



JAM

Journal of Accounting and Management

Volume 1 Issue 2, 2024 (23-30)

ISSN (*online*) : 3048-345X

Homepage : <https://jurnalunived.com/index.php/JAM>

Doi : <https://doi.org/10.37676/jam.v1i2>

Financial Instruments In The Capital Market

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Received [18-April-2024]

Revised [08-Agustus-2024]

Accepted [20-Agustus-2024]

Abstract. Capital market instruments are traded in the form of securities that can be bought and sold by their owners, either ownership or debt capital market instruments. Ownership capital market instruments are realized in the form of shares, while debt instruments are realized in the form of bonds. There are 5 types of capital market instruments such as: stocks, bonds, mutual funds, warrants and rights.

Keywords: *Capital Market Instruments*

INTRODUCTION

The existence of various products or instruments in the capital market is an option for investors to transact in the capital market. With these choices, it will make it easier for investors to invest. Stock investment that has a large return and risk is so attractive to investors who have aggressiveness in trading in the capital market.

For transactions that are safe enough with prospectus returns are very attractive to bond investors. As for transactions that have a small nominal, quite safe, and do not require too detailed knowledge of the capital market are also very popular with mutual fund investors. In addition to the things mentioned above there are still several instruments offered by the capital market. Among them are derivatives, rights, and warrants that can be used as alternative investments by capital owners.

LITERATURE REVIEW

Definition Of Capital Market Instruments

Capital market instruments are the buying and selling of securities on the stock exchange. The capital market is like a market as a meeting place for sellers and buyers where sellers are people looking for funds, while buyers are investors. So that through the capital market, investors as owners of funds will be connected with parties or companies that need capital. Then they trade capital market instruments.

Definition Of Islamic Capital Market Instruments

Islamic capital market instruments are trading securities or securities in the capital market with a sharia system or according to Islamic principles. In its transactions, this instrument seeks to avoid usury.

METHODS

The research method used in the article may also involve a comprehensive literature review related to the theory and practice of capital markets and the financial instruments involved. This literature review may include sources such as textbooks, journal articles, industry reports, as well as publications from financial institutions and capital market regulators. By combining descriptive analysis with an in-depth literature review, such research can provide a better understanding of the role, function, and dynamics of financial instruments in influencing capital market performance and overall economic growth.

RESULTS AND DISCUSSION

Capital Market Functions

- Capital market as a means of increasing capital for businesses

Companies can obtain funds by selling shares to the capital market. These shares will be purchased by the general public, other companies, institutions, or by the government.

- Capital markets as a means of equalizing income

After a certain period of time, the shares that have been purchased will provide dividends (part of the company's profits) to the buyers (owners). Therefore, selling shares through the capital market can be considered as a means of equalizing income.

- Capital markets as a means of increasing production capacity

With additional capital obtained from the capital market, company productivity will increase.

- Capital markets as a means of creating employment

The existence of the capital market can encourage the emergence and development of other industries which have an impact on the creation of new jobs.

- Capital markets as a means of increasing state income

Every dividend distributed to shareholders will be taxed by the government. The additional income through this tax will increase state income.

- Capital market as an indicator of the country's economy

The increasing (solid) activity and volume of sales/purchases in the capital market indicates that the business activities of various companies are running well. Vice versa.

Benefits of capital market instruments. There are several reasons why investing in money market instruments is very important. Come see the benefits here:

- Funds obtained from the capital market can be used by companies to develop business.
- Investors earn profits.
- Investors can invest with capital that is not too large.
- Can be used as an allocation of funds by investors for future needs, such as pension funds, education funds, and so on.
- Increase sources of state income from taxes.
- Encourage the running of the economy.
- Having investors invest capital in the company helps entrepreneurs expand their business.
The bigger the company grows, the better the country's economic progress will be.
- Attract foreign investors into the country

Capital Market Investment Instruments

The capital market is also known as the stock exchange. In it, you can find various types of securities that are traded every day. These types of securities include:

A. Share

These are securities of an ownership nature. This means that the shareholder is the owner of the company. The greater the shares he owns, the greater his power in the company. The profits obtained from shares are known as dividends. Dividend distribution is determined at the General Meeting of Shareholders (GMS). For companies whose capital is obtained from shares, this is their own capital. In the capital structure, especially for companies in the form of limited liability companies (PT), the division of capital according to law consists of:

- Basic capital, namely the first capital once the company is founded.
- Issued capital, meaning capital that has been sold and is 25% of the authorized capital.
- Paid-up capital, is capital that has actually been paid in, namely 50% of the capital that has been placed.
- Shares in portfolio, namely capital that is still in the form of shares that have not been sold or authorized capital minus issued capital.

Shares are a certificate of ownership of a share of capital in a limited liability company (PT). The form of shares is a piece of paper which states that the owner of the paper is the owner of the company that issued the paper. Buying shares is no different from saving money. The reward that will be obtained by owning shares is its ability to provide unlimited profits. This infinity may mean that the profits from investing in ordinary shares are very large, but it depends on the development of the issuing company. If the publishing company is able to generate large profits then

There is a possibility that its shareholders will enjoy large profits too. Because these large profits provide large funds to be distributed to shareholders as dividends.

There are several types of shares in practice, which can be differentiated according to the method of transfer and the benefits obtained by the shareholders. According to the method of transfer, shares are divided into:

1. Bearer stock. The name of the owner is not written on the share certificate. With bearer share ownership, it is very easy for an owner to transfer or transfer it to another person because its properties are similar to money. Owners of bearer shares must be careful with carrying and storing them, because if the shares are lost, the owner cannot transfer them.
2. Shares in the name (registered stock) The name of the owner is written on the share certificate. The transition method is with a transition document and then the owner's name is recorded in the company book which specifically contains a list of shareholder names. If this certificate is lost, the owner can ask for a replacement. All companies that issue shares are named shares.

Types Of Shares

- 1) Types of shares based on their capitalization size.
- 2) Types of shares based on their fundamentals.
 - Top shares (blue chips)
 - Growth stocks
 - Cyclical stocks (cyclical stocks)
 - Defensive stocks (defensive stocks/countercyclical stocks)
 - Speculative stocks
 - Income stocks
 - Emerging growth stocks

- 3) Types of shares based on ownership
- 4) Types of shares based on claim rights
- 5) Other types of shares

Shareholder Benefits

- a. Dividends are profit distributions given by the company issuing the shares for the profits generated by the company. Dividends are given after obtaining approval from shareholders in the RES. If an investor wants to get dividends, then the investor must hold shares for a long period of time, namely until the share ownership is within the period where he is recognized as a shareholder who is entitled to receive dividends. Dividends are an attraction for stock investors with a long-term orientation.
- b. Capital gain, which is the difference between the selling price and the buying price. Capital gains are formed due to stock trading activities in the secondary market. For example, an investor buys BRI bank shares at a price per share of IDR 900, then some time later the investor sells his shares at a price of IDR 200.00, which means the investor gets a capital gain of IDR 300.00 for each share he sells. On the one hand, shares can provide benefits to their holders.

Mutual funds

A mutual fund is a certificate that explains that the owner entrusted money to the mutual fund manager to be used as investment capital. Each mutual fund prospectus will include targets at the time of offering. The mutual fund targets include:

1. Income
2. Growth and
3. Balance

Mutual funds are a form of collective investment, which allows investors who have similar investment objectives to pool their funds, so that they can be invested in a portfolio managed by an investment manager. In English, mutual funds are often referred to as unit trusts, mutual funds, or investment funds.

Based on Law no. 8 of 1995 concerning the Indonesian Capital Market, mutual funds are defined as a forum used to collect funds from the investing public to then be invested in a portfolio of securities (shares, bonds, foreign exchange, deposits) by investment managers. In other words, mutual funds are a collective investment vehicle to be placed in a portfolio based on the investment policy determined by the fund manager or investment manager. The definition of a portfolio itself is a collection of securities or securities or securities or investment instruments that are under one management.

Meanwhile, sharia mutual funds are mutual funds whose management and investment policies refer to Islamic law. Sharia mutual funds will not invest their funds in bonds from companies whose management or products are contrary to Islamic law, for example alcoholic beverage factories, pig farming industries, financial services that involve usury in their operations and entertainment businesses that have immoral smacks.

Mutual funds are an investment alternative for the investing community, especially small investors and investors who do not have the time and expertise to calculate the risks of their investments. Mutual funds allow small investors to participate in professionally managed investment portfolios.

Sharia mutual funds began to appear in Indonesia in 2000. At that time, sharia mutual funds were issued by PT Danareksa Investment Management (DIM). At that time, PT Danareksa Investment Management issued a mutual fund product based on sharia principles in the form of a mixed mutual fund called Danareksa Syariah Berimbang.

In terms of returns, sharia mutual funds are still smaller than conventional mutual funds, this is because the sharia mutual fund portfolio is still very limited. For example, you are not allowed to invest in the foreign exchange market except the spot market, you are not allowed to invest funds in business sectors that are not halal.

Debt Securities Or Bonds

It is a financial instrument that is quite attractive for investors in the capital market or for companies to obtain funds for company development. The tightening of loan procedures in banking institutions has caused companies that need funds for business expansion or to repay their money to start looking at bond instruments as an alternative for raising funds. Some of the reasons include that issuing bonds is easier and more flexible than carrying out loan procedures at a bank. Another definition of bonds is securities or retifikats which contain a contract between the loan buyer and the loan recipient. A bond letter is a piece of paper that states that the owner of the paper is providing a loan to the company that issued the bond. Bonds provide a fixed income, namely in the form of interest paid in a fixed amount at a predetermined time. The difficulty in determining bond income is caused by the difficulty of estimating interest rate developments. In fact, bond prices are very dependent on developments in interest rates. If bank interest rates show a tendency to increase, bond holders will suffer losses.

Exchange Traded Funds (ETFS)

These securities actually have similarities to mutual funds, both are collected collectively. However, EFT can be traded on the stock exchange like shares.

Derivatives

Furthermore, there are also securities in derivative form. These securities are known as derivatives of shares. There are 2 types of derivatives that you can find in the Indonesian capital market, namely warrants and rights.

1) Warrants

A warrant is the right to buy ordinary shares at a specified time and price. Usually warrants are sold together with other securities, for example bonds and shares. Benefits of buying a warrant:

- a. Buying a warrant is like saving, the difference is that a savings certificate cannot be sold, while a warrant can be bought and sold.
- b. By purchasing a bond package that includes a warrant, this means that investors will receive income from two sources, namely from bond interest and from ordinary share dividends. However, the price for warrant holders exercising their rights. Who will receive dividends. Holders of bonds accompanied by warrants are likely to benefit from capital gains

2) Right

Rights are the rights given to owners of common shares to purchase additional new shares. These rights are usually stated in the company's articles of association, with the aim of the old shareholder being able to maintain and control the company, as well as preventing the decline in the value of the old shareholder's wealth.

This rights mechanism is seen as more profitable than having to borrow from a bank because the funds obtained are cheaper, there are no additional costs, fees and other bank administration problems, because the funds are supplied by the shareholders themselves.

The rights mechanism is operational, where the right to buy shares at a certain price at a predetermined time is given to shareholders for a trading period of around 1-2 weeks. It is the investor's right to purchase new shares issued by the company, before the shares are offered to

other parties. If shareholders do not intend to exercise their rights, then evidence of these rights can be traded on the stock exchange.

There are two purposes for holding rights, namely:

- a. So that the old shareholders can maintain their control over the company
- b. To prevent a decrease in the value of the wealth of old share owners.

Types Of Islamic Capital Market Instruments

Apart from conventional capital market instruments, there are instruments traded on the sharia capital market, including:

1. Sharia shares

Sharia shares are shares that use sharia principles in their transactions. Companies that issue shares must operate in the business sector in accordance with Islamic law. Halal profit system through capital gains and dividends.

2. Capital gain is investment profit obtained from the difference in buying and selling prices. Meanwhile, dividends are a share of the company's profits. So profits from sharia shares do not contain elements of usury.

3. Sharia bonds

Sharia bonds are bonds that prioritize sharia principles in their trading. The profit sharing system for sharia bonds is determined by the profit sharing ratio or nisbah. Apart from that, companies that issue bonds must operate in businesses that do not oppose Islamic law.

4. Sharia mutual funds

Sharia mutual funds are mutual funds that use the principles of Islamic rules (syariah). In practice, there are many sharia contracts used. So that profits are obtained from the profit sharing system based on the contract used.

5. Sharia assets

Sharia assets are securities or securities issued by the EBA Sharia collective investment contract with a portfolio of financial assets. Financial assets consist of bills from commercial prices and buying and selling physical assets.

6. Sharia warrant

Sharia warrants are securities or securities issued by a company to express the right to buy shares at a certain price and period. The party who buys shares is a representative who is a member of the Sharia Securities Register (DES).

The capital market instruments that comply with sharia are:

1. Muqaradah/Mudharabah Funds These mudharabah funds are in the form of shares which provide investors with the opportunity to jointly finance or invest with a profit sharing and risk sharing agreement. Parties who join in this investment are usually bound by a syirkah (musyarakah) agreement if the business entity is in the form of a Limited Liability Company (fund owners can participate directly in managing the business). And if later another party wants to join, then he can take over (some of) the shares owned by the previous shareholder or buy new shares issued by the company. This mudharabah fund must be invested in accordance with sharia.
2. Common Stock: Ordinary shares of companies that do not carry out haram transactions are permitted by sharia in trading on the capital market because they are assessed in

accordance with the principle of justice, where the proportion of profits and losses is shared equally.

3. Muqaradah/Mudharabah Bonds (Muqaradah/Mudharabah Bonds) This type of bond is issued by a company for the purpose of financing certain projects or projects that are separate from the company's long-term activities. The system run by Muqaradah Bonds is almost the same as Mudharabah, namely profit-loss sharing.

Prohibited Capital Market Instruments

The types of capital market instruments that are clearly prohibited by sharia are as follows:

1. Preferred Stock (special shares) This type of stock is prohibited by sharia provisions because it has two main characteristics, namely:
 - a. The existence of fixed profits (pre-determinant revenue), according to scholars, this is categorized as usury.
 - b. Preferred share owners get special privileges, especially during liquidation.
2. Forward Contracts Forward contracts are prohibited because all forms of buying and selling debts (dayn bi dayn/debt formulation are considered buying and selling debts and receivables while the buying and selling transactions are carried out before the due date.
3. Option An option is a right, namely to buy and sell goods that are not accompanied by underlying assets or real assets. This option transaction is non-existent and is considered by scholars that this option contract (including futures) contains elements of gharar (fraud/speculation) and maysir (gambling).

CONCLUSION

Capital market instruments that are traded are in the form of securities that can be resold by their owners, whether the capital market instruments are ownership or debt. Ownership capital market instruments are realized in the form of shares, while debt ones are realized in the form of bonds. There are 5 types of capital market instruments, such as: shares, bonds, mutual funds, warrants and rights.

In the capital market instruments there are 2, namely: the capital market which is in accordance with sharia because it contains mudharabah funds in the form of shares which provide investors with the opportunity to jointly finance or invest with a profit sharing and risk sharing agreement. and the capital market is prohibited because there is a fixed profit (pre-determinant revenue), this according to the ulama is categorized as usury.

LIMITATION

The need for investment portfolio diversification. By understanding the different types of financial instruments available in the capital market, investors can reduce their portfolio risk by balancing the allocation between stocks, bonds, and other financial instruments. In addition, it is recommended that capital market regulators continue to improve market transparency, safety, and liquidity to encourage greater investor participation and strengthen overall capital market growth. Lastly, stakeholders are expected to continuously monitor new developments in financial instruments and adjust their investment strategies according to changing market conditions. By implementing these suggestions, it is expected to improve the efficiency and stability of the capital market and provide greater benefits to all stakeholders.

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