b>Big Banks<sup>1</sup></b>	2019
<b>Medium &amp; Small Banks<sup>2</sup>, Big PLC (Assets &gt; IDR 250 Bn)</b>	2020
<b>Medium PLC (IDR 250 Bn ≥ Assets &gt; IDR 50 Bn )</b>	2022
<b>Small PLC (Assets ≤ IDR 50 Bn)</b>	2024

1. BUKU 3, BUKU 4, and Foreign Banks

2. BUKU 1 and BUKU 2

## Sustainable Finance Action Plan

### Principles:

1. Responsible investment;
2. Sustainable business strategies and practices;
3. Management of social and environmental risks;
4. Governance;
5. Informative communication;
6. Inclusive;
7. Priority sectors development;
8. Coordination and Collaboration.

## Sustainability Report

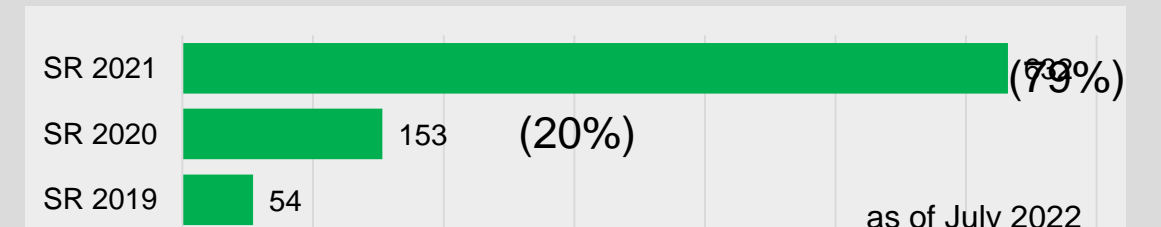
### Sustainable Aspect

- Economic
- Raw Materials
- Energy
- Water
- Biodiversity
- Emission
- Waste
- Environmental Report
- Social
- Workforce
- Society
- Sustainable Product Development

### Content

- Sustainability strategy
- Summary on sustainability aspects (economics, social, environment)
- Company profile
- Top management's statement
- Sustainability governance
- Sustainability performance (economics, social, environment)
- Written verification from independent party, if available
- Feedback form for reader, if available
- Company's response on previous year Sustainability Report's feedback

### PLC Submission Rate



# IDX IS ON THE WAY TO FULLFIL UN SSE RECOMMENDATION FOR TCFD

SSE identifies **five activities** that stock exchanges are undertaking in support of the diffusion of reporting practices in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD):

## IDX Checklist

### TCFD reference in ESG guidance

- Adding details on the TCFD recommended disclosures within their ESG disclosure guidance

### Publish climate-specific disclosure guidance

- Publish stand alone guidance, specifically for climate-related disclosures
- If we complete this, number 1 action may also be considered done



### Release our own TCFD-aligned climate related disclosure

- Release stock exchange's disclosure on climate-related information and considering climate-related risks and opportunities

### Become TCFD supporter

- Sign to support of disclosure of climate-related financial information in alignment with the recommended disclosures of the Financial Stability Board



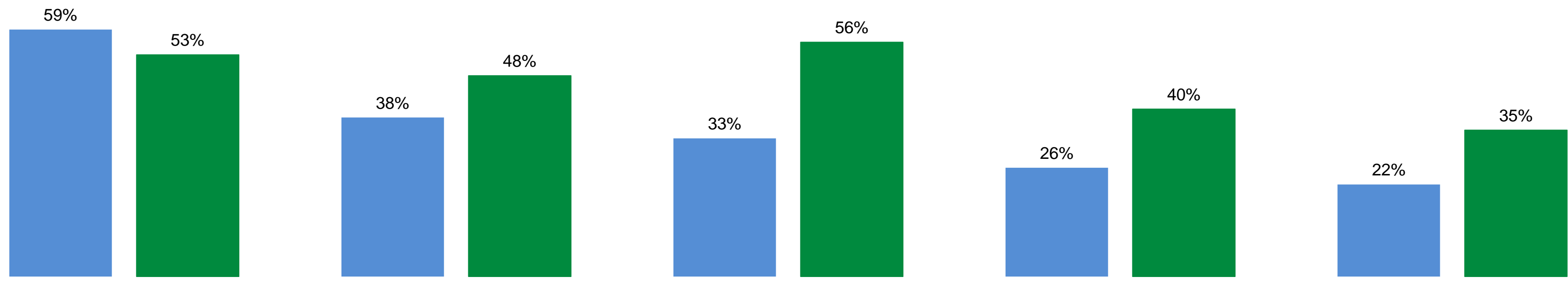
### Host/provide TCFD training

- Held online training program together with IFC and CDP to help stock exchanges educate their markets on climate-related disclosures





# Methods of Considering ESG Issues



## ESG integration

Systematic and explicit inclusion of ESG risks and opportunities in investment analysis.

## Exclusionary screening

Avoiding securities of companies or countries on the basis of traditional moral values and standards and norms.

## Best-in-class investing/ positive alignment

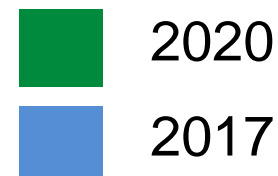
Preferring companies with better or improving ESG performance relative to sector peers.

## Active ownership

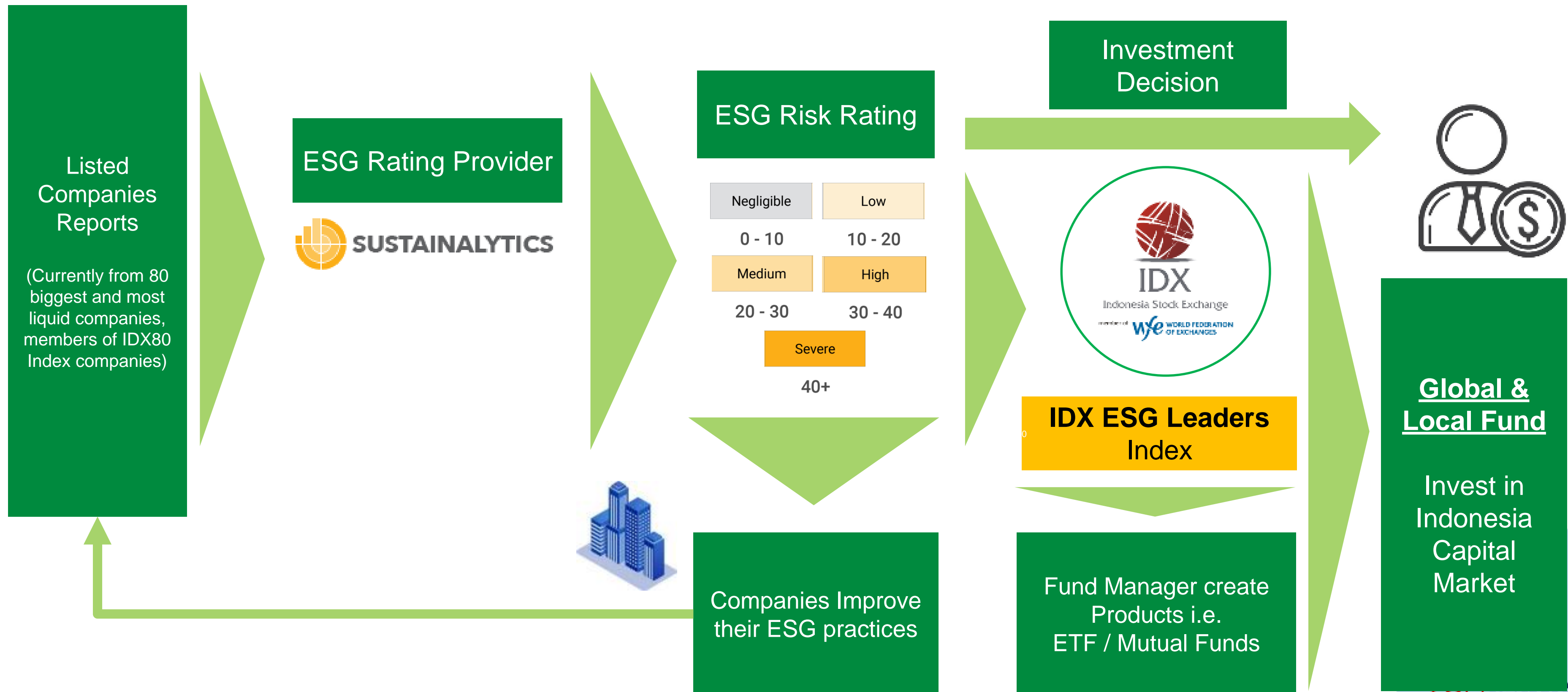
Practice of entering into a dialogue with companies on ESG issues and exercising both ownership rights and voice to effect change.

## Thematic investing

Investing that is based on trends, such as social, industrial, and demographic trends.

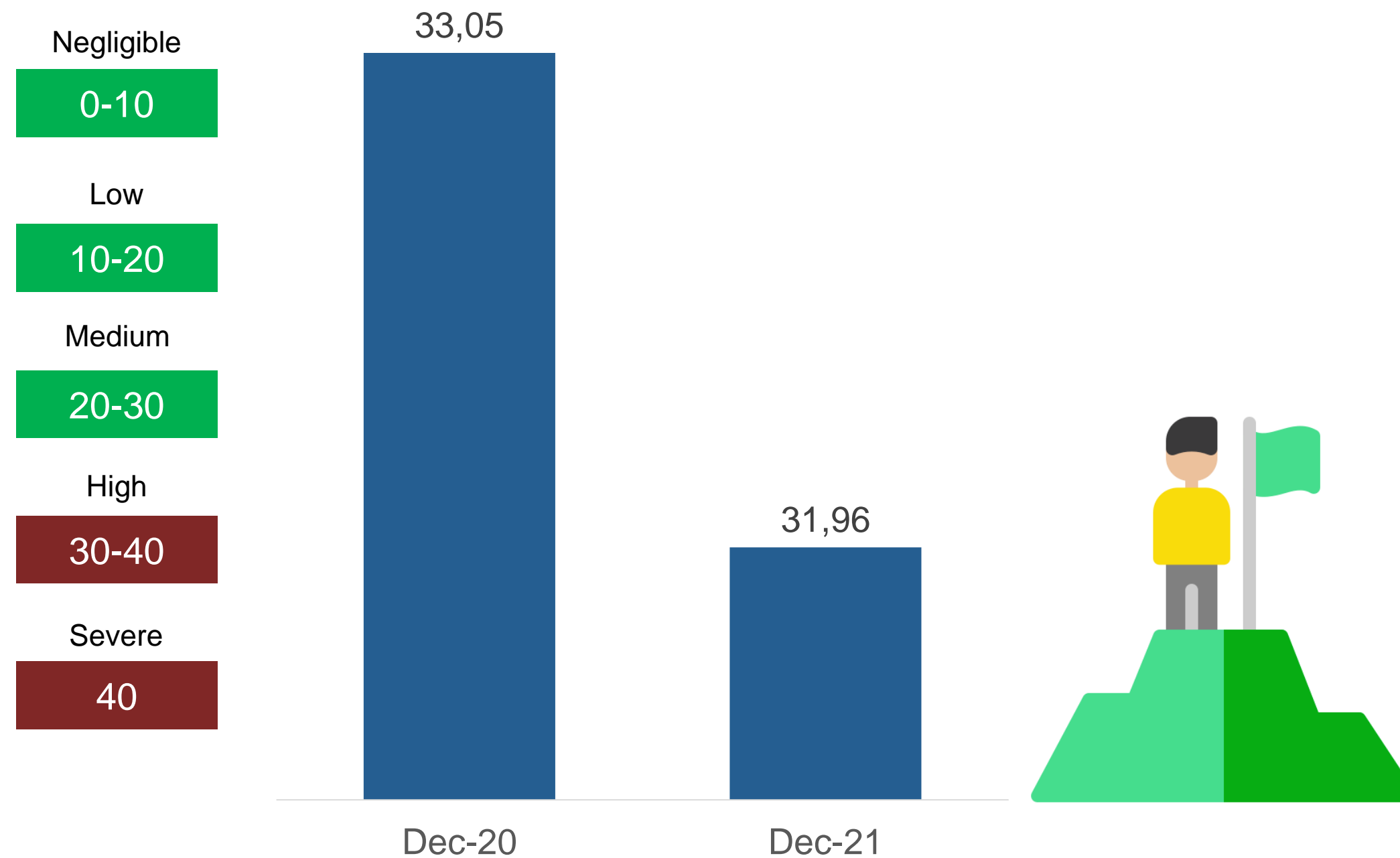


# ESG Rating and IDX ESG Leaders Index

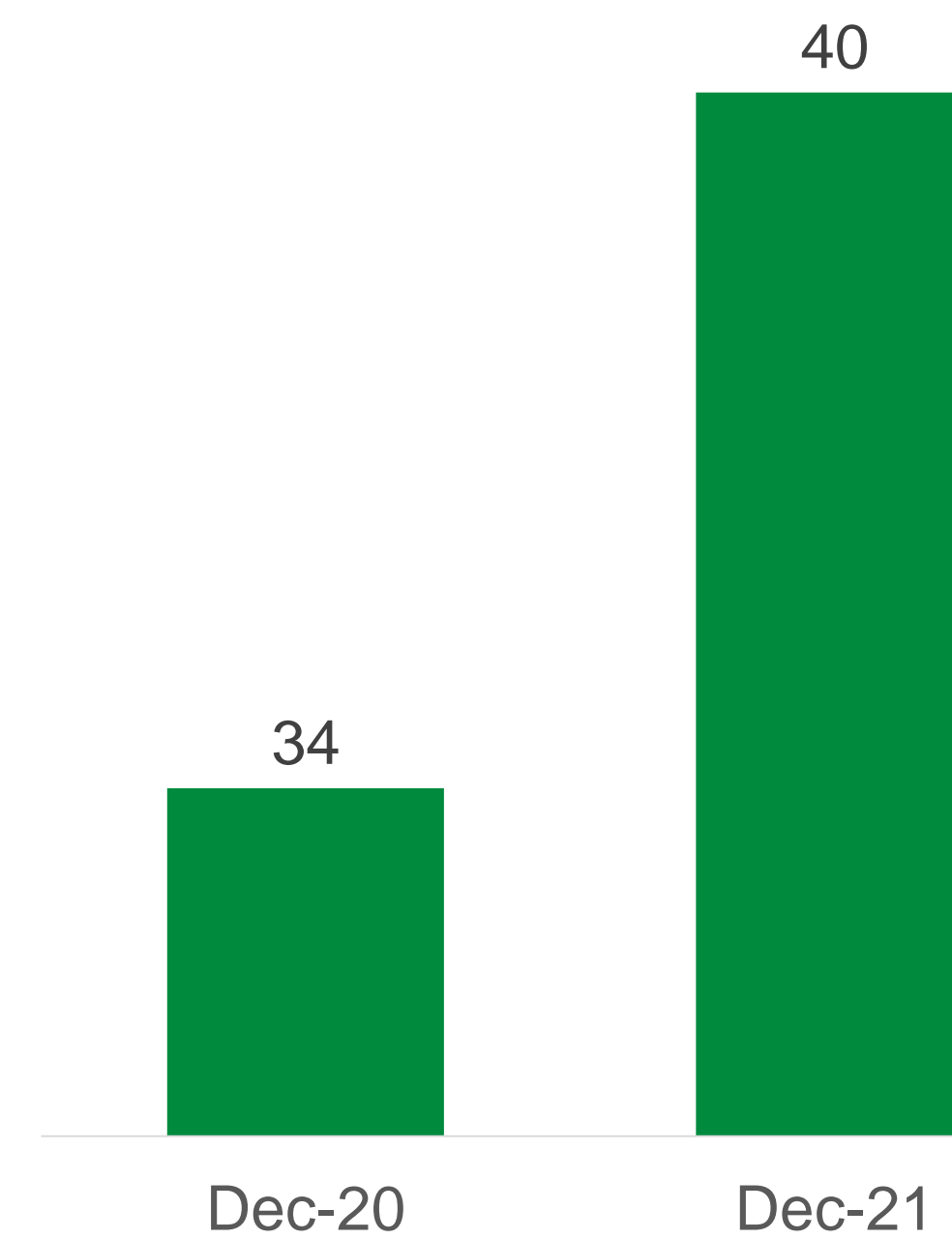


# Sustainalytics - ESG Risk Rating Improvement

## Average ESG Risk Rating IDX80 Companies



## Number of IDX80 Constituents With Rating 0-30 (Negligible – Medium Risk)



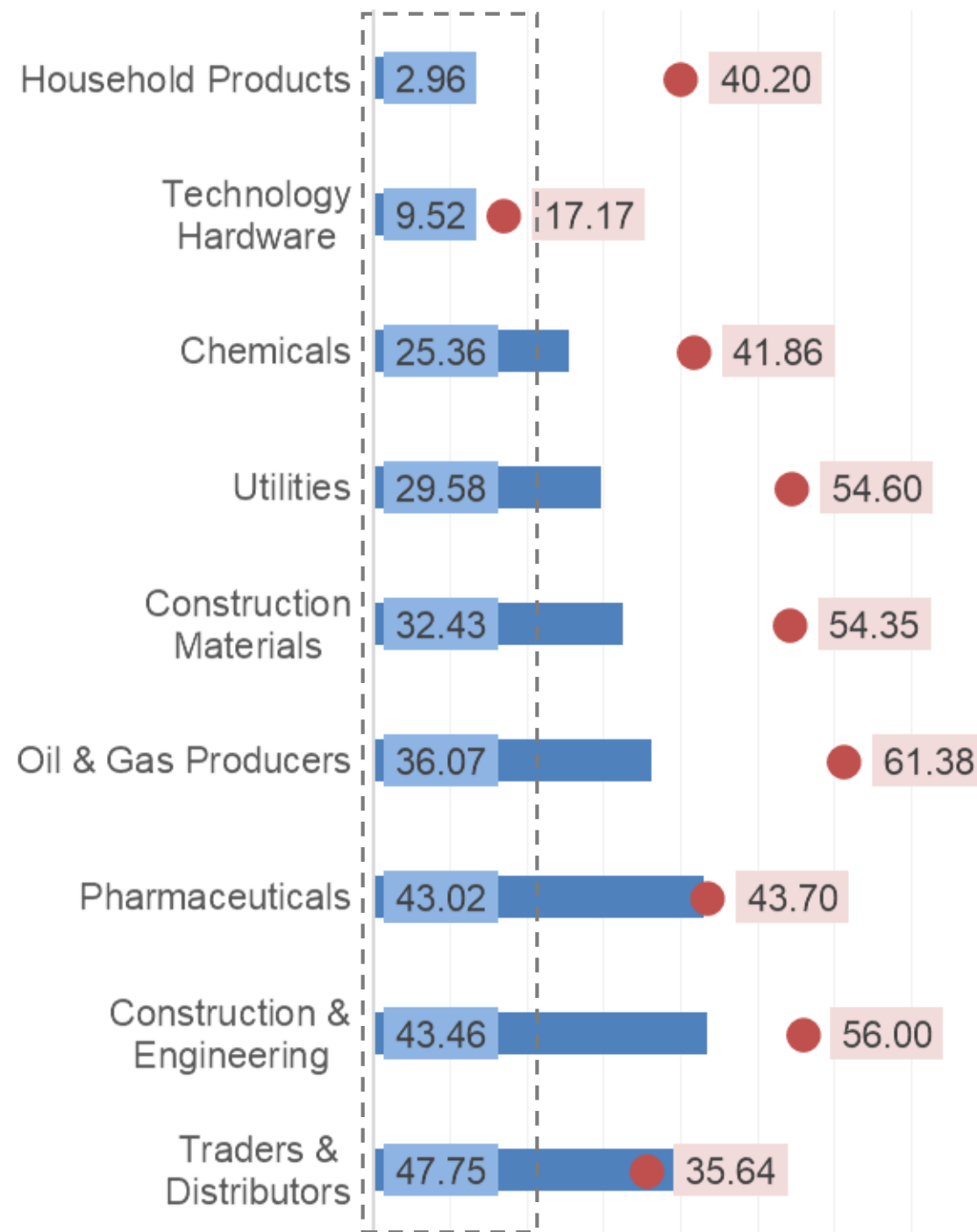
# Sustainalytics - SASB Materiality Map

		Consumer Goods	Extractives & Minerals Processing								Financials	Food & Beverage	Health Care	Infrastructure
Dimension	General Issue Category <sup>①</sup>	Click to expand	Coal Operations	Construction Materials	Iron & Steel Producers	Metals & Mining	Oil & Gas – Exploration & Production	Oil & Gas – Midstream	Oil & Gas – Refining & Marketing	Oil & Gas – Services	Click to expand	Click to expand	Click to expand	Click to expand
Environment	GHG Emissions		Material	Material	Material	Material	Material	Material	Material	Material		Material	Material	Material
	Air Quality			Material	Material	Material	Material	Material	Material					
	Energy Management	Material		Material	Material	Material						Material	Material	Material
	Water & Wastewater Management	Material	Material	Material	Material	Material	Material		Material	Material		Material		Material
	Waste & Hazardous Materials Management		Material	Material	Material	Material		Material	Material			Material	Material	Material
	Ecological Impacts		Material	Material		Material	Material	Material		Material		Material		Material
Social Capital	Human Rights & Community Relations		Material			Material	Material						Material	
	Customer Privacy	Material									Material		Material	
	Data Security	Material									Material	Material	Material	
	Access & Affordability										Material		Material	Material
	Product Quality & Safety	Material										Material	Material	Material
	Customer Welfare											Material	Material	Material
	Selling Practices & Product Labeling										Material	Material	Material	Material
Human Capital	Labor Practices	Material	Material		Material							Material		Material
	Employee Health & Safety		Material	Material	Material	Material	Material		Material	Material		Material	Material	Material
	Employee Engagement, Diversity & Inclusion	Material									Material		Material	
Business Model & Innovation	Product Design & Lifecycle Management	Material		Material					Material		Material	Material	Material	Material
	Business Model Resilience		Material				Material							Material
	Supply Chain Management	Material			Material							Material	Material	Material
	Materials Sourcing & Efficiency	Material										Material		Material
	Physical Impacts of Climate Change										Material		Material	Material
Leadership & Governance	Business Ethics				Material	Material	Material			Material	Material		Material	Material
	Competitive Behavior			Material				Material	Material	Material				
	Management of the Legal & Regulatory Environment			Material			Material	Material	Material	Material				
	Critical Incident Risk Management						Material	Material	Material	Material				Material
	Systemic Risk Management										Material			Material

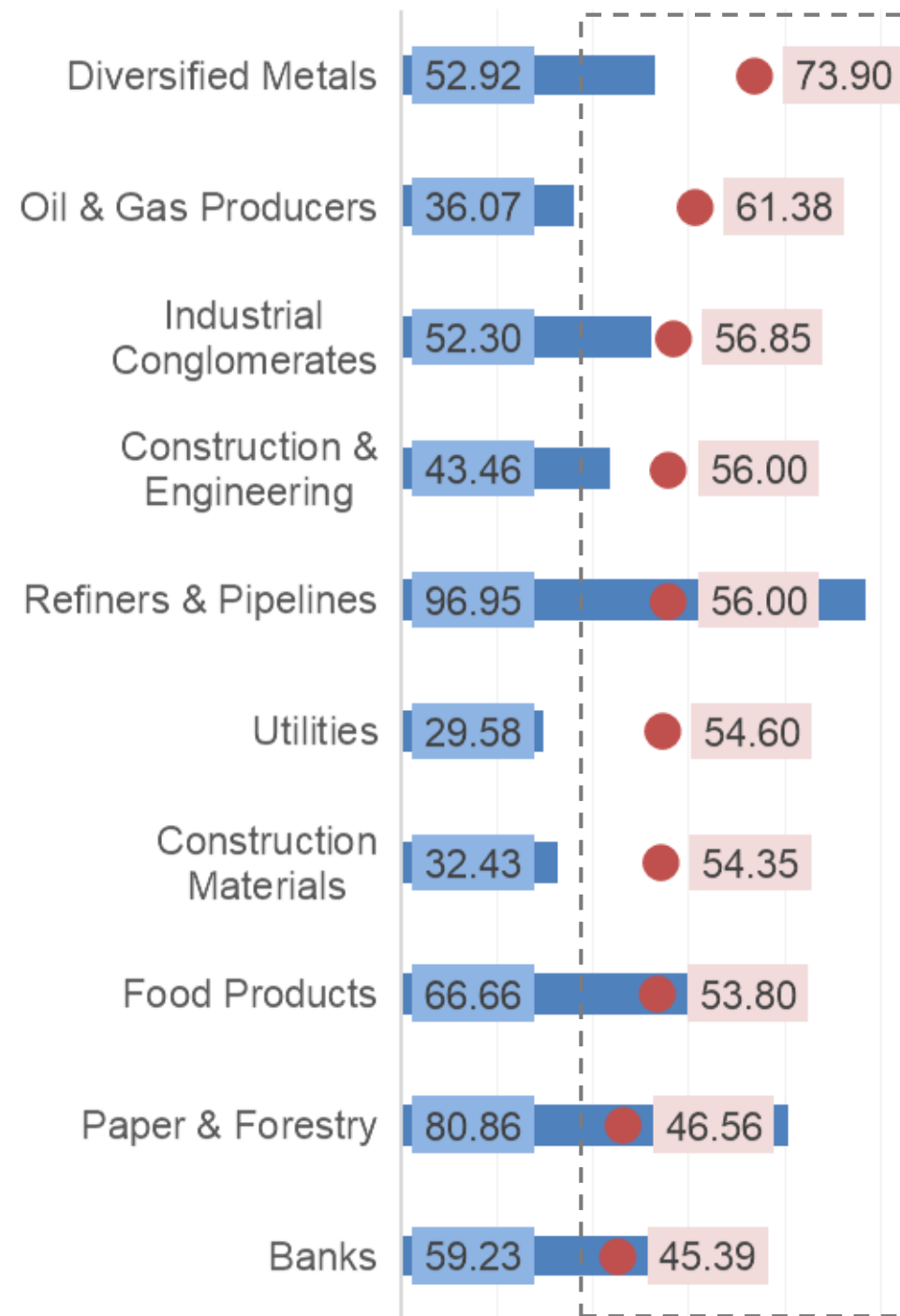
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# IDX80 Companies Sectoral ESG Performance

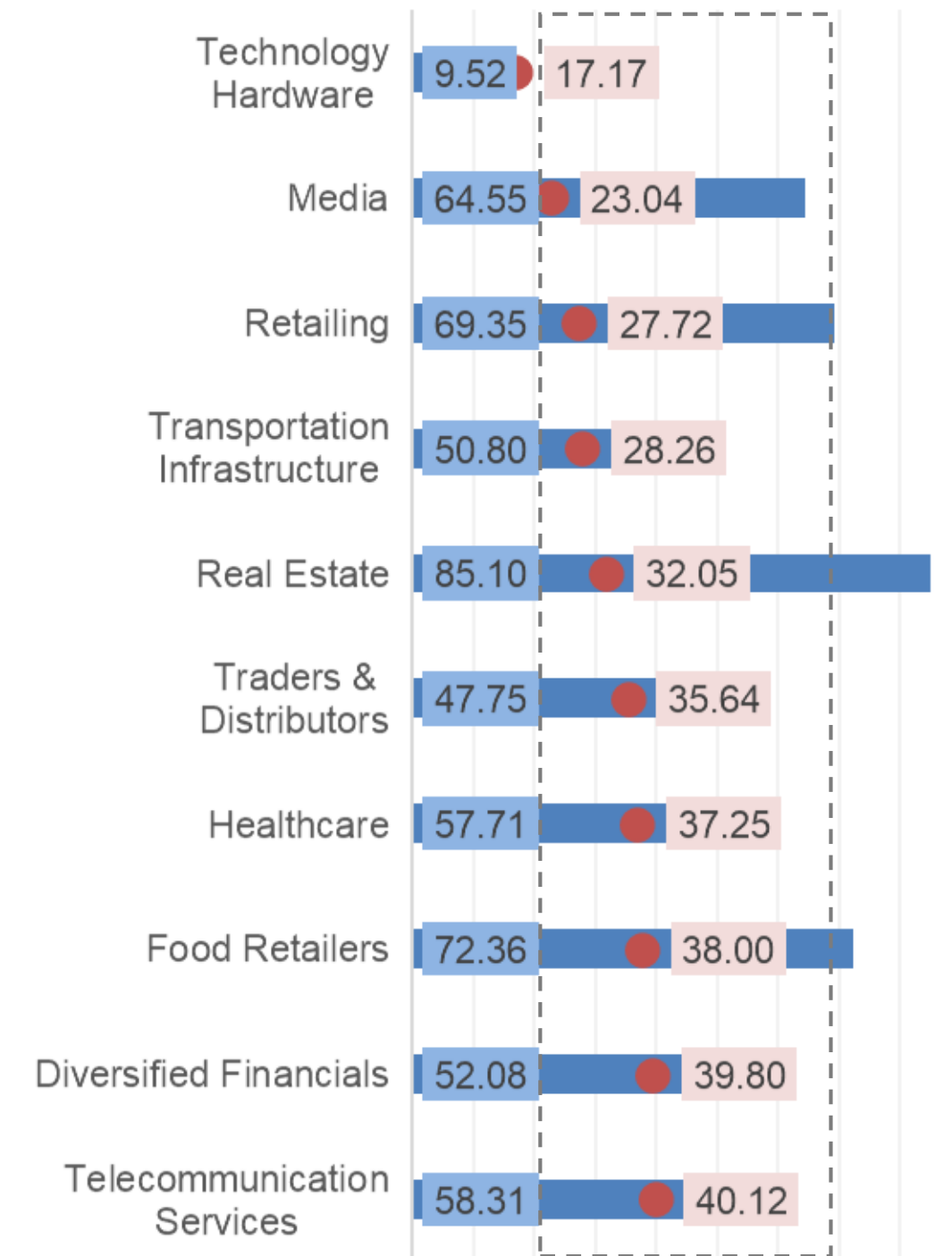
## Sectors with Most Performing ESG Score compare to Global



## Sectors with Most Challenging to Implement ESG Practice



## Sectors with Least Challenging to Implement ESG Practice



■ IDX80 Average Global ESG Risk Percentile
 ● Average Sector Risk Exposure Score

**Risk Criteria**

0-10	10-20	20-30	30-40	>40
Negligible	Low	Medium	High	Severe

# MATERIAL CHALLENGES IN SEVERAL INDUSTRIES

## Risk Contribution

Industry	Banks	Chemicals	Construction Materials	Diversified Financials	Diversified Metals	Food Products	Household Products	Industrial Conglomerates	Oil & Gas Producers	Paper & Forestry	Pharmaceuticals	Retailing	Telecommunication Services	Utilities	
Sub Industry	Diversified Banks	Commodity Chemicals	Construction Materials	Consumer Finance	Diversified Metals Mining	Agriculture	Packaged Foods	Household Products	Conglomerates	Coal	Paper and Pulp	Pharmaceuticals	Home Improvement Retail	Telecommunication Services	Gas Utilities
Corporate Governance	18%	20%	17%	19%	12%	12%	13%	25%	12%	13%	20%	15%	35%	19%	18%
Access to Basic Services												16%			
Bribery and Corruption					5%							18%			
Business Ethics	16%	4%	10%	11%	4%	4%	6%	6%	15%	5%		14%		11%	13%
Carbon - Own Operations		26%	25%	16%	13%	12%	10%	7%	10%	13%	20%	5%	15%	14%	6%
Carbon - Products and Services					8%				6%	22%					10%
Community Relations			7%		15%	9%				14%	8%				12%
Data Privacy and Security	19%			11%					8%				9%	16%	
E&S Impact of Products and Services		18%	15%			5%	10%	14%	7%				7%		
ESG Integration - Financials	18%														
Emissions, Effluents and Waste		13%	8%		15%				8%	12%	10%	4%			9%
Human Capital	12%		5%	18%	6%	7%	10%	7%	7%	4%		11%	15%	14%	7%
Human Rights						9%									
Human Rights - Supply Chain				6%		8%	9%	15%					9%	6%	
Land Use and Biodiversity					5%	10%				6%	14%				4%
Land Use and Biodiversity - Supply Chain						12%	8%	9%			5%		10%		
Occupational Health and Safety		9%	3%		10%		5%		7%	13%	4%				7%
Product Governance	18%			13%			14%	6%	11%			17%		16%	14%
Resilience															
Resource Use		10%	12%	6%	14%	12%	9%	10%	9%		13%			7%	
Resource Use - Supply Chain							7%								

Source: Sustainalytics from IDX80 that use research type comprehensive

# IDX have listed 5 ESG Index to Brings Guidance for ESG Investing and to Promote Companies with Good ESG Practices

	<b>IDX ESG Leaders</b>	<b>SRI-KEHATI</b>	<b>ESG Sector Leaders IDX KEHATI</b>	<b>ESG Quality 45 IDX KEHATI</b>	<b>IDX LQ45 LOW CARBON LEADERS</b>
ESG Aspect	E,S,G	E,S,G	E,S,G	E,S,G	Environment
ESG Scoring	Sustainalytics	Yayasan KEHATI	Yayasan KEHATI	Yayasan KEHATI	Carbon Emission Intensity (Scope 1 + 2)
Launch	14 Des 2020	8 Jun 2009	20 Des 2021	20 Des 2021	11 Nov 2022
ESG & Factor Methods	ESG Integration	Exclusionary Screening, Integration	Exclusionary Screening, Best In Class	Exclusionary Screening, Integration, Quality	Exclusionary, Best in Class
Number of Constituents	30	25	Unfixed	45	≤ 45
Weighted	FF-Mcap + ESG Tilt Factors	FF-Mcap	FF-Mcap	FF-Mcap	FF-Mcap, Carbon Tilt
Cap	15%	15%	15%	15%	15%
Major Evaluation	March, September	May, November	May, November	May, November	January, July
Minor Evaluation	June, December	February, August	February, August	February, August	April, October

# IDX ESG Index Performance

## IDX ESG Index

Year	IDX80	LQ45	IDX30	MSCI Indonesia	IDXESGL	SRI-KEHATI	ESGQKEHATI	ESGSKEHATI	IDX-LQ45 LCL
2014	<b>27.07%</b>	23.66%	24.13%	23.33%	26.97%	24.88%			
2015	-13.78%	-11.86%	-10.16%	-12.03%	<b>-5.36%</b>	-11.48%			
2016	14.16%	11.69%	<b>14.97%</b>	12.23%	6.36%	10.88%	9.86%	11.66%	
2017	17.80%	22.02%	24.39%	22.81%	26.72%	<b>27.52%</b>	21.52%	21.84%	
2018	-6.71%	-8.95%	-8.83%	-5.90%	-10.49%	<b>-4.27%</b>	-5.26%	-5.70%	
2019	2.65%	3.23%	2.42%	3.02%	5.31%	<b>5.78%</b>	4.50%	4.69%	
2020	-5.70%	-7.85%	-9.31%	-9.49%	-7.04%	-7.76%	-8.20%	-8.32%	<b>18.24%**</b>
2021	-2.58%	1.56%	-1.03%	1.51%	-4.12%	-1.09%	0.74%	-1.71%	<b>6.66%</b>
31 Oct 22	8.80%	6.81%	7.21%		8.98%	<b>20.21%</b>	16.64%	17.69%	12.83%
<b>Total</b>	<b>39.62%</b>	<b>40.19%</b>	<b>41.82%</b>	<b>35.48%</b>	<b>45.08%</b>	<b>60.91%</b>	<b>37.21%</b>	<b>35.46%</b>	<b>37.73%</b>
<b>Average</b>	<b>4.40%</b>	<b>4.47%</b>	<b>4.65%</b>	<b>4.44%</b>	<b>5.01%</b>	<b>6.77%</b>	<b>5.32%</b>	<b>5.07%</b>	<b>12.58%</b>

\*) IDXESGL is launched at 14-Dec-2020. ESGQKEHATI and ESGSKEHATI are launched at 20-Dec-2021. Prior to launch is backtested performance. IDX-LQ45 LCL is launched on 11 Nov 2022.  
 \*\*) IDX-LQ45 LCL base date in 2 Nov 2022. Yearly return based on the base date.





**THANK YOU**

