

Deviations in the Initial Public Offering (IPO) Process as the Root of Stock Price Manipulation: A Case Study of Issuers in Indonesia for the 2020–2025 Period

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Abstract: This study analyzes deviations in the Initial Public Offering (IPO) process as the root of stock price manipulation among issuers in Indonesia for the 2020-2025 period. Using a qualitative approach with a multiple case study method, this research examines three issuers sanctioned by the Financial Services Authority (OJK): PT Berkah Beton Sadaya Tbk (BEBS), PT Repower Asia Indonesia Tbk (REAL), and PT Multi Makmur Lemindo Tbk (PIPA). Data were collected through in-depth interviews with 12 informants consisting of former OJK/Indonesia Stock Exchange (IDX) officials, capital market practitioners, academics, investigative journalists, and legal practitioners, as well as document analysis of prospectuses, financial statements, and OJK documents. The results identify four forms of IPO deviations: manipulation of material fact information, share allotment engineering, due diligence procedure violations, and discrepancies in the use of IPO funds. The BEBS case demonstrates how IPO deviations create structural conditions that facilitate pump-and-dump schemes through 57 nominee accounts, generating manipulative profits of IDR 14.5 trillion. This study identifies five factors causing weak detection and prevention: regulatory factors, law enforcement, corporate governance, market structure, and economic incentives. These findings confirm the OJK's statement that the root of stock price manipulation originates from deviations in the IPO process and emphasize the need for stronger supervision and enforcement.

Keywords: *IPO, Stock Price Manipulation, Pump-and-Dump, Capital Market Governance, Law Enforcement*

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INTRODUCTION

The Indonesian capital market has experienced significant growth over the last decade, marked by an increase in the number of companies conducting Initial Public Offerings (IPOs) and a surge in the number of retail investors. According to data from the Financial Services Authority (OJK), the number of Single Investor Identifications (SIDs) reached approximately 13 million by mid-2025, a drastic increase from 9.5 million in 2022, with retail investors contributing 50 to 60 percent of total daily transactions (Otoritas Jasa Keuangan, 2025). This phenomenon reflects the democratization of share



ownership while simultaneously increasing market vulnerability to manipulative practices that harm public investors.

The IPO is a crucial stage in a company's life cycle, where its shares are offered to the public for the first time. This process not only functions as a fundraising mechanism but also serves as the moment for initial price setting, which will become a reference for trading in the secondary market. In a theoretical perspective, an IPO should ideally reflect the company's fundamental value based on symmetrical information between the issuer, underwriter, and investors. However, empirical reality shows that the Indonesian IPO market is colored by various anomalies indicating structural deviations. (Ekadjaja et al., 2023; Heriyanto et al., 2023).

In recent years, the OJK has revealed that a primary root of stock price manipulation practices, popularly known as "stock frying", originates from deviations in the IPO process (Otoritas Jasa Keuangan, 2025). This statement is not without evidence. In February 2025, the OJK imposed administrative sanctions on PT Repower Asia Indonesia Tbk (REAL) and PT Multi Makmur Lemindo Tbk (PIPA) for violations during their IPO processes. The REAL case involved PT UOB Kay Hian Sekuritas, which failed to adequately perform customer due diligence (CDD) procedures on eight referral client investors who turned out to be employees of the issuer—a strong indication of engineered share allotment.

This phenomenon of IPO manipulation occurs amidst increasing global attention to the governance of the Indonesian capital market. MSCI warned that Indonesia risks being downgraded from an emerging market to a frontier market due to market opacity suspected of facilitating price manipulation (Tempo, 2024). This warning has prompted the government and capital market authorities to undertake a series of reforms, including increasing the minimum free float from 7.5 percent to 15 percent. (Emitennews.com, 2025; Mirae Asset Sekuritas, 2025).

Academic research also provides important perspectives on IPO dynamics in found that fundamental company characteristics such as profitability, capital structure, and company age have no significant association with the level of underpricing in 123 IPO companies for the 2021-2023 period. This finding challenges conventional signaling and certification theories, indicating that IPO pricing in Indonesia is more influenced by market factors and investor sentiment. In line with this, Fariskya and Sari (2024) also reported that return on assets (ROA) and debt to equity ratio (DER) have no significant effect on initial returns.

Legal literature highlights structural weaknesses in the go-public process. Adhi et al. (2025) identified that the public offering stage has loopholes that allow for insider trading and market manipulation. Weak law enforcement against these practices exacerbates market integrity. Rasji (2025) analyzed the legal evidentiary aspects in Indonesian capital market manipulation cases and highlighted challenges in proving elements of intent and causal relationships. Abrams (2026) analyzed how low public float and concentrated insider ownership create structural vulnerabilities enabling pump-and-dump schemes, directly supporting the argument that IPO structural conditions enable manipulation. Abd. Sukor et al. (2025) examined pump-and-dump schemes in South Asian emerging markets using SADF and GSADF tests, finding that information asymmetry and weak regulatory oversight create fertile ground for manipulation.

From the researcher's perspective, this phenomenon raises fundamental questions: Why can deviations in the IPO process become the root of stock price manipulation? How do these deviations occur? Why has detection and law enforcement failed to prevent

them? Existing literature tends to separate studies on IPOs—dominated by financial and accounting approaches—from studies on market manipulation, which are more frequently discussed in legal literature. There is a significant conceptual gap in explaining how distortions at the earliest stage of a stock's life cycle can become the foundation for long-term price manipulation schemes. (Purwanto, 2014).

This study aims to: (1) identify and classify the forms of deviations in the IPO process occurring among issuers in Indonesia based on OJK findings for the 2020-2025 period; (2) analyze why deviations in the IPO process act as the root of stock price manipulation practices; (3) explain the transmission mechanism of IPO deviations to stock price manipulation patterns in the secondary market; and (4) analyze the institutional and regulatory factors causing weak detection and prevention of IPO deviations.

The novelty of this research lies in its effort to integrate financial, legal, and governance perspectives into a single, coherent analytical framework, as well as using the latest empirical evidence from cases uncovered by the OJK in 2025-2025 to build a typology of IPO deviations and their transmission mechanisms to price manipulation in the secondary market.

RESEARCH METHODS

This study employs a qualitative approach with a multiple case study method (Yin, 2018). The qualitative approach was chosen because the research aims to deeply understand the phenomenon of IPO process deviations as the root of stock price manipulation, which involves complex interactions among actors, institutional dynamics, and covert practices that cannot be adequately revealed through a quantitative approach.

The cases analyzed include three issuers sanctioned by the OJK: PT Berkah Beton Sadaya Tbk (BEBS), PT Repower Asia Indonesia Tbk (REAL), and PT Multi Makmur Lemindo Tbk (PIPA). Case selection was based on the following criteria: (1) IPO deviation cases uncovered by the OJK in the 2020-2025 period; (2) availability of public documents; (3) case significance; and (4) variation in characteristics. BEBS was selected as the main case due to the most complete documentation and the largest scale of impact, while REAL and PIPA serve as comparison cases.

Data collection was conducted through two main methods. First, in-depth interviews with 12 informants selected purposively, consisting of former OJK/IDX officials (2 persons), capital market practitioners (3 persons), academics researching IPOs and market manipulation (2 persons), investigative journalists (2 persons), and legal practitioners handling capital market manipulation cases (3 persons). Second, document analysis including IPO prospectuses, annual financial reports, OJK press releases and reports, court decisions, OJK and IDX regulations, and verified media coverage.

Data validity was tested through four trustworthiness criteria (Lincoln & Guba, 1985): credibility (source triangulation, method triangulation, member checking, and peer debriefing), transferability (providing thick description), dependability (compiling an audit trail), and confirmability (compiling a reflexivity journal). Data analysis used the interactive model by Miles, Huberman, and Saldaña (2020) consisting of three concurrent flows of activity: data condensation, data display, and conclusion drawing/verification.

RESULTS AND DISCUSSION

Overview of Cases

PT Berkah Beton Sadaya Tbk (BEBS) conducted its IPO on March 10, 2021, offering 2 billion shares at IDR 100 per share, obtaining IPO funds of IDR 200 billion. PT Mirae Asset Sekuritas Indonesia (MASI) acted as the underwriter. Post-IPO, BEBS's share price soared to IDR 7,450 per share, an increase of approximately 7,150 percent from the IPO price. The OJK and Police revealed that this increase was driven by fictitious transactions involving 7 corporate entities and 58 individual nominee entities, with total frozen profits reaching IDR 14.5 trillion.

PT Repower Asia Indonesia Tbk (REAL) and PT Multi Makmur Lemindo Tbk (PIPA) were subjected to administrative sanctions by the OJK. In the REAL case, the OJK found violations of CDD procedures by PT UOB Kay Hian Sekuritas concerning eight referral client investors who turned out to be employees of the issuer. The share subscription funds for these eight investors originated from UOB Kay Hian Credit Pte. Ltd., indicating engineered share allotment (DealStreetAsia, 2025). In the PIPA case, the OJK found the recognition of assets originating from the use of IPO proceeds in the 2023 Annual Financial Report that were not supported by adequate transaction evidence.

Forms of IPO Process Deviations

Analysis of the three main cases identified four forms of deviations in the IPO process, summarized in Table 1.

Table 1. Forms of Deviations in the Initial Public Offering (IPO) Process Across Cases (BEBS, REAL, and PIPA)

Form of Deviation	BEBS	REAL	PIPA
Manipulation of Material Fact Information	✓ (affiliates not reported)	-	✓ (fictitious assets)
Share Allotment Engineering	✓ (alleged)	✓ (employees as recipients)	-
Due Diligence Procedure Violations		✓ (inadequate CDD)	✓ (negligent auditor)
Discrepancy in Use of IPO Funds		✓ (material transaction w/o procedure)	✓ (material Transaction w/o procedure)

Source: Processed research data (2025).

Manipulation of Material Fact Information

Information manipulation occurs both at the prospectus stage and in post-IPO reporting. In the PIPA case, the OJK found the recognition of assets originating from the use of IPO proceeds in the 2023 Annual Financial Report that were not supported by adequate transaction evidence.

The OJK explained that in the PIPA case, it was found that the recorded assets lacked valid transaction evidence. This indicates that IPO funds were not used as planned, and the company attempted to conceal this with fictitious financial statements. The European Court of Auditors (2020) defines related party transactions as "transfers of resources or obligations between related parties, regardless of whether a price is charged," and emphasizes auditor responsibilities under ISA 550 to identify risks of material misstatement from such transactions.

Similarly, the BEBS case indicates alleged manipulation of material fact information regarding the non-reporting of affiliated parties receiving fixed allotments during the IPO process. This manipulation is strategic because it creates the illusion that shares were placed with independent investors, when in fact they were concentrated within the perpetrator's network.

Share Allotment Engineering

The REAL case provides the clearest evidence of share allotment engineering. The OJK found that PT UOB Kay Hian Sekuritas did not fulfill CDD procedures for eight referral client investors who turned out to be employees of PT Repower Asia Indonesia Tbk (REAL). This violation led to OJK suspending UOB Kay Hian Sekuritas' underwriting license for one year and imposing an IDR 250 million fine (DealStreetAsia, 2025).

A securities practitioner stated that the practice of fixed allotment to affiliated parties has actually been occurring for a long time. Typically, securities firms are asked to allocate shares to specific individuals who are actually nominees of the company owner. But when employees themselves become allotment recipients, that is a very fatal CDD negligence. FINRA (2022) has identified nominee accounts as a core mechanism for ramp-and-dump schemes, with red flags including accounts opened for foreign nationals, contradictions between trading activity and customer profiles, and indicators of centralized control. FINRA Rule 5131 specifically governs new issue allocations and distributions to prevent improper allotment practices.

Due Diligence Procedure Violations

Due diligence procedure violations occur at the level of underwriters and supporting professions. In the PIPA case, the auditor of the 2023 annual financial report was sanctioned with a two-year license suspension for failing to apply professional audit standards adequately. This is interpreted as evidence of weak due diligence, indicating that the incentive to obtain fees is greater than compliance with professional standards. This is a structural problem because underwriters and auditors are selected and paid by the issuer, creating an inherent conflict of interest.

FINRA (2022) emphasizes that underwriters serve as "gatekeepers to the public markets" with due diligence defense obligations under Sections 11 and 12 of the Securities Act of 1933. Underwriters must exercise "reasonable investigation" to verify registration statement accuracy and face potential liability for failures. In a comparable international case, FINRA (2025) fined Goldman Sachs \$250,000 for failing to address a conflict of interest in a 2021 IPO where \$96 million (13.5% of proceeds) was used to repay a Goldman affiliate loan, violating qualified independent underwriter requirements.

Discrepancy in Use of IPO Funds

Discrepancies in the use of IPO funds were found in the REAL case (material transaction without procedure) and the PIPA case (asset recognition without proof). REAL used IPO funds to conduct land purchase transactions in Tangerang worth more than 20 percent of equity without complying with the provisions of the OJK Regulation on Material Transactions. Following investigation, it was found that many IPO companies' use of public offering proceeds is unclear. Some are placed in deposits, some are lent to affiliated parties, and some are used to buy non-productive assets. This indicates that the business plan in the prospectus is often just a formality. (Riadi & Mitha, 2019; Supatmi et al., 2021).

Supatmi et al. (2021) analyzed how abnormal related party transactions (RPTs) in Indonesian firms can tunnel value from public companies, directly supporting the findings on discrepancies in IPO fund usage in REAL and PIPA cases. Similarly, Riadi and Mita (2019) demonstrated how concentrated ownership structures enable tunneling activities. Podishetti (2025) documented similar patterns in India, where IPO proceeds were diverted and used to artificially support post-listing prices

IPO Deviations as the Root of Price Manipulation

The proposition that IPO deviations become the root of price manipulation is supported by the analysis of the causal mechanism in the BEBS case, which shows how distortions at the initial stage enable long-term manipulation schemes.

Creation of Concentrated Ownership Structure

The BEBS case revealed that IPO shares were controlled through an extensive nominee network. The OJK alleged fictitious transactions involving 7 corporate entities and 58 individual nominee entities executed by six operators under the control of a single suspect. With this nominee structure, shares that should have been dispersed to the public ended up concentrated within a specific group. This facilitates trading coordination as they can arrange when to buy and sell without worrying about independent parties interfering. This concentrated ownership structure is a prerequisite for a pump-and-dump scheme because it allows perpetrators to control the supply of shares in the market and create artificial demand through transactions among affiliated accounts.

Utilization of IPO Funds for Manipulation

In the BEBS case, the total profit obtained from the manipulation scheme reached IDR 14.5 trillion, far exceeding the IPO funds of IDR 200 billion. This indicates that IPO funds were not only used to finance the initial manipulation but also became the foundation for exponential profit accumulation through repeated trading.

A capital market analyst explained that with IDR 200 billion, they could start by buying shares in the market to raise the price. When the price rises, they could use those shares as collateral for loans, or sell some and use the proceeds to buy more at higher prices.

Formation of a Systematic Trading Network

The BEBS scandal revealed a syndicate involving three main parties: ASS as the beneficial owner of BEBS, MWK as the former Director of Investment Banking of PT MASI, and the corporation PT MASI itself. The involvement of a former investment banking director indicates that the manipulation scheme was designed by capital market professionals who understood trading mechanisms and regulatory loopholes.

Exploitation of Regulatory and Supervisory Loopholes

The BEBS manipulation scheme operated from 2021 to 2023, indicating that these practices could operate for a long time before detection. An OJK official acknowledged that their supervision is still reactive and report-based. Meanwhile, manipulation schemes are becoming more sophisticated, using technology and nominee networks that are difficult to trace. They need a new approach, including the use of technology to detect suspicious trading patterns in real-time. OJK has responded by imposing IDR 123.3 billion in administrative sanctions in 2025, issuing 10 new regulations, and conducting 216 technical inspections (Risalah, 2025).

Factors Contributing to Weak Detection and Prevention

The analysis identified five main factors causing weak detection and prevention of IPO deviations, summarized in Table 2.

Table 2. Key Factors Contributing to Weak Detection and Prevention of IPO Process Deviations in Indonesia

Factor	Manifestation in Cases	Impact
Regulatory	Loopholes in CDD implementation	Share allotment engineering undetected
Law Enforcement	Slow process, few final court decisions	Low deterrent effect
Corporate Governance	Weak internal oversight	Deviant practices facilitated
Market Structure	Dominance of speculative retail investors	Easy exit for manipulators
Economic Incentives	Skewed profit-risk ratio	Strong motivation for manipulation

Source: Processed research data (2025).

Regulatory Factor

Although the OJK has issued various regulations, loopholes remain that are exploited by perpetrators. In the REAL case, violations occurred in CDD procedures which were actually already regulated, but implementation was weak. The IDX responded by issuing new regulations on increasing the minimum free float and stricter governance requirements. As is known, regulations are already quite comprehensive. The problem lies in implementation and consistent enforcement. Rules without strict enforcement will only become displays.

Law Enforcement Factor

OJK data shows that from 2022 to January 2025, the OJK imposed fines totaling IDR 542.49 billion on 3,418 parties. Among these, 32 cases indicated alleged stock trading manipulation and remained under investigation. However, only five cases have obtained legally binding decisions. This results from slow and cumbersome capital market law enforcement. Proving such cases is difficult because intent and causal relationships must be demonstrated. Sanctions are also insufficiently deterrent. Compare the IDR 14.5 trillion profit in the BEBS case with the maximum potential fine. This is a disproportionate economic incentive (DealStreetAsia, 2025; Kim, 2025). Rasji (2025) analyzed the legal evidentiary challenges in Indonesian capital market manipulation cases, highlighting difficulties in proving elements of intent and causal relationships. The Asia Business Daily (2026) documented similar enforcement challenges in South Korea, where prosecution investigations into stock price manipulation face obstacles including leaked investigation secrets and cross-jurisdictional coordination issues.

Corporate Governance Factor

Weak internal governance of issuers and underwriters is a significant factor. In the PIPA case, the board of directors was collectively responsible for the misstatement of financial reports. The REAL case shows that issuer employees could become share allotment recipients undetected by securities firm management. This results from business pressure overriding governance principles. To obtain IPO mandates, securities

firms tend to 'indulge' issuers, including by facilitating requests that actually violate regulations. This culture is deeply rooted.

Supatmi et al. (2021) found that abnormal related party transactions in Indonesian firms are often facilitated by weak corporate governance mechanisms, allowing tunneling of value from public companies. The European Court of Auditors (2020) emphasized that auditors have responsibilities under ISA 550 to identify, assess, and respond to risks of material misstatement from related party transactions, including those with abnormal terms or lacking logical business reasons

Market Structure Factor

The significant increase in the number of retail investors, reaching approximately 13 million SIDs in 2025 with limited financial literacy, creates conditions that facilitate manipulation. The herding and speculative behavior of retail investors is exploited by perpetrators to exit at high prices. A capital market analyst noted that when a stock price keeps rising, retail investors tend to buy for fear of missing out (FOMO). They do not conduct fundamental analysis, only follow the trend. This is what perpetrators use to sell their shares at peak prices.

Economic Incentives Factor

The ratio of profit to sanction risk is highly skewed. The BEBS case shows a potential profit of IDR 14.5 trillion, while the risk of sanctions is relatively small compared to the potential profit. This becomes a loophole to be exploited. Since the violation reward is much greater than the risk, a solution is needed to make the risk of detection and sanctions higher, not only in terms of nominal fines but also in terms of certainty of imprisonment and license revocation. Kim (2025) documented how the skewed profit-risk ratio in IPO-related violations creates strong economic incentives for manipulation, with underwriter conflicts of interest remaining largely unaddressed by current regulatory frameworks.

Discussion

The finding regarding the weak association of fundamental characteristics with underpricing gains an explanation through this study's findings. If the IPO process has been distorted from the start through information manipulation, share allotment engineering, and due diligence violations, then the IPO price no longer reflects fundamental signals but rather the artificial construction by perpetrators. This explains why conventional signaling theory fails to explain the underpricing phenomenon in Indonesia. (Ekadjaja et al., 2023; Heriyanto et al., 2023).

The findings of Ambarwati et al. (2020) regarding the existence of pump-and-dump and flipping patterns in the early trading of IPO shares are strengthened by empirical evidence from the BEBS case. The 7,150 percent price surge, inexplicable by company fundamentals, confirms that pump-and-dump patterns occur not only in regular trading but also for IPO shares.

The concept of "bad IPO firms" developed by Purwanto (2014)—companies that deliberately manipulate to create false signals, then manage post-IPO trading using internal funds—receives empirical validation from the BEBS case. With IPO funds of IDR 200 billion, perpetrators were able to generate IDR 14.5 trillion in profits through repeated trading, meaning IPO funds can become "fuel" for long-term manipulation schemes.

Furthermore, the primary root of price manipulation practices lies in deviations within the IPO process. The implication is that manipulation prevention efforts must

begin with strengthening IPO process integrity, not merely secondary market supervision. Therefore, the OJK and IDX's reforms—increasing the minimum free float to 15 percent and strengthening information disclosure (Emitennews.com, 2025; Mirae Asset Sekuritas, 2025)—are appropriate steps. However, their effectiveness depends on consistent enforcement. The BEBS case also demonstrates the importance of applying corporate liability to securities firms involved in manipulation. PT MASI was allegedly involved not only through individual employees but also as a corporation. This approach is important to create deterrent effects and encourage governance improvements at the institutional level. FINRA (2022, 2025) has consistently applied corporate liability principles in IPO violation cases, including the Goldman Sachs \$250,000 fine for failing to address conflict of interest and qualified independent underwriter violations.

CONCLUSION AND RECOMMENDATIONS

This research yields four main conclusions. First, the forms of deviations in the IPO process in Indonesia encompass four categories: manipulation of material fact information (BEBS and PIPA), share allotment engineering (REAL and alleged BEBS), due diligence procedure violations (REAL and PIPA), and discrepancies in the use of IPO funds (REAL and PIPA). These findings confirm the OJK's statement that the root of stock price manipulation practices originates from deviations in the IPO process.

Second, deviations in the IPO process are proven to be the root of stock price manipulation because they create structural conditions that enable and facilitate manipulation schemes in the secondary market. The BEBS case demonstrates how allotment engineering through 58 nominee entities created a concentrated ownership structure, IDR 200 billion in IPO funds became initial capital generating IDR 14.5 trillion in manipulative profits, and the involvement of a syndicate consisting of the beneficial owner, a former investment banking director, and a securities corporation.

Third, the transmission mechanism from IPO deviations to price manipulation occurs through four pathways: creation of a concentrated ownership structure, provision of IPO funds for manipulative trading, formation of an organized trading network, and exploitation of retail investor behavior through pump-and-dump schemes.

Finally, the weak detection and prevention of IPO deviations is caused by five interrelated factors: regulation (implementation loopholes), law enforcement (slow process and few final court decisions), corporate governance (weak internal oversight), market structure (dominance of speculative retail investors), and economic incentives (skewed profit-risk ratio).

This study has several limitations, including limited access to primary data from direct perpetrators due to ongoing legal processes, incomplete documentation particularly in the REAL and PIPA cases, limited generalizability due to the case study approach, and temporal constraints as the phenomenon under study continues to evolve.

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