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FINANCE | RESEARCH ARTICLE

Analysis of the Impact of Symmetrical Auto Rejection Policy on IHSG Movement on the IDX During 2020-2023

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Abstract: This study analyzes the market response to the change in auto rejection policy from 15% to symmetric auto rejection implemented by the Indonesia Stock Exchange (IDX) in 2020-2023. This policy aims to maintain market stability and protect investors from extreme price fluctuations. This study uses a quantitative method with the Wilcoxon Signed Rank test to analyze differences in abnormal returns and trading volume before and after implementing the policy. The sample consists of 48 companies listed on the IDX for 3 periods, selected purposively from various sectors. The results showed significant differences in both variables. The market response to abnormal returns showed a positive signal, while trading volume reflected an adverse reaction, illustrating the negative market sentiment towards this policy. This finding confirms that policy changes have a significant impact on investor behavior. The author advises investors to conduct in-depth fundamental and technical analysis to understand the entire policy and minimize the risk of loss in making investment decisions.

Keywords: Symmetric Auto Rejection Policy, Abnormal Return, Trading Volume.

JEL Classification Code: M41, I23, J24.

1. INTRODUCTION

The capital market has a significant role in a country's economy, with the stock price index being the leading indicator of capital market performance. One of the crucial mechanisms implemented in the stock exchange is the auto rejection policy (Tang, 2023), which aims to maintain the stability of stock prices in volatile market situations. This policy is implemented to prevent extreme stock price movements, both up and down, thus protecting investors from the risk of significant losses (Hoekstra & Güler, 2024). In Indonesia, the Indonesia Stock Exchange (IDX) has made several adjustments to the upper limit (ARA) and lower limit (ARB) of auto rejection, including the implementation of a symmetric auto rejection policy in 2023. However, the policy also triggered mixed reactions from the market, including potential changes in stock liquidity and volatility, which affected the movement of the Composite Stock Price Index (CSPI) (Caporale et al., 2021).

Previous research has explored the impact of auto rejection policies on capital markets in various countries. The study (Saputri et al., 2023) shows that the share price cap policy effectively reduces market volatility during periods of economic crisis. (Tang, 2023) used an event study approach to analyze the impact of auto rejection on abnormal returns, revealing a significant relationship between the policy and market reaction. In addition, (Ma'rifah et al., 2023) highlighted the importance of auto rejection in maintaining stock liquidity during the economic recovery period in Indonesia. However, there is a research gap in identifying the specific impact of symmetric auto rejection policy on JCI, especially in the context of gradual changes in the percentage of upper and lower limits.

This study aims to analyze the impact of symmetric auto rejection policy changes on JCI movements, focusing on changes in liquidity, volatility, and stock returns on the Indonesia Stock Exchange during the 2020-2023 period. The capital market has a strategic role in the economy,

especially in supporting liquidity, capital allocation, and financial stability. One vital instrument to maintain this stability is the auto rejection policy, which limits stock price fluctuations within a specific range to avoid extreme volatility due to speculation or excessive sentiment. The auto rejection policy in Indonesia was changed to symmetrical in 2020, adjusting to current conditions (Deng et al., 2022). This change involves applying the exact upper and lower limit percentages regulated by the IDX and the Financial Services Authority (OJK) in Letter Number S-68/D.04/2023. This policy impacts the movement of the Composite Stock Price Index (CSPI), which reflects overall market performance and affects trading volume and stock returns. Many previous studies have examined the impact of auto rejection on the capital market, but the results often vary. (Yusran & Lesmana, 2022) Concluded that the symmetric policy increased market confidence by reducing volatility, while (Wardoyo et al., 2022) noted that the significant decline in the JCI during the pandemic's beginning required policy intervention to stabilize the market.

The study (Zumarnis & Andarini, 2023) highlights the importance of the auto-rejection mechanism in maintaining market fairness and efficiency. However, it does not delve into its specific effects on leading-mainboard companies. In contrast, the study (Adcock et al., 2023) focuses on the dynamics of a gradual change in the auto rejection lower limit, which provides initial insights into the market response to the policy. However, this study still lacks a comprehensive picture of the effects of symmetric policies on abnormal returns and trading volume. This study aims to identify the differences in abnormal returns before and after the implementation of the symmetric auto rejection policy on leading board companies listed on the IDX, as well as analyze changes in trading volume in the context of the policy. In addition, this study also aims to compare the impact of a symmetric auto rejection policy on abnormal returns and trading volume during the two stages of policy implementation, focusing on how this policy affects the dynamics of the Indonesian capital market and investors' response to available information (Aktas et al., 2021). Using the event study method, this study will measure the market reaction to implementing a symmetric auto-rejection policy, especially by analyzing abnormal returns and trading volume. The findings of this study are expected to provide theoretical contributions to enriching the literature on auto rejection policies and provide practical insights for investors, regulators, and stakeholders in formulating more effective capital market policies.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Income smoothing practice is a form of corporate manager action in the form of earnings management carried out to smooth fluctuations in corporate profits from year to year (Albaity et al., 2023). Managers adopt income smoothing practices to attract investor interest because, when evaluating company performance, investors focus on earnings information and pay attention to earnings fluctuations in each period. Insignificant profit fluctuations mean that the company has stable conditions and low risk, so managers are motivated to increase profits when earnings tend to be low and reduce profits when the company generates relatively high profits. For a long time, income smoothing practices have been considered manipulation actions that cause distortions in financial statements and reduce the quality of reported earnings (Charlie Kuncara Jati & Dorothea Ririn Indriastuti, 2024). If opportunistic income smoothing practices are used to adjust corporate profits, earnings information can contain biases that mislead investors' investment decision-making.

Investment in the banking sector attracts investors because banks are financial institutions that significantly contribute to economic growth (Mukmin & Firmansyah, 2020). In addition, the existence of the Financial Services Authority (OJK), which oversees the independence and effectiveness of banking activities, invests in the banking sector, which is considered relatively safe by investors (Hoekstra & Güler, 2024). However, there have been several cases involving banking companies in fraudulent financial reporting practices in Indonesia, such as what happened in 2002, namely the case of the publication of two different versions of financial statements by Bank Lippo Tbk.

The first version was published through print media and noted that the company had total assets of Rp 24 trillion and net income of Rp 98 billion. Meanwhile, a different value was listed in the second version deposited with BEJ, namely total assets of Rp 22.8 trillion, and even obtained a net

loss of up to Rp 1.3 trillion. Meanwhile, another case occurred in 2018 by Bank Bukopin Tbk. which was known to have modified 100,000 credit card data five years earlier (Zumarnis & Andarini, 2023). The result was an undue increase in Bank Bukopin's credit position and commission-based income. For years, the modification went undetected by various supervision and audit processes, be it Bukopin's internal audit, public accounting firm, Bank Indonesia, and OJK (Leluni, 2023). The above cases highlight that although the banking industry has been strictly regulated and supervised, banking companies still have loopholes for accounting fraud practices, such as income smoothing to cover the company's financial condition (Das & Gupta, 2022). High interest from investors and the attention given by the government and society to the banking sector can pressure companies always to show good performance. Hence, management is vulnerable to income-smoothing practices. This practice raises concerns among investors because it can limit them from accurately assessing the company (Liu et al., 2023).

Research conducted by (Zeze Zakaria Hamzah., Retnadinda Ari Putri., 2022); (Sahputra et al., 2022) shows that abnormal returns do not affect market reactions that occur due to an event, namely COVID-19. So that there are no differences before and after the event seen from abnormal returns, this research gap looks for differences before and after the event. Abnormal returns indicate market efficiency, where the price of a security should reflect information and expectations about return expectations. If the market is inefficient, the securities will produce returns that are more significant than the norm, which is abnormal. Thus, testing market efficiency is abnormal testing (Wardoyo et al., 2022). Therefore, in this study, the hypothesis proposed is

H1: There is a difference in abnormal returns before and after applying symmetrical auto rejection.

Research conducted (Against, 2020), (Aulia Pramesti & Nera Marinda Machdar, 2023), (Sahputra et al., 2022) shows that trading volume does not affect market reaction with specific events, so there are no differences before and after the event. Hence, the hypothesis in this study is to find out the differences before and after the event. If the event contains a positive signal, the market will also react positively so that investor interest in stocks will increase and vice versa. Increasing or decreasing investor interest in investing will be reflected in changes in stock trading volume, namely a decrease or increase in TVA. Then the hypothesis obtained in this study is

H2: There is a difference in trading volume before and after the implementation of symmetric auto rejection.

Other studies conducted by (Yusran & Lesmana, 2022) show that abnormal return has no effect on the market reaction that occurs due to a particular event, so it does not make a difference before and after the event is marked by negative or positive abnormal return indicates the content of the information whether it provides a positive or negative signal (Wong & Zhang, 2021). Then the hypothesis of this study is:

H3: There is a difference in abnormal returns before and after applying symmetrical auto rejection.

Research conducted by (Kusumawardani et al., 2023), (Rosana & Tasyrifani, 2022) shows that trading volume does not affect market reactions that occur due to certain events as seen from the absence of differences before and after events which, if an event provides a negative signal, the trading volume produces a negative value while if information is positive, the trading volume is positive (Yusran & Lesmana, 2022) certain. Then the hypothesis obtained in this study is:

H4: There is a difference in trading volume before and after the implementation of symmetrical auto rejection.

This study examines the impact of symmetric auto rejection policies on abnormal returns and stock trading volume in companies on the Indonesia Stock Exchange (IDX) (Caporale et al., 2021). Previous studies show mixed results regarding the effect of certain events on market efficiency, with abnormal returns reflecting the extent to which information is reflected in stock prices, while trading volume reflects investor interest. This study examines the differences in abnormal returns and trading

volume before and after implementing the policy (Zhang et al., 2021). Thus, this study is expected to provide new insights into the impact of symmetric auto rejection policy on the Indonesian capital market and close the gap of previous research presented below.

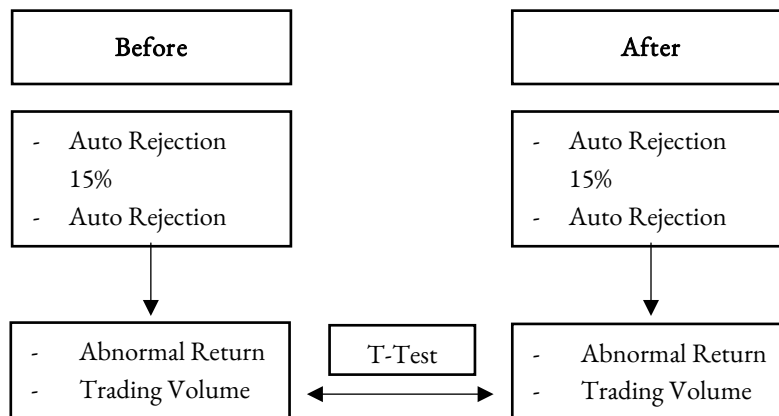


Figure 1. Research Model

Source: Research Data, 2024

3. RESEARCH METHODS

This study uses a quantitative approach with a descriptive method to analyze the impact of the 15% auto rejection and symmetric auto rejection policies on the stock market in Indonesia. With a focus on abnormal returns and trading volume, this study aims to identify differences before and after implementing these policies. The data used includes the stock prices of companies listed on the Indonesia Stock Exchange (IDX) from 2020-2023, which come from various significant sectors such as infrastructure, healthcare, basic materials, finance, and non-cyclical consumer goods. The research population includes all companies listed on the IDX with specific criteria, including continued listing on the exchange during the research period and the completeness of annual financial reports presented in Rupiah. The research sample is drawn from companies that meet these criteria, specifically from the main board. This data is then used to test for significant differences in the variables under study before and after the auto-rejection policy is implemented.

Through data analysis, this study provides an empirical picture of how the market responds to implementing the auto rejection policy. Abnormal returns indicate market efficiency, while trading volume reflects investor activity and interest. This approach makes it possible to identify whether the auto rejection policy provides relevant signals and influences the investment decisions of market participants. The total sample with several purposive sampling criteria is as follows:

Table 1. Purposive Sampling Results

No.	Criteria	Total
1	Infrastructures, Healthcare, Basic Materials, Financial, and consumer non-cyclical companies listed on the IDX consecutively during 2020-2023.	50
2	Infrastructures, Healthcare, Basic Materials, Financial, Consumers, and Non-Cyclicals companies that do not publish annual financial reports during 2020-2023.	-14
3	All financial statements from 2020-2023 are not presented in Rupiah.	-20
Number of selected research samples		16
Research period		3
Number of samples during the study period (3 years)		48

Source: Data processed by researchers, 2024

Table 2. Company Data Selected as Sample

No.	Code	Company Name	Criteria			TOTAL
			1	2	3	
1	MORA	Mora Telematics Indonesia Tbk.	✓	✓	✓	✓

No.	Code	Company Name	Criteria			TOTAL
			1	2	3	
2	PAGES	Pertamina Geothermal Energy Tbk.	✓	×	×	×
3	BDKR	Berdikari Pondasi Perkasa Tbk.	✓	✓	✓	✓
4	BREN	Barito Renewables Energy Tbk.	✓	×	×	×
5	ARKO	Arkora Hydro Tbk.	✓	✓	✓	✓
6	KRYA	Bangun Karya Perkasa Jaya Tbk.	✓	✓	×	×
7	KOKA	Koka Indonesia Tbk.	✓	✓	✓	✓
8	SMKM	Sumber Mas Konstruksi Tbk.	✓	×	×	×
9	MTMH	Murni Sadar Tbk.	✓	×	✓	×
10	OMED	Jayamas Medica Industri Tbk.	✓	✓	×	×
11	MEDS	Hetzer Medical Indonesia Tbk.	✓	×	✓	×
12	PRAY	Famon Awal Bros Sedaya Tbk.	✓	×	✓	×
13	MMIX	Multi Medika Internasional Tbk.	✓	✓	×	×
14	PEVE	Penta Valent Tbk.	✓	✓	×	×
15	HALO	Haloni Jane Tbk.	✓	×	✓	×
16	RSCH	Charlie Hospital Semarang Tbk.	✓	✓	✓	✓
17	IKPM	Ikapharmindo Putramas Tbk.	✓	✓	×	×
18	SURI	Maja Agung Latexindo Tbk.	✓	×	✓	×
19	NCKL	Trimegah Bangun Persada Tbk.	✓	✓	×	×
20	AMMN	Amman Mineral International Tb	✓	✓	×	×
21	CHEM	Chemstar Indonesia Tbk.	✓	×	✓	×
22	PDPP	Primadaya Plastisindo Tbk.	✓	✓	×	×
23	FWCT	Wijaya Cahaya Timber Tbk.	✓	✓	✓	×
24	MBMA	Merdeka Battery Materials Tbk.	✓	×	×	×
25	PPRI	Paperocks Indonesia Tbk.	✓	×	✓	×
26	PACK	Digital Packaging Solutions Tbk.	✓	×	✓	×
27	KKES	Kusuma Kemindo Sentosa Tbk.	✓	✓	✓	✓
28	VTNY	Venteny Fortuna International	✓	×	×	×
29	STAA	Sumber Tani Agung Resources Tb	✓	✓	✓	✓
30	TRGU	Cerestar Indonesia Tbk.	✓	✓	✓	✓
31	JARR	Jhonlin Agro Raya Tbk.	✓	✓	✓	✓
32	CBUT	Citra Borneo Utama Tbk.	✓	×	×	×
33	MKTR	Menthobi Karyatama Raya Tbk.	✓	✓	✓	✓
34	TLDN	Teladan Prima Agro Tbk.	✓	✓	✓	✓
35	DEWI	Dewi Shri Farmindo Tbk.	✓	✓	×	×
36	SUGAR	Aman Agrindo Tbk.	✓	✓	✓	✓
37	FRUIT	Segar Kumala Indonesia Tbk.	✓	✓	✓	×
38	CRAB	Toba Surimi Industries Tbk.	✓	✓	✓	✓
39	BEER	Jobubu Jarum Minahasa Tbk.	✓	✓	✓	✓
40	WINE	Hatten Bali Tbk.	✓	✓	✓	✓
41	NSSS	Nusantara Sawit Sejahtera Tbk.	✓	✓	×	×
42	MAXI	Maxindo Karya Anugerah Tbk.	✓	✓	✓	✓
43	TGUK	Platinum Wahab Nusantara Tbk.	✓	✓	×	×
44	PTPS	Pulau Subur Tbk.	✓	✓	×	×
45	STRK	Lovina Beach Brewery Tbk	✓	✓	×	×
46	CHICKEN	Janu Putra Sejahtera Tbk.	✓	✓	×	×
47	WIKA	Wijaya Karya Tbk.	✓	✓	✓	✓
48	PTPP	Housing Development Tbk.	✓	✓	✓	✓

Data retrieved and reprocessed, 2024

Based on the results of purposive sampling, 16 companies were obtained that fit the criteria, as for these companies, namely:

Table 3. Companies Selected as Sample

No.	Code	Company Name
1.	MORA	Mora Telematics Indonesia Tbk.
2.	BDKR	Berdikari Pondasi Perkasa Tbk.

No.	Code	Company Name
3.	ARKO	Arkora Hydro Tbk.
4.	KOKA	Koka Indonesia Tbk.
5.	RSCH	Charlie Hospital Semarang Tbk
6.	KKES	Kusuma Kemindo Sentosa Tbk.
7.	STAA	Sumber Tani Agung Resources Tb
8.	TRGU	Cerestar Indonesia Tbk.
9.	JARR	Jhonlin Agro Raya Tbk.
10.	MKTR	Menthobi Karyatama Raya Tbk.
11.	TLDN	Teladan Prima Agro Tbk.
12.	SUGAR	Aman Agrindo Tbk.
13.	CRAB	Toba Surimi Industries Tbk.
14.	BEER	Jobubu Jarum Minahasa Tbk.
15.	WINE	Hatten Bali Tbk.
16.	MAXI	Maxindo Karya Anugerah Tbk.

Source: Data processed by researchers, 2024

This study uses secondary data from reliable sources such as Yahoo Finance and the official website of the Indonesia Stock Exchange (IDX) (www.idx.co.id). This secondary data includes the closing stock prices of companies listed on the IDX and is used to analyze the impact of implementing the auto-rejection policy on abnormal returns and trading volume. As a complementary source, secondary data aims to complement primary data, provide relevant information, and support research analysis (Caporale et al., 2021). This research utilizes an experimental method under controlled conditions to explore the effect of the auto rejection policy on the observed variables. Stock price data downloaded from Yahoo Finance was then tidied up and processed using software such as Excel and further analyzed to answer the research questions. This approach clarifies the analysis process. It supports the validity of the research results, which are expected to provide in-depth insight into the impact of the auto rejection policy on the Indonesian capital market (Kalovwe et al., 2021). Thus, this study offers a systematic and reliable approach to understanding the dynamics of stock prices and trading activities and can be used as a reference by investors, academics, and policymakers to understand market behavior and the stability of the Indonesian capital market.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistical Analysis

Results The descriptive statistical test results in Table 4 explain the 64 observations studied. Income smoothing practices have the lowest value of -1.00, the most significant value of 0.24, an average value of -0.914, and a standard deviation of 0.192. Profitability has the smallest value of 1.00, the highest value of 35.02, an average value of 12.217, and a standard deviation of 6.923. Public ownership has the lowest value of 1.29 and 46.79 for the largest, an average value of 22.882, and a standard deviation of 15.808. The dividend policy has the lowest value of 10.00 to 85.86 for the largest, with an average of 40.930 and a standard deviation of 18.738.

Table 4. Descriptive Statistics Test Results

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Income Smoothing (Y)	64	-1,00	0,24	-0,914	0,192
Profitability (X ₁)	64	1,00	35,02	12,217	6,923
Public Ownership (X ₂)	64	1,29	46,79	22,882	15,808
Dividend Policy (X ₃)	64	10,00	85,86	40,930	18,738

Source: Research Data, 2024

Table 4 shows the results of the classical assumption test. The normality test is applied by looking at Asymp. Sig. (2-tailed). Based on Table 1, Sig. is worth 0.200 > 0.05, so the data is usually distributed. The multicollinearity test is seen from the tolerance and VIF values. Table 1 explains the results of the multicollinearity test; each independent variable has a tolerance value of more than 0.10

and VIF of less than 10, so the data does not contain multicollinearity symptoms. The geysers test is used for the heteroscedasticity test. Table 1 explains the results of the heteroscedasticity test in the form of each independent variable having a significance value of more than 0.05 so that there are no symptoms of heteroscedasticity.

Table 5. Classical Assumption Test Results

Variables	Normality Test		Multicollinearity Test		Heteroscedasticity Test	Autocorrelation Test
	N	Sig.	Tolerance	VIF	Sig.	Durbin-Watson
Profitability (X1)			0,660	1,515	0,397	
Public Ownership (X2)	64	0,200	0,641	1,561	0,463	1,316
Dividend Policy (X3)			0,751	1,331	0,844	

Source: Research Data, 2024

The autocorrelation test is operated with the Durbin-Watson test. Table 5 outlines that the Durbin-Watson value is 1.316. The Durbin-Watson table has a significance of 5%, the number of data (N) is 64, and the number of independent variables is 3 ($k = 3$), resulting in a dL value of 1.4990 and a dU value of 1.6946. So, the Durbin-Watson value does not meet the autocorrelation test requirements, namely $0 < d < dL$ or $0 < 1.316 < 1.4990$, which means there is positive autocorrelation or an autocorrelation problem. This can occur because the data is a time series prone to autocorrelation disorders. The Cochrane-Orcutt test can resolve an autocorrelation problem in the model (Ghozali, 2018, p. 125). This method transforms the data into a lag form, requiring the rho coefficient (ρ) value to transform all research variables. The rho coefficient (ρ) of 0.340 is obtained, which will then be used to perform Lag transformation on each variable so that the Durbin-Watson (d) value is obtained with the Cochrane-Orcutt test, which is 1.833. This value is reviewed with the Durbin-Watson table value. The result is $dU < d < 4-dU$ or $1.6946 \leq 1.833 \leq 2.3054$. So, through the Cochrane-Orcutt test, no autocorrelation problem was found.

Table 6. Cochrane-Orcutt Autocorrelation Test Results

Variables	Autocorrelation Test (Cochrane-Orcutt)	
	Coefficient of rho (ρ)	Durbin-Watson
LAG_Income Smoothing (Y) LAG_Profitability (X1) LAG_Public Ownership (X2) LAG_Dividend Policy (X3)	0,340	1,833

Source: Research Data, 2024

Table 6 shows the regression equation for this study, which is:

$$Y = 0.469 - 0.012X_1 + 0.009X_2 + 0.000X_3 \quad (12)$$

The constant value of 0.469 means that if profitability, public ownership, and dividend policy are fixed, income smoothing practices will increase by 0.469. The profitability regression coefficient of -0.012 means that if the company's profitability decreases by one unit, the tendency of managers to practice income smoothing will increase by 0.012, assuming other variables remain constant. The regression coefficient of public ownership of 0.009 means that if the proportion of public ownership of the company increases by one unit, then the practice of income smoothing by managers will increase by 0.009, assuming other variables remain constant. The dividend policy regression coefficient of 0.000 means that if the company's dividend policy increases by one unit, the tendency of managers to use income smoothing practices will increase by 0.000, assuming other variables remain constant.

Table 7. Multiple Linear Regression Analysis Results

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0,469	0,088		5,322	0,000
Profitability (X1)	-0,012	0,006	-0,295	-2,029	0,047
Public Ownership (X2)	0,009	0,003	0,480	3,255	0,002
Dividend Policy (X3)	0,000	0,002	0,019	0,136	0,892
Adjusted R Square	0,124				
F-Count	3,968				
Sig. F	0,012				

Source: Research Data, 2024

Based on the F-test and the coefficient of determination test results, the regression model used in this study proved feasible with the contribution of profitability, public ownership, and dividend policy variables to income smoothing practices amounting to 12.4%. The results showed that profitability hurts income smoothing practices, which means that managers are more likely to do income smoothing when the company experiences a decrease in profitability to create earnings stability. In addition, public ownership has a positive effect, where the higher the public ownership, the greater the tendency of managers to perform income smoothing. However, dividend policy has no significant effect on income smoothing practices. Dividend distribution decisions are more influenced by the need to maintain the stability of the company's operations than by earnings stability. This finding supports previous studies that show dividend policy does not affect income smoothing practices, adding to the understanding of the dynamics of accounting policies within the company.

4.2. Discussion

This study revealed that the 15% price cap policy change applied symmetrically gave a negative signal to trading volume but a positive reaction to abnormal returns. Although there was no significant difference between the pre-and post-event periods when analyzed based on abnormal returns, trading volume showed a significant difference. T-test results show a decrease in trading volume while certain companies' average abnormal return increases. However, the abnormal return observation table graph shows a positive trend. After conducting a Wilcoxon rank test, it was found that the price cap policy change gave a negative signal, indicating that the market reaction was adverse. This study aims to explore the market response by analyzing the difference in abnormal returns before and after the implementation of the auto rejection policy changed from 15% to symmetrical, as well as to assess the difference in trading volume within the period. The aim is to determine whether this information generates a positive or negative reaction in the market (Yulianti et al., 2022). Moreover, Ma'rifah et al. (2023) state that abnormal returns affect market reactions arising from specific events. Abnormal returns reflect market efficiency, whereas security prices should reflect information and expectations about expected returns. If the market is considered inefficient, securities, known as abnormal return testing, will provide higher returns than expected. Thus, testing market efficiency is essentially testing for abnormal conditions (Zhang et al., 2021).

Research by (Rosana & Tasyrifani, 2022) reveals that trading volume influences market reactions to specific events. When an event provides a positive signal, the capital market tends to react in the same way, namely positively, which has an impact on increasing investor interest in buying shares. In this study, the market reaction of several companies is analyzed through the difference in abnormal returns and trading volume before and after the event, with the results showing a combination of negative and positive reactions. If the result is negative, the information received is considered harmful, and vice versa. However, analysis of the average abnormal return does not show significant differences before and after the event because the abnormal return results show negative values (Rosana & Tasyrifani, 2022). This indicates that the market reaction based on abnormal returns can be considered bad news. On the other hand, the average trading volume shows positive results, so despite the policy change, the market reaction to the trading volume variable can be considered good (Li et al., 2024).

5. CONCLUSION

This study provides empirical evidence on the effect of profitability, public ownership, and dividend policy on income smoothing practices and analyzes the market reaction to changes in auto rejection policy. The results show that income smoothing practices are negatively affected by profitability and positively by public ownership but not significantly affected by dividend policy. In addition, this study found a significant difference in abnormal returns reflecting the adverse market reaction to the 15% auto rejection policy change to symmetric auto rejection. At the same time, the trading volume showed no significant difference. Based on these findings, it is recommended that companies pay attention to market information and set the right stock price. At the same time, investors should implement active strategies and be cautious of price caps. Future researchers are advised to expand the research by adding variables and analytical tools, such as order selection and sell or buy decisions, to understand the behavior of investors more deeply.

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