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New guidelines on stock split and reverse stock split procedures

In April 2024, the Indonesia Stock Exchange (*Bursa Efek Indonesia* or “IDX”) introduced Regulation No. I-I to update procedures for stock split and reverse stock split, enhancing investor protection. This regulation aligns with the Financial Services Authority's (*Otoritas Jasa Keuangan* or “OJK”) Regulation No. 15/POJK.04/2022 and gives the IDX authority over applications for these corporate actions. It aims to ensure stock split increase share liquidity and reverse stock split comply with capital increase provisions, emphasising public shareholders' interests. Publicly listed companies must obtain Principal Approval from the IDX, disclose plans, and secure General Meeting of Shareholders (“GMS”) approval. The regulation outlines criteria for stock split, such as maintaining a minimum share price and avoiding odd-lot shares, and requires a detailed application process. For reverse stock split, publicly listed companies must appoint a party to purchase odd-lot shares and ensure fair pricing. OJK Regulation 15/2022 imposes timing restrictions to prevent market manipulation, with exceptions for certain institutions. Overall, IDX Regulation I-I aims to enhance stock trading liquidity and ensure fair trading practices.

Introduction

As the OJK issued OJK Regulation No. 15/POJK.04/2022 on Stock Split and Reverse Stock Split by Public Companies Issuing Equity Securities (“OJK Regulation 15/2022”), IDX also issued the Decree of the Board of Directors of the IDX No. Kep-00044/BEI/04-2024 regarding Regulation No. I-I on Stock Split and Reverse Stock Split by Listed Companies Issuing Equity Securities (“IDX Regulation I-I”) to align with OJK Regulation 15/2022.

This regulation revokes the previous regulations stipulating two specific section of a decree issued by IDX which are, (i) Point II.15 of Attachment I of Decree of the Board of Directors of the IDX Number: Kep-00101/BEI/12-2021 dated 21 December 2021 regarding the Amendment of Regulation Number I-A on Listing of Shares and Equity Securities other than Shares Issued by Listed Companies and (ii) Points V.4, VI.2.1., and VI.3.1. of Attachment II of Decree of the Board of Directors of the IDX Number: Kep-00101/BEI/12-2021 dated 21 December 2021 regarding the Amendment of Regulation Number I-A on Listing of Shares and Equity Securities other than Shares Issued by Listed Companies.

A stock split occurs when a publicly listed company divides its existing shares into multiple new shares, increasing the total number of shares. In contrast, a reverse stock split is when a publicly listed company combines multiple shares into one, reducing the total number of shares. Publicly listed companies generally conduct a stock split to increase the liquidity of their shares trading on the IDX. Meanwhile, a reverse stock split is usually carried out to comply with provisions related to capital increases by the publicly listed company.

For the purpose of this legal alert, we will focus on the procedures for stock split and reverse stock split based on IDX Regulation I-I. This focus aims to provide you with a high-level overview of the process.

General procedures for stock split and reverse stock split

To conduct a stock split or reverse stock split, a publicly listed company must comply with the requirements outlined in OJK Regulation 15/2022 and IDX Regulation I-I. The following are the general procedures for a stock split or reverse stock split:

1. **Obtaining Principal Approval from IDX**
   The publicly listed company must obtain Principal Approval for the proposed stock split or reverse stock split from IDX ("Principal Approval") prior to announcing the General Meeting of Shareholders ("GMS"). In granting the Principal Approval, IDX will consider the interests of public shareholders and review several factors, such as trading liquidity levels, stock split or reverse stock split ratios and more.

2. **Information disclosure**
   The publicly listed company is required to disclose information to the public about the stock split or reverse stock split plans on the same day as the GMS announcement for approval of the stock split or reverse stock split. This information disclosure, along with supporting documents, must be submitted to the OJK.

3. **GMS approval**
   The proposed stock split or reverse stock split must be approved by the GMS, which should be conducted in accordance with the OJK regulation on the planning and implementation of a GMS for a publicly listed company.

4. **Implementation of the stock split or reverse stock split**
   The stock split or reverse stock split must be implemented no later than 30 days after the GMS approves the plan.

Requirements for IDX's Principal Approval on stock split

To apply for Principal Approval for a stock split, a publicly listed company must meet several requirements:

1. The average closing price of the shares over the last 25 consecutive trading days in the regular market before submitting the Principal Approval application must be multiplied by the stock split ratio, resulting in at least IDR100.

2. If the shares have been suspended by IDX for 25 consecutive trading days in the regular market before submitting the Principal Approval application, the average share price is calculated based on the highest daily trading prices over the last 12 months, counting backward from the last trading day or the day trading was suspended.

3. If the shares have been suspended by IDX within the last 12 months, a valuation report by an appraiser must be submitted along with the Principal Approval application.

4. IDX may request a valuation report by an appraiser, if necessary, in accordance with OJK Regulation 15/2022.

5. The stock split ratio must not result in odd-lot shares.

Stock split procedures

At a glance, to carry out a stock split, a publicly listed company must follow these procedures:

1. Submit a Principal Approval application to the IDX at least ten trading days before notifying the OJK of the GMS agenda about the stock split plan. The Principal Approval application must include a form provided in IDX Regulation I-I with details such as the (i) background; (ii) purpose and benefits; (iii) split ratio; (iv) nominal value, number of shares before and after the stock split; and (v) the estimated schedule, including the date of the GMS and the effective date of the stock split.

2. IDX will convey the rejection or approval of the Principal Approval application within nine trading days at the latest since the documents and/or information related to the Principal Approval application in principle are received in full by the IDX. IDX has the authority to request additional documents or information during the evaluation process. If the application is rejected, the publicly listed company may re-apply for the Principal Approval, at the earliest six months after the rejection.

3. The publicly listed company shall also submit an application for the listing of additional shares resulting from the stock split to the IDX, at least five trading days before announcing the information disclosure. The application shall follow the form specified in the IDX Regulation I-I and include documents such as the (i) summary of the GMS approving the stock split; (ii) proof of approval for changes to the articles of association from the Ministry of Law and (iii) stock split implementation schedule.

4. IDX will review the application for the listing of additional shares resulting from the stock split, considering factors like compliance with the execution price, unusual market activity and/or stock price fluctuations and any significant negative events affecting the company's business. IDX will respond with approval, rejection or a request for more information within three trading days after receiving the complete application.

5. IDX will cancel the approval of the listing of the additional shares if the execution price does not meet the required conditions or if instructed by the OJK. IDX will announce the cancellation or approval of the listing of additional shares and price adjustment at least one trading day before the effective date of the stock split.

Requirements for IDX's Principal Approval on reverse stock split

To apply for Principal Approval for a reverse stock split, a publicly listed company must meet several requirements:

1. Appoint a party to purchase odd-lot shares, in accordance with OJK Regulation 15/2022. This requirement is needed because the public shareholders might have odd-lot or fractional shares. To address this issue, a public company must appoint a party to purchase the odd-lot shares resulting from the reverse stock split.

2. Ensure the purchase price of odd-lot shares is the higher of either (i) the price at the time of the reverse stock split or (ii) the price during the odd-lot share purchase period.

3. Submit a valuation report by an appraiser if requested by the IDX.

Reverse stock split procedures

In brief, to carry out a reverse stock split, a publicly listed company must follow these procedures:

1. Submit a Principal Approval application to the IDX at least ten trading days before notifying the GMS agenda about the reverse stock split plan to the OJK. The application of Principal Approval must include a form provided in the IDX Regulation I-I with details such as the (i) background; (ii) purpose and benefits; (iii) ratio; (iv) nominal value, number of shares before and after the reverse stock split; (v) estimated schedule, including the date of the GMS and the effective date of the reverse stock split; and (vi)explanation on the treatment for the odd-lot share.

2. IDX will convey the rejection, postponement or approval of the Principal Approval application within nine trading days at the latest. If the Principal Approval application is rejected, the publicly listed company may re-apply for the Principal Approval, at the soonest six months after the rejection.

3. Determine the recording date for shareholders eligibility to purchase odd-lot shares, which is one trading day after the effective date of the reverse stock split.

4. The publicly listed company shall also submit the application for listing the reverse stock split at least five trading days before announcing the reverse stock split schedule. The application shall follow the specified form in the IDX Regulation I-I and include documents such as the (i)summary of the GMS approving the reverse stock split; (ii) proof of approval for changes to the articles of association from the Ministry of Law and (iii) implementation schedule.

5. IDX will review the application for listing the reverse stock split, considering factors like stock price fluctuations and any significant negative events affecting the company's business. Further, IDX will respond with approval or rejection within three trading days after receiving the complete listing application.

6. The publicly listed company shall conduct an incidental public expose before submitting the application for listing the reverse stock split.

7. IDX will announce the listing and price adjustment at least one trading day before the effective date of the reverse stock split.

8. The publicly listed company shall submit the proof of odd-lot share purchases to the IDX within two trading days after the purchase period ends.

Prohibition on conducting stock split and reverse stock split during specific periods

It is important to note that OJK Regulation 15/2022 also sets certain prohibitions for publicly listed companies regarding the timing of stock split and reverse stock split. These prohibitions include:

1. a. At least 24 months from the date of an initial public offering; and/or
   b. 12 months from:
      (i) the effective date of registration of a rights issue;
      (ii) the implementation date of a private placement, except for an increase of capital in the context of an employee share ownership scheme;
      (iii) the implementation date of a previous stock split or reverse stock split; or
      (iv) the effective date of a statement of merger or consolidation; whichever earlier.

2. Publicly listed companies are also restricted from carrying out a private placement within 12 months following a stock split or reverse stock split, unless it is intended to improve the company's financial position.

However, these prohibitions do not apply to publicly listed companies that: (i) operate as financial services institutions under certain conditions and/or (ii) are undergoing restructuring to enhance their financial position.

Conclusion

IDX Regulation I-I is a response to the issuance of OJK Regulation 15/2022, addressing the previous lack of comprehensive IDX regulations specifically governing stock split and reverse stock split. It also underscores the significant role of the IDX in overseeing stock split and reverse stock split procedures.

The IDX's evaluation and granting of Principal Approval are crucial to ensuring that these actions are carried out with the interests and protection of public shareholders in mind. For instance, in certain circumstances, IDX requires a publicly listed company to submit a valuation report from an appraiser as part of the application for Principal Approval of a stock split or reverse stock split. This requirement is intended to ensure the fairness of the share price for public shareholders, which is fundamental to the implementation of stock split or reverse stock split.

Overall, this initiative reflects the IDX's commitment to enhancing stock trading liquidity and achieving orderly, fair and efficient trading.

This legal alert is only intended to provide an overview of stock split and reverse stock split mechanisms. It may not cover all aspects related. Please do not hesitate to contact us if you need more detailed advice or have specific questions.

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