THE EFFECTIVENESS OF HALT TRADING IN REDUCING MARKET TURMOIL: A STUDY EVENT ON COMPANIES GOING PUBLIC ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

A trading halt is a temporary suspension of stock trading due to a sharp decline in market indices or the emergence of events that could potentially disrupt market stability. This study investigates the effectiveness of trading halts on the Indonesia Stock Exchange (IDX) in calming market turmoil by analyzing market reactions through abnormal returns and trading volume activity (TVA) using the event study method. The sample comprises companies listed in the LQ45 Index between February and April 2025. The event window is five days before and after the halt announcement. Findings show significant differences in abnormal returns, with higher values before the trading halt, suggesting the policy failed to restore investor confidence. No significant differences were found in TVA. These results suggest that the trading halt policy in the Indonesian context has not been effective and indicate the need for improved communication and transparency to support investor sentiment.

Keywords: abnormal return, trading volume activity, trading halt

INTRODUCTION

On March 18, 2025, the Indonesia Composite Index experienced a sharp decline for the first time after the last one occurred in 2020 due to the Covid-19 pandemic and the IDX trading halt 7 times. The decline in the JCI on March 18, 2025, which reached 5%, made the Indonesia Stock Exchange (IDX) temporarily freeze (Trading halt) stock trading (Amar & Adhi, 2025). Trading halt is a temporary suspension of stock trading activities on the stock exchange due to a decrease in the index within a certain limit or the presence of special events that have the potential to disrupt the market (Romys Binekasri, 2025). Technically, the enactment of trading halt made on all transactions across the trading board will be paused for the duration set by the IDX. However, the trading system still stores all open orders that have not been executed. Investors can still withdraw, change the price, or cancel orders that have been placed, even if the transaction has not yet taken place (Khaeron, 2025).

In Indonesia, the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) have established rules regarding Trading Halt based on the Order of the Head of the Capital Market Supervision Department 2A OJK Number S-274/PM.21/2020. This policy aims to prevent a drastic decline in the stock price and give investors time to analyze the situation before making further transactions. In addition, Trading Halt gives time to issuers in conveying information disclosure and protecting investors from hasty decision-making, such as triggering panic selling. Halt trading also serves as a way to prevent market manipulation practices.

On the other hand, another challenge arises when trading reopens. Market reactions that were delayed during the Trading Halt period can lead to a spike in volatility that is actually higher than before due to unchanneled accumulation and expectations. This is evident as soon as the stock market reopens after the Trading Halt there has been a sharp decline in the JCI at 6% and plummeted by more than 7%. The decline in the JCI on March 18, 2025 can be depicted in the Figure 1.

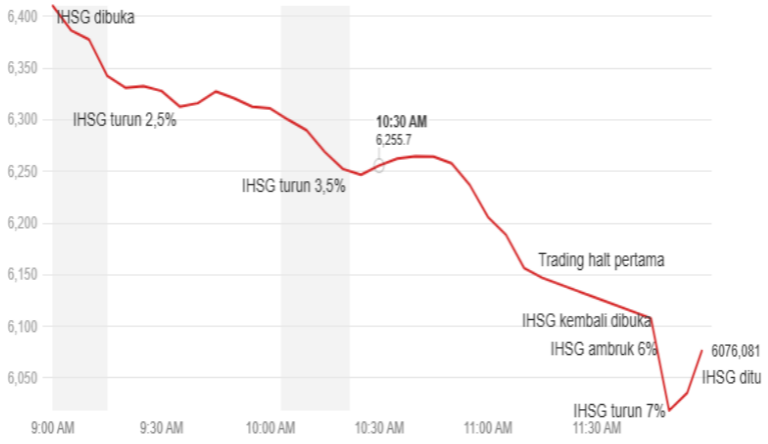

Figure 1. The Decline in the JCI

This phenomenon has made the Indonesia Stock Exchange (IDX) change the limit rules trading halt which is regulated in the Decree of the Board of Directors Number Kep-00002/BEI/04-2024 concerning Amendments to the Guidelines for Handling Trading Continuity on the Indonesia Stock

Exchange which takes effect from April 8, 2025. The decree stipulates that the IDX will carry out trading halt for 30 minutes when the Indonesia Composite Index fell to more than 8%. That is, the limit trading halt widened from what previously happened when the Indonesia Composite Index fell by more than 5%. However, the change in the provisions does not provide positive information for investors. It is proven that on April 8, 2025, the IDX carried out trading halt the second time due to a decline in Indonesia Composite Index which reached 8% (Tempo, 2025).

This study aims to determine the impact of the announcement trading halt on the IDX on investor behavior. There is a reaction to investor behavior in responding to policies trading halt In this study, using abnormal returns and stock trading volume (TVA) activity. Testing an announcement both by external and internal parties is also called testing the content of information. In line with the theory of market efficiency first put forward by Fama tahu in 1970, information is said to have information content if it affects investor behavior in decision-making and the market will react to the announcement which is indicated by a significant change in stock price and trading volume activity around the date of the announcement (Dewi & Vijaya, 2018). Changes in stock prices can be indicated by the presence of abnormal return. This study uses an event study (event study) which is often used to test the information content (market reaction) of an announcement. Moreover, event study It is also used to test the market efficiency of semi-strong shapes.

Some research on trading halt discovered by (Rahim et al., 2021) that examines investors' reactions to the announcement trading halt during the Covid-19 pandemic. The results of his research show that abnormal return the positive on the date of the announcement indicates that the market is reacting quickly to the information published by the government. Research (Sitohang et al., 2021) also found that the trading halt effective in suppressing the decline in Indonesia Composite Index in the face of the Covid-19 pandemic. Moreover, trading halt also able to prevent panic selling. Research (Widiyarti, 2022) also reveals the significant influence of the policy trading halt against the Indonesia Composite Index. There is still limited research on trading halt in Indonesia and its important role trading halt In overcoming market turmoil, this research is the motivation.

LITERATURE REVIEW

In the theory of information content, an event is said to contain information if it can change investors' assessment of the distribution of expected returns in the future, so that there is a change in the balance of the current market price and changes the behavior of decision-makers. The content of the information is intended to see the market's reaction to an event/announcement. If the announcement contains information, then it is expected that the market will react when the announcement is received. The market reaction can be seen from the changes in the price and trading volume of securities around the announcement. Such market reactions can be measured using abnormal yield rates that are not equal to zero (Beaver, 1968).

This event reflects the efficiency or inefficiency of the capital market based on the information absorbed by the market; If the price of a security quickly and comprehensively reflects all available information on the asset, it indicates that the market is efficient. According to (Hartono, 2017), an efficient market is one that spreads information quickly so that the information becomes symmetrical; That is, everyone gets the same information. If the capital market is efficient, the price of securities can reflect investors' assessment of the company's future earnings prospects and the quality of its management. The

main forms of information efficiency can be divided into three types, namely the market efficiency of the weak form (weak form), the efficiency of the semi-strong form market (semi strong form), and the efficiency of the strong form market (strong form) (Dewi & Vijaya, 2018).

Weak form market efficiency is a condition when the price of a security is fully reflected in past information. If the market is efficient in a weak form, then past values cannot be used by investors to predict current prices. This means that investors cannot use past information to obtain abnormal returns in an efficient market of weak forms. Semi-strong market efficiency is a condition when the market price of the securities fully reflects all published information, including information contained in the financial statements of the issuing company. If the market is efficient in a semi-strong form, then no investor or group of investors can earn abnormal returns.

Event studies are an analysis tool that is often used to see investor behavior towards an event by observing the stock price around the event (Peterson, 1989). This research is to find out investors' reactions to information trading halt in March and April 2025. In general, in the study of events there are 2 periods, namely the estimation period, which is the period to estimate the expected rate of return on a stock and the event period, when the information is published.

According to (Chen et al., 2007), abnormal return is the difference between the actual return obtained at the time of an event and the actual return expected return if the event does not occur. In line with opinion (Hartono, 2017), abnormal return or excess return is an excess return that occurs against the expected return. Normal return Is expected return (return expected by investors). Investors really expect the return received in accordance with the sacrifices made. According to (Tandelilin, 2010), abnormal return is the difference (positive or negative) of Current return around the announcement (Ri) with expected return (Rm).

Furthermore, the instrument that can be used to see the reaction of the capital market to the content of information is the activity of trading volume in the market. Stock trading volume is an indicator to determine stock trading activity. Stock trading volume is the number of shares traded on an exchange at a given time. Trading volume activity is used to see if individual investors value the financial statements informatively, in the sense that the information makes regular trading decisions. The measure does not separate a purchase decision, which can be attributed to positive information, from a sales decision, which can be attributed to negative news.

Prior research (Ashraf, 2020) indicates mixed results regarding the impact of trading halts. While some studies report positive market reactions, others find that halts exacerbate volatility. This study builds on the efficient market hypothesis and information content theory (Beaver, 1968), positing that if trading halts convey valuable information, they should influence investor behavior, reflected in stock returns and TVA. However, in the Indonesian context, literature suggests limited impact on market efficiency (Frino et al., 2011; Ekaputra & Dwijayanti, 2008).

To enhance the theoretical base, this study compares findings from Indonesia with those from developed and other emerging markets, highlighting differences in regulatory responses and investor trust.

Based on previous theories and research, the hypothesis of this research is:

H1: There is a significant change in abnormal returns around the announcement date of the 2025 trading halt in company LQ45 on the Indonesia Stock Exchange (IDX)

H2: There is a significant change in stock trading volume activity around the announcement date of the 2025 trading halt in the LQ45 company on the Indonesia Stock Exchange (IDX)

METHOD, DATA, AND ANALYSIS

This study uses a quantitative approach by examining an event (event study). Research event study is a study that investigates the market's reaction to an event whose information is published as an announcement and can trigger a market reaction when a report is received (Chen et al., 2007). In this study, the information received will be seen as the market's reaction to the policy trading halt as a result of the decline in Indonesia Composite Index. The market reaction in this study was tested using abnormal return and stock trading volume activity around the event date trading halt.

The population in this study is all companies listed on the IDX. The sample in this study is companies included in the LQ45 index on the IDX for the February-April 2025 period. The reason for choosing the sample is that LQ45 indexed companies are because it is an index that measures the price performance of the 45 most liquid stocks on the IDX, so that the fluctuations in their stock prices are able to reflect the information available in the capital market. The observation period in this study was 5 days before and 5 days after the event (announcement of trading halts). 45 companies were selected to be a sample of this study, in accordance with the IDX Announcement Attachment No. Peng-00012/IDX. POP/01-2025 dated January 22, 2025.

. The following is an explanation and measurement of the variables used in this study:

1) Abnormal Return.

Abnormal return is the difference between the actual return that occurs and the expected return (Hartono, 2017). Abnormal returns are calculated using the Single Index Market Model (SIMM), and TVA is measured as the ratio of traded shares to total outstanding shares. A one-sample t-test is employed to assess differences in abnormal returns and TVA.

Formula abnormal return as follows:

$$AR_{j,t} = R_{j,t} - E(R)_{j,t}$$

To calculate the expected return using the Single Index Market Model (SIMM). This calculation was developed by Markowitz.

$$E(R)_{j,t} = \alpha_{it} - \beta_t(RM_t)$$

Where:

$$RM_t = IHSG_{it} - IHSGi_{it-1}$$

The next step is to calculate the accumulated abnormal returns observed to get a comprehensive conclusion with the following formula:

$$CAR = \sum_{t=-t1}^{t=2} AR$$

Calculate the average abnormal return with the following formula:

$$AAR = \frac{1}{N}\sum_{i=1}^{N} AR$$

2) Trading Volume Activity (TVA).

TVA is an instrument that can be used to see the reaction of the capital market to information through the parameters of the movement of trading volume activity in the market. TVA is comparison the number of shares traded at time on the number of shares outstanding at time

The next step is to test the hypothesis using a different test (t-test). The t-test aims to determine if there is a significant difference between two more data sets (Ghozali, 2016).

RESULT AND DISCUSSION

Based on the results of data analysis, it is known that the Mean to abnormal return before and after the event of 23.57, which means abnormal return before the event was 23.57% higher than after the event. The significance value also shows 0.000 which means there is a significant difference abnormal return Before and after the event trading halt. Value abnormal return higher before the event trading halt indicates several things, first there is a negative reaction to the event trading halt. According to Beaver (1968), an event is said to contain information if the event may alter the investor's assessment of the distribution of expected returns in the future. Investors do not consider trading halt as positive information. Second, the effectiveness of the policy trading halt questionable reasons Return After the event, it actually decreased. In other words, the policy trading halt did not succeed in restoring investor confidence. This is strengthened by the events trading halt on April 8, 2025, although the IDX Changing the boundary rules trading halt which is regulated in the Decree of the Board of Directors Number Kep-00002/IDX/04-2024 (Tempo, 2025). Policy trading halt on March 18, 2025

According to Kim & Rhee (1997), trading halt can lower market liquidity and increase uncertainty, especially if the policy is not accompanied by sufficiently transparent information. In the Indonesian context, halt trading implemented by the Indonesia Stock Exchange (IDX) during times of high volatility, such as during the COVID-19 pandemic or global crisis, is often perceived as a signal that market conditions are deteriorating, not improving. Furthermore, research by Lee et al. (1994) shows that the effectiveness of trading halt It is highly dependent on the time, duration, and transparency of the information available. If the investor does not get an adequate explanation of the reason for its enactment trading halt, they tend to be conservative, which is reflected in the decline in post-event returns.

Different results in stock trading volume (TVA) activity which showed a significance value of 0.435 (>5%) which means that there was no significant difference in stock trading volume activity either before or after the event Trading Holds. Judging from the value Mean of 0.00135 which shows that the average TVA before and after the event is not much different. The absence of significant differences in TVA suggests investors may refrain from stock trading. These findings are consistent with research Kabir (1994), which found that trading suspensions do not necessarily increase market volume or liquidity directly. In the context of the Indonesia Stock Exchange, this suggests that investors are likely to be cautious and choose to wait for uncertainty to subside, both before and after the intervention. This suggests investors may refrain from trading stocks, especially in the absence of sufficient information available to explain

market conditions. The results of this study are in line with the research Ekaputra & Dwijayanti (2008) which also found that trading halt cannot reduce information asymmetry, but is only effective at reducing temporary volatility rather than reducing fundamental volatility.

CONCLUSION

Policy Trading Holds aims to prevent a drastic decline in the stock price and give investors time to analyze the situation before making further transactions. This research aims to test and analyze the market's reaction to government policies on trading halt on the Indonesia Stock Exchange using the event study method (event study). Market reaction is measured using abnormal Returm and stock trading activities (Trading Volume Activity/VAT). This study concludes that the trading halt policy in Indonesia has not effectively reduced market turmoil or restored investor confidence, as evidenced by decreased abnormal returns and stagnant trading volume. The results highlight the importance of transparent communication during crises and suggest that halt policies alone are insufficient without supporting information dissemination. The results of this study also showed no significant differences in TVA before and after the event Trading halts. This suggests investors may refrain from trading stocks, especially in the absence of sufficient information available to explain market conditions

IMPLICATION/LIMITATION AND SUGGESTIONS

The research is limited to LQ45 companies and a short observation window. Future studies should include all IDX-listed firms and longer timeframes. Policymakers should pair halt policies with timely and transparent communication strategies to enhance investor confidence and mitigate market panic.

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