

# ANALYSIS OF THE EFFECT OF HIGH FREQUENCY TRADING ON THE STABILITY OF THE INDONESIAN STOCK EXCHANGE: A CASE STUDY OF THE IHSG TRADING HALT IN JANUARY 2026

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## Abstract

The composite stock price index (IHSG) is used as a benchmark for investment, monitoring the fluctuations in stock prices. Generally, the Jakarta Composite Index (JCI) serves as a benchmark for capital market activity, serving as an indicator for assessing market movements. The JCI is an index on the Indonesia Stock Exchange that is highly regarded by investors when considering investments. This is because the JCI is the primary indicator of the performance of both the common and preferred stock exchanges. The JCI calculation component combines all types of stocks listed on the IDX, with the JCI having the highest value compared to other indices in Indonesia. JCI movements can be used as a consideration when investors make decisions about whether to buy, hold, or sell their shares. Some argue that increased liquidity and market efficiency can also contribute to lower trading costs for small investors. The primary cost for mutual funds comes from the spread between the buy and sell prices. This cost can be reduced by HFT activity, which narrows and reduces the final price of a security. HFT traders are able to break these large transactions into many smaller ones to mitigate the impact of large buy or sell orders.

**Keywords:** *Event Study, IHSG, Trading Halt, Indonesia Stock Exchange*

## INTRODUCTION

One of the financial instruments traded on the capital market is shares. Shares are a piece of paper containing proof of ownership of a person or entity. Ownership varies depending on the number of shares purchased (Darmadji and Fakhruddin, 2012:5). In other words, by purchasing shares in a company, investors become owners of a small portion of that company. Therefore, the profits earned by the company are received by shareholders in the form of dividends or capital gains derived from rising share prices. The Indonesian stock market has experienced rapid growth over the past few decades. According to data from the Indonesia Stock Exchange (IDX), the number of companies listed on the IDX will reach 833 by 2026, up from 619 in 2018. This development aligns with Indonesia's stable economic growth in recent years. The capital market is currently a popular choice for investors, and it also has a significant impact on a country's economic growth. In addition to banks providing capital to the public, the capital market also serves as a platform for those with excess capital and those in need. Furthermore, the capital market also serves as a means of liquidating share ownership in a company. The various benefits and roles of the capital market have led to its continued growth, particularly in Indonesia.

According to Law No. 8 of 2025 concerning capital markets, capital markets are activities related to the public offering and trading of securities issued therein, as well as institutions and professions related to securities. The daily supervision and development of capital market activities are carried out by the capital market and financial institution supervisory agency, or the Financial Services Authority (OJK). According to Law of the Republic of Indonesia No. 21 of 2011, the OJK is an independent institution free from interference by other parties, with duties, functions, and authorities related to regulation, supervision, and investigation. In stock trading, stock prices fluctuate, either rising or falling. Stock prices are determined by supply and demand for stocks. This supply and demand are influenced by factors such as interest rates, inflation, exchange rates, and non-economic factors such as social and political conditions.

**IHSG development data table 2015-2026**

Year	IHSG
2015	4,593.01
2016	5,296.71
2017	6,355.65
2018	6,194.50
2019	6,229.54
2020	5,979.07
2025	8,646.93
2026	6,956.80

Data source: IDX

From the development of the JCI from 2015 to 2026, there were increases and decreases. In 2015, it was recorded that the JCI reached the level of 4,593.01, in the following year 2016 it rose to 5,296.71, in 2017 the JCI reached the level of 6,355.65, in 2018 it decreased to the level of 6,194.50, while in 2019 it reached 6,229.54, in 2020 there was a decrease of 5,979.07, and four years later in 2025 it experienced a two-fold increase reaching 8,646.93, Until the close of trading in April 2026, the JCI ended at the level of 6,956.80. This position represents a -19.55% year-to-date correction compared to the final closing in 2025. From January to April 2026, the index consistently closed in the red on a monthly basis. The monthly corrections included a -3.67% decline in January, a -1.13% decline in February, a -14.42% decline in March, and a -1.30% decline in April, down from 7,091.67 since the previous month's closing. The Composite Index (JCI) is used as a benchmark for investment, monitoring the fluctuations in stock prices. Generally, the JCI (Composite Index) is used as a benchmark for capital market activity, as it serves as an indicator for monitoring market movements. The JCI is an index on the Indonesia Stock Exchange that investors pay close attention to when considering investments. This is because it is the primary indicator of the performance of the regular and preferred stock exchanges. The IHSG calculation component is a combination of all stocks listed on the IDX, with the IHSG having the highest value compared to other indices in Indonesia. The IHSG's movement can be used as a consideration when investors make decisions about whether to buy, hold, or sell their shares.

The decline in the Jakarta Composite Index (JCI) prompted the Indonesian Stock Exchange to temporarily suspend stock trading as a precautionary measure to reduce sharp fluctuations in the capital market. High-frequency trading has the potential to help lower costs for investors. For markets to function properly and for investors to have confidence in investing their money in stock markets worldwide, adequate liquidity is essential. Investors want to know that when they invest their money in the market, they will be able to sell their investments later. HFT strategies increase market liquidity. The number and volume of trades using these strategies ensure a liquid market. HFT traders act as temporary market makers, buying and selling when no one else is willing. In fact, the spreads they generate from their trades are likely smaller than those generated by traditional market makers. Because HFT trading can account for up to 70% of trading volume in a single day, investors have a greater ability to match with counterparties, namely HFT traders, who are willing to buy or sell at their desired prices. Currently, especially for widely followed companies, it is relatively easy to buy or sell large amounts of stock.

HFT contributes to market efficiency. Stock prices already reflect all public and non-public information. HFT exploits price differences and arbitrages them to eliminate them. Many believe that narrower price spreads mean the market is performing better. Without large HFT transactions exploiting market inefficiencies, there would be larger buy/sell price spreads. As a result, investors may be less satisfied with the prices they receive on their transactions. Some argue that increased liquidity and market efficiency can also contribute to lower trading costs for small investors. The primary cost for mutual funds comes from the spread between buy and sell prices. This cost can be reduced by HFT activity, which narrows and reduces the final price of a security. HFT traders are able to break these large transactions into many smaller ones to mitigate the impact of large buy or sell orders. Based on the market hypothesis, prices only change when relevant information is available, meaning a trading halt should have no impact on the JCI's movement. However, if significant price changes occur during and after HFT is implemented, this indicates overreaction and uninformed/noise trader behavior, i.e., irrational beliefs or those

without fundamental analysis that stocks will move up/down. This could potentially cause the JCI to trend in the same direction and delay the price from reaching equilibrium. The influence of HFT on the IDX is very important for investors to know. The HFT policy is a solution in reducing sharp declines and giving investors time to think before making decisions, thereby reducing volatility and pushing prices to reach a point of equilibrium. Based on the explanation above, the author is interested in conducting research on "ANALYSIS OF THE EFFECT OF HIGH FREQUENCY TRADING ON THE STABILITY OF THE INDONESIAN STOCK EXCHANGE: A CASE STUDY OF THE IHSG TRADING HALT IN JANUARY 2026". By considering the problem above that the Jakarta Composite Index is influenced by High Frequency Trading, but considering the breadth of factors that influence the Jakarta Composite Index, the author formulates the problem in this study as follows: 1) How does high frequency trading affect the stability of the Indonesian stock exchange?, 2. What are the benefits and risks in implementing high frequency trading in the IHSG?

## **LITERATURE REVIEW**

### **1. High Frequency Trading**

High-Frequency Trading is a trading method that uses sophisticated algorithms or computer programs to execute transactions at lightning speed (a fraction of a second). High-Frequency Trading is typically used by large players, such as institutions, who want to transact in very large volumes in crypto trading. Large-volume transactions can take days to complete just to purchase crypto assets if done solely with human intervention. Therefore, high-frequency trading is typically used by investment banks, hedge funds, or investors seeking to transact large volumes on crypto exchanges.

Creating an HFT system requires significant investment and in-depth technical knowledge of crypto programs and markets. High-frequency trading eliminates all delays, including network bottlenecks, in exchange transactions. This is supported by HFT systems that only require cables and networks to carry data, but they must be supported by sophisticated hardware and software. By utilizing advanced trading technology, each HFT firm can process vast amounts of data and execute trades with high precision. However, the use of HFT must also be supported by a sophisticated exchange. HFT can be used in both crypto and stock trading. In some countries, HFT users are regulated to reduce market risk and volatility. For example, in the European Union, regulations require HFT firms to maintain systems and control their risks to prevent unintentional trading errors.

### **2. Event Study**

An event study is a study that understands market reactions to an event, the information about which is published as an announcement. This study is used to test the information content of an announcement and market efficiency in semi-strong form (Hartono, 2017). Information from an event study can be obtained through macroeconomic, market, or company-specific announcements, or through earnings or dividend announcements (Damodaran, 2012).

According to Tandelilin (2010), events which are the focus of event study research can be classified into several categories, including:

1. Cluster events

These events are market responses to publicly announced events that occur at the same time and impact a specific group of companies (company cluster).

2. Conventional Events

Conventional events study market reactions to events that frequently occur and are publicly announced by issuers in the capital market.

3. *Sequential Event*

Relevant and sequential events are part of cluster event studies. These studies examine market responses to a series of sequential events occurring under conditions of high uncertainty. In this case, the speed and accuracy of information are key to market response.

4. *Unanticipated Event*

Unexpected events are part of cluster event studies. These studies examine the market's response to an unexpected event.

### **3. Capital market**

- a. Understanding Capital Markets

According to Capital Market Law No. 8 of 1995, the capital market is defined as activities related to public offerings and trading of securities, public companies related to issued securities, as well as institutions and professions related to securities. Dahlan Siamat, in Andri Soemitra's book, defines the capital market in the narrow sense as an organized place where securities are traded, called a stock exchange. A stock exchange is an organized system that brings together sellers and buyers of securities, either directly or through their representatives. The definition of the capital market in the broad sense is a concrete or abstract market that brings together parties offering and requiring long-term funds, namely those with terms of one year or more. Thus, the capital market generally serves as a meeting place for buyers and sellers to conduct transactions to obtain capital. Sellers in the capital market are companies (issuers) in need of capital, so they seek to sell securities on the market. Meanwhile, buyers (investors) are those seeking to purchase equity in companies they deem profitable.

Meanwhile, the Islamic capital market can be interpreted as capital that uses Islamic principles in its transaction activities and is free from prohibited things, such as usury, gambling, speculation and so on.

The Islamic capital market in Indonesia is not separate from the overall capital market system. In general, Islamic capital market activities are similar to those of conventional capital markets. However, there are several specific characteristics of the Islamic capital market, namely that its products and transaction mechanisms do not conflict with Sharia principles. The application of Sharia principles in the capital market is naturally based on the Quran, the highest source of law, and the Hadith of the Prophet Muhammad (peace be upon him). Furthermore, scholars interpret these two sources of law, which is known as Islamic jurisprudence (fiqh). One area of discussion within fiqh is muamalah (transactions). Essentially, all forms of muamalah are permissible unless there is evidence to prohibit them, and this concept has become the principle of the Islamic capital market in Indonesia.

According to expert Tjipto Darmadji, the Islamic capital market is defined as a market for various long-term financial instruments that can be traded, either in debt or equity. The current growth of the Islamic capital market is demonstrated by the presence of Islamic capital market instruments, including Islamic bonds, Islamic stocks, Islamic mutual funds, and other instruments. These instruments can be considered indicators of the performance of the Islamic capital market. The development of the Islamic capital market in Indonesia, after going through various processes and stages, has shown promising prospects, ultimately giving rise to various Islamic investment products or instruments in the Islamic capital market and an increasing number of companies listed on the Islamic securities market.

**b. Benefits of Capital Markets**

Basically, the capital market has benefits for companies, investors and the government.

**1) Benefits for companies (issuers)**

For issuers, the capital market has several benefits, including:

- a) The amount of funds that can be raised is substantial. These funds can be received when the primary market closes.
- b) There are no covenants so management can be freer in managing company funds.
- c) The company's solvency is high, thus improving the company's image.
- d) Issuers' dependence on banks becomes smaller

**2) Benefits for investors**

For investors, the capital market has several benefits, including:

- a) Investment value grows in line with economic growth. This increase is reflected in rising share prices.
- b) Obtaining dividends or profits for those who own or hold shares
- c) Have voting rights in the GMS for shareholders or
- d) Can change investment instruments easily.

**3) Benefits for the government**

For the government, the capital market has several benefits, including:

- a) Providing opportunities for the public to participate in owning company shares, thereby reducing social inequality.
- b) Driving the pace of development
- c) Encourage investment
- d) Creating jobs
- e) Reducing the debt service ratio

f) Reducing the budget burden on state-owned enterprises.

c. Functions of the Capital Market

As part of the financial system, the capital market has functions including:

1) Liquidity Function

The capital market has a liquidity function because it provides necessary funds by facilitating the transfer of illiquid capital (uninvested capital) from parties with excess capital to those in need. This transfer of capital is accomplished by selling securities such as shares or bonds from parties needing capital to investors with excess capital. The guaranteed liquidity offered by the capital market benefits not only companies but also investors. For companies, liquidity can be obtained by issuing or selling securities, whether in the form of loans or debt, or through participation. By selling these securities, the company will obtain cash/liquidity from the investing public who purchase the securities. For investors, liquidity is guaranteed by the capital market through the provision of securities trading facilities on the stock exchange, allowing investors who need funds to simply sell their securities on the exchange. This guaranteed liquidity is one of the attractions for investors to invest in the capital market.

2) Financing Function

The capital market provides alternative funding and long-term financing sources for companies in need by mobilizing funds from the public who purchase financial instruments in the capital market. Conventionally, companies generally sell their assets or rely on obtaining loans from banks. If a company does not have sufficient tangible assets to obtain cash, the capital market provides an alternative financing option, allowing the company to obtain cash by issuing securities. Furthermore, the capital market provides alternative financing for companies that cannot access financing through banks because they cannot meet the strict requirements set by banks. For example, a company may not have assets that can be used as collateral when borrowing money from a bank, or the company cannot meet the other 5C requirements, such as character, capacity, capital, and condition. Therefore, the capital market serves as an alternative to obtain funds from the public by selling securities.

3) Alternative Investment Functions

The capital market provides an alternative investment platform for the public, beyond property, gold, foreign exchange, and other assets. The investment alternatives offered by the capital market allow investors to achieve potential returns with manageable risks through transparency, liquidity, and investment diversification. The capital market provides investors with the opportunity to earn returns based on the characteristics of the investment instrument they choose.

4) Public Savings Function

The capital market provides financing for business activities through the pooling of public funds. More specifically, the capital market mobilizes long-term savings and provides a platform for people seeking savings with minimal risk. Compared to savings in the banking sector, savings in the capital market are more focused on investment savings that offer higher returns. Through these public savings, the public helps provide liquid funds that can be accessed by parties or companies in need of funds. These funds collected from the public are then used by companies for productive activities, such as business development, market expansion, and performance improvement. This can increase national productivity by helping to increase the production of goods and services on a larger scale.

5) Distribution Function/Income Equality

Capital markets enable equal distribution of income across society. By purchasing instruments such as stocks or bonds, investors can earn income in the form of dividends (for stocks) and fixed income (for bonds). This is because capital markets allow investors to hold and maintain units or assets with lower depreciation and risk.

6) Welfare Function

Capital markets serve to improve broader societal welfare by providing a source of financing for improving business performance and development, thereby increasing productivity on a larger scale. Furthermore, capital markets are considered to improve welfare by providing a source of long-term financing allocated in the form of capital to create or expand jobs, increase the volume of healthy economic activity, and distribute income throughout the community.

7) Functions of Economic Indicators

The capital market is an indicator of a country's economic trends. Economic indicators of a country are measured, among other things, by gross domestic product. The capital market contributes to gross

domestic product. Movements and developments in the capital market reflect market capitalization, trading activity, and the economic condition of a country. According to Atje and Jovanovic, capital market development can influence economic development and is used by many countries as a means to increase economic growth.

8) Social Control Function

Capital markets provide access to social control through the principle of transparency, or openness of information, which is the lifeblood of capital markets. This openness of information not only impacts company management but also professionalism and healthy business competition.

9) Public participation/ownership function

The capital market provides the opportunity for the public to participate in owning shares in companies that go public. The public is given the opportunity to own companies so that the capital market allows for the distribution of company ownership to certain levels of society.

d. Capital market tasks

In general, the tasks of the capital market or Indonesian stock exchange are:

- 1) As a facilitator responsible for providing all the necessary facilities in securities trading transactions.
- 2) Act as a regulator that establishes specific rules for stock exchange activities that apply internally to each stock exchange.
- 3) Implementing the principle of information transparency on the stock exchange
- 4) Creating new financial services instruments to optimize stock exchange activities
- 5) Striving to create optimal instrument liquidity
- 6) Prevent fraudulent practices, such as insider trading, unfair price formation, fraud and others.

#### **4. Trading Halt**

a. Understanding Trading Halt

A trading halt is a temporary freeze on stock trading, with all orders placed outside the specified parameters being entered into the stock exchange's JATS (Trading Orders) system. When market panic occurs, with buying or selling transactions causing the Jakarta Composite Index to fall, the stock exchange will temporarily halt all trading. Overreaction is defined as the tendency of investors to overreact to new information. Overreaction can cause stock prices to fluctuate drastically, not reflecting their intrinsic value. Trading halts are implemented to mitigate market overreaction.

b. Implementation of trading halt by the exchange

Investment is needed as a means of supporting the economy. However, the JCI's performance has been on a downward trend due to various domestic and international issues, such as public panic, interest rates, inflation, and other issues, which will impact national economic growth.

The Indonesian Stock Exchange and the Financial Services Authority have issued various policies, including trading policies, as an anticipatory measure in the event of sharp fluctuations in the capital market.

The adjusted trading halt regulations are contained in the Decree of the Board of Directors of the Indonesia Stock Exchange No. KEP-00024/BEI/03-2020 concerning changes to the guidelines for handling trading continuity on the Indonesia Stock Exchange. If a sharp decline of more than 5% occurs, the exchange will halt trading for 30 minutes. Furthermore, if a further decline of more than 10% occurs, a trading halt will be implemented for 30 minutes. The implementation of the trading halt on the Indonesia Stock Exchange when the Jakarta Composite Index (JCI) declines by 5% is considered within a narrow range, thus preventing stocks from experiencing deep declines.

c. Islamic economic perspective

Al-Marighi's interpretation explains the prohibition on drinking alcohol and gambling. The trading halt is a reminder that trading or investments must be in accordance with Islamic sharia and have a meaning and purpose that benefits humanity. Investing in shares should not be solely for personal gain or even harm others. Business activities as referred to in Regulation IX.A.13 of Decree 181/BL/2009, namely business activities that conflict with sharia principles, are as follows:

- 1) Gambling and games that are classified as gambling
- 2) Trade that is prohibited according to sharia includes trade that is not accompanied by the delivery of goods/services and trade with false offers/demands.
- 3) Usury financial services, including interest-based banks and interest-based financing companies

- 4) Buying and selling that contains elements of uncertainty (gharar) and gambling (maysir)
- 5) Producing, distributing, trading or providing, among other things, goods and services whose substance is haram (haram li-dzatihi), goods and services which are haram not because of their substance (haram li-ghairihi) as determined by the DSN MUI or services which are morally damaging and harmful in nature.
- 6) Conducting transactions that contain elements of bribery or bribery.

## **METHOD**

### **1. Methods Used**

This research employs an explanatory mixed-methods case study design on the 2026 Jakarta Composite Index (JCI) volatility at the end of January. This design combines quantitative analysis based on event studies of market returns (JCI) with qualitative analysis based on process tracing and document/text analysis related to the role of high-frequency trading. This combined strategy was chosen because herding and liquidity stress can emerge as aggregate statistical patterns over short periods. In this study, quantitative findings are treated as pattern markers, while qualitative findings are used to assess the coherence of the mechanism. Therefore, causal inference is limited to the plausibility of the mechanism.

### **2. Data analysis**

The analysis in this manuscript is entirely based on manual coding and auditable reading of documents, because the corpus is relatively small and the focus is on the reconstruction of mechanisms in a single case, this study does not calculate formal intercoder reliability, instead, interpretive traceability is maintained through codebooks, per-document analytical matrices, key book citations and re-reading of the entire corpus before drawing conclusions.

### **3. Integrity of Findings**

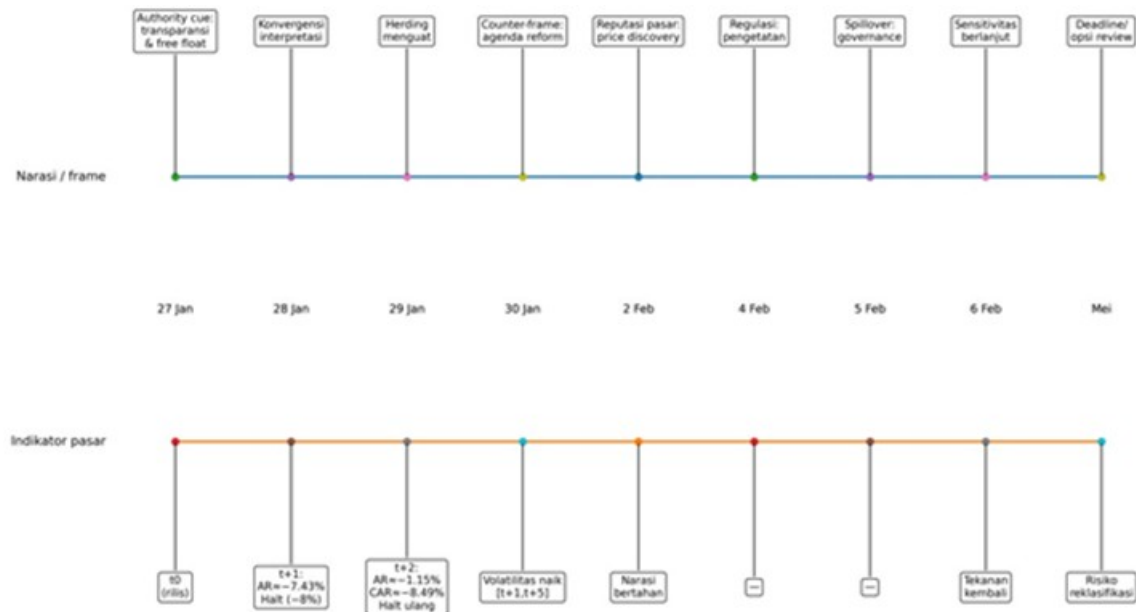
Integrity is achieved at the interpretation stage by mapping quantitative results against the timeline of qualitative findings so that the discussion can answer the research questions. This strategy remains relevant for the purpose of a mechanism-explanatory case study, but quantitative findings are treated as strong indications, not causal identifications equivalent to multi-event designs or high-frequency microstructures.

## **RESULTS AND DISCUSSION**

In line with the explanatory mixed-methods design, the discussion follows a pattern-test-explain-mechanism logic: event studies and volatility proxies are used to assess the presence of unusual dislocations within the event window, while process tracing and framing analysis reconstruct how authoritative signals are interpreted, framed, and converge into collective action. In this context, herding is understood as reputational coordination and benchmark adherence, not simply behavioral dispersion across stocks; indications are seen in the synchronization of selling pressure at the index level, the activation of temporary trading halts, and process evidence regarding the expectation that “other actors will sell” within the benchmark mandate framework. Therefore, the qualitative findings are read as a document-based reconstruction of mechanisms, not as an estimate of the prevalence of discourse populations. The primary data are MSCI documents on the results of consultations on free float valuation and the provisional treatment of Indonesian securities, which emphasize issues of ownership opacity and allegations of coordinated trading practices that disrupt price formation, followed by a decision to freeze some index changes and a possible review of market accessibility until a potential reclassification in May 2026 (MSCI, 2026).

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**Figure 1. Convergence of frames towards a “market integrity crisis”**

The corpus also includes time-documented global and domestic media reporting, particularly a series of 10 core documents consisting of 1 MSCI announcement, 5 Reuters articles on January 29–30 and February 4–6, 2026, 1 Financial Times article on February 2, 2026, and 3 local sources that record the activation of the temporary trading halt and the chronology of the Indonesia Stock Exchange (Financial Times, 2026; IndoPremier, 2026; Katadata Databoks, 2026; Kontan, 2026; Reuters, 2026a; Reuters, 2026b; Reuters, 2026c; Reuters, 2026d; Reuters, 2026e). The market traces used are event facts and stress markers reported by these sources, specifically the trigger for a temporary trading halt when the index reached the 8% decline threshold on January 28, 2026, and a repeat halt the following day (IndoPremier, 2026; Katadata Databoks, 2026). A summary of the chronology of events, frame shifts, and policy responses is summarized in Figure 2.

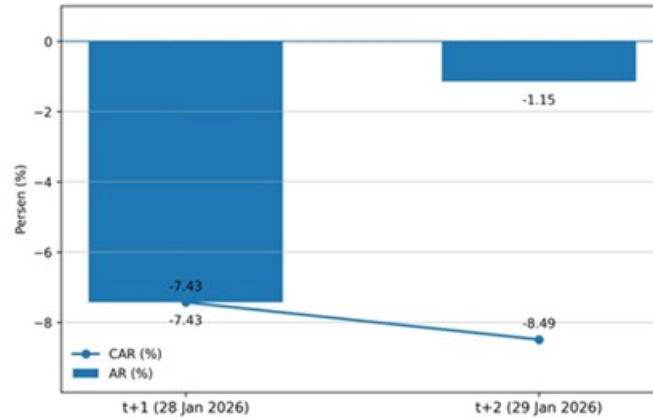


**Figure 2. Chronology of events, frame shifts, and policy responses related to the MSCI announcement and the JCI volatility (January 27–early February 2026).**

Consistent with the explanatory mixed-methods design, the process findings are read alongside quantitative event-study-based results on Jakarta Composite Index (JCI) returns. Daily OHLC price data were obtained from Stooq for the JCI series, which covers long-term historical observations through February 2026, allowing for transparent replication of return and volatility measurements (Stooq, 2026). January 27, 2026, is treated as the event date ( $t_0$ ) because it coincides with the publication of the MSCI announcement, while January 28, 2026, is treated as the first trading session, conservatively reflecting full information absorption ( $t+1$ ). This disaggregation follows event study practice where the timing of information release relative to trading hours can result in partial absorption on the announcement day; therefore, the primary reading is focused on the core window closest to the event to minimize contamination by other news (MacKinlay, 1997; Miller, 2023).

The quantitative results in Figure 3 show that shocks are clustered very close to the event window. The average daily return in the estimation window is approximately 0.086% with a standard deviation of approximately

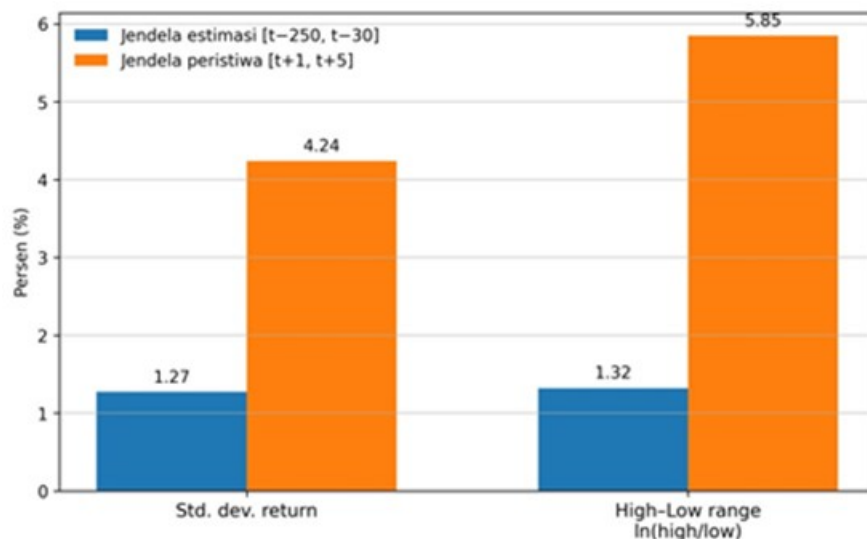
1.27%, while at t+1 (January 28, 2026), the JCI recorded a close-to-close decline of approximately  $-7.35\%$  and an AR of approximately  $-7.43\%$ . At t+2 (January 29, 2026), the close-to-close decline was approximately  $-1.06\%$ , followed by an AR of approximately  $-1.15\%$ . The accumulated AR in the core window [t+1, t+2] yields a CAR of approximately  $-8.49\%$  (standardized test statistic  $\approx -4.82$ ), indicating a very extreme price response relative to normal return dynamics as described in the event study literature (MacKinlay, 1997; Miller, 2023).



**Figure 3. Abnormal Return (AR) and Cumulative Abnormal Return (CAR) of the JCI in the post-event core window (t+1 to t+2).**

Figure 3 makes it clear that the largest impact was concentrated in the first two post-event sessions. This concentration of negative CARs in the first two post-event sessions also aligns with reported market artifacts, the activation of a temporary trading halt at the 8% intraday decline threshold on January 28 and a repeat halt on January 29, as well as with Reuters reporting of a sell-off of over 8% in two days that wiped out approximately US\$80 billion in market value (IndoPremier, 2026; Katadata Databoks, 2026; Reuters, 2026a).

The robustness of the CAR findings to the choice of event window and normal return specifications is tested using several additional CAR windows and alternative market models; a summary is presented in Appendix A. Beyond returns, intraday volatility indicators also spike sharply during the event window. The standard deviation of returns during the [t+1, t+5] window increases to approximately 4.24% compared to 1.27% during the estimation window, and the average high-low range (ln(high/low)) during [t+1, t+5] increases to approximately 5.85% compared to approximately 1.32% during the estimation window. A comparison of volatility proxies between the normal and event windows is presented in Figure 4 to facilitate a reading of the magnitude of the volatility spike.

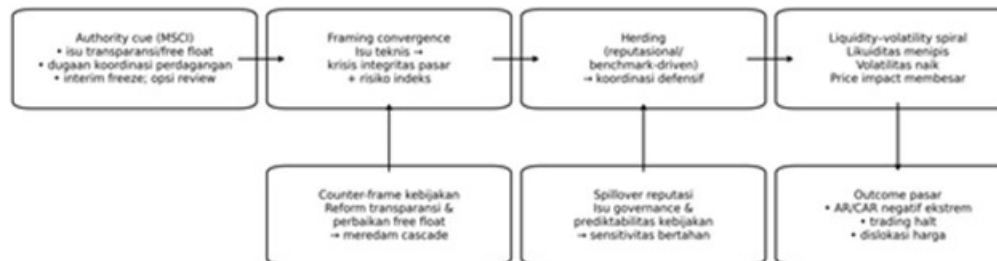


**Figure 4. Comparison of IHSG volatility proxies: normal period (estimation window) versus event window (t+1 to t+5).**

This spike in volatility and widening of intraday ranges is a pattern compatible with the liquidity stress narrative, namely that when uncertainty increases, liquidity providers tend to withdraw and the price impact of transactions is

magnified so that initial selling pressure can accelerate itself through the volatility-liquidity feedback loop (Brunnermeier & Pedersen, 2009).

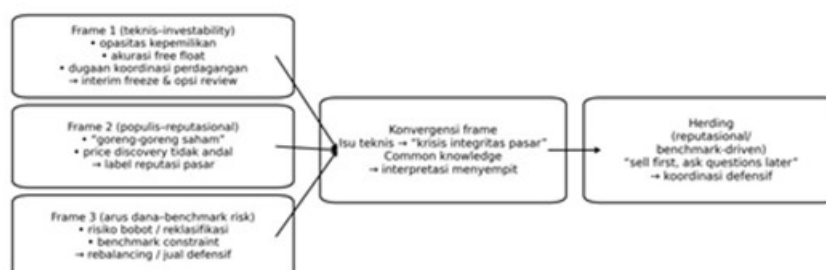
The main results are presented following the logic of the Framing–Herding–Liquidity Spiral (FHL) model as a reading framework, namely that authoritative cues from index providers can trigger a convergence of risk interpretations through framing, which then accelerates reputational coordination and herding, before manifesting as simultaneous selling pressure that interacts with liquidity constraints until it reaches the circuit breaker threshold (Bikhchandani et al., 1992; Brunnermeier & Pedersen, 2009; Petry et al., 2021).



**Figure 5. Schematic of the Framing–Herding–Liquidity Spiral (FHL) mechanism in explaining the transmission of authoritative instructions to herding and the escalation of liquidity stress.**

The first result shows a rapid convergence of frames from technical issues to the construction of a “market integrity crisis.” The MSCI document, as an authoritative source, does not simply convey procedural adjustments but rather links the free float issue to fundamental investability issues such as opacity of ownership structures and concerns about coordinated trading behavior that undermines price formation. It then establishes an interim measure that freezes increases in the Foreign Inclusion Factor and Number of Shares, holds back additions to the IMI, and curbs upward migration between size segments (MSCI, 2026). In the near future, this technical framework converged with a second, more populist and reputational framework, namely the narrative of "deep-fried stock" practices and the unreliability of price discovery. The Financial Times, for example, popularized the term "deep-fried stocks" to describe stocks deemed not to reflect fair price formation, while Reuters and domestic sources emphasized allegations of coordinated trading, the quality of governance, and the market's reputational vulnerability (Financial Times, 2026; Reuters, 2026a; Reuters, 2026b). Thus, the issue was no longer solely the index procedure, but rather the broader integrity of the market.

The third framing that reinforces convergence is the prospect of a downgrade in index status or weighting, translating integrity issues into capital flow risks. The MSCI document explicitly states that if transparency improvements are inadequate by May 2026, MSCI may reassess Indonesia's market accessibility and, after consultation, could result in a reduction in Indonesia's weighting in the emerging markets index or a reclassification from emerging to frontier (MSCI, 2026). The media then articulated these consequences in the language of portfolio mandates, namely the potential for forced selling or exposure adjustments due to benchmark constraints on passive funds and active managers assessed against the benchmark (Reuters, 2026a). This finding demonstrates a mechanism consistent with the literature on the private authority of index providers: signals from index providers not only change index rules but also serve as authoritative cues that align expectations about the behavior of other investors, thereby increasing incentives to move in unison (Petry et al., 2021). In FHL terms, the threat of reclassification serves as a component that shortens decision horizons and increases urgency, thus increasing the opportunity for defensive coordination. Figure 6 presents two time paths that match the evolution of framing–herding with key moments in the JCI market trajectory during January–February 2026.



**Figure 6. Two-track timeline: framing–herding process and market event trail (Jan–Feb 2026)**

The second finding concerns how authoritative cues can translate into defensive reputational coordination through market intermediaries. Reuters recorded the reactions of market participants and authorities, who reiterated the core issues of transparency, free float calculations, and the need for improved ownership classification, transforming fragmented statements into a shared narrative about the risks of market accessibility (Reuters, 2026a; Reuters, 2026b). At this point, interpretation no longer relies solely on individual investors' fundamental calculations but also on the belief that other investors, particularly passive and benchmark-based investors, will respond mechanically, or at least defensively, to MSCI signals. Reuters described this response as a "sell first, ask questions later" pattern, a strong indication that defensive action is considered rational due to the expectation of concerted action from others (Reuters, 2026a). This pattern aligns with the concept of reputational herding, which refers to following the crowd as a strategy to minimize reputational costs during times of high uncertainty, particularly when risk parameters are produced by authoritative actors (Devenow & Welch, 1996). Thus, qualitative results support the reading that this episode is most plausibly understood as defensive reputational coordination, rather than simply an unstructured panic (Bikhchandani et al., 1992; Petry et al., 2021).

The third finding suggests that narrative convergence and defensive coordination are closely associated with the escalation of market stress that reaches the threshold for a temporary trading halt. Local sources note that the Jakarta Composite Index (JCI) fell 8% on January 28, 2026, and the Indonesia Stock Exchange (IDX) suspended trading at 1:43:13 PM JATS time, only to resume trading 30 minutes later, citing orderly, fair, and efficient trading (Katadata Databoks, 2026). Reuters also reported that the intraday decline triggered the temporary trading halt and placed the episode as part of a two-day sell-off of more than 8% that wiped out approximately US\$80 billion in market value (Reuters, 2026a). The following day, domestic news reports again referred to the temporary freeze due to the decline reaching the same threshold, indicating that the selling pressure was not localized to a few stocks but rather widespread at the market level (IndoPremier, 2026).

When linked to the microstructure literature, this pattern is compatible with the volatility-liquidity spiral mechanism. Liquidity theory suggests that volatility spikes can trigger withdrawals by liquidity providers, magnify the price impact of transactions, and amplify initial selling pressure through nonlinear feedback (Brunnermeier & Pedersen, 2009). Within the Framing–Herding–Liquidity Spiral framework, narrative convergence accelerates synchronized selling, while simultaneous trading pressure appears to correlate with weakened market liquidity capacity, magnified price impact, and a volatility spike that ultimately breaches the circuit breaker threshold. Because this study does not directly observe bid-ask spreads, market depth, or intraday microstructure data, the relationship is read as an inference from a mechanism compatible with the evidence, rather than as a direct measure of transaction costs (Brunnermeier & Pedersen, 2009; Li et al., 2021).

The fourth finding demonstrates the role of policy counter-framing in mitigating the cascade. Reuters reported that authorities responded with a package of measures emphasizing transparency and improved data governance, including plans to raise the free float requirement to 15%, exclude certain categories from the free float calculation, and clarify the definition of strategic holdings (Reuters, 2026b; Reuters, 2026c). A specific, measurable, and clearly communicated policy package has the potential to act as a counter-signal, particularly when linked to direct dialogue with index providers and a firm implementation timeline. However, the results also suggest that the effectiveness of counter-framing depends on the credibility of implementation, as private index authorities and global market participants assess not only policy intent but also institutional capacity to produce granular and reliable holdings data (MSCI, 2026; Petry et al., 2021). The behavioral implication of this counter-frame is the potential for weakening the information cascade. In cascade theory, one way to break convergence is to provide a new signal strong enough to restore the weight of private information or broaden the plurality of interpretations (Bikhchandani et al., 1992). In other words, policy framing is only effective if it is supported by institutional capacity to implement reforms consistently and auditably, so that collective expectations have sufficient reason to shift.

The fifth finding indicates reputational spillover from the stock market to macro policy perceptions, extending the impact of the episode beyond the initial event window. Reuters reported that following the market turmoil, rating agencies highlighted governance and policy predictability issues, and outlook adjustments occurred, adding to pressure on Indonesian assets (Reuters, 2026d; Reuters, 2026e). This finding is important because it suggests that transparency crisis framing can migrate from the microstructure of the stock market to the broader realm of policy reputation, which in turn can strengthen risk premiums and maintain market sensitivity to further news. The narrative literature suggests that once narratives become embedded in institutional reputations, their effects can persist and shape expectations across markets, not just stocks (Nyman et al., 2021; Shiller, 2017). In the

context of FHL, this spillover acts as an external amplifier, maintaining narrative tension and delaying the return to a more pluralistic state of interpretation.

**Event Study Robustness Check**

*Return*Daily return is defined as the change in the closing price from day  $t-1$  to day  $t$ , i.e.  $r_t = (P_t / P_{(t-1)}) - 1$ . Abnormal return (AR) is calculated as the difference between the actual return and the normal return. Cumulative abnormal return (CAR) for the window  $[\tau_1, \tau_2]$  is calculated as the sum of the ARs over that window. The intraday volatility proxy uses the Parkinson estimator, which utilizes the ratio of the daily high ( $H_t$ ) to low ( $L_t$ ) price.

**CAR robustness test table on several event windows (baseline constant mean vs. market model)**

Event window	L (Baseline)	CAR Baseline(%)	t-stat	L (Market model)	CAR Market model (%)	t-stat (MM)
[t-5, t-1]	5	-2.21	-0.78	5	-2.42	-0.86
[t0, t+1]	2	-7.43	-4.19	2	-7.76	-4.38
[t+1, t+2]	2	-8.49	-4.82	2	-8.60	-4.85
[t0, t+2]	3	-8.63	-3.95	3	-8.85	-4.08
[t-1, t+1]	3	-7.30	-3.34	3	-7.59	-3.50
[-3, +3]	7	-8.21	-2.46	7	-8.32	-2.51
[-5, +5]	11	-12.30	-2.94	11	-12.54	-3.02
[-10, +10]	21	-10.89	-1.88	20	-11.98	-2.14

**Source:** daily OHLC IHSG prices (^JCI) and market proxy (EEM) from Stooq; processed by the author, 2026.

**DISCUSSION**

The role of HFT in the fall of the IHSG (Halt Trigger)

Based on trading data from the Indonesian Stock Exchange (IDX) in January 2026, high-frequency trading (HFT) played a dual role in the trading halt situation that occurred on January 28 and 29, 2026, which was triggered by an 8% decline in the JCI due to MSCI issues and panic selling.

In this case, HFT acted as a factor that accelerated the index's decline, while also being a technical component that triggered the exchange's defense mechanisms.

- a. Accelerated Panic Selling: HFT, powered by automated algorithms, responded to negative news (MSCI warnings) within milliseconds. This led to massive net selling, reaching Rp 6.17 trillion on January 28, 2026, which led to a decline in the Jakarta Composite Index (JCI).
- b. Increased Volatility: HFT algorithms tend to amplify market trends (both upward and downward). In this case, HFT accelerated the decline in prices of large-cap stocks (such as BBKA and BMRI).

The Role of HFT in Handling Trading Matters (Defense Mechanism)

- a. Jakarta Automated Trading System (JATS) Trigger: HFT directly contributed to the >8% decline in the index which triggered the Jakarta Automated Trading System (JATS) to implement an automatic trading halt at 13:43 WIB (28 Jan) and 09:26 WIB (29 Jan).
- b. Creating an "Emergency Brake": A 30-minute trading halt (and potentially an additional one if the price drops >15%) serves as a necessary pause to stop HFT algorithms. This gives market participants time to digest the information and reduce panic.

Post-Halt Stability: The halt protocol helps calm the situation so that transactions return to normal after trading resumes, preventing algorithmic panic selling from spiraling out of control.

**Related Policies**

- a. Strengthening Oversight: The Indonesian House of Representatives (DPR RI) demands early oversight and a consistent methodology for trading activities that risk triggering high volatility.
- b. Regulation Revision: The Indonesia Stock Exchange (IDX) has implemented this temporary suspension in accordance with regulation II-A concerning equity securities trading and the decision of the IDX board of directors number Kep-00002/BEI/04-2025.

**Advantages of High Frequency Trading**

High-Frequency Trading has several advantages, one of which is increasing market liquidity. High-frequency trading (HFT) is equipped with fast execution speeds, making it more profitable and able to outperform traders with slower execution speeds. With this high speed, firms using HFT can buy and sell crypto assets much faster than traditional or retail investors.

Therefore, large transactions will undoubtedly improve the liquidity of crypto assets. High-volume, short-term transactions will narrow the bid-ask spread, the difference between the buy and sell prices in the market.

If the bid-ask spread widens, it becomes increasingly difficult for traders to buy and sell crypto assets at their desired prices. Using HFT reduces the bid-ask spread, making the market more liquid. This benefits large companies, which can profit from price movements on the exchange.

#### Weaknesses of High Frequency Trading

Besides its advantages, HFT also has controversial drawbacks. High-Frequency Trading (HFT) is considered to favor large companies. This is because purchasing large volumes of crypto assets requires substantial capital. This large-scale sale process will affect the price of the crypto asset. This process is known as dumping. The use of HFT makes it easier for large companies to dump and then repurchase when the price is lower. This is certainly detrimental to small investors because, due to its speed, they can only follow price movements. When the price drops significantly, they will cut their losses to avoid further losses. However, at the same time, large investors start buying, driving the price up rapidly. Furthermore, the use of HFT can lead to unstable liquidity. This is because HFT allows for false supply and demand in crypto trading, which can disappear in an instant. This is known as "ghost liquidity."

It's no surprise, then, that High Frequency Trading is often considered a method of market manipulation. This often occurs on crypto exchanges, which are known for their frequent pump and dump trading incidents. However, despite the controversy, HFT remains a popular trading method.

## CONCLUSION

1. The first finding demonstrates a rapid convergence of frames from technical issues to the construction of a "market integrity crisis." The MSCI document, as an authoritative source, does not simply convey procedural adjustments but rather links the free float issue to fundamental investability issues such as opacity of ownership structures and concerns about coordinated trading behavior that undermines price formation. The second finding relates to how authoritative guidance can be translated into reputational defensive coordination through market intermediaries. Reuters recorded the reactions of market participants and authorities, who reiterated the core issues of transparency, free float calculations, and the need for improved ownership classification, transforming fragmented statements into a shared narrative about the risks to market accessibility. The third finding shows that narrative convergence and defensive coordination are closely associated over time with the escalation of market stress that reached the threshold of a temporary trading halt. Local sources note that the JCI fell 8% on January 28, 2026, and the Indonesia Stock Exchange suspended trading at 1:43:13 PM JATS, only to resume trading 30 minutes later, citing the need to maintain orderly, fair, and efficient trading. The fourth finding demonstrates the role of counter-framing policies in efforts to mitigate the cascade. Reuters reported that authorities responded with a package of measures emphasizing transparency and improved data governance, including plans to raise the free float requirement to 15%, exclude certain categories from the free float calculation, and clarify the definition of strategic ownership. The fifth outcome indicated reputational spillover from the stock market to perceptions of macro policy, extending the impact of the episode beyond the initial window. Reuters reported that following the market turmoil, rating agencies highlighted governance and policy predictability issues, and outlook adjustments were made, adding to pressure on Indonesian assets.
2. Automated Trading System Trigger (JATS): HFT directly contributed to the >8% index decline, which triggered the Jakarta Automated Trading System (JATS) to implement an automatic trading halt at 1:43 PM WIB (January 28th) and 9:26 AM WIB (January 29th). Creating an "Emergency Brake": The 30-minute trading halt mechanism (and potentially an additional one if the decline is >15%) serves as a necessary pause for the HFT algorithm to stop. This gives market participants time to digest the information and reduce panic. Using HFT reduces the bid-ask spread, making the market more liquid. This benefits large firms, which can profit from even price movements on the exchange.

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