

Legal implications and implementation challenges of the ASEAN Corporate Governance Scorecard for Indonesian public companies

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DOI: <https://doi.org/10.66856/ijl.2026.12.3.12309>

Abstract

This study examines the relationship between the ASEAN Corporate Governance Scorecard (ACGS) and the regulations of Indonesia's Financial Services Authority (OJK), focusing on regulatory alignment, investor confidence, and the challenges faced by public companies. It uses a doctrinal legal approach to analyze legislation, governance standards, institutional publications, and academic literature through qualitative interpretation. The analysis distinguishes legally enforceable obligations from voluntary assessment criteria and considers how the two frameworks interact in corporate practice. The findings indicate that Indonesian governance regulation and the ACGS share principles of transparency, accountability, responsibility, independence, and fairness, although their legal force and operational requirements differ. Alignment is therefore best understood as a gradual process of adapting regional governance principles to domestic legal arrangements. Stronger disclosure requirements, implementation guidance, and cooperation with market institutions can support this process and improve the information available to foreign investors. Failure to satisfy an ACGS indicator does not, by itself, attract a statutory sanction; liability depends on whether the underlying conduct also violates an applicable legal requirement. Companies nevertheless face practical difficulties arising from differences in assessment thresholds, the interpretation of board responsibilities within Indonesia's two-tier structure, and the financial, personnel, and time costs of adjustment. The study concludes that effective alignment requires a clear distinction between mandatory compliance and voluntary improvements, supported by guidance that translates regional benchmarks into the Indonesian institutional context.

Keywords: ASEAN Corporate Governance Scorecard, corporate governance, Financial Services Authority, public companies, regulatory harmonization

Introduction

Background and research questions

Good corporate governance provides a framework for directing and supervising a company, allocating responsibility, and holding decision-makers accountable. In the Indonesian literature, this framework is commonly expressed through five principles: transparency, accountability, responsibility, independence, and fairness. Together, these principles support checks and balances among corporate organs and help protect shareholders and other stakeholders. Their practical value depends on how they are incorporated into risk management, legal compliance, and everyday business decisions, rather than on whether they are merely reproduced in corporate policies.^[1, 3]

Governance became a prominent concern in corporate reform debates following the 1992 Cadbury Report and the financial crises of 1997 and 2008. These developments underscored the consequences of weak oversight, inadequate disclosure, and poorly controlled managerial discretion. Effective governance can support better resource allocation and more informed strategic decisions, while reducing opportunities for fraud, corruption, and other misconduct. Annual reports and governance disclosures provide evidence of these arrangements, although the publication of a report does not by itself demonstrate that the underlying practices are effective.^[1, 3, 4]

Regional economic cooperation has added a further dimension to corporate governance reform. Within the Association of Southeast Asian Nations (ASEAN), the ASEAN Capital Markets Forum (ACMF) promotes the

development and integration of capital markets. The ASEAN Corporate Governance Scorecard (ACGS) forms part of that initiative. It provides a common basis for assessing the governance practices of publicly listed companies and making those practices more visible to investors across jurisdictions. The scorecard is a regional benchmark, rather than a substitute for national corporate or securities law.^[5, 6]

In Indonesia, the Financial Services Authority, or Otoritas Jasa Keuangan (OJK), exercises regulatory and supervisory functions under Law No. 21 of 2011. Its regulations, known as Peraturan Otoritas Jasa Keuangan (POJK), establish enforceable obligations for entities within their respective scope. Public companies must therefore comply with the regulations applicable to them, and breaches may attract the sanctions prescribed by the relevant instrument. The ACGS operates differently: its assessment criteria do not independently carry the force of Indonesian legislation.^[7, 8]

The coexistence of these frameworks raises a practical question. A company may meet a domestic regulatory requirement while falling short of a higher regional governance benchmark. This difference need not amount to a legal contradiction, but it can complicate corporate decisions about board composition, disclosure, and the resources allocated to governance reform. The distinction is particularly relevant when companies seek to strengthen investor confidence while managing the costs of implementation. Studies concerning governance assessment, sustainability reporting, and firm value provide a basis for examining these issues, but do not remove the need to distinguish legal compliance from performance under a scorecard.^[9, 10]

This article addresses two questions. First, how can OJK align its regulations with the ACGS and support public companies in improving their attractiveness to foreign investors? Second, what legal implications and implementation challenges arise when Indonesian public companies seek to meet ACGS criteria? The analysis focuses on the relationship between the regulatory instruments discussed below and the regional benchmark, rather than treating every difference in their requirements as a conflict of law.

Conceptual and institutional framework

1. Companies and corporate governance

The Indonesian term *perusahaan* may refer both to organized business activity and to the organization conducting that activity. This broad meaning should be distinguished from the legal personality of an incorporated company. Lewis describes a company as an artificial legal person capable of holding rights and obligations. For the present analysis, the relevant subjects are public companies whose governance is subject to Indonesian corporate and capital-market requirements. The focus is therefore on the allocation of responsibilities within the company and its duties toward shareholders and the market. ^[11, 12]

2. The ASEAN Capital Markets Forum

Established in 2004 under the auspices of the ASEAN finance ministers, ACMF is a forum of capital-market regulators. It supports regional cooperation through policy coordination, regulatory initiatives, and efforts to develop more integrated and resilient markets. Its role should be distinguished from that of a supranational regulator with direct enforcement authority over all ASEAN companies. The ACGS advances ACMF's objectives by providing a shared assessment framework through which governance practices can be compared across participating markets. ^[5, 6]

3. The Financial Services Authority

OJK was established as an independent institution responsible for regulating and supervising the financial services sector. Its institutional design seeks to support integrated supervision, orderly market activity, and the protection of consumers and the public. These objectives sit within the broader constitutional commitment to an equitable and sustainable national economy expressed in Article 33 of the 1945 Constitution. For public companies, OJK's role includes setting disclosure and governance requirements and supervising compliance with applicable capital-market rules. ^[7, 8, 13, 14]

Research method

This study adopts a doctrinal legal approach. It examines the content, legal status, and relationship of rules and governance standards to explain the obligations applicable to Indonesian public companies. The inquiry is doctrinal because its principal task is to interpret legal materials and assess their coherence, rather than to measure corporate behavior through a statistical sample. The materials comprise legislation and OJK regulations, ACGS publications, institutional guidance, and relevant academic literature, collected through library research. ^[15]

The materials are analyzed qualitatively by identifying the purpose and scope of each instrument, distinguishing binding requirements from voluntary assessment criteria,

and comparing their treatment of governance and disclosure. This approach is used to examine regulatory alignment, the legal significance of noncompliance, and the practical adjustments associated with higher governance standards. The discussion of implementation difficulties is based on documentary materials; it does not claim to establish their prevalence through original interviews or a representative survey of companies.

Results and discussion

1. Aligning OJK regulations with the ACGS

The ACGS and OJK regulations share an interest in improving corporate governance, but their purposes and methods differ. OJK regulations establish enforceable requirements within the Indonesian legal system. The ACGS evaluates governance practices against a regional benchmark, including practices that may exceed domestic legal minima. Alignment consequently requires attention to both substance and legal form. Treating the scorecard as if it were another binding regulation would obscure the different consequences attached to the two instruments. ^[6–8]

A principles-based approach offers a way to address this distinction. OJK can strengthen the domestic expression of transparency, accountability, responsibility, independence, and fairness without incorporating every assessment indicator verbatim. On this reading, harmonization is a gradual process of translating common governance objectives into rules suited to Indonesia's corporate structure and capital-market conditions. The relevant question is whether domestic arrangements advance those objectives effectively, while making clear which practices are legally required and which represent additional improvements. ^[1, 3, 6]

OJK Regulation No. 15/POJK.04/2020 on the planning and conduct of general meetings of shareholders and OJK Regulation No. 16/POJK.04/2020 on electronic general meetings illustrate areas of substantive alignment. Both concern the arrangements through which shareholders exercise their rights. Their subject matter is consistent with the ACGS emphasis on shareholder participation and accountable corporate decision-making. This correspondence supports an interpretation of convergence in governance objectives; it does not, without further evidence, establish that each domestic provision was adopted directly from a particular scorecard indicator. ^[6, 16, 17]

Nor should the scorecard be assumed to impose a higher standard in every respect. Domestic requirements may be more specific, or may operate through a different procedural timetable. Annual reporting, for example, must be assessed by reference to the applicable OJK rules and their relationship with shareholder meetings. A meaningful comparison must therefore identify the relevant provision and scorecard edition before deciding whether one requirement is more demanding than another. Broad comparisons between a reporting deadline and a meeting-related disclosure obligation can otherwise be misleading. ^[6, 18]

These differences explain why alignment cannot be reduced to the wholesale adoption of ACGS indicators. Some governance obligations already exist in national law, while others require adaptation to domestic institutions. A practical approach is to identify areas of equivalence, additional regional expectations, and genuine uncertainty in implementation. Guidance organized around those

distinctions would help companies understand how compliance with Indonesian regulation relates to their scorecard performance.

2. Supporting governance improvements and foreign investor confidence

OJK's role in developing orderly and credible capital markets is consistent with ACMF's aim of improving the visibility of well-governed ASEAN companies. For foreign investors, comparable and reliable disclosures can help clarify how a company is controlled, how decisions are supervised, and how shareholder interests are protected. Governance improvements can therefore support investor assessment. They should not, however, be presented as proof of increased foreign investment without evidence measuring that effect. ^[5, 6, 9, 10]

An essential part of this effort is the development and implementation of clear domestic rules. OJK regulations establish obligations, while relevant circular letters provide implementation guidance within the regulatory framework. Effective supervision also requires attention to the quality of disclosure. Information should be timely, relevant, accurate, and sufficiently detailed to explain the company's position. A formally complete report may still be of limited use if it relies on generic statements that do not describe actual governance practices. ^[18, 21]

The applicable instruments address several distinct reporting responsibilities. OJK Regulation No. 29/POJK.04/2016 concerns annual reports; OJK Regulation No. 14/POJK.04/2022 concerns periodic financial statements; and OJK Regulation No. 51/POJK.03/2017 addresses sustainable finance, including sustainability-related reporting within its scope. OJK Regulation No. 31/POJK.04/2015 separately governs the disclosure of material information or facts. These obligations should be read together where applicable, while preserving their different purposes and reporting requirements. ^[18, 21]

Research on sustainability disclosures in the fisheries sector during 2022–2024 also points to the need to examine the substance of reporting rather than its formal existence alone. Such sector-specific findings can illustrate implementation concerns, but cannot establish the number of noncompliant public companies across the entire Indonesian market. Improving disclosure therefore requires both enforcement of applicable rules and practical assistance to help companies explain their governance and sustainability practices meaningfully. ^[22]

Cooperation with market institutions can complement regulatory measures. The Indonesia Stock Exchange has a role in supervising listed companies and supporting orderly market activity. Domestic assessment bodies and governance advisers can also help explain scorecard requirements and identify weaknesses in publicly available disclosures. Assessment feedback is useful when it shows which practices need improvement and what evidence is required, rather than encouraging companies simply to reproduce the wording of an indicator. The mandates of individual assessment providers should be identified by reference to the relevant assessment period. ^[6, 14]

The Indonesian General Guidelines for Corporate Governance, or *Pedoman Umum Governansi Korporat Indonesia* (PUGKI), issued by the National Committee on Governance Policy (KNKG), provide a further source of guidance. They can complement binding regulation by

articulating governance practices that address the interests of shareholders and other stakeholders. Coordination between regulatory requirements, national guidance, and regional assessment criteria would make the overall framework easier to apply. Its value lies in helping companies implement sound practices within their own organizational circumstances. ^[3, 23]

3. Legal implications of not meeting ACGS criteria

The ACGS emerged from ACMF's regional governance initiative in 2011. Its function is to assess and encourage good governance, rather than to impose an independent system of statutory penalties on Indonesian companies. Accordingly, failure to meet a scorecard criterion does not, by itself, create a sanction under Indonesian law. The legal inquiry must instead identify whether the conduct in question breaches an applicable statute, OJK regulation, or other binding requirement. ^[6–8]

This distinction is especially important where disclosure is concerned. Although a company may choose whether to adopt a practice that exceeds the legal minimum, it does not have unrestricted discretion to withhold information that domestic law requires it to disclose. The voluntary character of the scorecard therefore cannot be used to qualify or displace mandatory reporting obligations. Where an ACGS criterion overlaps with a binding requirement, a failure may have both an assessment consequence and a separate regulatory consequence. ^[18, 21]

Similarly, the absence of a scorecard-specific sanction should not be equated with an absence of commercial consequences. A weak assessment may affect how investors perceive a company's governance or the credibility of its disclosures. Such consequences are different from a statutory penalty, and their magnitude requires empirical investigation. The legal distinction remains that any sanction must derive from the relevant binding instrument, rather than from the scorecard alone. ^[9, 10]

4. Differences in thresholds and board structures

Differences between regional assessment criteria and domestic requirements create implementation challenges even where both can be satisfied at the same time. Board independence provides an example. Article 20 of OJK Regulation No. 33/POJK.04/2014 requires at least one independent commissioner where the board of commissioners consists of two members. Where it consists of more than two members, independent commissioners must account for at least 30 percent of the total membership. This is a domestic minimum and must be distinguished from any higher independence benchmark used in the relevant ACGS edition. ^[24]

A company meeting the domestic minimum may consequently need to adjust its board composition to improve its regional assessment. Such an adjustment can involve identifying qualified candidates, securing shareholder approval, and reorganizing board or committee responsibilities. The difference between a minimum requirement and a higher assessment threshold is therefore better understood as an additional governance expectation than as an automatic inconsistency between two binding rules. Comparisons must also take account of changes between scorecard editions. ^[6, 24, 25]

Terminology presents another difficulty. Indonesia uses a two-tier structure in which the board of directors manages

the company and the board of commissioners performs supervisory and advisory functions. The English term “board” in a regional assessment cannot be translated mechanically into either organ in every context. The relevant indicator must be interpreted according to the function being assessed and the explanatory guidance accompanying it. The existence of board terminology does not, on its own, establish that the ACGS requires all participating jurisdictions to adopt a one-tier system.^[3, 24]

Companies therefore need to map governance responsibilities carefully. An indicator concerning executive management may relate principally to the directors, whereas one concerning independent oversight may relate to the commissioners. Some indicators require evidence involving both organs. Clear guidance on these distinctions would reduce interpretive uncertainty and help companies provide disclosures that accurately reflect the Indonesian distribution of corporate authority.

5. Adjustment costs and company circumstances

Meeting higher governance expectations requires resources. Companies may need to revise internal policies, improve reporting systems, train personnel, obtain professional advice, or undertake corporate procedures to change board arrangements. These adjustments involve financial expenditure and management time. The cost of implementation can also depend on the company’s existing governance capacity: a company with established reporting and oversight systems may face different needs from one still developing those arrangements.

Differences in ownership, size, sector, and organizational structure can further shape implementation. A uniform benchmark facilitates comparison, but companies do not begin from identical positions. Guidance should therefore explain the evidence needed to demonstrate a practice while allowing companies to describe how that practice operates in their particular setting. This would preserve the purpose of common assessment without assuming that all companies can use the same internal process.^[3, 6]

Remuneration disclosure illustrates the tension between transparency and perceived commercial sensitivity. Companies may have concerns about publishing detailed compensation information, although the extent of required disclosure depends on the applicable rules and assessment criteria. These concerns do not justify disregarding a binding obligation. Instead, companies must distinguish legally required disclosures from additional information sought by a governance benchmark and assess how to present the relevant information clearly and accurately.^[3, 18]

Taken together, these challenges suggest that enforcement and capacity building serve different but complementary purposes. Enforcement addresses breaches of mandatory requirements. Guidance, training, and assessment feedback can support improvements beyond those requirements. A coherent approach needs both, with a clear explanation of their respective roles. Further empirical work would be needed to establish which adjustment costs are most significant and how they affect companies of different sizes and ownership structures.

Conclusion

Alignment between OJK regulations and the ACGS requires a clear understanding of their different legal functions. OJK regulations establish enforceable domestic obligations, while the scorecard provides a regional framework for

assessing governance practices. Their shared principles support gradual convergence through disclosure rules, shareholder participation mechanisms, and guidance adapted to Indonesian corporate institutions. Cooperation among the regulator, market institutions, and governance bodies can help companies improve the quality of information available to foreign investors. The analysis supports these measures as ways to strengthen governance; it does not establish a measured increase in investment resulting from them.

Failure to satisfy an ACGS indicator does not independently attract a statutory sanction, but the same conduct may have legal consequences where it also violates a binding requirement. Companies must therefore distinguish minimum legal compliance from additional governance expectations. Their implementation challenges include differences in assessment thresholds, the interpretation of board responsibilities within a two-tier system, and the financial, personnel, and time costs of adjustment. Clear guidance and targeted capacity building would help address these difficulties. As a doctrinal study, this article explains the relationship between the frameworks but cannot quantify implementation costs or investor responses. Future research could examine company-level disclosures and interview regulators, assessors, and corporate officers to evaluate how the identified challenges arise in practice.

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