Comparative Regulation of Trading Participant Classes and Their Impact on Cryptocurrency Market Liquidity : A Study of Indonesia-Singapore

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Abstract

This research examines the influence of trading participant segmentation on cryptocurrency market liquidity and compares the regulatory frameworks of Indonesia and Singapore. In Indonesia, existing regulations do not specifically govern the classification of trading participants, resulting in the potential dominance of market makers over liquidity formation. Conversely, Singapore imposes stricter rules concerning transparency, order-book integrity, and market-maker supervision. The study concludes that Indonesia needs to strengthen its regulatory architecture to create a more liquid, fair, and investor-protective crypto market.

Keywords: liquidity, crypto assets, trading participants, market makers, regulation.

Introduction

Cryptocurrency trading represents a modern innovation in financial markets, employing blockchain-based systems and decentralization. However, the market structure is not entirely decentralized, as most transactions are conducted through centralized crypto exchanges. Within these exchanges, segmentation of trading participants emerges, including retail traders, institutional traders, market makers, and tier-based users (VIP levels). This segmentation is not merely administrative; it directly influences liquidity, volatility, and overall market integrity.

Indonesia is currently transitioning the supervision of cryptocurrency trading from the Commodity Futures Trading Regulatory Agency (Bappebti) to the Financial Services Authority (OJK). Existing regulations focus on asset legality, platform governance, minimum capital, risk mitigation, and consumer protection, but do not explicitly regulate trading participant segmentation or its effect on market liquidity (Bappebti Regulation No. 8 of 2021).

In contrast, Singapore—through the Monetary Authority of Singapore (MAS)—regulates digital asset trading more comprehensively under the Payment Services Act (PSA) and Digital

Payment Token Service Guidelines. These regulations emphasize market-maker transparency, conflict-of-interest prevention, and order-book integrity (MAS, Payment Services Act 2019; DPT Guidelines, 2020). Singapore ensures that differences in participant classes do not result in information asymmetry detrimental to retail investors.

Given the different regulatory approaches, a comparative analysis is essential to understand how trading-participant structures affect crypto market liquidity. Market liquidity reflects volume adequacy, narrow spreads, price stability, and minimal manipulation. If certain participant classes have excessive advantages, the market may become unbalanced or distorted through wash trading, spoofing, or pump-and-dump schemes.

This study aims to analyze how Indonesia and Singapore regulate trading-participant segmentation and assess its impact on crypto-market liquidity. It also provides recommendations for Indonesia to develop a more transparent, liquid, and equitable regulatory framework.

Methods

This study uses a qualitative comparative legal approach (yuridis-komparatif) to analyze how Indonesia and Singapore regulate trading-participant classes in cryptocurrency markets. The research applies a normative juridical method, relying on primary legal materials such as Bappebti Regulations No. 5 of 2019 and No. 8 of 2021, and Singapore’s Payment Services Act (2019) and Digital Payment Token Guidelines (2020–2021) issued by MAS.

Data were collected through document analysis and literature review of legal texts, policy documents, and scholarly works published between 2018 and 2024. The analysis was conducted through descriptive, comparative, and evaluative stages, focusing on differences in regulatory scope, transparency, and market integrity.This approach allows a clear understanding of how variations in regulatory frameworks influence market liquidity, fairness, and investor protection, while providing insights and recommendations for improving Indonesia’s crypto-asset governance under OJK supervision.

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Results and Discussion

Regulation of Trading Participant Classes in Indonesia

Regulation of cryptocurrency in Indonesia began with Bappebti Regulation No. 5 of 2019 and was reinforced with Regulation No. 8 of 2021. However, neither regulation specifies trading-participant segmentation based on category, capital size, or trading activity level.

Participant segmentation in Indonesia is primarily shaped by the business models of exchanges, including VIP tier structures that offer lower fees or higher leverage to high-volume users (commonly seen in exchanges such as Binance and Bybit). Although commercial in nature, these structures affect access to liquidity and may create inequality among market participants.

Large-volume actors such as whales and market makers can exert influence over order books and price discovery. Advantages such as lower fees, faster execution, and algorithmic trading tools create power imbalances between major players and retail investors.

Indonesia currently lacks rules regarding:

1. transparency of market-maker activity,
2. limits on order-book dominance,
3. obligations for liquidity provision,
4. fairness in order execution,
5. supervision of manipulative behavior by large actors.

This regulatory gap causes liquidity in Indonesian exchanges to be unstable and vulnerable to manipulation. Yet, market-integrity principles are fundamental to capital-market law (Zainal Asikin, 2018: 47).

The transition of crypto supervision from Bappebti to OJK under the Financial Sector Development and Strengthening Act (P2SK) offers an opportunity to enhance regulations on trading-participant structures.

Regulation of Trading Participants in Singapore

Singapore regulates digital-asset trading through the Payment Services Act (PSA) and the MAS Guidelines on Digital Payment Token (DPT) Services. These policies focus on transparency, anti-manipulation measures, and retail-investor protection.

MAS requires crypto-service providers to:

1. maintain order-book integrity,
2. prevent dominance of liquidity by a single participant,
3. implement transparency protocols for internal market makers,
4. prevent front-running, spoofing, and other price-manipulation practices,
5. provide fair access to market information for retail investors (MAS, 2021).

Market makers must implement governance mechanisms preventing liquidity distortion. “Fair dealing” is the governing principle: participant segmentation is allowed so long as it does not harm retail investors or undermine market integrity.

This framework enables Singapore to maintain a stable, transparent, and naturally liquid market.

Comparative Analysis: Indonesia vs. Singapore

1. Regulatory Approach

Indonesia emphasizes administrative requirements and licensing, while Singapore prioritizes behavioral regulation and market conduct. Singapore specifically regulates market-maker behavior, liquidity activity, and transparency; Indonesia does not.

2. Impact on Liquidity

Liquidity in Indonesian exchanges is often unstable and may depend heavily on the actions of large market participants. Without segmentation rules, liquidity can appear artificial.

Singapore maintains healthier liquidity because it enforces strict transparency and oversight of major actors.

3. Consumer Protection

Indonesia remains vulnerable to order-book manipulation and sharp price volatility due to insufficient behavioral regulation. Singapore provides stronger retail-investor protection through fairness and transparency standards.

Regulatory Recommendations for Indonesia

Indonesia should consider:

1. Legally defining trading-participant segmentation.
2. Regulating market-maker transparency and liquidity-activity reports.
3. Prohibiting manipulative practices such as wash trading, spoofing, and pump-and-dump.
4. Developing electronic order-book auditing systems.
5. Limiting dominance of large actors in low-liquidity assets.
6. Building consumer-protection mechanisms based on fairness and market integrity.

Conclusion

This study shows that trading-participant segmentation significantly influences cryptocurrency-market liquidity. Singapore's progressive approach produces more liquid, stable, and fair markets. Indonesia has substantial potential to strengthen its regulatory landscape through OJK by adopting Singapore's best practices to build a healthy and integrity-based digital-asset market.

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