

Legal Protection for Investors in Case of Stock Fraud in the Capital Market

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Informasi Artikel	Abstract
E-ISSN : 3026-6874 Vol: 3 No: 9-24 Halaman : Keywords: Capital Market, Investor Protection, Stock Fraud, Legal Effectiveness, Indonesia.	<i>The Indonesian capital market plays a pivotal role in mobilising long-term financing for corporations and providing investment opportunities to the public. However, persistent stock fraud cases undermine market integrity and investor confidence. This study aims to evaluate the effectiveness of the existing legal framework for investor protection against stock fraud, analyse its practical implementation, and recommend measures to strengthen both preventive and repressive mechanisms. Employing a normative legal research design with a qualitative approach, the study integrates statute, conceptual, and case approaches, focusing on Law No. 8 of 1995 on Capital Markets, OJK regulations, the Criminal Code, and notable cases such as PT Hanson International Tbk. The findings reveal that while the legal framework normatively aligns with the Legal Protection Theory, Justice Theory, and Legal Effectiveness Theory, substantial gaps remain between regulation and enforcement. Weak supervisory coordination, delayed intervention, lengthy judicial processes, and low investor legal literacy reduce effectiveness. Recommended reforms include adopting regtech and suptech, enhancing cross-agency data integration, implementing AI-based surveillance, establishing a specialised capital market court, and strengthening investor education. The study concludes that combining regulatory improvements, adaptive enforcement, and public legal empowerment is essential to safeguard investors, maintain market integrity, and promote sustainable economic growth.</i>

Abstrak

Pasar modal Indonesia memainkan peran penting dalam menggalang pembiayaan jangka panjang bagi korporasi dan menyediakan peluang investasi bagi masyarakat. Namun, kasus-kasus penipuan saham yang terus berlanjut merusak integritas pasar dan kepercayaan investor. Studi ini bertujuan untuk mengevaluasi efektivitas kerangka hukum yang ada dalam melindungi investor dari penipuan saham, menganalisis implementasi praktisnya, dan merekomendasikan langkah-langkah untuk memperkuat mekanisme pencegahan dan penindakan. Menggunakan desain penelitian hukum normatif dengan pendekatan kualitatif, studi ini mengintegrasikan pendekatan undang-undang, konseptual, dan kasus, dengan fokus pada Undang-Undang Nomor 8 Tahun 1995 tentang Pasar Modal, peraturan OJK, Kitab Undang-Undang Hukum Pidana, dan kasus-kasus menonjol seperti PT Hanson International Tbk. Temuan menunjukkan bahwa meskipun kerangka hukum secara normatif selaras dengan Teori Perlindungan Hukum, Teori Keadilan, dan Teori Efektivitas Hukum, terdapat kesenjangan yang signifikan antara regulasi dan penegakan hukum. Koordinasi pengawasan yang lemah, intervensi yang terlambat, proses peradilan yang panjang, dan rendahnya literasi hukum investor mengurangi efektivitas. Rekomendasi reformasi meliputi adopsi regtech dan suptech, peningkatan integrasi data antar lembaga, penerapan pengawasan berbasis kecerdasan buatan, pembentukan pengadilan khusus pasar modal, dan penguatan pendidikan investor. Studi ini menyimpulkan bahwa kombinasi perbaikan regulasi, penegakan hukum yang adaptif, dan pemberdayaan hukum publik merupakan hal esensial untuk melindungi investor, menjaga integritas pasar, dan mendorong pertumbuhan ekonomi yang berkelanjutan.

Kata Kunci : Pasar Modal, Perlindungan Investor, Penipuan Saham, Efektivitas Hukum, Indonesia.

INTRODUCTION

The capital market constitutes a fundamental pillar of national economic development by providing mechanisms for corporate financing and offering investment opportunities to the public. Broadly defined, it encompasses a range of financial instruments such as equities and bonds that facilitate long-term corporate funding while enabling individuals and institutions to invest (Novrianda et al., 2020; Tanjung et al., 2020). This study examines the structure, significance, and dynamics of the capital market, with particular emphasis on its role in developing economies.

Capital markets offer substantial benefits to investors by enhancing portfolio diversification and enabling more effective risk management. A comprehensive understanding of capital market operations is essential for both novice and experienced investors, as it informs sound investment decision-making (Novrianda et al., 2020; Tanjung et al., 2020). Investor behaviour shaped by reactions to economic indicators and psychological factors plays a decisive role in market performance (Rahadjeng & Fiandari, 2020). The global economy is undergoing rapid digital transformation, driven by advancements in technology and the demands of Industry 4.0 (Soekiman et al., 2025). The global digital transformation has redefined how businesses operate, particularly in emerging economies (Putra et al., 2025). The rise of digital trading platforms has further expanded access, especially among younger, technology-oriented investors (Aisa, 2021).

Nevertheless, the integrity of capital markets faces persistent threats from fraudulent practices that undermine investor confidence. Stock fraud encompasses deceptive activities in financial markets designed to mislead investors and manipulate security prices for unlawful gain, including insider trading, pump-and-dump schemes, and falsified financial reporting. Analysing stock fraud requires an exploration of its causes, operational mechanisms, and the legal framework governing enforcement. The Fraud Triangle comprising pressure, opportunity, and rationalization provides a widely recognised analytical lens for understanding financial misconduct (Hermawati & Murtanto, 2021). This model has proven instrumental in examining financial statement fraud, a recurrent cause of substantial financial losses and corporate scandals such as those at Enron and WorldCom, which not only inflicted economic damage but also eroded public trust in financial institutions (Mongwe & Malan, 2020).

In Indonesia, despite the enactment of Law No. 8 of 1995 on Capital Markets and the issuance of regulations by the Financial Services Authority (OJK), high-profile cases such as the PT Hanson International Tbk scandal and fraudulent schemes involving listed companies illustrate the limitations of existing legal protections. These cases reveal a persistent gap between legislative provisions and their enforcement. Legal protection for investors aims to foster a transparent and integrity-driven market, encompassing both preventive measures to deter violations and repressive measures to remedy infringed rights (Svitlychnyi & Korotun, 2021).

Justice Theory, which spans philosophical principles and practical applications, offers a multi-dimensional framework for evaluating fairness in society and organisations. Its key dimensions include distributive justice, procedural justice, interpersonal justice, and informational justice. Distributive justice emphasises the equitable allocation of resources, a principle reflected in John Rawls's argument for distributive arrangements that prioritise the welfare of the least advantaged (Bian, 2020). Procedural justice underscores the importance of fair processes in shaping perceptions of outcome fairness, with empirical studies indicating that participatory decision-making processes enhance perceived legitimacy (Jony et al., 2020).

The Theory of Legal Effectiveness addresses the extent to which legal norms achieve intended objectives, incorporating psychological, procedural, and social considerations. Effective legal regulation not only functions operationally but also engages individual motivations and perceptions to foster compliance (Belyaev et al., 2020). In contemporary corporate governance, the concept of corporate responsibility particularly in economic law has gained prominence as firms respond to evolving societal expectations and legal obligations.

Corporate Social Responsibility (CSR) entails corporate accountability for the societal and environmental impacts of business operations and has been linked to improved financial outcomes and social welfare (Villarino & Gómez, 2021). Stakeholder theory further posits that corporations should account for the interests of all parties affected by their activities, thereby promoting inclusive and sustainable strategies (Widyasari & Ayunda, 2020). Increasingly stringent CSR regulations reflect global trends toward heightened corporate accountability, particularly concerning human rights and environmental stewardship (Singh & Misra, 2021).

Within the capital market, preventive legal mechanisms include disclosure obligations and regulatory oversight of transactions, whereas repressive measures encompass administrative penalties, criminal prosecution, and civil remedies. However, the success of these measures depends heavily on the competence and integrity of enforcement institutions, as well as the adaptability of regulations to emerging forms of misconduct (Purwanta et al., 2021). In practice, weaknesses in Indonesia's investor protection regime persist, including inadequate enforcement, regulatory overlaps, and protracted judicial proceedings. The PT Hanson International Tbk case demonstrates how lax oversight and delayed legal action exacerbate investor losses (Otoritas Jasa Keuangan, 2020).

Investor unawareness of rights and protection mechanisms further undermines legal effectiveness. As emphasised by the Theory of Legal Effectiveness, the mere existence of legal provisions does not ensure their success; effectiveness is determined by the capacity of these provisions to shape behaviour and achieve societal objectives (Belyaev et al., 2020). Consequently, deficiencies in investor protection reflect not only regulatory shortcomings but also weaknesses in public legal education, supervisory coordination, and institutional capacity.

This study examines capital market law, civil law, and economic criminal law in the context of investor protection against stock fraud in Indonesia. Geographically, it focuses on Indonesia's jurisdiction, using selected international practices as comparative references. Temporally, it covers the period from the enactment of Law No. 8 of 1995 to developments as of 2025. Methodologically, it adopts a normative-legal approach, analysing statutory provisions, legal doctrines, and case law, supplemented by illustrative case studies such as PT Hanson International Tbk.

The objectives of this study are threefold: (1) to evaluate the effectiveness of investor protection regulations in addressing stock fraud within Indonesia's capital market, with emphasis on the gap between legal norms and practical enforcement; (2) to analyse the implementation of existing laws, focusing on the roles of OJK, the Indonesia Stock Exchange, law enforcement bodies, and the judiciary; and (3) to recommend measures to strengthen preventive and repressive legal frameworks for enhanced investor protection.

Drawing on Justice Theory, this study highlights the importance of distributive justice ensuring adequate compensation for losses and procedural justice ensuring that enforcement processes are efficient, transparent, and impartial (Bian, 2020; Lambert et al., 2020). The integration of these principles is expected to bolster investor confidence in Indonesia's capital market. Theoretically, the research advances normative legal scholarship by combining Legal Protection Theory, Justice Theory, and Legal Effectiveness Theory in a comprehensive evaluative framework.

Practically, the findings aim to inform policymakers, regulatory bodies, and market participants in refining Indonesia's investor protection regime. The recommendations seek to strengthen regulation, enhance oversight, and expedite enforcement in cases of stock fraud. For investors, the results provide a clearer understanding of legal rights and the remedial avenues available in instances of fraud.

METHOD

This study employs a normative legal design with a qualitative approach to analyse legal norms governing investor protection in Indonesian stock fraud cases and evaluate their practical application. It integrates a statute approach (examining Law No. 8 of 1995 on Capital

Markets, OJK regulations, and the Indonesian Criminal Code/KUHP), a conceptual approach (applying the Theory of Legal Protection, Theory of Justice, and Theory of Legal Effectiveness), and a case approach (including the PT Hanson International Tbk case and other fraudulent schemes involving listed companies).

In this context, “participants” refer to legal entities, documents, and institutions rather than individuals. The primary focus is the legal framework for investor protection, with research subjects including statutory provisions, OJK regulations, judicial decisions, and Indonesia Stock Exchange (IDX) documents. Investors are examined as beneficiaries of legal protection, with case analysis assessing enforcement roles of the OJK, IDX, Prosecutor’s Office, and judiciary.

Qualitative legal analysis tools include: (1) legislative review guidelines; (2) a case analysis matrix; and (3) investor protection indicators based on legal theory and international best practices. Legal documentation sources include online databases, court archives, OJK publications, and IDX reports, supplemented by scholarly works. Library research draws from primary legal materials (Law No. 8/1995, OJK regulations, KUHP, and relevant court rulings), secondary materials (books, journals, domestic and international studies), and tertiary materials (legal dictionaries, encyclopaedias). Official OJK and IDX reports, investigative findings, press releases, case files, and credible media reports support the case approach.

Data analysis combines descriptive-qualitative and normative-argumentative methods. The descriptive component details laws, institutional functions, and case developments, while the normative component compares norms to implementation, identifies enforcement gaps, and proposes reforms. Analysis proceeds by: (1) inventorying relevant norms; (2) classifying provisions under legal substance, law enforcement, and investor rights; (3) comparing normative frameworks with case findings; and (4) formulating theory-based, evidence-backed conclusions. Results are presented as a systematic narrative supporting the study’s arguments.

RESULTS AND DISCUSSION

Overview of the Structure and Importance of Capital Markets

The Indonesian capital market serves a pivotal function in mobilising long-term financing for corporations while simultaneously offering investment avenues for the public. Pursuant to Law No. 8 of 1995 on Capital Markets, its scope encompasses shares, bonds, and other securities, with oversight exercised by the Financial Services Authority (OJK) and operational administration conducted by the Indonesia Stock Exchange (IDX). This dual function facilitates corporate capital formation and advances investor welfare, reflecting the broader role of capital markets in emerging economies (Novrianda et al., 2020; Tanjung et al., 2020).

Article 3 stipulates the role of the capital market as a channel for corporate financing and public investment. Article 1, points 5 and 13, delineates the definition and scope of securities, covering shares, bonds, and other instruments. Article 5 prescribes the supervisory authority of the capital market, currently vested in the OJK following the transfer of such authority from Bapepam-LK in accordance with Law No. 21 of 2011. Furthermore, Article 7 defines the responsibilities of the Stock Exchange as the organiser of securities trading. An analysis of these provisions demonstrates that the Indonesian capital market’s legal framework aligns with international standards, incorporating disclosure obligations and supervisory mechanisms designed to uphold market integrity (UU RI, 1995).

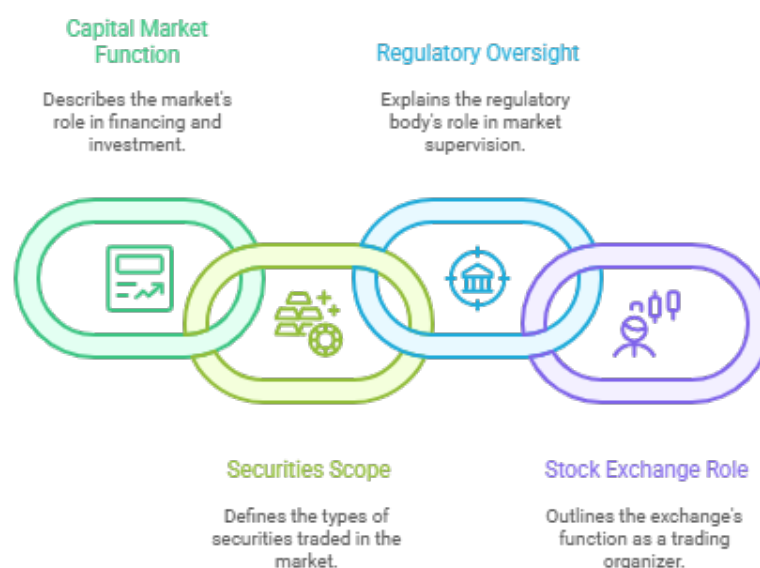


Figure 1. Overview of the Structure and Importance of Capital Markets

The capital market's structure operates through four interdependent components within a systemic framework. Its first function is to provide long-term financing for issuers and serve as an investment vehicle for the public, as affirmed in Article 3 of Law No. 8 of 1995. At the macroeconomic level, it supports efficient capital allocation, job creation, and economic growth (UU RI, 1995). The second component is the scope of securities—defined in Article 1, points 5 and 13 which includes stocks, bonds or sukuk, rights issues, warrants, mutual funds, and derivatives, offering diverse risk–return profiles for investors and flexible financing for issuers (UU RI, 1995). The third component is regulatory oversight, transferred from Bapepam-LK to the Financial Services Authority (OJK) under Law No. 21 of 2011, covering licensing, disclosure regulation, enforcement through sanctions, and market education (UU RI, 1995). The fourth is the role of the stock exchange, governed in part by Article 7, which includes organising trading, setting membership rules, listing issuers, conducting surveillance, and coordinating with KPEI and KSEI for clearing, settlement, custody, and depository services (UU RI, 1995).

These components are mutually dependent: capital market functions require well-defined instruments; instruments require effective supervision to reduce fraud, manipulation, and information asymmetry; and supervision depends on robust stock exchange infrastructure for orderly trading, liquidity, clearing, and custody. Weakness in any element, such as inadequate oversight, increases capital costs, undermines trust, and threatens market integrity. Practically, issuers gain alternative financing beyond bank credit, competitive costs, and enhanced governance through disclosure obligations; investors benefit from diversification, liquidity, and transparent decision-making; regulators and exchanges maintain fairness, attract investment, and promote financial literacy.

Future development will be shaped by digitalisation, broader retail participation via fractional investing, e-KYC, and mobile trading, supported by regtech and suptech for real-time compliance. Data-driven governance and AI will enhance surveillance for market manipulation, insider trading, and pump-and-dump schemes. ESG integration and sustainable instruments like green bonds will aid energy transition financing, while digital asset innovation and tokenisation may enable faster settlement (T+0 or T+1) if accompanied by clear regulations and equivalent investor protection. Strengthening resilience will require stress testing, improved cybersecurity, and coordinated action among OJK, IDX, KPEI, KSEI, and Bank Indonesia to mitigate macroeconomic and operational risks.

Although normatively strong, the system's effectiveness is hindered by enforcement and coordination gaps. Overlapping or delayed mandates between OJK as regulator and supervisor, and IDX as operator and monitor, reduce deterrence and leave the market vulnerable to sophisticated fraud.

Investor Rights and Protection within the Normative Framework

An examination of Indonesian regulations reveals that investor rights are safeguarded through three principal forms of protection: the right to receive accurate and timely information, protection against manipulative or fraudulent practices, and access to remedies through administrative, civil, or criminal mechanisms. These protections are enshrined in Law No. 8 of 1995 on Capital Markets, Financial Services Authority (OJK) regulations, and, for criminal matters, the Criminal Code. From a normative perspective, these rights align with the principles of Legal Protection Theory, encompassing preventive measures such as transparency and regulatory oversight to avert violations, as well as repressive measures designed to restore infringed rights (Svitlychnyi & Korotun, 2021).

The right to accurate and timely information is codified in Article 85(1) of the Capital Market Law, which obliges issuers or public companies to provide accurate, complete, and timely disclosures to the OJK, the Stock Exchange, and the public. Protection against manipulative or fraudulent practices is stipulated in Article 90, which prohibits fraud and market manipulation, and further reinforced by Articles 91–93, which explicitly prohibit market manipulation, insider trading, and the dissemination of misleading statements (UU RI, 1995). Access to remedies is addressed in Articles 104–110, which regulate administrative sanctions, and Articles 111–115, which set forth criminal provisions applicable to the capital market. Additionally, Article 111(3) permits the application of criminal enforcement under the Criminal Code (UU RI, 1995).



Figure 2. Investor Rights Framework

The investor rights framework in Indonesia's capital market rests on three interrelated pillars. The right to information ensures investors have accurate, complete, and timely data such as prospectuses, financial and annual reports, corporate action announcements, and material disclosures aimed at reducing information asymmetry, lowering capital costs, and preventing misinformation. Protection against fraud prohibits deceptive and manipulative practices, including insider trading, pump-and-dump schemes, wash sales, marking-the-close, and the spread of misleading information, enforced through regulatory oversight, mandatory disclosure, market surveillance, trading suspensions, and financial literacy initiatives. Access to redress provides remedies for rights violations through administrative sanctions, civil litigation (including class actions), criminal prosecution, and regulator-supervised alternative

dispute resolution, with the objectives of restoring losses, deterring misconduct, and preserving market integrity.

These components operate as a chain: information underpins fair asset valuation, fraud prevention ensures information and pricing remain unmanipulated, and redress mechanisms reinforce the enforceability of the first two elements. Weakness in any part such as inadequate oversight can raise capital costs, damage public trust, and undermine integrity. For investors, the framework supports informed decision-making, reduces exposure to fraud, and offers recourse; for issuers, it strengthens governance and reputation while lowering financing costs; for regulators and exchanges, it fosters fairness, liquidity, and competitiveness to attract domestic and foreign investment.

Despite this, case studies reveal that weak enforcement, slow disclosure monitoring, protracted litigation, and low investor legal literacy often erode these rights, diminishing procedural justice as compensation if obtained comes only after lengthy and costly processes.

Prevalence and Mechanisms of Stock Fraud

Case analysis indicates that stock fraud in Indonesia commonly manifests through pump-and-dump schemes, falsified financial reporting, and the misappropriation of investor funds under the pretext of legitimate securities offerings. The PT Hanson International Tbk case exemplifies the Fraud Triangle model, wherein financial pressure, opportunities arising from inadequate supervision, and internal rationalisation collectively drive fraudulent behaviour (Hermawati & Murtanto, 2021). This case demonstrates that deficiencies in corporate governance, limited regulatory intervention, and protracted legal proceedings significantly aggravate investor losses.

The applicable legal framework encompasses several key provisions of the Capital Market Law. Article 90 prohibits actions that mislead or cause securities prices to become unreasonable. Article 91 prohibits market manipulation, including the creation of fictitious transactions or other misleading actions. Article 92 prohibits the dissemination of misleading information that influences securities prices. Article 93 prohibits fraudulent conduct in securities transactions (UU RI, 1995). Article 95 prohibits issuers or public companies from submitting false or misleading reports or information to the Capital Market Supervisory Agency (Bapepam, now the Financial Services Authority or OJK) or to the public (UU RI, 1995). Finally, Article 104 prescribes criminal sanctions for violations involving market manipulation, fraud, and the dissemination of misleading information (UU RI, 1995).

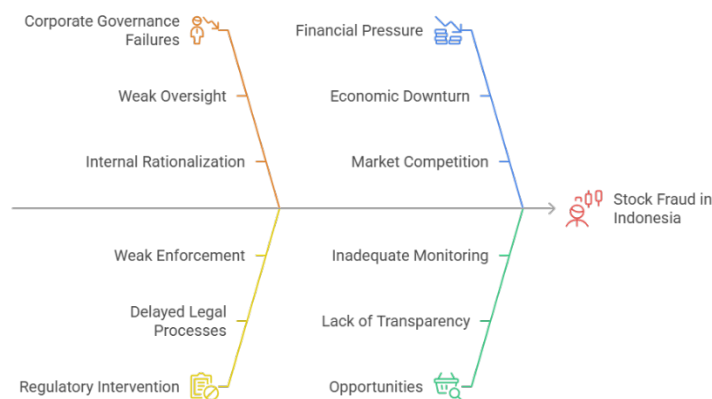


Figure 3. Analyzing Stock Fraud in Indonesia

Stock fraud in Indonesia stems from four interconnected dimensions. Governance and internal control failures such as dysfunctional boards, weak audit committees, inadequate internal controls, and ethical rationalisations reflect the opportunity and rationalisation

elements of the Fraud Triangle, enabling and justifying misconduct. Financial pressure and market dynamics, including economic downturns and competitive pressures, drive short-term behaviours like inflating stock prices or falsifying financial statements, corresponding to the pressure element of the Fraud Triangle. Weak enforcement and legal processes, marked by slow proceedings and insufficient regulatory intervention, reduce the perceived risk of detection, encouraging violations. Deficiencies in transparency and market infrastructure, such as the lack of real-time supervision, delayed reporting, and loopholes in disclosure and affiliate control, further create opportunities for fraud.

Causally, economic pressures and performance targets create pressure; poor governance, oversight, and transparency create opportunity; internal rationalisation provides justification; and weak enforcement removes deterrence. These factors together heighten the risk of pump-and-dump schemes, market manipulation, misleading reporting, and misappropriation of investor funds.

To address these risks, reforms should strengthen independent commissioners and audit committees, mandate public accounting firm rotation, enhance risk management, and establish secure whistleblowing systems. Transparency should be improved through XBRL-based material disclosures, continuous reporting, and AI-driven surveillance to detect patterns like wash sales, marking-the-close, and insider trading. Law enforcement should be accelerated via fast-track capital market case procedures, stronger sanctions including fines, disgorgement, and trading bans, and better inter-agency coordination. Market literacy and ethical standards should be promoted through targeted investor education and managerial ethics training to reduce rationalisation.

Effectiveness can be measured by indicators such as the average time between violations and sanctions, the frequency of financial restatements, the number of detected insider trading and manipulation cases, the duration of trading suspensions, and compliance rates for timely information disclosure.

This pattern is consistent with international scandals such as Enron and WorldCom, where manipulation of reports and governance negligence facilitated large-scale fraud (Mongwe & Malan, 2020). This recurring pattern emphasises the need for a regulatory framework that is adaptive to new modes of fraud, as without timely enforcement, legal rules risk becoming merely symbolic.

Preventive Legal Mechanisms: Achievements and Gaps

Preventive mechanisms under Indonesian capital market law encompass prospectus requirements, periodic reporting, and transaction supervision. Normatively, these mechanisms align with the Theory of Legal Effectiveness, which underscores the significance of regulatory design in shaping behaviour and preventing violations (Belyaev et al., 2020). Nonetheless, case analyses indicate that their implementation has been predominantly reactive rather than proactive.

The prospectus requirement, as stipulated in Articles 70–73, mandates that every public offering must be accompanied by a prospectus containing complete, accurate, and non-misleading information, which must be submitted to the Financial Services Authority (OJK, formerly Bapepam) and disclosed to the public. Periodic reporting, regulated under Article 86(1), obliges issuers or public companies to submit periodic reports such as financial statements to the OJK, the Stock Exchange, and the public within a prescribed timeframe (UU RI, 1995). Transaction supervision is governed by Article 5, which authorises the Bapepam (now the OJK) to conduct guidance, regulation, and oversight of the capital market, and Article 7, which obliges the Indonesia Stock Exchange to monitor exchange activities and ensure the orderliness and fairness of securities trading (UU RI, 1995).

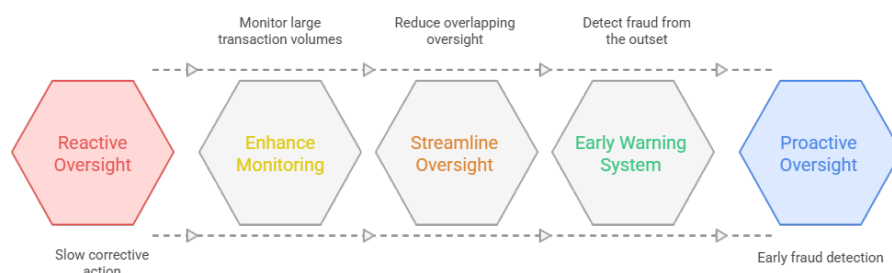


Figure 4. Proactive Capital Market Oversight

Capital market supervision in Indonesia can evolve from a reactive to a proactive system through five strategic phases. The reactive phase responds to incidents or reports after they occur, with slow corrective measures due to post-event evidence gathering, typically detecting only large-scale cases while leaving smaller anomalies unnoticed. The enhanced monitoring phase improves transaction oversight by integrating order book and trade tape data, applying thresholds, and detecting unusual activity spikes to identify early signs of schemes like pump-and-dump, wash sales, or marking-the-close. The oversight streamlining phase removes overlapping mandates among the OJK, IDX, KPEI, and KSEI by standardising data, harmonising investigation procedures, and integrating case management for faster, clearer decision-making.

The early warning system uses predictive analytics to assign risk scores, detect patterns such as related-party transactions, layering, or spoofing, and integrate external data from news and social media, enabling targeted reviews or trading halts before corporate actions. The proactive oversight phase applies real-time or near real-time risk-based monitoring with regtech and supotech tools, implementing pre-trade restrictions, cooling-off periods, targeted inspections, and educational programmes to prevent violations.

Implementation requires integrating order, transaction, ownership, and corporate action data into a centralised data lake, employing anomaly detection models and graph analytics to map affiliated entities. Process improvements should include service level agreements for alert handling, expedited case resolution channels, and standardised protocols for alerts, suspensions, investigations, and enforcement. Governance enhancements involve clearly defining institutional roles, removing redundant audits, and securing whistleblower channels. Capacity building should establish a specialised AI-trained surveillance team and conduct simulation exercises for potential market manipulation scenarios.

Effectiveness can be measured by metrics such as lead time from anomaly detection to alert issuance, false-positive rates and predictive accuracy of detection models, response time from alert to enforcement, reduction of overlapping audits, compliance with disclosure deadlines, duration of trading suspensions, and early identification of manipulation patterns.

In the case of PT Hanson International, indications of financial reporting violations and misuse of funds went on for months without any intervention from regulators. This delay reflects limitations in monitoring large transaction volumes and overlapping oversight between the OJK and the IDX, resulting in slow corrective action. The absence of an early warning mechanism in the oversight protocol allowed fraud to develop undetected from the outset.

Repressive Legal Mechanisms: Effectiveness in the Field

Repressive measures under Indonesian capital market law encompass administrative sanctions, criminal prosecution, and civil litigation, which are theoretically intended to deliver both deterrence and restitution. Nonetheless, an analysis of law enforcement records reveals that criminal cases in the capital market frequently require years to reach resolution, thereby eroding procedural justice and diminishing investor confidence.

Administrative sanctions, as stipulated in Article 102(1), authorise the Financial Services Authority (OJK, formerly Bapepam) to impose penalties including written warnings, monetary fines, restrictions or suspensions of business activities, cancellation of registration statements, and revocation of business licences against parties found in violation of capital market regulations (UU RI, 1995). Criminal sanctions, regulated under Articles 103–110, prescribe imprisonment and/or fines for offences such as market manipulation, insider trading, dissemination of misleading information, and breaches of disclosure obligations (UU RI, 1995). Civil claims, as provided under Article 111, entitle parties suffering losses from violations of the law to seek compensation through civil court proceedings (UU RI, 1995).

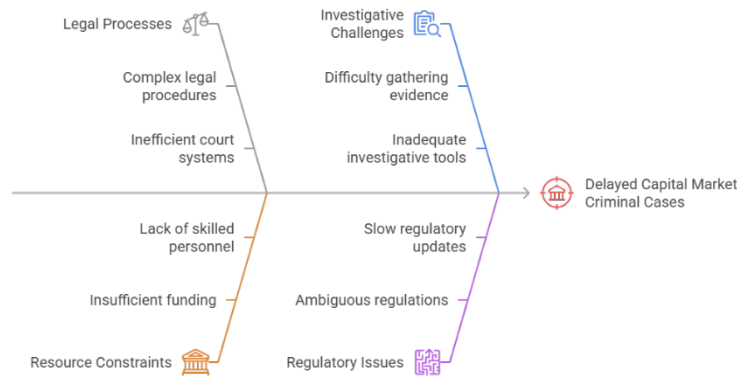


Figure 5. Causes of Delayed Capital Market Criminal Cases

The causes of delays in resolving capital market criminal cases in Indonesia can be categorised into four primary groups. From the legal process perspective, complex procedural stages covering investigation, prosecution, trial, and legal remedies together with numerous formal evidentiary requirements, significantly extend case handling timelines. Furthermore, inefficiencies in the judicial system, reflected in slow court scheduling, substantial case backlogs, and non-integrated file management, exacerbate the protracted resolution cycle.

From the investigative perspective, the collection of evidence is hindered by the inherently technical nature of capital market crimes, which often involve multiple entities and, in some instances, cross-jurisdictional elements. Transaction and ownership data are frequently dispersed across various sources. Additionally, the limited availability of investigative tools such as data forensics, e-discovery capabilities, access to order books or trade tapes, and pattern analytics further impedes the process of substantiating cases.

Resource constraints present another substantial challenge. There is a shortage of forensic accountants, market analysts, data scientists, and law enforcement personnel with specialised expertise in capital market enforcement. Financial resources allocated for procuring investigative equipment, engaging expert services, and facilitating inter-agency cooperation remain insufficient.

From the regulatory standpoint, the slow pace of regulatory updates has failed to keep up with market innovations, including digital assets, algorithmic trading, and complex affiliate structures, resulting in legal grey areas. Ambiguous statutory provisions prolong legal disputes and create opportunities for defence strategies that exploit interpretative uncertainty.

Causally, the interplay between complex legal procedures, investigative difficulties, resource limitations, and non-adaptive regulatory frameworks delays evidence collection, prosecution, and adjudication, ultimately resulting in protracted capital market criminal cases.

Reform initiatives should address several dimensions. In adjudication and procedural management, measures should include the establishment of specialised capital market courtrooms, the implementation of statutory timelines, the adoption of e-litigation and e-dossier systems, integrated case management, plea bargaining mechanisms, and the early freezing of assets. Investigative functions should be reinforced through a data-driven approach,

involving inter-agency joint task forces comprising the Financial Services Authority (OJK), Indonesia Stock Exchange (IDX), Indonesia Clearing and Guarantee Corporation (KPEI), Indonesia Central Securities Depository (KSEI), Financial Transaction Reports and Analysis Centre (PPATK), and the Attorney General's Office together with API enabled access to trading and ownership data, AI-powered market surveillance, and graph analytics, including on-chain analysis for tokenised instruments.

Capacity building efforts should include capital market forensic certification programmes, staff exchange arrangements (*secondments*) between agencies, and adequate budget allocation for advanced forensic tools and independent expert engagement. Regulatory adaptation should be pursued through periodic reviews, the issuance of guidelines on modern market manipulation techniques such as layering and spoofing, regulatory frameworks for digital assets, and the enhancement of secure whistleblower protection mechanisms.

The effectiveness of these reforms can be measured through performance indicators, including the median time from violation to decision, the case resolution rate within 12 or 18 months alongside backlog reduction, the proportion of cases utilising digital market evidence, the total value of assets recovered through disgorgement or asset recovery processes, post-case compliance with timely information disclosure requirements, and the recurrence rate of violations.

Overall, this analytical mapping provides a comprehensive linkage from observable symptoms to underlying causes, serving as an evidence-based foundation for formulating reforms aimed at making capital market criminal enforcement faster, more precise, and more credible.

The OJK can impose administrative sanctions relatively quickly, but when cases are referred to the Attorney General's Office, obstacles arise due to differences in standards of proof and limited resources. Civil lawsuits filed by investors are also hindered by high costs and uncertainty regarding the recovery of losses. This gap between normative intent and operational reality aligns with the findings of the Theory of Legal Effectiveness: without swift and investor-friendly enforcement, deterrent effects are difficult to achieve (Meričková et al., 2021).

Investor Awareness and Legal Literacy

Another significant finding is the low level of investor awareness regarding their legal rights and the protection mechanisms available to them. Reports from investor education programmes reveal that public understanding of fraud indicators, disclosure obligations, and complaint procedures remains limited. This deficiency in legal literacy undermines both preventive and repressive protection, as uninformed investors are more susceptible to victimisation and less capable of asserting their rights.



Figure 6. Causes of Low Investors Awareness of Legal Rights

Low investor awareness of legal rights stems from several interrelated factors. The absence of comprehensive educational programmes and limited access to relevant resources have hindered the adequate development of investor literacy, particularly among beginners. Consequently, many investors remain unaware of their fundamental rights, including the right to information, protection against fraudulent practices, and access to complaint mechanisms.

Insufficient information disclosure further contributes to this problem. Prospectuses and key information documents are often not presented in a reader-friendly format, while associated costs and risks are frequently obscured or conveyed only implicitly. This lack of transparency prevents investors from fully understanding the disclosure obligations of issuers or investment managers and impedes their ability to recognise indicators of fraudulent activity. The complexity of legal language exacerbates the issue, as the use of technical legal and financial terminology without plain-language equivalents, combined with the absence of accessible guidelines or summaries, creates linguistic barriers that directly diminish rights literacy. Weak law enforcement manifested in slow complaint resolution and regulatory oversight that is not perceived as effective by the public further reduces investors' motivation to learn about and exercise their rights.

Causally, the combination of limited education, inadequate transparency, complex regulatory language, and weak enforcement prevents information about investor rights from being effectively communicated, understood, or trusted, resulting in persistently low rights awareness.

Addressing this issue requires the implementation of structured educational initiatives, such as concise micro-curricula, regular webinars, fraud case simulations, and interactive help centres. Transparency should be enhanced through the issuance of concise Key Information Documents, standardised cost and risk summaries, and publicly accessible XBRL-based disclosures. Regulatory language must be simplified through bilingual plain-language guides, comprehensive glossaries, and clear summaries outlining rights and their enforcement mechanisms. Law enforcement should be strengthened through the adoption of online dispute resolution systems with standardised resolution timelines, measurable naming and shaming policies, and the publication of performance metrics for complaint handling.

The effectiveness of these measures can be evaluated using indicators such as pre- and post-intervention rights awareness surveys, document readability assessments, access and download rates for Key Information Documents, average complaint resolution times, the percentage of cases resolved within defined timeframes, participation rates in educational programmes, and the reduction in reported incidents of hidden costs or risks.

Moving forward, awareness can be further enhanced through the integration of digital nudges into trading platforms, the deployment of legal chatbots powered by large language models to address investor rights queries, and the application of behavioural analytics to deliver targeted education to high-risk investor segments. Overall, this strategy demonstrates that improving rights awareness cannot rely solely on outreach efforts; it requires comprehensive reforms in education, transparency, regulatory language, and enforcement to ensure that investor rights are clearly defined, easily understood, and effectively enforceable.

DISCUSSION

The analysis finds that Indonesia's capital market operates under a robust normative framework aligned with international standards, as set out in Law No. 8 of 1995 and its implementing regulations. Its structure rests on four interdependent pillars: its role as a source of long-term financing and public investment, the diversity of securities instruments, supervision by competent authorities, and the stock exchange's role in facilitating trading. Weaknesses in any pillar, such as in supervisory functions, can increase capital costs, erode public trust, and compromise market integrity.

Despite the framework's comprehensiveness, significant gaps exist between normative provisions and implementation. Coordination between the Financial Services Authority (OJK)

and the Indonesia Stock Exchange (IDX) is often slow or overlapping, reducing deterrence and enabling complex fraud. Consistent with the Theory of Legal Effectiveness, weak enforcement renders legal provisions largely symbolic. Investor protection through the right to accurate and timely information, safeguards against manipulation, and access to redress is mandated in the Capital Market Law, OJK regulations, and the Criminal Code, but effectiveness is undermined by poor enforcement, delayed disclosure monitoring, lengthy litigation, and low investor legal literacy, eroding procedural justice.

Case evidence, including pump-and-dump schemes, falsified financial statements, and misappropriation of investor funds, reflects the Fraud Triangle framework, with causative factors such as weak governance, financial pressures, poor enforcement, limited transparency, and the absence of real-time oversight. The lack of an early warning system allows violations to grow unchecked. Preventive measures like mandatory prospectuses, periodic reporting, and transaction monitoring align with the Theory of Legal Effectiveness but are applied reactively. Moving to proactive enforcement requires threshold-based transaction surveillance, integrated cross-agency data, predictive analytics, AI-driven monitoring, and streamlined oversight between the OJK, IDX, KPEI, and KSEI.

Repressive measures administrative, criminal, and civil sanctions are available but hindered by lengthy adjudication caused by complex proceedings, investigative challenges, limited resources, and slow adaptation to innovations such as digital assets and algorithmic trading. Suggested reforms include a dedicated capital market court, statutory timelines, fast-track procedures, early asset-freezing, and regular regulatory updates. Low investor legal awareness, stemming from inadequate education, limited transparency, complex legal language, and ineffective enforcement, increases vulnerability and weakens rights enforcement. Remedies include structured investor education, plain-language Key Information documents, simplified legal guides, online dispute resolution, and proportionate naming-and-shaming policies.

Overall, while the legal foundation is strong, its effectiveness depends on stronger enforcement, better inter-agency coordination, regulatory adaptability to market changes, and improved investor legal literacy. Without targeted reforms, the goals of market integrity, investor protection, and economic growth will remain only partially achieved.

Indonesia's capital market regulatory framework, grounded in Law No. 8 of 1995 and its implementing regulations, aligns with international standards and reflects the Theory of Legal Effectiveness, which emphasises the ability of legal norms to achieve policy goals through comprehensive regulation, procedural integrity, and adaptability (Belyaev et al., 2020; Meričková et al., 2021). While structurally robust, gaps in implementation and overlapping supervisory roles between the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) demonstrate that without timely, coordinated enforcement, regulations risk becoming symbolic, eroding public trust and enabling violations (Meričková et al., 2021).

Investor protection is consistent with Legal Protection Theory, safeguarding the right to accurate information, protection from manipulative practices, and access to redress. However, weak enforcement and procedural delays undermine procedural justice, as defined in Justice Theory, which values fairness in both process and outcome (Ariningsih et al., 2021; Jony et al., 2020; Lambert et al., 2020). The persistence of stock fraud is explained through the Fraud Triangle, particularly the "opportunity" dimension of the Theory of Legal Effectiveness, where insufficient oversight, market pressures, and rationalisation foster misconduct (Belyaev et al., 2020; Meričková et al., 2021).

Preventive measures, such as prospectuses and periodic reporting, and repressive measures, including administrative, criminal, and civil sanctions, correspond to the Preventive and Repressive Legal Protection framework (Prawirayuda et al., 2020; Sadnyini et al., 2021). Yet, capital market criminal cases often take years to resolve, reflecting Justice Theory's concern that delays weaken perceptions of fairness and the legitimacy of the legal system (Lambert et al., 2020). Low investor legal awareness further reinforces Legal Protection

Theory's emphasis on education, accessible information, and simplified legal language to strengthen public understanding and the effective exercise of rights (Ariningsih et al., 2021; Purwanta et al., 2021).

CONCLUSIONS

The legal framework for investor protection in Indonesia's capital market established under Law No. 8 of 1995, OJK regulations, and relevant provisions of the Indonesian Criminal Code guarantees investors' rights to accurate and timely information, protection from manipulative or fraudulent practices, and access to remedies via administrative, criminal, and civil sanctions. Normatively, it reflects the Legal Protection Theory, the Theory of Legal Effectiveness, and Justice Theory, ensuring both substantive and procedural justice.

In practice, however, significant gaps remain between these provisions and their implementation. Coordination between the OJK and the Indonesia Stock Exchange (IDX) is often delayed or overlapping, reducing deterrence and enabling fraud. Cases such as PT Hanson International Tbk highlight weaknesses in internal oversight, delayed regulatory intervention, the lack of an early warning system, and lengthy judicial processes problems compounded by resource constraints, evidentiary difficulties, procedural complexity, and slow adaptation to innovations like digital assets and algorithmic trading. Low investor legal literacy further limits the ability to detect violations and assert rights.

Normative recommendations include strengthening preventive measures through regtech and suptech adoption, cross-institutional data integration (OJK, IDX, KPEI, KSEI, PPATK, Attorney General's Office), predictive analytics, AI-based surveillance, and simplified, standardised disclosure formats. On the repressive side, reforms should establish a dedicated capital market court, set statutory timelines for case resolution, implement fast-track adjudication, freeze assets early, and enhance investigative capabilities via forensic certification. Increasing investor legal literacy through structured education, plain-language guides, transparent key information documents, and online dispute resolution is also essential.

Through stronger regulation, better inter-agency coordination, adaptive enforcement, and improved public legal knowledge, Indonesia can more effectively uphold market integrity, protect investors, and support sustainable economic growth.

SUGGESTIONS

The analysis identifies key strategic measures to strengthen investor protection in stock fraud cases within Indonesia's capital market. Preventive improvements require boosting supervisory capacity through regulatory technology (regtech) and supervisory technology (suptech), supported by real-time data integration among the OJK, IDX, KPEI, KSEI, PPATK, and the Attorney General's Office. Early warning systems using predictive analytics and AI should be implemented to detect manipulation patterns such as pump-and-dump schemes, wash sales, and insider trading. Simplifying and standardising disclosure formats via concise, accessible Key Information Documents is essential to reducing information asymmetry.

Repressive measures should include creating a specialised capital market court or appointing judges with relevant expertise, setting statutory deadlines for case resolution, and adopting fast-track mechanisms for certain cases. Asset freezing from the outset of investigations is vital for maximising investor loss recovery. Regulatory updates must address innovations such as digital assets and algorithmic trading, while strengthening prohibitions on emerging manipulation methods like layering and spoofing.

Investor legal literacy should be enhanced through continuous education programmes, fraud case simulations, interactive webinars, and modular learning tailored to investor needs. Providing plain-language legal guides and capital market glossaries can lower comprehension barriers. Online dispute resolution mechanisms with clear timeframes and stronger whistleblower protections are also necessary to encourage public participation.

Implementing these recommendations is expected to bridge the gap between legal norms and practice, bolster public trust, safeguard capital market integrity, and promote national economic stability and sustainable growth.

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