

Promoting Sustainable Investment in Indonesia Capital Market

Hasan Fawzi

Director of Business Development
Indonesia Stock Exchange

20 May 2021

Why We Need to Care About ESG?

Because we care

Sustainable practices affect better financial performance

- 88% of the research shows that solid ESG practices result in better **operational performance**.
- 80% of the studies show that **stock price performance** of companies is positively influenced by good sustainability practices

(Clark, Feiner, and Viehs - 2014)

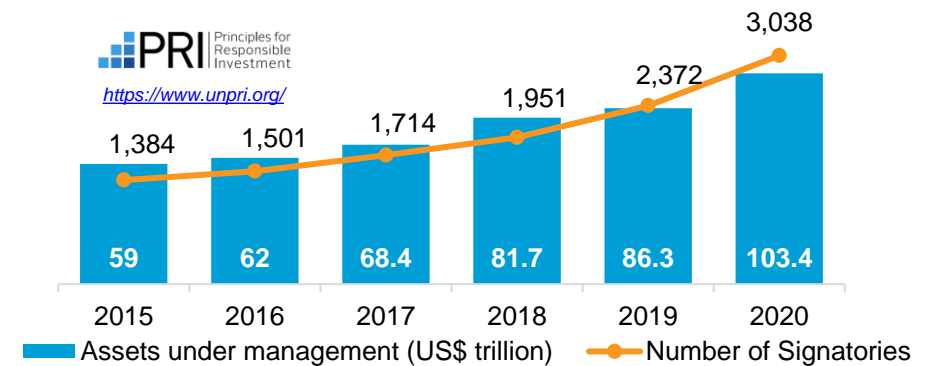
- Combine the findings of about 2,200 studies, roughly 90% of studies find a **nonnegative ESG–financial performance relation**. Large majority of studies reports positive findings.
- Positive ESG impact on CFP appears **stable** over time.

(Friede, Busch, and Bassen - 2015)



Rising awareness of ESG issues in investment decision

Principles for Responsible Investment



CFA Institute Practitioner Survey, March 2020

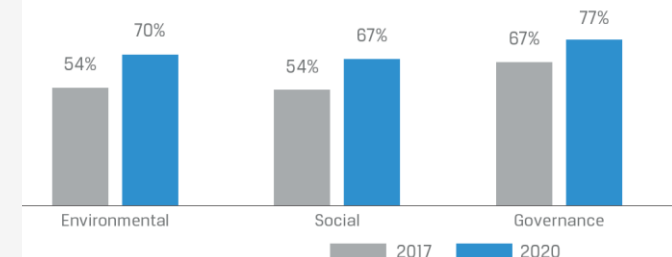
Investment Professionals

85%

USE ESG FACTORS

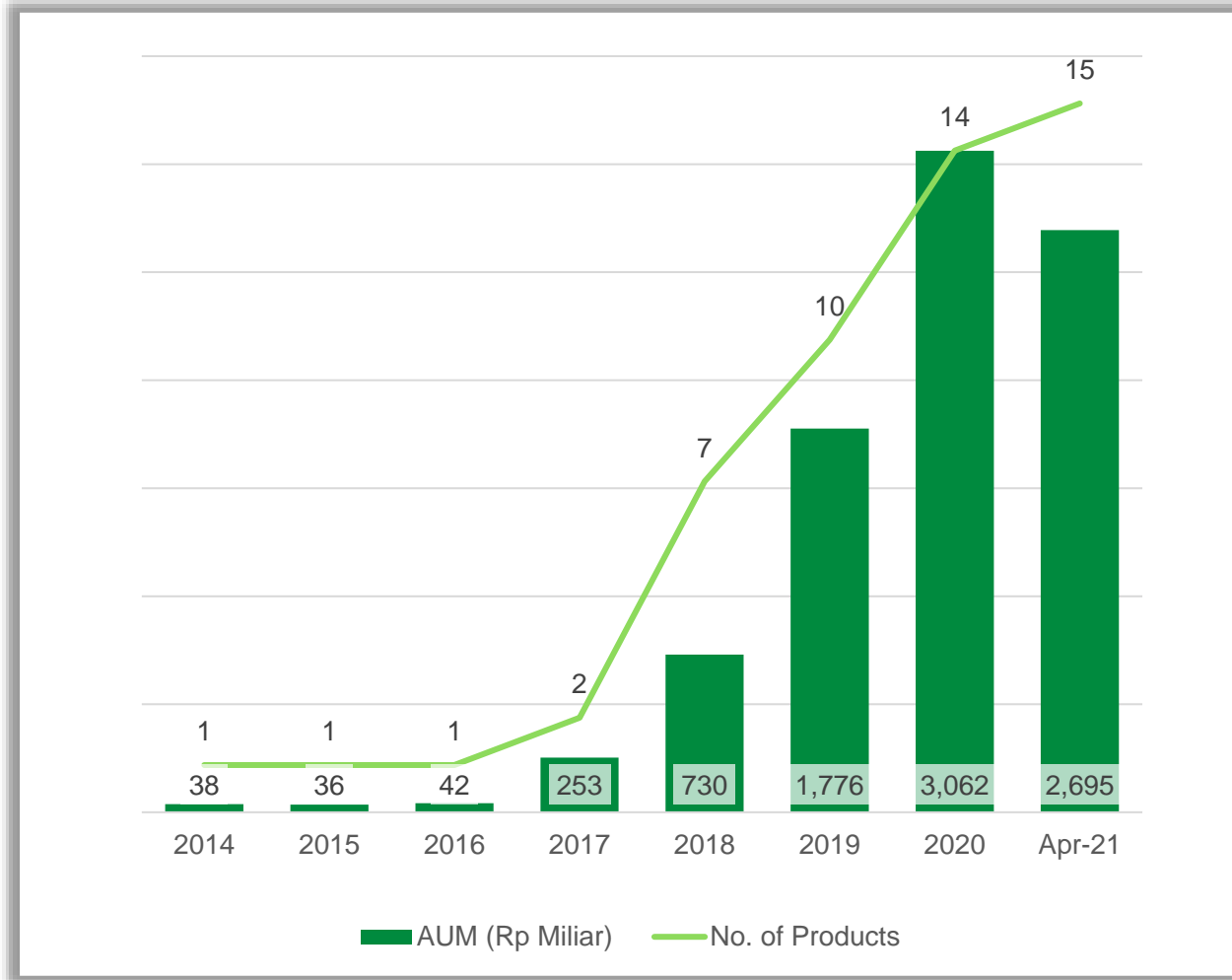
Most CFA Institute members surveyed take E, S, and/or G factors into consideration in their investing, up from 73% in 2017

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)



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

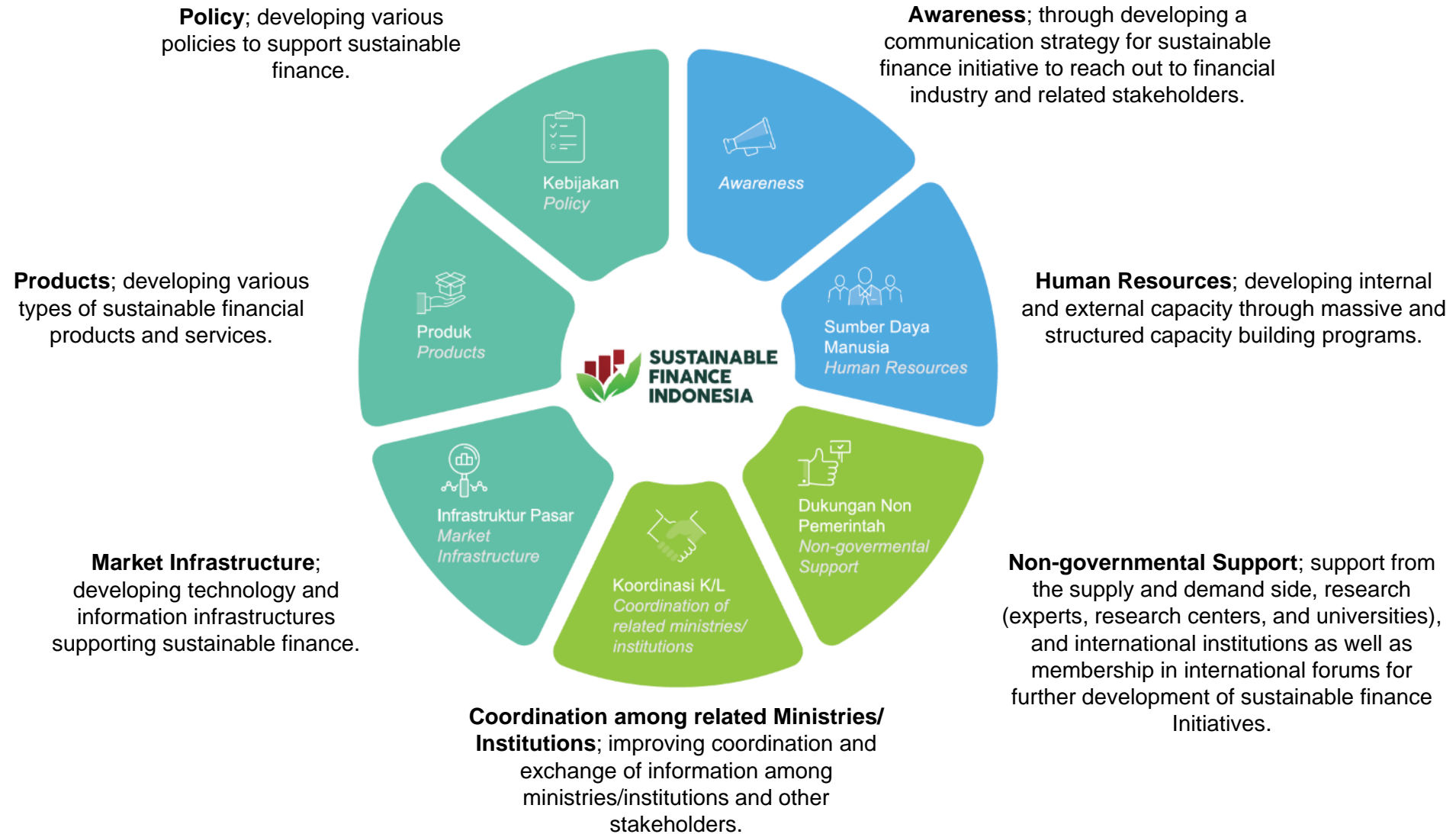
Increasing Demands in ESG Related Domestic Funds



No.	ESG Related Index Fund and ETF	AUM (IDR billion)
1.	REKSA DANA INDEKS BNI AM ETF MSCI ESG LEADERS INDONESIA	766.3
2.	REKSA DANA PREMIER ETF SRI KEHATI	470.4
3.	REKSA DANA INDEKS BATAVIA SRI KEHATI ETF	400.7
4.	Reksa Dana Indeks RHB SRI KEHATI Index Fund	300.4
5.	Reksa Dana Indeks BNP Paribas Sri Kehati	265.0
6.	Reksa Dana Indeks Panin Sri Kehati	244.2
7.	REKSA DANA INDEKS INSIGHT SRI KEHATI LIKUID I SRI LIKUID	196.2
8.	Reksa Dana Indeks Simas Sri Kehati	82.3
9.	REKSA DANA INDEKS PREMIER ETF FTSE INDONESIA ESG	15.5
10.	REKSA DANA INDEKS STAR ETF SRI KEHATI	9.5
11.	REKSA DANA INDEKS SAM ETF SRI KEHATI	6.3
12.	REKSA DANA INDEKS DANAREKSA ETF MSCI INDONESIA ESG SCREENED	4.7
13.	REKSA DANA INDEKS AURORA ETF FTSE INDONESIA ESG	4.3
14.	Reksa Dana Indeks Ayers Asia Asset Management Equity Index Sri Kehati	2.6
15.	REKSA DANA INDEKS SYAILENDRA ETF MSCI INDONESIA ESG UNIVERSAL INDEX	1.7

source: reksadana.ojk.go.id

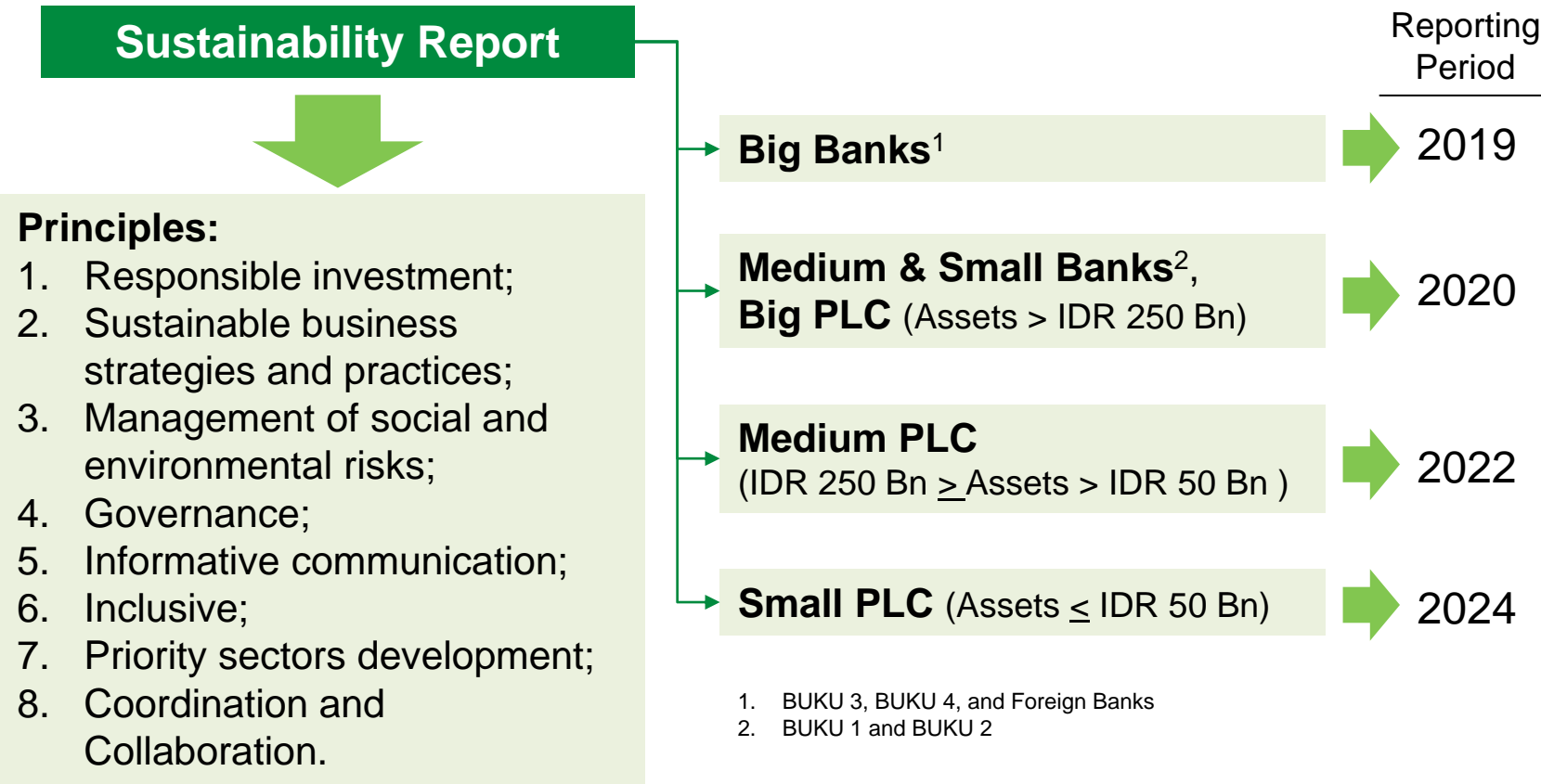
The Ecosystem of Sustainable Finance in Indonesia



Sustainability Report is Gradually Mandated for Publicly Listed Companies

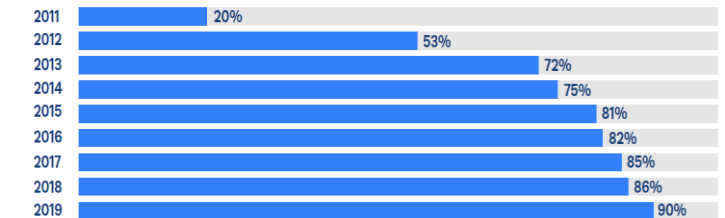
OJK Regulation No. 51 - 2017:

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



Source: The KPMG Survey of Sustainability Reporting, Dec 2020

Growth of ESG Reporting by S&P 500 Companies



Source: Governance & Accountability Institute, 2020

Staying silent is no longer an option

Walk the Talk: IDX Consistently Promoting the Implementation of ESG in Indonesia Capital Market



PROMOTING GCG IN INTERNAL PRACTICES

IDX supports Good Corporate Governance in internal process by maintaining Management System Certification:

- ISO 9001 – Quality Management System,
- ISO 27001 – Information Security Management and
- ISO 22301 – Business Continuity Management.



PROVIDE INFRASTRUCTURE (MARKET AND PRODUCTS)

IDX develops market and products to implement Sustainable Finance through:

1. Facilitate SMEs listing: **Acceleration Board**
2. Support Development of SMEs and Start Ups in Indonesia : **IDX Incubator**
3. Listing of Green Products : Green Bonds, ESG Related ETF
4. ESG Equity Index as Investment Benchmark: **IDX ESG Leaders Index, SRI-Kehati Index**



IDX Join SSE
April 2019



ENGAGE STAKEHOLDERS TO IMPLEMENT SUSTAINABLE FINANCE

IDX engage various stakeholders through :

1. Build strong relationship and collaboration with related institutions (SSE, GRI, KEHATI Foundation, Sustainalytics, IBCWE, TCFD, Ring the Bell for Gender Equality)
2. Incentives for Green Bonds listing
3. Appreciations for the Stakeholders : Annual Report Award, ASEAN Corporate Governance Scorecard



EDUCATE STAKEHOLDERS

IDX promotes Sustainable Finance Literacy and Inclusion to the Stakeholders by collaborating with OJK, AEI, ICSA, ICSSA and other institutions.

- Year 2017 : 5x Seminars
- Year 2018 : 11x Seminars
- Year 2019 : 10x Seminars
- Year 2020 : 4x Webinars



ACCESS OF INFORMATIONS

IDX increase transparency and reduce asymmetric information for the investor through:

1. Electronic reporting & integrated System (SPE-IDXnet)
2. Promote Green Reporting & Filing through Listing & IPO Filing Integration through SPRINT
3. Special Notations (ABCD.X)
4. ESG Scoring (Provide by Sustainalytics)



Notation Symbol	Description
S	No sales based on latest financial report
A	Adverse opinion of the audited financial report
M	Moratorium of debt payment
B	Bankruptcy filing against the company
E	Negative equity
L	Late submission of financial report
D	Disclaimer opinion of the audited financial report

IDX has fulfilled all Stock Exchange Sustainability Activities in Sustainable Stock Exchange Initiatives (SSE)

Stock Exchange Sustainability Activities	Fulfillment
SSE Partners Exchanges	Yes
SME listing platform	Yes Acceleration Board
Training on ESG topics	Yes
Providing written guidance on ESG reporting	Yes - OJK Regulation 51 2017 - Technical Guidelines for Banking Sector
Publish Sustainable Reports	Yes
Covered by an ESG Index	Yes - SRI-Kehati - IDX ESG Leaders
ESG Bond segments	Yes Green Bonds
Mandatory ESG listing requirement	Yes Sustainable Report



Align with WFE Sustainability Principles (2018):

1. Create sustainability understanding.
2. Help normalize and mainstream ESG data.
3. Actively engage with broad stakeholder group.
4. Create sustainable (and scalable) products.
5. Manage ESG responsibly in-house.

IDX Supports ASEAN Corporate Governance Scorecard (ACGS)



The ASEAN Corporate Governance (CG) Initiative was introduced in 2011 to raise **CG standards** and **practices** of ASEAN public-listed companies (PLCs) and to give greater international visibility to well-governed ASEAN companies.



The initiative's objectives are:

- to raise the corporate governance standards and practices of ASEAN PLCs.
- to give greater international visibility to well-governed ASEAN PLCs and showcase them as investable companies, and
- to complement other ACMF initiatives and promote ASEAN as an asset class.



Now there are **six countries** participate in ACGS: Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam

Historical Country Score ACGS, 2012-2019

Countries/Year	2012	2013	2014	2015	2017	2019
1. Thailand	68	75	85	87	85	97
2. Malaysia	63	72	75	77	82	95
3. Singapore	56	72	71	78	78	88
4. Philippine	49	58	67	73	67	77
5. Indonesia	43	55	57	62	70	71
6. Vietnam	28	34	35	36	41	55



ASEAN Asset Class

1. PT Bank CIMB Niaga Tbk (Persero) Tbk
2. PT Bank Tabungan Negara (Persero) Tbk
3. PT Bank Rakyat Indonesia (Persero) Tbk

4. PT Aneka Tambang Tbk
5. PT Bank Mandiri (Persero) Tbk
6. PT Bank Central Asia Tbk
7. PT Bank Permata Tbk
8. PT Jasa Marga (Persero) Tbk
9. PT XL Axiata Tbk
10. PT Bank Maybank Indonesia Tbk



Significantly Improved PLCs

1. PT Elang Mahkota Teknologi Tbk
2. PT Vale Indonesia Tbk
3. PT Adaro Energy Tbk

ESG Related Indices

IDX ESG Leaders



- **ESG Integration** approach;
- Consist of **30 stocks**
- Leaders in ESG rating;
- Do not have significant controversy;
- High trading liquidity;
- Good financial performance; and
- ESG assessment and controversy analysis is done by Sustainalytics.

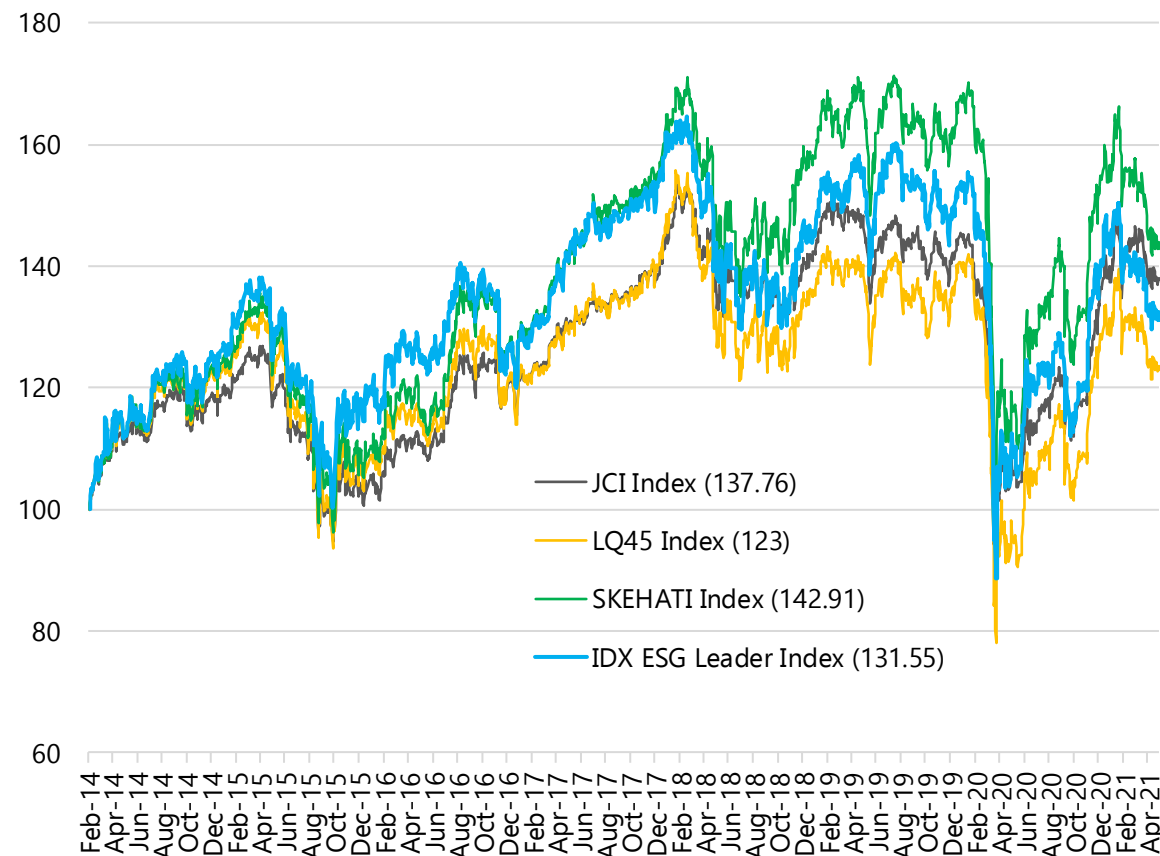
SRI-KEHATI*



*SRI-KEHATI is a jointly developed index with Indonesian Biodiversity Foundation (KEHATI Foundation).

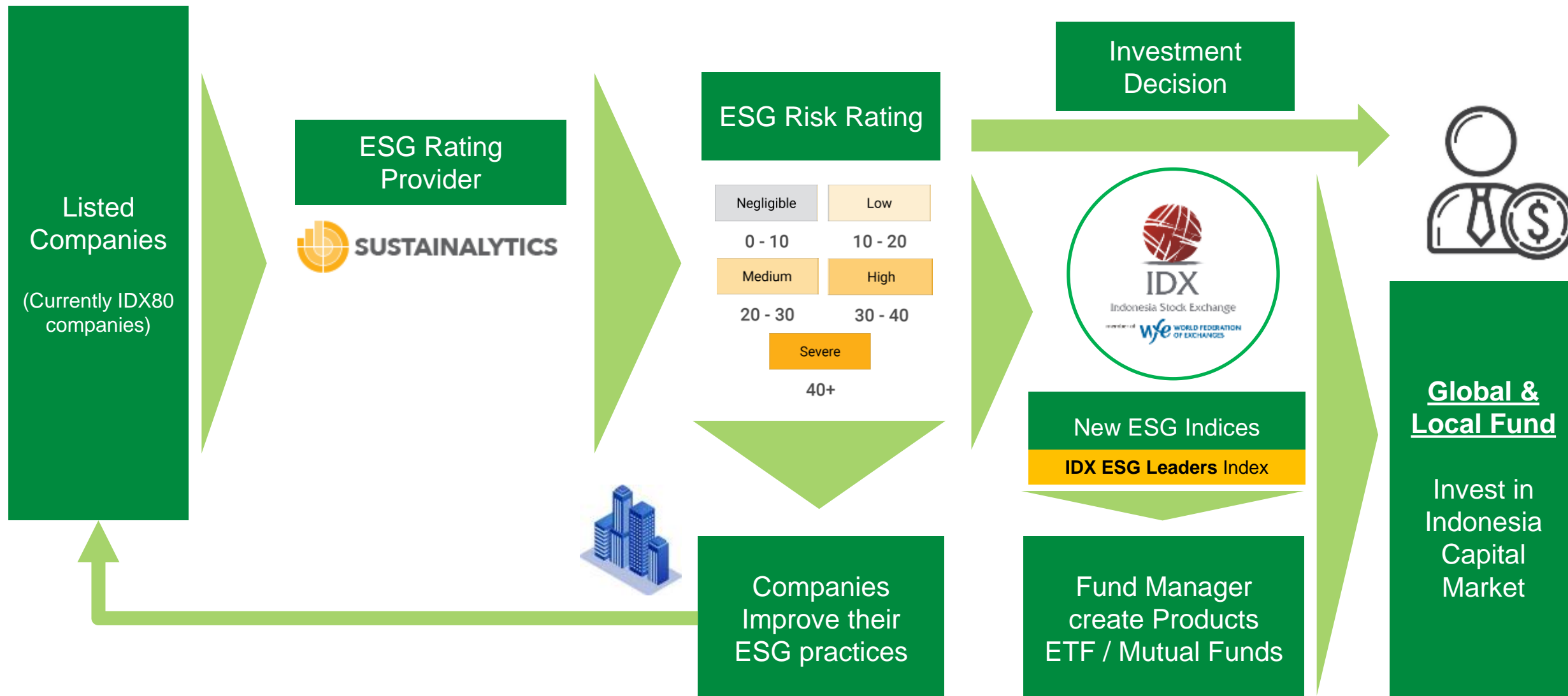
- **ESG Screening** approach;
- Consist of **25 stocks**;
- Good performance in encouraging sustainable businesses;
- Have awareness of the environment, social, and good corporate governance; and
- Assessment and selection is done by KEHATI Foundation.

Index growth



Source: IDX, Bloomberg

ESG Scoring and IDX ESG Leaders Index



More Initiatives to be Done in 2021 - 2025



Strengthening Risk Management and GCG in Social and Environment Aspects



Accelerate the Transition of Financial Sectors to Adopt Sustainable Finance



Toward more Sustainable Investment in Indonesia Capital Market



IDX

Indonesia Stock Exchange

member of  **WORLD FEDERATION
OF EXCHANGES**

Promoting Sustainable Investment in Indonesia Capital Market