Examining the effect of trading suspensions on trading efficiency and share liquidity

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Abstract

Trading suspensions are designed to allow investors to reevaluate their put or call orders on the occasion of a firm's report to the public that contains information that may affect their decision to purchase or sells its shares. In this work we examine if trading suspensions enhance or decrease trading efficiency on the Tel Aviv Stock Exchange (TASE). We use a unique database that allows us to study the effect of trading halts on investors' response speed to firms' announcements, on share liquidity, and share volatility. We examined announcements that were accompanied by limited trading suspensions, and compared them to announcements that were not accompanied by trading suspensions. We found that on the days on which the TASE decided to suspend trading due to a firm's report to the public, trading volumes and share volatility increased, and limited suspensions are indeed utilized by investors to reevaluate their earlier orders. The main finding relates to investor's speed of response to the information. We found that the price determined in a tender at the end of the trading suspension reflects 55% of the information published to the public, compared to only 38% of the information in comparable cases in which no trading suspension was declared, and over 70% of the information is reflected in the share price 10 minutes later. In other words, the information published to the public is reflected more rapidly in share prices when a time-limited trading suspension is declared.

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