

**ANALYSIS OF NONCOMPLIANCE PSX-LISTED  
COMPANIES: AN EVENT STUDY PERSPECTIVE**



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## **Author's Declaration**

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**CERTIFICATE**

This is to certify that this thesis entitled: “**Analysis of Noncompliance PSX-Listed Companies: An Event Study Perspective**” submitted by **Ms. Gulfam Saleem** is accepted in its present form by the School of Economics, Pakistan Institute of Development Economics (PIDE), Islamabad as satisfying the requirements for partial fulfillment of the degree in Master of Philosophy in Economics & Finance.

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## ***Dedication***

***This thesis is devoted to my beloved Parents & Siblings.***

To my loving family, whose unconditional love, endless prayers, never-ending support, and constant motivation have been my strength throughout this journey. This work is a heartfelt tribute to your support and sacrifices.

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## LIST OF ABBREVIATIONS

PSX	Pakistan Stock Exchange
SECP	Security Exchange Commission of Pakistan
NCS	Non-Compliance Segment
NR	Normal Return
ER	Expected Return
AR	Abnormal Return
CAR	Cumulative Abnormal Return
EMH	Efficient Market Hypothesis
MM	Market Model
MAM	Mean Adjusted Model
KSE	Karachi Stock Exchange
RWA	Risk Warning Alert
CDC	Central Depository Company
CDS	Central Depository System
AGM	Annual General Meeting
ARM	Annual Review Meeting
GCC	Gulf Cooperation Council
APT	Arbitrage Pricing Theory
SD	Standard Deviation
SBP	State Bank of Pakistan
CPEC	China Pakistan Economic Corridor

## ABSTRACT

This study examines the effect of non-compliance behavior on the share prices of PSX-listed firms. Based on the Efficient Market Hypothesis (EMH), the analysis of the study employs an event study methodology using the mean-adjusted return model for 47 currently non-compliant firms during 2014 to 2024. This method treats non-compliance as a significant event in a firm's life cycle. An estimation window of 180 days is used, along with an event window of 21 days, comprising 15 days before and 5 days after the announcement date. The empirical analysis calculates the abnormal returns and the cumulative abnormal returns. Moreover, a t-test is applied to check the robustness of the model. The findings show that most companies have negative CAR and negative abnormal returns on the event date, suggesting that a non-compliance event has a negative and significant impact on the companies' share prices. All the T-values are significant at the 10% and 5% significance levels. Furthermore, the study aligns with the semi-strong form of efficiency (Fama, 1970), which suggests that all publicly available information promptly influences share prices. Overall, this study contributes to the literature on market efficiency and corporate performance in the case of Pakistan by demonstrating that regulatory non-compliance has practical and quantifiable effects on firm valuation. The conclusion emphasizes that the announcement of noncompliance has a significant impact on the company's share prices, the PSX rules is relevant however some companies is unpunished for bring noncompliant recommending that there are other reasons too for which companies share price have positive CAR like past experience or loyalty with the noncompliant companies. This study recommends that companies should strictly follow the rules made by PSX however the rules needs a bit changes ensuring that rules remain relevant and effective. Further studies can be conducted on the determinants behind noncompliant companies.

**Keywords:** Non-Compliance Companies, Event Study Methodology, Cumulative Abnormal Return, Pakistan Stock Exchange, Efficient Market Hypothesis.

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

Non-compliant firms are those that violate the regulatory rules of PSX. These types of firms significantly weaken investors' trust, reduce firm value, and result in lower shareholder returns and a higher cost of capital (Tareen & Siddiqui, 2019). In capital markets, such behavior undermines corporate governance and disrupts resource allocation by distorting price signals. The implications of non-compliance are especially critical in emerging economies like Pakistan, where capital markets are still evolving within a complex regulatory environment (Ghoul, 2023). Markets in these countries often operate under weaker enforcement and lower levels of investor protection. When non-compliance becomes widespread, it signals that rules can be ignored without consequences. This discourages investment, reduces market participation, and hinders financial development (Xie et al., 2019). In Pakistan, the PSX is the country's main capital market and plays a vibrant role in capital formation and allocation. However, a growing number of non-compliant firms are listed on the exchange, raising serious concerns about the effectiveness of regulatory enforcement (PSX, 2025)<sup>1</sup>. These repeated instances of corporate misconduct erode PSX's credibility as a reliable investment platform. Such behaviors weaken investors' confidence, particularly among foreign participants. If left unaddressed, this persistent pattern could hinder the capital market's ability to contribute meaningfully to economic growth and further erode the integrity of Pakistan's financial system.

### 1.2 Non-Compliance

The non-compliant segment of the PSX comprises firms that violate key listing requirements, such as the timely submission of financial reports, the maintenance of minimum paid-up capital, or holding annual general meetings. Violations of listing requirements often result in regulatory penalties, trading suspensions, and delisting. According to the PSX Analysis Report 2024, the number of companies listed in the non-compliance segment has increased to 99, up from 97 in 2023 (See graph in Appendix 1), spanning various major sectors such as textiles,

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<sup>1</sup> [https://www.psx.com.pk/psx/themes/psx/uploads/PSX\\_Rulebook\\_updated\\_on\\_February\\_15\\_2023\).pdf](https://www.psx.com.pk/psx/themes/psx/uploads/PSX_Rulebook_updated_on_February_15_2023).pdf)

chemicals, engineering, leasing, and the sugar industry. These violations show internal governance failures, and they threaten the broader integrity of Pakistan's capital markets.

Globally, capital markets, regulatory compliance are foundational to corporate legitimacy and investor trust. Failure to meet these standards can result in a reduction of market capitalization, increased volatility, and a decline in foreign direct investment. Tauseef & Dupuy (2022) highlight that such failures have systemic consequences, especially in markets where enforcement is uneven. Pakistan's regulatory environment is also characterized by fragmented compliance, institutional asymmetries, and a mixed investor base composed of both institutional and retail investors, many of whom are vulnerable to information asymmetry. Understanding how such markets react to public announcements of non-compliance is essential for evaluating both market efficiency and the effectiveness of regulatory frameworks. In the context of non-compliance, EMH is important because it helps assess whether the stock market promptly reflects such negative disclosures in share prices. It moreover shows the market's efficiency in processing public information.

Malkiel & Fama, (1970) provides a theoretical foundation for examining how quickly and accurately stock prices respond to public information. The EMH posits that in an efficient market, asset prices reflect all available information, whether historical (weak form), publicly available (semi-strong form), or both public & private (strong form). Same as the signaling theory, enhances with the issue of the asymmetry in the information between investors and entrepreneurs (Choudhury, 2024; Connelly et al., 2011). In terms of this theory, firm announcements are viewed as signals that provide significant information concerning the current state of the firm and its future (Puspitaningtyas, 2019). This research examined how noncompliance announcement act as a signal to the stock market, investor and the how it serves as a new information transmitted to the investors who are the receivers of this signal. In this context, a company's classification as non-compliant serves as a public disclosure event with potentially material consequences for investor decision-making and stock valuation.

This identify the problem related to the rules of PSX regarding to the announcement of noncompliance companies, whether people (investor) punished such companies? The present study employs the event study methodology to assess the impact of non-compliance announcements on the share prices of 47 currently non-compliant firms listed on the PSX. The analysis uses data from 2014 to 2024, sourced from Investing.com. A mean-adjusted return model is employed, with an estimation window of 180 days & an event window of 21 days, encompassing 15 days preceding and 5 days following the announcement date. The study focuses on calculating (ARs) and (CARs) to quantify the financial implications of regulatory

non-compliance.

By examining the stock price behavior of non-compliant firms, this study contributes to the financial literature by offering detailed insights into market efficiency and the effectiveness of regulatory oversight in Pakistan's capital market. The findings highlight that the majority of the firms exhibit negative ARs following non-compliance announcements. However, few firms show positive responses, suggesting that firm-specific factors or broader market dynamics may also influence the market. These results suggest that non-compliance, along with other variables such as industry context, firm reputation, and investor expectations, collectively influence share prices. The study offers valuable implications for listed companies, investors, regulators such as the SECP, and policymakers working to strengthen market discipline and improve governance standards.

### **1.3 Problem Statement**

Non-compliance with regulations is one of the most severe events a company can face, often leading to or signaling financial distress, including insolvency or default. In Pakistan, non-compliance among firms continues to pose significant challenges for financial markets and the broader economy. Alarming, in 2023, out of 524 listed companies, 99 were classified as non-compliant (PSX, 2023). Global literature offers significant insights into the determinants and consequences of corporate non-compliance. However, a perceptible gap remains in scholarly research concentrating on the non-compliant segment of the PSX. Noncompliance usually reduces share prices since it is an indicator of increased risk and poor governance, thus featuring poor investor confidence. The negative abnormal returns and volatility around the time of announcement are usually swift reactions reflected in the market. Therefore, it is essential to examine the share price behavior of firms publicly identified as non-compliant to assess market perceptions and the effectiveness of regulatory measures in the case of PSX. The problem this thesis is identifying is that the rules of PSX regarding to the noncompliance announcement is relevant or not. If it is relevant means people punished such companies by reducing their abnormal returns or share prices. A focused study on this segment is therefore critical to understanding managerial shortcomings, regulatory gaps, and the systemic risks posed by persistent non-compliance in Pakistan's capital market.

### **1.4 Objective**

To evaluate the impact of non-compliance announcement on the share prices of non-compliant firms listed in PSX. The present study applies the event study methodology to evaluate the

impact of non-compliance announcements on the share prices of 47 currently non-compliant firms listed on the PSX. The analysis uses data from 2014 to 2024.

### **1.5 Research Question**

What is the impact of non-compliance announcement on the share prices of the non-compliant segment of the Pakistan Stock Exchange (PSX)?

### **1.6 Significance of Research**

Non-compliance of firms to PSX rules and regulations directly highlights the serious problems in corporate governance, transparency, and the possibility of financial instability of such types of firms. Investors and market players would find the results of this study of great value since it establishes the market effects of non-compliant disclosures. To portfolio managers, analysts, and retail investors, this evidence is essential in predicting price changes, re-evaluation of risk in investments, as well as leading to rational decisions in trading or investment. Knowledge of such patterns enables investors to develop a strategy that reduces exposure to companies with poor compliance records and to capitalize on more predictive market reactions. On the same note, such results can be used by brokers, credit rating agencies, and financial advisors to incorporate them into their systems of risk assessment, making better decisions concerning clients and other stakeholders (Altman, 1968; Shumway, 2001). To regulators and policymakers, the study offers an evidence base to benchmark the success of existing disclosure obligations and enforcement methods. When sharp negative reactions to the news of non-compliances are identified in the analysis, it will verify that timely, transparent reporting is required to sustain market confidence. On the other hand, low responses could point to a lack of investor awareness, the validity of enforcement, or communication proficiency of regulatory agencies, and hence the necessity of reforms. Such information can have direct, specific targeted intervention to improve listing rules, raise punishment of repetitive violations, or enact compulsory investor education on the performance of market discipline (Beck et al., 2006).

This study is directly applicable to investment decision-making and portfolio risk management as they can be viewed in the light of an investor and manager in the market. A non-compliance announcement also indicates possible deficiencies in governance, financial vulnerability, or disagreements in regulations; all of which may sour the investor confidence (PSX, 2023). Furthermore, knowing the trends, timing, and market response when such an announcement is made can enable investors to counter price movements, reduce their allocation levels in assets, and limit exposures to firms that pose significant risk to them (Shleifer &

Vishny, 1997). This is also beneficial in improving the effectiveness of market pricing by limiting the degree of information asymmetry in facilitating healthier activities of markets. Overall, the research can serve as a useful contribution because the evidence-based findings can assist investors, regulators, and policymakers to respond better to noncompliance incidents and end up with a more transparent, resilient, and trustworthy capital market in Pakistan.

## **1.7 Policy Context**

The PSX plays a crucial role in the country's financial system. Noncompliance by firms has a significant impact on a country's financial system. It can bring significant losses and have a domino effect on the economy. Moreover, it has implications for investors, creditors, and the broader economy. The causes leading to the default of firms are enormous. For example, a lack of stringent corporate governance, high levels of indebtedness, unfavorable market conditions, improper management, and inconsistent financial report disclosure. Other external factors that are beyond a company's control include political instability, inflation, and fluctuating market trends in the international market. It is, therefore, essential for policymakers and regulators to identify and address these causes to enhance risk management frameworks. This extends to applying more rigorous compliance with corporate governance codes, increasing the level of disclosure, and taking timely actions. Market participants, such as investors and creditors, are also required to exercise caution when evaluating the financial state of firms to avoid potential noncompliance issues. Preventing the problem of regulatory noncompliant firms will have a positive effect on the economy and will be beneficial in improving financial system stability. By highlighting these areas, the study will help policymakers, regulators, market participants, and investors to understand noncompliance as a signal and to invest in more secure portfolios rather than in non-compliance situations.

## **1.8 Structure of the study**

This study is structured into five chapters, each comprising several subsections. Chapter 1 provides an overall introduction to the study, focusing on the noncompliance segment of the PSX. Chapter 2 provides a review of previous studies on event studies, stock market announcements, and their impact on share prices. Chapter 3 shows the data methodology and the conceptual and theoretical framework. Chapter 4 discusses the results and findings of the study. Chapter 5 presents the final recommendation & conclusion from the study.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter assesses the relevant research and literature on non-compliance. The first section discusses the theoretical literature on market efficiency and signaling theory, as the study is based on these theories. The second section explores the methods used in non-compliance literature. The third section presents empirical work on event studies and non-compliance as well as examines the effects of various events on different stock exchanges, specifically in the context of the PSX.

#### 2.2 Theoretical Literature on Non-Compliance

The reaction of the market in cases of non-compliance has been successfully examined using the EMH and the Signaling Theory.

##### 2.2.1 Signaling Theory

Research has discovered that the marketplace signaling suddenly impacts financial markets (Connelly et al., 2011). Signaling theory is a practical tool in addressing the scenario where two parties act under asymmetric information when interacting in market (Choudhury, 2024; Connelly et al., 2011). In terms of this theory, firm announcements are viewed as signals that provide significant information concerning the current state of the firm and its future (Puspitaningtyas, 2019). With non-compliance disclosures, the signals are often bad and show a possible weakness in corporate governance, flawed financial management, or a lack of transparency. Such signals are interpreted by investors as a sign of higher uncertainty and operational risk or default risk, and this usually causes a sell-off and accordingly lowers the stock prices. A study on the Indonesian Stock Exchange used Signaling Theory and the event study technique to cover the effect of dividend announcements on the stock returns. Using a paired sample t-test, the study established that positive abnormal returns occurred when there were increases in dividends, whereas there were negative abnormal returns when there were decreases in dividends (Puspitaningtyas, 2019). Under the Signaling Theory approach, non-compliance disclosures may provide a negative signal to the market, which may indicate some flaws in the corporate governance or financial management, or transparency. To investors, such

signals are perceived as evidence of heightened uncertainty and rising default or operational risk, which frequently result in the selling off of stocks and a drop in stock prices.

### **2.2.2 Efficient Market Hypothesis**

EMH plays a pivotal role in modern finance, exerting a significant influence on academia, investment management, and portfolio management. (Fama, 1970) introduced EMH, which claims that asset prices in an efficient market are always determined by all available information. Therefore, prices guide firms in their use of resources and indicate who controls the capital in the economy. In agreement with (Malkiel, 1987; Sewell, 2011) an effective market is considered one where news or information released to the public directly affects security prices to make them fair, meaning prices are fair or justified.

The EMH holds a central place in financial research (Titan, 2015). Some scholars support EMH, while others equally do not support EMH, given its mixed endorsement on empirical grounds. The idea of market efficiency has been in existence for many years. A precursor to the market efficiency idea can be found as early as Cardano (1564), who emphasized the importance of fair play in gambling. Venn (1866) initiated the concept of time and price distinction. These concepts of randomness in prices were first explored by Rayleigh (1880). Bachelier (1900) published a mathematical exploration of Brownian motion and speculation, like Einstein's, but earlier. Subsequently, economists such as Cowles (1944) performed some of the first empirical tests pointing towards the conclusion that the markets are not easily beaten. Kendall & Hill, (1953) discovered that the change in stock prices is random. EMH was formalized by Samuelson (1965) who termed an efficient market as one in which market prices adequately reflect the available information. Fama et al. (1969) categorized EHM into three categories. Weak, semi-strong, & strong. The study showed that stock prices adjust rapidly to new public information, providing strong evidence in support of the EMH. It demonstrated that markets are efficient in processing information, as abnormal returns tend to occur immediately around the event date and not persist afterward. Fama (1970) synthesized existing empirical research and laid the theoretical foundation for understanding how information is reflected in asset prices, becoming a cornerstone of modern financial economics and financial theory. (Fama, 1970) clearly defined the efficient market and broke it down into its forms. Later, Harry Roberts introduced the term "Efficient Market Hypothesis," defined both its strong and weak versions, and these are now formally used. The strong, semi-strong, & weak forms of the EMH are explained by the idea of market prices responding to all available information fully and instantaneously. The weak version of the EMH argues that the

current price of stocks reflects all past information about prices and trading volumes. Therefore, past price changes will not enable spectacular returns and subsequent profits. The semi-strong form extrapolates this fact to include any widely observable information. It holds that when a new idea is publicly communicated, such as an earnings report or regulatory change, prices change instantly and in an unbiased manner, making it impossible to generate abnormal returns with a fundamental approach. The strong form is the strictest version and alleges that prices are a result of all publicly available information, as well as privately available information (including insider information), implying that even corporate insiders should not be able to reliably predict abnormal returns.

Nevertheless, Grossman & Stiglitz (1980) stated that perfect efficiency could not exist since the cost of information exists. Shiller et al., (1981) cited significant volatility that is not in line with EMH. De Bondt & Thaler (1985) discovered evidence of overshooting and undershooting by investors. Behavioral finance emerged, and new models were brought forward. When this was criticized, the supporters of Malkiel (2003) claimed that markets remained very broadly efficient, particularly in the long run. In summary, EMH has an extensive history, as it originated as a philosophical and mathematical idea and evolved into a driving principle of financial economics, constantly tested and revised by both practice and theory.

However, based on the nature of the information that was represented by stock prices, Fama (1998) challenged the reliability of long-term return anomalies as evidence against market efficiency, showing they are inconsistent, sensitive to methodology, and do not systematically contradict the Efficient Market Hypothesis. Loc et al. (2010) state that no investor can consistently outperform the market by investing based on publicly disclosed information, as price corrections often occur immediately after announcements. Lastly, the strong form of efficiency asserts that the stock prices reflect all the accessible information, both available & unavailable information (insider). ARs cannot be realized even by those with insider access to information, as the information may already be reflected in the market price in this type of market. This, however, is not always the case; although it is a perfect situation, it does not accurately reflect the real world because private information tends to offer an unreasonable advantage; therefore, strong-form efficiency becomes a mere abstraction (Loc et al., 2010). Sorokina et al. (2013) theoretically question the traditional methods [including (Fama, 1970)] of event studies because of their extreme sensitivity to outliers and hard-standing assumptions that may mangle results. This transition to criticism of market efficiency models enhanced the reliability and relevance of financial research. In another study, Borges (2010)

analyzes weak-technique market efficiency in six EU stock markets across two periods by using Runs & joint variance ratio tests conducted from 1993 to 2007. The study concludes that in emerging markets, weak-form market efficiency exists against others. Malkiel (2003) highlights that most of the anomalies in event studies can be minimized as the methodology continues to be improved to favor market efficiency. Statistically significant findings are usually not relevant in the economic sense due to the transaction cost, which is very high. Overall, the desire for additional empirical research and the development of more sophisticated models to test market efficiency remains necessary. (Kothari & Warner (2007) used mean-adjusted models in event studies. This study argues that when careful design and shorter windows are employed that with appropriate controls mean adjusted models can serve as reliable tools for measuring abnormal returns. A study reveals that credible insider announcements, including announcements of presidential candidates in the United States, have an immediate disclosure impact on the market, but that negative news results in more volatility than positive news as a result of risk aversion by investors. This agrees with Signaling Theory and the Efficient Market Hypothesis, which underlines how credible information is influential in market behavior (Yasar et al., 2020).

### **2.3 Empirical Literature on Non-Compliance**

The empirical test utilizes event study methodology in seeking to measure the immediate market response that is a result of non-compliance announcements, which is in line with the Efficient Market Hypothesis and Signaling Theory (Yasar et al., 2020). Over time, there has been a significant increase in the use of event studies in finance and economics research (Miller, 2023). Event studies are based on econometric models that estimate the dynamic treatment effect through an analysis focusing on the outcome at the event time, concerning an event or policy change (Swarnalatha & Babu, 2017). The use of short-horizon methods yields reliable results, but several serious problems limit the use of long-horizon methods. Maintaining these methods remains a key challenge. Researchers such as (Khotari & Warner, 2006) believe that how event study methods work depends on the events themselves, on the calendar period, and the volatility of the companies. Within event study expected return models (ERMs), which are fundamental in the finance literature, specifically in the event methodology literature. Some of these models include the Fama Three and Four Factor models, the CAPM, the MM, the MAM, the MEAM, and the APT.

Dyckman et al. (1984) compared the abnormal return of the event by analyzing it in three types of models: MM, MAM, and MAAM in their event analysis. Fernando & Guneratne

(2009) also employed these three models to determine AR. Sorokina et al., (2013) indicate that robust regression techniques, such as M- and MM-estimators, display more accurate results in stock market measurements, particularly when provided with chaotic information and a variety of outliers in the data. Traditional OLS can be misleading by yielding overstated or omitted significant results, as observed in country-specific analyses of Japan, Germany, Spain, and Italy. DASHDONDOG (2020) statistically examines daily returns data from 50 added and 29 deleted stocks in the S&P 500 index over the period 2018-2020, which examines how movement into and out of the index affects stock returns. They use the Market Model to identify abnormal results and confirm them with the help of t-tests, Patell-Z tests, and Generalized Sign tests. It is found that there are several significant AR throughout the different event periods. Different techniques event studies use to measure how companies perform immediately after corporate events. Both parametric and nonparametric testing, such as the sign & rank tests, are studied. It has been found that nonparametric sign and rank tests can detect rarer short-term occurrences more effectively than standard statistical methods. Every day, the use of event studies in finance & economics is to examine market behavior and the consequences of different events such as earnings announcements, mergers, and interest rate adjustments (Dutta, 2014). Khotari & Warner, (2006) used mean-adjusted models in event studies. The study argues that when vigilant design and shorter windows are employed, with appropriate controls mean adjusted models can serve as reliable tools for measuring abnormal returns.

In summary, while Fama (1998) criticized long-term return anomalies and highlighted the weaknesses of mean-adjusted models, later studies offered a more balanced view. Loc et al. (2010) and Malkiel (2003) acknowledged limits to strong-form efficiency and the impact of transaction costs. (Borges, 2010) found weak-form efficiency in emerging markets, and Sorokina et al. (2013) called for improved methodologies. Notably, Kothari & Warner (2007) defended the mean-adjusted model when applied carefully, reinforcing its relevance in well-designed event studies.

## **2.4 Literature on Different Events and Non-Compliance**

Empirical research on corporate non-compliance has grown steadily in recent years, offering valuable insights into how markets respond to regulatory breaches. For instance, (Basdas & Oran, 2014) conducted a comprehensive review of 75 event studies from Turkey to identify common methodological patterns. Their analysis highlighted that most studies rely heavily on the BIST-100 (formerly ISE-100) index and use parametric tests to evaluate market-adjusted returns. One of the key observations was that researchers often apply a single model to estimate

abnormal returns without providing a clear rationale for their methodological choices. A study on (Indonesia Stock Exchange (2017) used Signaling Theory and event study technique to cover the effect of dividend announcements on the stock returns. Using a paired sample t-test, the study established that positive abnormal returns occurred when there were increases in dividends, whereas there were negative abnormal returns when there were decreases in dividends. Such findings advise that announcements of dividends can be seen as signals that hold information concerning the financial status of a firm under review, where positive signals imply good performance, and negative signals indicate possible weakness. This is in line with the assumption that investors make changes in their decisions depending on the perceived implications of corporate disclosures. Although the study is concerned with examining the impact of dividend announcements, the principal mechanism of signal interpretation with asymmetric information is essentially applicable to the present study of non-compliance announcements. The effect of the announcement is the same in both situations: the participants in the market will view the announcement as having value-relevant information, which also gives way to measurable abnormal returns in either a positive or negative direction, depending on the type of signal (Puspitaningtyas, 2019). Likewise, Ghoul et al., (2023) focus on the challenges of conducting international event studies in finance and review the steps involved in selecting events, defining study periods, estimating abnormal returns, and drawing inferences. The study demonstrates why formal and informal institutions must be considered when examining price fluctuations in countries and broadens the application of event studies to foreign government bonds.

A study explored the effectiveness of the Hong Kong stock market, focusing on the impacts observed after the 1997 handover and comparing them to those of the U.S. market. It showed that the pricing and trade volume of Hong Kong & U.S. stocks were normal. However, significant gains before important news are often observed for Red Chips and H-shares of China-connected Hong Kong-listed firms, indicating strong evidence of insider trading, despite relaxed regulations. The study noted that positive news is more likely to drive up security prices for all the diverse groups observed (Wong, 2002). A study on the delisting of 118 firms from the Vietnam stock market during the sample period from 2011 to 2021 using event study methods, the result found that delisting tends to cause average stock returns to drop after the delisting is announced. This effect is greater for smaller firms than for larger ones, which could suggest that using delisting details may provide investors with a prospect to generate returns above the average (Truong et al., 2023). Another study on the impact of political & terrorist events on stock market returns in Pakistan, India, Bangladesh, and Sri Lanka from 2005 to

2016. A market model analysis of 47 terrorists and 45 political events demonstrated that such events had a substantial impact on stock returns, primarily within a 15-day event window, suggesting market efficiency. However, the 2-day event window did not reveal any important results. Suggests that the EMH is flawed, as these markets do not fully process all available information (Nazir et al., 2018).

In Pakistan, extensive literature on event studies is available. Zaman (2007) examines the impact of company-specific news & events on the prices of six key Pakistani companies operating in various fields, which are traded on the PSX. The analysis indicates that events such as dividend declarations, management changes, updates on financial results, and insider trading form signals that cause investors to interpret the movement of stock prices around these significant events. Majid et al., (2024) on PSX announcements from 2019 to 2023, M&A events (Stock Price Anomalies & Merger and Acquisition Announcements) help create positive AR, especially the day prior to the proclamation, which shows investors misrepresent information they have or perceive to make gains in the short term. Nearly all of these gains tend to disappear after the deal is announced, implying that markets adjust to possible risks from integration and raising the question of whether M&A is always worthwhile. Moreover, they emphasize that stronger rules by the SECP are necessary to control insider trading and enhance transparency in the market, thereby helping to protect. It has been found that the PSX exhibits semi-strong form efficiency, as it rapidly absorbs new information. Yet, investors still overreact to financial announcements, especially when the economy is not in good shape (Xie et al., 2019). Ghani et al., (2017) examined whether the announcements made by the SBP affect the stock returns of the 14 commercial banks in the KSE 100 index for the 2014-2015 financial year. An event study with a 15-day event window to examine the returns surrounding all six monetary policy events, four of which involved interest rate changes. These findings demonstrate that announcements about monetary policy have a significant impact on bank shares, suggesting that the market closely monitors policy decisions. This highlights that signals and updates have a significant impact on the stock prices of banks in response to monetary policy. Sohail et al. (2012) analyzed 207 Karachi Stock Exchange firms from 2001 to 2010, examining how inclusion or removal from the KSE-100 affected both prices and the number of shares traded. According to the research, firms added to the index resulted in investors receiving positive abnormal returns (ranging from 1.31% to 1.43%, depending on the model) as predicted by the price-pressure hypothesis. On the other hand, no noticeable abnormal returns (positive or negative) were seen when firms were excluded. Even though systematic risk went up for the companies included, in general, investors had trouble generating abnormal profits from these

index changes. Likewise, Attiya & Javid (2014) focused on short-term effects of under- and overreaction by the Karachi Stock Exchange (KSE), from September 2007 to September 2009. According to the findings, under- or overreaction in the KSE is generally small. Although the financial sector initially responded more than expected and then less than expected, individual portfolios did not exhibit strong signs of overreaction or under reaction. A study by Ghafoor et al.(2020) analyzed how the CPEC project has influenced the fluctuations and development of the PSX-100 index. According to an event study, volatility in the PSX-100 decreased in the period following the announcement of CPEC, compared to the period preceding the announcement. As a result of CPEC, the Pakistani stock market has become more stable, making the country more attractive to potential investors. According to the results, such agreements help secure the economy and encourage growth. The study by Murtaza et al. (2015) examined the impact of nine key political events in Pakistan between 2007 and 2012 on the Karachi Stock Exchange (KSE). Research revealed that changes in government policy, driven by political events, have a significant impact on stock prices. For example, events that people considered positive (like restoring the Chief Justice and the 2008 elections) boosted the economy, while those seen as negative (for example, Benazir Bhutto's assassination and the emergency rule of 2007) decreased economic activity. Javed & Faraz, (2024) examined how politically troubled events in Pakistan from 2000 to 2022, such as assassinations, judicial restorations, rigged elections, regime changes, and long marches, have influenced the KSE-100 index. According to the regression analysis, the study reveals that most of these political events harmed the stock market. The insights derived from the findings are crucial for the government, financial institutions, regulators, policymakers, and investors, both domestically and internationally. Gul et al., (2013) examined the impact of political changes, natural disasters, and terrorism on the prices of Pakistan's financial sector stocks using data from 14 randomly selected insurance and banking firms listed on the KSE-100 index from 2007. Findings indicate that significant economic events have a significant impact on stock prices, underscoring the need for broader alliances among stakeholders to protect Pakistan's financial market and establish transparency and reliability, thereby ensuring investors feel secure and confident.

In UK, Shrides & Brennan, (2015) examined the quality of corporate governance non-compliance explanations provided by UK firms, utilizing a typology based on seven quality features they face. The authors examined 646 explanations of annual returns in two years of the analysis: 2004/5 and 2011/12. The results indicated that, overall compliance increased; on the other hand, the quality of explanations was quite variable and usually insufficient. The

majority of companies provided unclear or non-detailed explanations, despite the body of disclosures expanding over the years. Shammari et al. (1999) examined IFRS compliance in the GCC countries during the 1996-2002 time period using a self-developed IAS research checklist comprising 14 IASs. The information was gathered manually and cross-checked against the Big Four checklists. Robustness testing and multivariate regression analyses were employed. The level of compliance increased by 14 points, from 68 percent to 82 percent, compared to the previous period. The UAE had the highest level of compliance. Big companies, those with greater international presence, and those with more leverage were more compliant; however, the overall compliance was weak.

Other studies, examining non-compliance, have explored market responses to significant events and announcements, particularly in Islamic finance. Taufik & Handayani (2024) examined the reactions of investors to earnings surprises, dividend announcements, and Shariah compliance in the OIC states. Using a 31-day window with events, they studied the effect (using a t-test) of 282 dividend announcements and 4,960 Shariah compliances. They found that Indonesian investors only reacted rationally to earnings surprises, whereas investors in Malaysia and Pakistan viewed dividend declarations as adverse. Interestingly, Shariah compliance has no significant impact on abnormal returns, suggesting that investors are primarily concerned with the profitability of the investment, rather than its compliance with Shariah principles. Park et al., (2021) conducted a study on noncompliance of the COSO 2013 Framework in the US. The SEC requires firms to implement an appropriate framework for assessing internal control over financial reporting. The COSO 2013 framework replaced the earlier COSO 1992 framework. However, many firms failed to do so at the right time since there was no strict implementation of the standards.

The above studies highlight that noncompliance is often associated with limited resources, liquidity issues, and inadequate internal controls. In contrast, auditor industry specialization, an increase in the number of panel members, & audit committee accounting specialization reduce the risk of noncompliance. The authorities impose extra regulations on noncompliant firms, and investors consider their financial statements less informative. Moreover, the firms gain more from accounting conservatism in their compliance, suggesting that non-compliance distorts the benefits of the updated framework.

## **2.5 Summary of Literature**

The EMH is a key principle in financial studies, positing that asset prices reflect all publicly accessible information. However, the extent to which it aligns with market realities remains a

topic of controversy, with opponents considering the existence of market anomalies and the influence of factors such as investor inattention. The history of EMH dates to the philosophical origins of EMH in the 16th century, and the formalization of EMH in the 20th century by (Fama et al., 1969; Samuelson, 1965) separates market efficiency into the three stages, weak, semi-strong, and strong, which are deemed based on the category of information in the price. Although the strong form, including the information implications of being an insider, can be regarded as an ideal, the practical subset of this form of private information can still be beneficial (Loc et al., 2010). The nature of testing market efficiency and especially under the conditions of an unsteady environment, demands the elaboration of an advanced system of models, and some researchers recommend using their powerful regression tools, which take into consideration the abundance of data inconsistencies and outliers when compared to the more mainstream approaches (Sorokina et al., 2013). Empirical analysis in many markets, including European (Borges, 2010) and Asian exchanges (Nazir et al., 2018; Truong et al., 2023; Wong, 2002a), reports inconsistent results on the market efficiency, where amidst certain events, the evidence of efficient information processing or abnormal returns is observed.

In the case of the PSX, the event study is a commonly used research method to examine including European (Borges, 2010) and Asian exchanges (Nazir et al., 2018; Truong et al., 2023; Wong, 2002a), reports inconsistent results on market efficiency, where, amidst certain events, evidence of efficient information processing or abnormal returns is observed. In the case of the PSX, the event study is a generally used research method to examine how the market responds to a wide range of events, including both company-specific events. (Zaman, 2007) and overall market mergers and acquisitions to credit rating announcements (Xie et al., 2019) and monetary policy changes (Ghani et al., 2017). Such research regularly points to the fact that, despite the frequent existence of semi-strong form efficiency in the PSX, rapid incorporation of public information, the possibility of overreaction or underreaction of investors may occur (Khan et al., 2017), and the market can become inefficient due to such factors as insider trading (Wong, 2002b) and socio-political uncertainty (Rashid, 2013; Tahir et al., 2020). Moreover, event studies of non-compliance with the regulatory structure demonstrate subtle behaviors, indicating that the profitability and institutional aspects tend to take priority over others among investors, and that the sensitivity of transparency may lead to price variations (Mushafiq, 2023). Such research regularly points to the fact that, despite the frequent existence of semi-strong form efficiency in the PSX, rapid

incorporation of public information, the possibility of overreaction or under reaction of investors may occur (S. Khan et al., 2017), and the market can become inefficient due to such factors as insider trading (Wong, 2002b) and socio-political uncertainty (Rashid, 2013; Tahir et al., 2020). Moreover, event studies of non-compliance with the regulatory structure (Cousins et al., 2020) Demonstrate subtle behaviors, indicating that the profitability and institutional aspects tend to take priority over others among investors, and that the sensitivity of transparency may lead to price modifications (Mushafiq, 2023). Overall, the body of literature concludes that EMH serves as a theoretical point of reference. However, real-life market dynamics, especially in emerging economies, are constrained by a complex intertwining of economic, political, and social forces, and therefore require constant empirical investigations and methodological sophistication to measure and understand market efficiency adequately.

## **2.6 Research Gap**

Overall, the above-mentioned literature suggests that the research on non-compliance is still not available particularly from the context of Pakistan. However, the use of event study methodology has been heavily researched for firms listed in the Pakistan Stock Exchange (PSX) in measuring market responses to political, environmental, and global crises. The idea of noncompliance companies is unique. Research on the rules of PSX is important as it shows the relevancy of the rules and how people react to the announcement of noncompliance companies whether they punished those companies for violating the regulatory measure of PSX. This study fills gap by undertaking a systematic examination of the price change of the stock around the time of non-compliance announcement to analyze how the market responds initially. By covering these gaps, this study will serve to contribute empirical evidence regarding the speed and accuracy of the PSX in processing information on non-compliance by the government, improve knowledge regarding the market efficiency in PSX, and offer practical advice that media regulators, policymakers, investors, and those in the market can use to improve governance and market stability.

## CHAPTER 3

### DATA AND METHODOLOGY

This chapter presents the data and research methodology employed in this study. First, it provides research strategies and research design. Later it offers a theoretical background on which the study is grounded, followed by the conceptual framework. Finally, it highlights the research hypothesis of the study followed by the data and methodology. The methodology part holds importance, as it can provide facts and evidence to support theory.

#### 3.1 Research Strategy

The Event Study Technique is regarded as a valuable instrument for determining how a specific event affects the stock price (Ahern, 2008; Binder, 1998). It is employed to determine the relevance of a given event by analyzing its impact on a particular dependent variable, typically the company's stock price. The stock price fluctuates as the market value of the stock reacts swiftly to significant news. In this study, the event is defined as a company's announcement in the non-compliance segment of the PSX. However, the event (noncompliance) is an independent variable, and the returns of the stock prices are dependent variables.

As stated, the study uses event study methodology to measure changes in stock returns surrounding the announcement date. The key variables include actual returns, expected (or normal returns), AR, and CAR, which are calculated over a defined event window. Here, the dependent variable is the AR observed during the event window, while the independent variable is the public disclosure of non-compliance status. This design enables an empirical assessment of whether and to what extent such announcements impact investor behavior and firm valuation.

#### 3.2 Research Design

The purpose of this study is to observe the fluctuations in share prices following the public announcement of non-compliant companies. This study utilizes a causal research design to explore the impact of regulatory non-compliance announcements on the share prices of firms listed on the Pakistan Stock Exchange. A causal research approach is suitable when the objective is to examine cause-and-effect relationships between variables (Khan et al., 2020). In this context, the event of a company being publicly declared as non-compliant serves as the causal factor, while the resulting fluctuations in share prices represent the effect. By applying

a structured estimation and event window, the study aims to isolate the effect of non-compliance from other market influences, ensuring that the observed outcomes can be attributed with reasonable confidence to the disclosure event itself.

### **3.3 Unit of Data Collection**

This study is based on panel data of daily stock prices spanning the period from 2014 to 2025. The data is secondary of 47 non-compliant companies as announced by PSX, and the data is obtained from the Pakistan Stock Exchange and investing.com

### **3.4 Conceptual Framework**

This study is based on the premise that public announcements of non-compliance by listed companies serve as significant informational events that can influence investor behavior and, consequently, firm value. The conceptual framework is grounded in the EMH, particularly its semi-strong form, which postulates that all publicly available information, including regulatory disclosures, is immediately reflected in stock prices. In this study, the independent variable is the non-compliance announcement, which represents a firm's failure to meet regulatory requirements, such as timely financial reporting or compliance with listing standards. The dependent variable is the AR on the company's stock, which reflects the deviation of actual returns from expected returns around the announcement date. The central relationship examined is how the occurrence of a non-compliance event (independent variable) impacts the firm's stock performance in the short term, measured through AR and CAR during the defined event window. The direction and magnitude of this relationship provide insights into how the market interprets and reacts to signals of weak corporate governance and regulatory failure.

The framework also recognizes that the reaction may not be uniform across all firms, as factors such as industry context, firm size, prior reputation, and investor expectations may moderate the relationship between non-compliance and share price reaction. However, the core causal pathway remains the influence of the announcement on investor sentiment and subsequent trading behavior, which is reflected in the stock's performance. This framework helps define the research question, whether non-compliance announcements impact stock prices, and guides the analytical approach using an event study methodology to detect abnormal market reaction to these events. Precisely:

**Non-Compliance Announcement → Public Disclosure of Regulatory Breach →**

**Triggers Market Perception/Investor Reaction → Share Price Reaction/ARs**

**→ Cumulative Abnormal Returns (CAR) over Event Window**

### **3.5 Hypothesis**

Event studies deal with the question whether AR on within an event window more specifically within an event date are usually large in magnitude or statistically negative. In answering this question, the literature (Anh Nguyen et al., 2023) suggested to conducted the test of hypothesis, in which the null hypothesis is stated as the expected value of a particular random variable being zero or statistically negative. This hypothesis is based on the theory of signaling and efficient market hypothesis. The EMH suggested that the stock prices reflect all the available information while the signaling theory suggest that announcement like noncompliance act as a signal to the market, influencing investor perception and also the stock returns. Based on these theories the null hypothesis assumes that there is insignificant market reaction to the announcement of noncompliance and in the case of rejecting the null hypothesis, one says that the event had an impact.

**Null Hypothesis (H<sub>0</sub>):** Noncompliance announcements have no significant impact on stock prices. This means that the abnormal return during the event or on the event day equal to zero or statistically positive.

Mathematically:

$$H_0: AR_t = 0$$

$$H_0: AR_t > 0$$

For all t within the event window.

**Alternative hypothesis H<sub>1</sub>:** Non-compliance announcements have a significant impact on stock prices. This means that the AR during the event is not equal to zero or statistically negative.

Mathematically:

$$H_1: AR_t \neq 0$$

$$H_1: AR_t < 0$$

For at least one t within the event window.

### **3.6 Methods of Data Collection**

The data of non-compliant companies was obtained from Investing.com. The selected companies were reviewed in accordance with the PSX rulebook to determine the type and frequency of non-compliance announcements they have made (see Appendix 4). The data obtained covers the prices of the shares during the 180-days estimation window & the 21-day event window for 47 companies, as required for this study.

### **3.7 Sample Selection**

Nonetheless, it would be perfect to include the complete population and conduct an event study analysis on all 97 firms. However, it is simply not feasible to conduct a detailed event study analysis on all the firms due to significant constraints related to time, data availability, and resources required. Many of these companies are either no longer listed, have merged, been delisted, or lack the continuous share price data required for a rigorous event study framework. Gathering and verifying complete daily share price data for a 180-day estimation period and a 21-day event window for each firm is a resource-intensive process that demands accuracy and consistency. As such, the study focuses on a refined sample of 47 firms that remain accessible as well as offer the complete and uninterrupted data necessary for empirical validity. This approach ensures that the analysis remains robust, manageable, and reflective of the actual market response to non-compliance announcements. In summary, 47 non-compliant companies were chosen. The companies to be considered in this respect were selected based on their provision of comprehensive and accurate data on the daily share price, covering the entire 180-day period that completes the event study and enables the necessary depiction. Such a considerate choice makes the empirical results based on the analysis robust and valid. Moreover, given the scope and focus of the research, a sample size of 47 (focusing on nearly half the population) is both reasonable and sufficient to generate meaningful and representative results, while maintaining the empirical robustness required for such a study.

### **3.8 Event Study Methodology:**

An event study is a statistical tool used for dynamic treatment and to measure the impact of a specific event in economics & finance. The event can be defined as any disruption or unusual activity seen in the economy. Event studies use panel data with either a single event or numerous events occurring on specific dates. Extensive sample studies utilize the event study to investigate the impact of various events on stock prices. One of the studies

(DASHDONDOG, 2020) uses event study and focuses on the stock price reaction to the announcement of additions and deletions to the S&P 500 index. Methodology Event study is used to determine the immediate impact in the market following the announcement of non-compliance according to the EHM and Signaling Theory (Yasar et al., 2020).

Event studies inspect the relationship between the return on securities and an event that affects those stocks. A change in dividend policy or a stock split is an example of an event that is specific to individual securities. In contrast, other events, such as economic shocks or regulatory changes, have an instantaneous effect on numerous securities. This study uses two of the most common expected return models, namely the (MAAM) and the (MEAM) (Dyckman et al., 1984; Fernando & Guneratne, 2009; Majid et al., 2024) The rationale of this model is that the value of the ER is derived from the former market returns or the specific stock of returns, but not from risk-free or any other external returns. A 21-day event window is chosen for the study, and 0 is considered the Event Date (The day when the event is publicly revealed). -15 days to 0 days or event is referred to as the pre-event period of event window and 0 days to 5 days is known as the post announcement period of the event window (Chakrabarti et al., 2017; Nguyen et al., 2012), the stock and index will be regressed against the estimation window of -180 days (Fernando and Guneratne, 2009)

### **3.8.1 Event study classification**

#### **3.8.1.1 The Variety of Event Types in Research**

Every kind of research event requires its unique approach; such as interviews or document analysis. By determining the category of the event, researchers can better define what happened and select the appropriate method for investigation. Key kinds of events:

- **Regular and Predictable:** These are events that are expected and occur frequently, such as conferences and elections. This type of event is useful for identifying changes and trends over time.
- **Unpredicted events:** Unpredicted events are political changes or natural disasters that occur without warning.
- **Recurring Events:** Events that occur regularly, like weather patterns that can be identified through trends and used to make predictions for similar events.
- **One-time events:** One-time events are rare events that do not happen again and again, such as astronomical events. Moreover, it is for short period.

- **Localized Events:** Some events are local in nature, like disputes and disagreements that affect a particular area or people.
- **Global Events:** Events that occur globally, like the pandemic. Many nations are constrained to unite in attempts to find solutions.
- **Positive Events:** Not all events are crises, some are for better improvements, like the events in the medical field.
- **Negative Events:** The occurrence of negative events, like recessions or terrorist attacks, needs to be carefully studied to develop plans for the mitigation and prevention of such events.
- **Planned events:** Those events that are created by the experimenter are carried out in order to get results.
- **Spontaneous Events:** Particularly, events like social movements and internet fads, in some cases, appear spontaneously, and their consequences are quite hard to foresee.

Multiple events require a unique research approach. With such a structure, the nature of this research follows a predictable, negative, and recurring structure of events. In our case, it is predictable that the companies understand the Regulations and deadlines provided by the PSX. Reporting and trading rules are well defined. If they fail to meet these requirements, especially by posting financials late, paying fines late, or maintaining important financial ratios out of line, this creates significant risk. In organizations, internal systems are established to maintain rules, and when these processes fail, it can be a reason for not adhering to those rules. In the event of a negative outcome, whenever an organization fails to comply, it results in adverse consequences. Companies found to be noncompliant may face fines, trading suspensions, have their listing revoked, damage their reputation, and potentially lose the trust of their investors. Unfortunately, some companies may repeatedly encounter non-compliance issues. As observed, some companies faced non-compliance problems in multiple years. It also reflects a recurring issue with the company's internal rules, financial standing, or management practices, resulting in repeated violations.

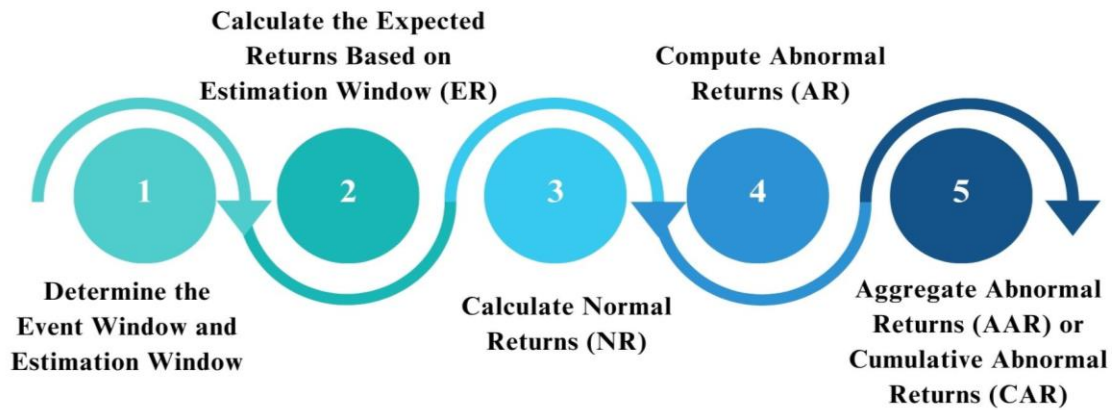
### **3.8.1.2 Event Type Analysis**

Event analysis is a valuable research tool, as it provides a detailed method for grouping and understanding various events.

- **Corporate Earnings Announcements:** This category involves a specific type of announcement (preliminary, interim, and final) being made, and a review of the market's reaction is conducted. For example, the initial reports might dominate share prices since investors would attach more importance to the initial estimates.
- **Mergers and Acquisitions (M&A):** Investigate reactions in the market to each of these stages including rumor, announcement, and completion, each of which causes a different reaction among investors.
- **Geopolitical Events:** Whether it is elections, wars or trade agreements, what said events do to financial markets both in the short run (volatility) and in the long run (trends).
- **Product Launches:** Include how innovative products have been launched into the market and how they have received consumers in light of industry and market conditions as well as demographics.
- **Regulatory Changes:** Event analysis of the influence of wide-ranging or industry-specific regulations on the strategy of firms and their actions in the market, such as moving into the sector of electric vehicles due to environmental regulations.

The analysis of noncompliance announcements is most closely aligned with the category of regulatory changes in the analysis of event types. Noncompliance events generally refer to a firm's failure to adhere to regulatory or listing rules, which can include slow financial reporting, corporate governance violations, or infractions of stock exchange regulations. These announcements serve as regulatory measures for the market, which, in most cases, raise concerns among investors regarding the operational transparency of the firm, its financial position, or its outlook. Due to this, stock prices can move abnormally in response to such disclosures. The event study involves the following steps.

## STEPS IN CONDUCTING AN EVENT STUDY



*Figure 3. 1 Steps in Conducting an Event Study*  
*Source: Own Depiction*

### 3.8.2 Define the Event and Sample Selection

The first step is to classify the event of interest. In our case, the event is when a company is publicly announced as a non-compliant company. Multiple violations put a company into a noncompliance segment through the PSX. The non-compliance segments involve a range of rules that a company fails to adhere to. The most common rule is that when a company fails to hold an AGM, it fails to present its annual financial audit, or fails to pay its listing dues, etc. The non-compliant companies listed on the PSX are 97 in number. Out of 97 companies, only 62 have been in noncompliance from 2013 to 2025. However, we hold only 47 non-compliant companies due to data availability. Taking the 47 non-compliant companies and identifying the announcement date as an event date of those companies (See Appendix 4 for event date).

### 3.8.3 Identify the Timeline for Event Windows

The second step in event study methodology is to determine the optimal estimation timeline that aligns with the objectives. The estimation timeline refers to the period during which we need to estimate the return of the share prices.  $T_0$  denotes the event day or the announcement date of a non-compliant company.

### 3.8.4 Deciding Estimation Window:

Decide on the estimation window, the period in which we need to estimate the ER of the company's shares. We take stock returns based on specific models. Based on historical data,

we try to predict or forecast the expected return that should be on the event date. For the Estimation window, we use 180 days preceding the event date or announcement date. MacKinlay (1997) cites 180 trading days as the commonly implemented estimation period in event studies. As you can see in the figure below.

### Timeline of Estimation Window and Event Window

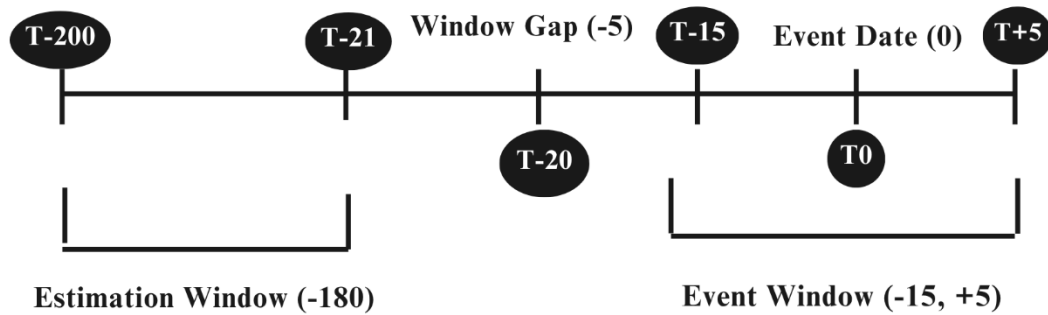


Figure 3. 2 Timeline for estimation and event window

Source: Own Depiction

A typical event study timeline consists of three main parts: the estimation window, a potential window gap, and the event window. The event date is marked as T0, corresponding to  $t = 0$ . The Event window is from  $t = T+1 = -15$  to  $+5$ , 21 trading days, which includes both the before (-15) and after (+5) the event date. T-16 to T-21 represents the Event window gap (5 days), which divides the estimation period and the event window to prevent contamination of the expected returns estimate. The estimation window spans from T-21 to T-200, which is 180 days. This timeline aligns with the work of (MacKinlay, 1997).

### 3.8.5 NORMAL RETURNS:

Based on (MacKinlay, 1997), the normal return is calculated the current price minus the previous price and then divide by the previous share price by the previous one.

$$R_{it} = \frac{(P_{it} - P_{it-1})}{(P_{it-1})} \quad (3.1)$$

$R_{it}$  is the Normal Return of the company  $i$  at time  $t$ .

$P_{it}$  is the current price of the company  $i$  at time  $t$ .

$P_{it-1}$  is the previous price of the company  $i$  at time  $t$ .

The principal distinction between simple returns and log returns is the ease of calculation of

the two and their interpretability. Log returns, which are based on the natural log of the price ratio, are time-additive and suited to long-term, compounded analyses and studies of volatility; they may be less intuitive and may often have to be converted to be directly comparable to standard benchmarks. Simple returns, on the other hand, represent the percentage change in price over time, providing a determinable and easily read perspective of price change without complex multiplications and divisions. In the case of this paper, looking at short-term market responses to earnings report announcements on noncompliance, it is better to use simple returns since they will easily bring out the instantaneous price effect, are simple to interpret, and easy to make direct cross-firm and event window comparisons. In addition, it has been found in earlier studies that simple returns tend to generate greater statistical significance, particularly in short-run event studies, near large price changes, and are therefore more appropriate to the goals of this analysis (Hudson, 2010). In this study, we used simple normal return, not the logarithmic, because they provided clear and intuitive measures of the immediate impact of non-compliance announcements on the share prices, which align with the short-term focus of the event study analysis. Simple returns are easier to interpret and directly express the price change.

### **3.8.6 EXPECTED RETURNS:**

Different models were used to find the expected return of the companies<sup>2</sup>. The main types are the following;

#### **3.8.6.1 Mean Adjusted Return**

In the mean-adjusted model, we take the average stock returns over the estimation window. Like in our case, the estimation window is -180 days. For example, if we get the mean return of 0.27% it means that on the event date, the return is likely to be 0.27%. the mean adjusted formula is as:

$$E(R_{it}) = \bar{R}_i \quad (3.2)$$

$R_{it}$  is the simple return of the share prices of firm i.

$E(R_{it})$  is the expected return of company i at time t.

$\bar{R}_i$  is the mean/ average return of the estimation window.

The estimation window for this study is 180 days before the event, while the event window is 21 days; however, the use of the Mean Adjusted Model in this event study is because of its

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<sup>2</sup> For further details on these models, see (Brown & Warner, 1985; MacKinlay, 1997)

simplicity, market-uncorrelated nature, and the fact that it can be used to analyze firm-specific factors. Comparatively, the Mean Adjusted Model permits direct comparison of the true return of a firm over the instance and that of its historical average, which is ideal in instances of firm-level regulatory or compliance events where little or unreliable influence is perceived by markets. In addition, the model is easily calculated and does not need to estimate beta or access other market variables, a factor that increases its effectiveness where the information is of unknown quality or even unavailable.

### **3.8.6.2 Market Adjusted Return**

This Model is a widely used method in event studies for predicting the expected returns of a stock and computing its abnormal returns across an event window. The model is simpler compared to the Market Model because it assumes that the ERs of a stock are identical to the market returns, without considering stock-specific aspects. There are various instances when an individual stock's set of parameters (such as alpha and beta) cannot be estimated or are not advisable, and a simple benchmark is needed for comparison (Kothari & Warner, 2007). The Market Adjusted Model is calculated as:

$$E(R_{it}) = R_{mt} \quad (3.3)$$

### **3.8.6.3 Market Model**

The expected return of the market model is built on a single-factor model

$$E(R_{it}) = \hat{\alpha} + \hat{\beta}R_{mt} \quad (3.4)$$

Regressing stock returns on market returns and then calculating the fitted values ( $\alpha$  &  $\beta$ ) on the day of the event gives the expected return based on the market model.

### **3.8.6.4 Capital Asset Pricing Methods (CAPM)**

The ER can also be estimated using the CAPM model. The second category of estimation methods addresses the broad category of risk adaptation procedures, the majority of which have been created based on the (CAPM). The most prevalent model is the market model, in which the slope coefficient of a time series equals the systematic risk parameter (beta). Regression of the returns on the individual firms on the return on a market index. Other models that have

been or are utilized in risk adjustment include the CAPM. Although the CAPM is a seminal model in finance, it has been criticized for its oversimplified approach, as the market risk premium is the sole determinant of stock returns.

$$E(R_{it}) = R_f + \hat{\beta}(R_m - R_f) \quad (3.5)$$

### 3.8.6.5 Fama-French 3-Factor Model

The Fama-French three-factor model estimates the expected return. The Fama-French Three-Factor Model is one of the most popular asset pricing models, which generalizes the CAPM by adding additional risk factors that may affect stock returns. Eugene Fama and Kenneth French developed the model in the early 1990s (Fama, 1993) to better explain the cross-sectional difference in stock returns. Though the Fama-French three-factor Model acknowledges other factors that can cause systematic risks to stock performance besides the general market, known as the overall market factor. The three factors contained in the model are as follows:

$$E(R_{it}) = R_f + \hat{\beta}(R_m - R_f) + \beta_{SMB} + \beta_{HML} \quad (3.6)$$

### 3.8.7 Deciding Event Window

In the event window, we estimate the actual and AR and observe the market or firm-specific reaction toward the event/ noncompliance announcement, whether it overreacts or underreacts on a specified event date. On specific dates for different companies (47 Companies), the PSX announced them as non-compliant companies. Hence, the time frame for the event window in this study is 21 days, encompassing 15 days before the event date and 5 days after the event date (-15, +5).

### 3.8.8 ABNORMAL RETURN

For the event window, we calculate the AR, which is the difference between the AR and the ER. Moreover, the  $i$  is the specific company at time  $t$ . The ER is based on the estimated return.

$$AR_{it} = R_{it} - E(R_{it}) \quad (3.7)$$

An abnormal return is not guaranteed daily for the entire window. We need to convert these daily abnormal returns into one number, which will be more meaningful. For that, we need to calculate the (CAR).

### **3.8.9 CUMULATIVE ABNORMAL RETURN (CAR)**

Aggregation (sum) of AR of the event window for company i over time t.

$$CAR_i = \sum_{t=-1}^1 AR_{it} \quad (3.8)$$

Abnormal returns are calculated for each day of the event window. The sum of all the AR is (CARs). CARs show us how that event impacted the stock market or the specific firm over a specific period.

### **3.8.10 Buy and Hold Abnormal Return (BHAR)**

The investor buys stock at the start of the event period and sells it at the end.

### **3.8.11 Cumulative Average Abnormal Returns (CAAR)**

For 10 different events of 10 different firms and we have 10 different CARs. All CARs relate to a specific category of an event for a conclusion. CAAR takes an average of all CARs.

### **3.8.12 SIGNIFICANCE OF AR AND CAR**

This study employs the event study methodology to empirically measure the abnormal returns observed in PSX-listed company stocks on the days their non-compliance was publicly announced. A negative abnormal return indicates that the market perceives non-compliance as a value-destroying event, thus testing the semi-strong form of efficiency of the PSX in managing adverse corporate governance information. To check the robustness of the AR and CAR, we use parametric and non-parametric tests (Dutta, 2014). For the parametric test, when the population is known and normally distributed, and a non-parametric test when the population or sample is unknown.

#### **3.8.12.1 Abnormal return AR (t-test)**

To evaluate the statistical significance, the AR t-test is a method used (Nguyen et al., 2023) to determine whether the abnormal return of non-compliant companies within the event window is statistically significant. It provides information on the immediate effect of a particular event on a security's return on a specific event date. It also analyzes over days to see the overall effect. The reason to use this approach in event studies is that it is simple, easily interpretable, and can identify statistically significant abnormal performance, hence proving any conclusions about responsiveness in the market to the regulatory announcements or to the firm-specific

performance disclosures.

The null hypothesis is that during the event window, the abnormal return is equal to zero. While the alternative hypothesis is that the abnormal return is greater than or less than zero. For this, the t-test determines whether the result is statistically significant or not.

➤ **Variance:** The variance of the abnormal return is

$$S_{ARi}^2 = \frac{1}{M_i - K} \sum_{t=T_0}^{T_i} (AR_{i,t})^2 \quad (3.9)$$

$AR_{i,t}$  is the abnormal return of company i in time t.

$M_i$  is the no. of missing returns during the estimation window. If it is zero, then it is the number of estimation periods; in our case, it is 180 days.

$K$  denote the degree of freedom (number of estimated parameters used in the model). Like for the Mean Adjusted model  $K = 1$ , for Market Model  $K = 2$  (Intercept + Market Returns) and  $K = 3$  for the Fama-French Three Factor Model.

➤ **Standard Deviation**

$$SAR_i = \sqrt{S_{ARi}^2} \quad (3.10)$$

Where the  $SAR_i$  is the sample variance of the AR.

➤ **T-test:**

The  $H_0$  is rejected based on the T-test, as its significant t-value depicts that AR is not equal to zero.

$$t_{AR_{i,t}} = \frac{AR_{i,t}}{SAR_i} \quad (3.11)$$

$t_{AR_{i,t}}$  is the t-statistic of firm i in time t.

$S_{AR_i}$  is the standard deviation of the AR of company i.

This chapter presented the methodological foundation for assessing the PSX's reaction to non-compliance announcements using an event study approach. It defined the use of mean-adjusted returns to estimate abnormal returns over a 21-day window and outlined the calculation of AR, CAR, and CAAR. This chapter provided the groundwork for testing market efficiency and the significance of firm-level stock price reactions to adverse disclosures.

## CHAPTER 4

### RESULTS AND DISCUSSIONS

#### 4.1 Introduction

Chapter 4 of the research presents empirical evidence on how noncompliance announcements impact market abnormalities. The first section provides descriptive statistics of the overall data, followed by an analysis of non-compliant companies using the event study methodology. The second section presents an aggregate analysis of the companies.

#### 4.2 Non-Compliance Companies, status of Noncompliance companies, actions taken by PSX, and the remarks.

The current non-compliant companies listed on the PSX are as follows, along with their status and network position. The actions taken by the PSX, as well as the remarks given to these non-compliant companies, are available in Appendix 6.

#### 4.3 Descriptive Statistics

It is crucial to compute the descriptive statistics of the variables before performing the final estimation. The descriptive statistics help verify the properties of the variables used in the study.

*Table 4. 1: Descriptive Statistics*

<i>Variables</i>	<i>Obs.</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
<i>Share Prices</i>	9,682	16.24729	52.02156	0.75	697.99
<i>Normal Return</i>	9,682	0.000544	0.0799766	-0.99855	3.241667
<i>Expected Return</i>	987	0.000879	0.0044033	-0.00498	0.021532
<i>Abnormal Return</i>	987	-0.00687	0.0800114	-0.4519	0.399844
<i>Cumulative Abnormal Return</i>	47	-0.14431	0.2668395	-0.86531	0.429614
<i>Sample Variance of AR</i>	47	0.024565	0.0118183	0.006872	0.057182
<i>T Value</i>	47	-5.30172	2.677033	-10.3696	1.734528

*Note: obs. This means the number of observations. The std dev means the standard deviation, min represents the minimum value, and max represents the maximum value. The descriptive value is calculated through STATA.*

Table 4.1 presents key insights into the behavior of stock returns surrounding noncompliance events, as shown in the descriptive statistics. An event study is applied to the 47 non-compliant companies listed on the PSX. The variable Date has a range of -180 to +5 days, whereby the

event window can be calculated as 180 days before the event to 5 days after the event. The values of the variable “Price” differ significantly, with a magnitude ranging from a low of PKR 0.75 to a high of PKR 697.99, and a standard deviation of 52.02, which is quite significant in comparison to the mean price of PKR 16.25. This indicates that there is a significant amount of variance in stock prices among the sampled firms, which is quite normal in a market like that found in Pakistan, where some stocks are penny stocks and others are high-value blue-chip companies. However, its standard deviation (0.08) and the minimum is -0.998, and the maximum is +3.24, which suggests that there is significant variation in normal returns, indicating that outliers or market fluctuations may cause extreme figures. As an example, the share price of Pakistan Hotel & Development Company on 11 July 2024 is PKR 697, which reduced to PKR 1.01 per share on 12 July 2024, which equals a minus 99.85 percent return in a single day. Sally textile had a similar case as its price rose to PKR 40.76 on 2 February 2018, after being bought at PKR 9.60 on 26 January 2018, earning an investor a +324% return. Another case is the Pakistan Engineering Company, the share price on 30 Jan 2018 is PKR 230, and on 2 Feb 2018 the share price reduced to PKR 59, around a 74% change. The ER statistics on 987 observations reveal that it has a smaller mean (0.000879) and narrower dispersion (SD of 0.0044) than the rest of the returns. The standard deviation becomes smaller (ranging from -0.0049 to 0.0215), which supports the stability of the model-based estimation. The mean of the AR is slightly negative, at -0.00687, and the standard deviation is relatively large, at 0.08. These figures range between -0.45 and +0.40. This means that firms, on average, experienced negative AR in both the pre- and post-event periods. However, there was significant variation in returns before and after the event. The negative mean indicates a market penalty or unfavorable investor response around the event window. The mean of the “CAR” over the event window (probably restricted to 47 firm-event combinations) is -0.00683, implying a cumulative negative response to the event. However, the magnitude is not large, and it has been constantly negative, which confirms that the drop in value after the event was statistically and economically significant. The standardized abnormal return average (SAR) is positive (0.0245), which is somewhat counterintuitive given the overall negative average of AR and CAR; however, it may indicate that some companies performed better in positive deviations after volatility adjustments.

Lastly, the t-value, with a mean of -5.30 and a SD of 2.68, falls to a range of -10.37 and is highly significant. The negative average t-value is significant (much less than the critical t-value of -1.96 at the 5% significance level), indicating that the abnormal returns are non-zero and that the event (such as non-compliance disclosure) exerted an objective and quantifiable

effect on the values of stock prices.

#### 4.4 Results and Discussion

The objective of this study was to analyze the impact of the announcement of non-compliant companies on their stock returns by applying event study methodology. Methodology Event study is used to determine the immediate impact in the market following the announcement of non-compliance, in light of the EMH and Signaling Theory (Yasar et al., 2020). The primary purpose is to examine the abnormal return following the company's announcement as non-compliant by the PSX. The sample size is selected as 47 non-compliant companies, taking their share prices of the estimation window of -180 days, and the event window is of 21 days (-15, +5). Then, calculate the expected and actual return based on the estimation window. Furthermore, calculate AR, the CAR, and then apply the significance t-test. The results are shown in Table 4.2:

*Table 4. 2 Results of the Current Non-Compliance Companies Calculating the CAR, AR, and t values. Estimation Window (-180) Event Window (-15, +5).*

<b><i>Current Non-Compliant Segment</i></b>	<b><i>CAR</i></b>	<b><i>AR</i></b>	<b><i>SAR</i></b>	<b><i>t value</i></b>
<i>Al Shaheer Corporation Ltd</i>	-0.0316	-0.0511	0.00687	-5.8525
<i>Al-Abid Silk Mills Ltd</i>	-0.1343	-0.3302	0.04969	-6.6456
<i>Amtex Limited</i>	-0.0761	-0.1858	0.01929	-9.6339
<i>Ansari Sugar Mills Ltd</i>	-0.2409	-0.1216	0.0166	-7.3244
<i>Aruj Industries Ltd</i>	-0.2238	-0.0806	0.01484	-5.4331
<i>Bawany Air Products Ltd</i>	-0.1292	-0.1568	0.01922	-8.1626
<i>Bilal Fibres Ltd</i>	-0.1262	-0.2295	0.02396	-9.5793
<i>Chakwal Spinning Mills Ltd.</i>	0.05053	-0.1001	0.0168	-5.9600
<i>Dadabhoy Cement Industries Ltd.</i>	0.11078	-0.0259	0.01134	-2.2807
<i>Dewan Khalid Textile Mills Ltd.</i>	0.1134	-0.2394	0.05425	-4.4126
<i>Dewan Mushtaq Textile Mills Ltd.</i>	-0.5891	-0.2619	0.03447	-7.5968
<i>Dewan Salman Fibre Ltd.</i>	-0.2101	-0.4519	0.04358	-10.37
<i>Dewan Sugar Mills Ltd.</i>	-0.3888	-0.189	0.02161	-8.7458
<i>Dewan Textile Mills Ltd.</i>	-0.6677	-0.1694	0.03464	-4.8886
<i>Dost Steels Ltd.</i>	0.02591	-0.1443	0.02049	-7.044
<i>First National Bank Modaraba</i>	-0.0549	-0.0408	0.01364	-2.988
<i>Gulistan Spinning Mills Ltd</i>	0.08706	-0.2427	0.02978	-8.1505
<i>Gulshan Spinning Mills Ltd</i>	-0.0069	-0.1615	0.03844	-4.2018
<i>Hascol Petroleum Ltd</i>	-0.3941	-0.0909	0.01629	-5.5799
<i>Haseeb Waqas Sugar Mills Ltd</i>	0.08327	-0.0759	0.01699	-4.4662
<i>Hira Textile Mills Ltd</i>	-0.3969	-0.1722	0.01893	-9.0949
<i>Huffaz Seamless Pipe Industries Ltd</i>	-0.1986	-0.072	0.01401	-5.1379
<i>Jubilee Spinning &amp; Weaving Mills Ltd.</i>	0.02175	-0.0844	0.02551	-3.3102

<i>Khalid Siraj Textile Mills Limited</i>	-0.502	-0.0593	0.03326	-1.7817**
<i>Mubarak Textile Mills Limited</i>	-0.554	-0.1858	0.04428	-4.1948
<i>Nazir Cotton Mills Limited</i>	0.0601	-0.2729	0.03752	-7.2727
<i>Pakistan Engineering Company Limited</i>	-0.4325	-0.036	0.01434	-2.5075
<i>Pakistan Hotels Developers Limited</i>	-0.6159	-0.0623	0.01627	-3.8269
<i>Pakistan PVC Ltd</i>	-0.1921	-0.1868	0.01924	-9.7065
<i>Paramount Spinning Mills Ltd</i>	-0.1198	-0.1093	0.01948	-5.608
<i>Pervez Ahmed Consultancy Services Ltd.</i>	0.42961	-0.1936	0.03045	-6.3584
<i>PICIC Insurance Ltd</i>	-0.116	-0.2655	0.03137	-8.462
<i>Quetta Textile Mills Limited</i>	-0.1278	-0.0592	0.01437	-4.1172
<i>Ruby Textile Mills Limited</i>	0.13017	-0.0429	0.01801	-2.3802
<i>Safa Textiles Ltd</i>	-0.3077	-0.0733	0.01809	-4.0512
<i>Sakrand Sugar Mills Ltd</i>	-0.0913	-0.0215	0.01167	-1.8416**
<i>Sally Textile Mills Ltd</i>	-0.8653	0.04846	0.02794	1.73453**
<i>Salman Noman Enterprises Limited</i>	0.19316	-0.1004	0.03566	-2.8153
<i>Saritow Spinning Mills Ltd</i>	0.00631	-0.0442	0.01736	-2.5448
<i>Saudi Pak Consultancy Company Ltd</i>	-0.2103	-0.1684	0.02148	-7.8385
<i>Security Leasing Corporation Limited</i>	-0.1401	-0.195	0.05718	-3.4104
<i>Shaffi Chemical Industries Ltd</i>	-0.2942	-0.0305	0.0128	-2.3862
<i>Shakarganj Ltd</i>	-0.26	-0.1115	0.02209	-5.0498
<i>Siddiqsons Tin Plate Ltd</i>	0.04164	-0.107	0.01458	-7.3416
<i>Sitara Peroxide Limited</i>	0.40943	-0.0572	0.02004	-2.8525
<i>SME Leasing Limited</i>	0.10814	-0.1176	0.03536	-3.3271
<i>Suhail Jute Mills Limited</i>	0.04442	-0.0572	0.02044	-2.8001

Note: \*significant at 10% and \*\* is the level of significance at 5%.

#### 4.4.1 Interpretation of Cumulative Abnormal Returns (CAR)

The CAR analysis of the sample of 47 noncompliant firms listed on the PSX indicates a uniformity in the adverse investor reaction. CAR indicates the cumulative effect of an abnormal return occurrence during the event timeline and can help measure the overall impact of multiple regulatory announcements, such as noncompliance status. Most of the sampled companies, as shown in Table 4.2 above, presented negative CAR values, indicating a consistent decline in stock prices following the event. Such a broad-scale negative response is consistent with the semi-strong method of the EMH, which posits that stock prices reveal all publicly available information, including regulatory violations or the inability to meet compliance standards. Firms with more considerable CAR are Dewan Textile Mills Ltd (CAR = -0.6677), Dewan Mushtaq Textile Mills Ltd (CAR = -0.5891), Mubarak Textile Mills Limited (CAR = -0.5540), as well as Khalid Siraj Textile Mills Limited (CAR = -0.5020). The high CAR values imply that the observance of noncompliance by such firms would be an alarming sign of operational financial risks, a lack of governance, or even a possible market penalty. Other companies, such

as Dewan Sugar Mills Limited (-0.3888), Hascol Petroleum Limited (-0.3941), and Hira Textile Mills Limited (-0.3969), also demonstrated significantly negative CARs. These findings indicate a persistent decline in investor confidence, suggesting a tangible impact of noncompliance on firm valuation. This type of market behavior is backed by EMH, which says that investors are rational and will respond to new information by revising their expectations about future cash flow and risk exposures.

Conversely, there were some companies with positive CAR values, which suggests that the market overlooked the importance of non-compliance news or was influenced by other encouraging news that negated the adverse effects. As an example, Pervez Ahmed Consultancy Services Ltd. (CAR = 0.4296), Sitara Peroxide Limited (CAR = 0.4094), and Salman Noman Enterprises Limited (CAR = 0.1932) depicted the power of positive cumulative returns. These outliers can be firm-specific (market overreaction, anticipation of restructuring, or just some unrelated good news (e.g., earnings surprise or good market event)). Although the above deviations may seem inconsistent with the EMH, they can also be attributed to information asymmetry and thin trading/speculative behavior, which are more common factors in a developing market like Pakistan. Some companies had slightly positive CARs, e.g., Dadabhoj Cement Industrial Limited (CAR = 0.1108), Ruby Textile Mills Limited (CAR = 0.1302), and Gulistan Spinning Mills Limited (CAR = 0.0871). Confused responses are indicative of either silent investor reactions or rumors about the market, where noncompliance could not have been viewed as structural but rather as procedural, and thus did not significantly impact the firm's fundamentals. Interestingly, very few firms had a CAR of almost zero or slightly positive (e.g., Chakwal Spinning Mills Limited, CAR = 0.0505; Saritow Spinning Mills Limited, CAR = 0.0063; Suhail Jute Mills Limited, CAR = 0.0444), possibly signifying less investor interest, less market valuation, or low amounts of share transactions. It may also indicate the loyalty, the past experience, the leak of information before it is officially announced or variations in the specifics of the firm, such as the quality of assets or restructuring plans. These situations highlight inefficiencies in the price discovery process and can be attributed to delays in incorporating information, which contradicts the assumptions of the EMH, particularly in low-liquidity stocks. The worst negative CAR value was observed in the case of Sally Textile Mills Limited (-0.8653), indicating a significant decline in the company's value. This may highlight long-standing financial or compliance problems that were compounded by the noncompliance incident. This is also the case with other companies, such as Pakistan Hotels Developers Limited (-0.6159) and Pakistan Engineering Company Limited (-0.4325), which also recorded high cumulative losses, confirming the trend of investors punishing companies that violate

regulations. Altogether, the findings convincingly confirm that market participants respond adversely and strongly to the disclosure of noncompliance, which exhibits an effective price adjustment in response to the new information. The existence of positive and insignificant CARs among a subset of firms, however, also indicates areas of inefficiency, which may be caused by a lack of depth, analyst coverage, and speculative trading in the market, as is typical of emerging or developing financial markets.

#### **4.4.2 Interpretation of Abnormal Returns on Event Date**

AR on the event date indicates how the share prices responds to the announcement of a firm's non-compliance immediately. AR is calculated as the actual return minus the ER. According to the Theory of EMH, most firms had ARs that were significantly negative, suggesting an immediate reassessment of firm value by market participants. As shown in Table 4.2, Dewan Salman Fibre Limited (AR = -0.4519), Bilal Fibres Limited (AR = -0.2295), and Al-Abid Silk Mills Limited (AR = -0.3302) indicate a sharp downward abnormal return on the event day. Such numbers signal investor alertness regarding the firm's financial condition, governance procedures, or corporate disclosure. When specific noncompliance or violations of regulations are present, such as late reporting or the absence of required meetings, the inefficiency in the company's internal processes or the risk of future sanctions should be the primary reason that makes the company's stock unappealing to investors. On the other part, there were a small number of companies, such as Sally Textile Mills Limited (AR = +0.0484) and Sitara Peroxide Limited (AR = -0.0571, with a positive CAR), that showed anomalous or narrow ARs. The deviations of the overall trend may reflect the presence of earlier information dispersion (information leak) or the intensity of speculation by the investors or any contrary firm-specific stories that overshadowed the news of noncompliance. Such anomalies are not uncommon in the so-called emerging markets such as Pakistan, where such informational asymmetries (Signaling Theory) and thin trading predominate and indicate some areas of inefficiency in the market, which is contrary to EMH.

#### **4.4.3 Interpretation of the T-Values**

The significance of the abnormal returns is estimated using the t-values in this study, providing essential evidence to test the market's reaction. The t-value that is greater than  $\pm 1.96$  will be statistically significant at the 5 percent level. The findings indicate that most companies in the sample have t-values that are significantly lower than -1.96, thereby confirming the statistical significance of negative AR and substantiating the claim that noncompliance bears substantial

economic consequences for stock prices. The results of T-values shown in Table 4.1 for firms like Amtex Limited ( $t = -9.63$ ), Bilal Fibres Limited ( $t = -9.57$ ), and Dewan Salman Fibre Limited ( $t = -10.36$ ) are highly meaningful at the 10% level. These observations indicate a high market response, confirming the theme that investors will punish companies that fail to comply with regulations. This result is perfectly consistent with the semi-strong form of EMH, according to which the price of the stock will quickly reflect the publicly available data when the negative evidence concerns compliance of the firm with the rules and regulations. Even the firms with a moderately negative AR, Dost Steels Limited ( $t = -7.04$ ) and Al Shaheer Corporation Limited ( $t = -7.434$ ), also yielded statistically significant t-values at a level of 10%, confirming the market's sensitivity to compliance-related disclosures. These responses indicate that the market perceives noncompliance as a valid indicator of either high risk or managerial inefficiency. However, some companies had a relatively close t-value to the level of significance, including Khalid Siraj Textile Mills Limited ( $t = -1.78$ ) and Sakrand Sugar Mills Limited ( $t = -1.84$ ). Those may not be statistically significant on the conventional level, but they still reveal a general trend of negative sentiment. Better still, this type of close call can suggest a difference in how investors interpret the market, or it can take time for investors to respond to markets, especially when liquidity is low or there are few institutional investors, which are standard features of a new stock market.

#### 4.5 Graphical Representation of CAR

The aggregate CAR values of 47 noncompliant companies listed on the PSX are plotted in the given graph.

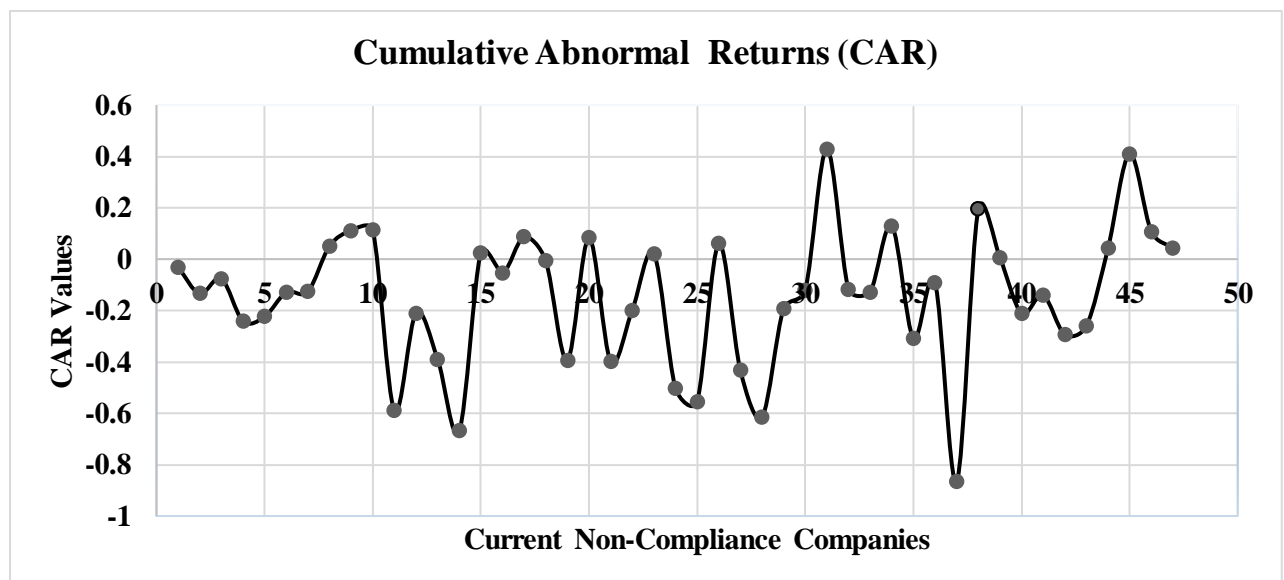


Figure 4. 1 Cumulative Abnormal Return of Non- Compliant Companies

The above figure regarding non-compliant firms listed on the PSX, using the Mean Adjusted Return Model, indicates that the CAR reveal mixed market responses to the announcement of non-compliance. CAR describes the size and the impact of either positive CAR or negative CAR that occurred due to the event on the stock's value in a particular period. Car value is used when the total impact of the event is on a single firm or security over the event window. (Ahern, 2008; El Ghoul et al., 2023; Khotari & Warner, 2006; Miller, 2023). A significant positive CAR depicts favorable conditions of the event. A significant negative CAR indicates that the event has adverse effects. Mostly, firms display negative CAR values, which signify that non-compliance leads to investor dissatisfaction and a decline in stock market prices or unfavorable market conditions. As shown in the graph above, the values of Cumulative Abnormal Returns (CAR) for non-compliant companies are represented. The X-axis represents individual Current 47 Non-Compliance Companies, and the Y-axis symbolizes CAR Values that range from a low of around -0.9 to 0.5. The above graph illustrates the CAR of various companies, with each company represented on the X-axis. The Y-axis represents the value of the CAR. The visual analysis reveals a mixed result among the companies, as some have positive CARs and others have negative ones, indicating that these firms exhibit varying reactions to the market, resulting in different outcomes. Even more companies have negative CARs, indicating that the actual returns of such firms were less than would be expected based on their risk and the state of the market. For example, Amtex Limited, Aruj Industries Limited, and certain firms towards the second half of the graph (such as near the positions of Sally Textile Mills and Shakarganj Limited) have significantly negative CARs, even lower than -0.8. This may result in a market penalty for events or the nature of such companies, or possibly overall underperformance compared to their cohorts or the broader market. On the other hand, a few companies exhibit positive CARs, indicating that their actual returns were higher than their estimated returns. Among them are Bilal Fibres Limited, Dost Steels Limited, Hascol Petroleum, Hira Textile Mills, Pakistan Engineering, Pervez Ahmed, and Sitara Peroxide. The CAR value of Pervez Ahmed is very high (nearly 0.4), thus indicating a positive market reaction. Which shows that investor or market unpunished such companies by having other factors like the information asymmetry, past experience or the loyalty with such companies.

To sum up, the trend is negative overall, with CARs on average (almost 31 companies have negative values) while 16 companies have positive CARs. However, the non-compliance assessment varies the most, as market players assess each firm individually based on the nature of the violation, past performance, and expectations. The distribution of CAR stresses that a non-compliant company does not always experience a decline in value; instead, in most cases,

it is a red signal that provokes an investor to respond cautiously or negatively.

## CHAPTER 5

### CONCLUSION AND RECOMMENDATION

#### 5.1 Introduction

Chapter 5 provides the conclusion of the study. The chapter is divided into three main parts. The first section presents the conclusions and overall findings of the research. The second section outlines the policy recommendations, and this chapter concludes with a discussion of the study's limitations.

#### 5.2 Conclusion

The first step of the study is to identify the noncompliant companies listed on the PSX and then determine the event date of each company, which corresponds to its announcement date of noncompliance. By applying the event study methodology, using data from 2014 to 2024 and defining the estimation windows (-180 days) and event windows (-15 to +5 days), the abnormal returns & CAR have been estimated. An event study is employed to test whether the non-compliance announcement of companies listed on the PSX has any informational value to market participants, considering the theory of EMH and Signaling Theory. Previous research confirms that, according to the Signaling Theory and Efficient Market Hypothesis, investors respond to credible positive signals but more to negative signals, as best depicted in sensitivity towards negative information. (Yasar et al., 2020).

This study theoretically demonstrates that stock prices effectively reflect the market and information asymmetry. Given the EMH, this study aligns with the semi-strong kind (Fama, 1970), which suggests that all publicly available information promptly influences prices. It has been found in the work of (Xie et al., 2019) that the PSX exhibits semi-strong form efficiency, as it rapidly absorbs new information. This study also aligns with the Signaling theory such behavior is in line with Signaling Theory as it theorizes that corporate disclosures communicate relevant information that decreases the information asymmetry between management and investors.

The empirical result shows the non-compliant companies as a negative and significant event in a company's life. The findings of this study provide strong evidence that the negative CARs and ARs findings are statistically significant, as evidenced by the t-values, which show significant values at the 10% and 5% levels of significance. The negative CARs suggests that noncompliance is a material adverse event consistent with the semi-strong form of EMH, and

in the light of Signaling Theory, it shows declines in investor confidence and poor governance. Apart from these negative CARs there are some companies like Dadabhoj Cement Industries Ltd., Dewan Khalid Textile Mills Ltd, Gulistan Spinning Mills, Dost Steels Ltd., Nazir Cotton Mills Ltd. have positive CARs values which show that they do not rapidly react to the new information (non-compliance). Literature suggests Nistorengo (2019) other events also affect the company's returns, including market loopholes such as rumors related to share prices or asymmetric information for investors. Some companies with positive CAR values suggest that the market overlooked the importance of non-compliance news or was influenced by other encouraging news that negated the adverse effects also there are some other reason as the past experience or the loyalty to the companies. Such responses are indicative of either silent investor reactions or rumors about the market, where noncompliance could not have been viewed as structural but rather as procedural, and thus did not significantly impact the firm's fundamentals.

However, the distributions of AR were negative on the day of the event within the sample. This immediate decline in return supports the idea that investors quickly include regulatory and governance-related information into stock prices. As an example, PICIC Insurance Limited, Pakistan PVC Limited, and Nazir Cotton Mills Limited experienced significant negative returns on the day of the event, indicating a rapid response to the noncompliance announcement. These abnormal returns suggest a loss of firm reputation, anticipated cash flows, or credibility, indicating that market players view noncompliance as a significant issue.

In addition to this, the level of t-values of these ARs shows the degree of statistical evidence to refute the possibility that the reactions are a result of chance. Most of the firms had t-values that are more than the standard value of -1.96, so it can be concluded that there is an actual market response to the noncompliance events, which cannot be attributed to chance. The fact that negative t-values continue to be achieved in firms with moderate AR, within the same trend, also supports the weakness of the market reaction. Overall, the CARs, ARs, and t-values are analyzed together; they give a firm indication that noncompliance events can have a severe impact on stocks not only in the short run but also during the event period.

The results of this study suggest that, although the PSX is a developing stock exchange, it is not yet a mature market; however, it has somewhat responded efficiently to market regulatory announcements. The market punishes noncompliance; therefore, regulatory conformity, transparency, and good governance are essential in building investor confidence. This finding is of paramount importance to firms, regulators, and investors, as it indicates that

non-compliance with regulatory requirements has a significant financial cost. Nevertheless, few positive abnormal returns were observed for some non-compliant firms in this study, suggesting that the market reaction may reflect firm-specific or contextual factors. In the case of Pakistan, investors have expectations that the non-compliance issue is temporary or procedural, or a belief that the firm will quickly rectify its standing without long-term consequences. Additionally, limited investor awareness, information asymmetry, or speculative behavior by retail investors might contribute to such reactions. In some cases, investors may even interpret the announcement as a signal that regulatory scrutiny will lead to future improvements in governance. These findings highlight the complexity of market behavior in Pakistan's capital market, where structural inefficiencies, inconsistent enforcement, and varying levels of financial literacy can lead to unexpected or counterintuitive investor responses.

This study has shown that the response of non-compliance announcements on the valuation of a firm is significantly negative in a statistical and economic sense to support the hypotheses of Signaling Theory and the semi-strong EMH in the case of the PSX. Such types of announcements trigger negative market reactions, since they indicate increased operational, governance, or financial risk, prompting investors to reprice the firm's stocks. This study contributes to the emerging literature on market efficiency and corporate performance in emerging markets by demonstrating that regulatory non-compliance has practical and quantifiable effects on firm valuation. The conclusion emphasizes the need for stricter enforcement, active governance, and informed investment to foster transparency and safeguard investor interests on the Pakistan Stock Exchange.

### **5.3 Policy Recommendations**

Based on the results, this study offers policy suggestions for non-compliant companies and policymakers. The results show that non-compliance is a significant event in corporate life. When companies violate the rules of PSX noncompliance segment it impact the share prices of the companies and abnormal return becomes negative. However, the CAR values shows mix result. The findings of the study indicated that out of 47 noncompliant PSX firms, mostly firms show negative CAR values while around 10 companies show positive CAR values, which shows that the noncompliance is a significant event in companies' life and it is strongly associated with the investor sentiments and value decrease. The negative values recommend that companies should follow all the rules made by PSX. Some positive CARs suggest internal irregularities and mismanagement in the corporate governance also the loyalty of the investor,

past experience or investor sentiments to the companies didn't impact the share prices of the companies, so the PSX and SECP should intensify monitoring and impose penalties on time and ensure stricter disclosure requirements for compliance violations.

#### **5.4 Limitations of the Study**

This study is restricted to non-compliant companies listed on the PSX. Due to data availability, this study is limited to only 47 non-compliant companies. However, future research could be conducted on the financial, institutional, and economic determinants of these companies, focusing on corporate governance aligned with the non-compliance segment listed on the PSX.

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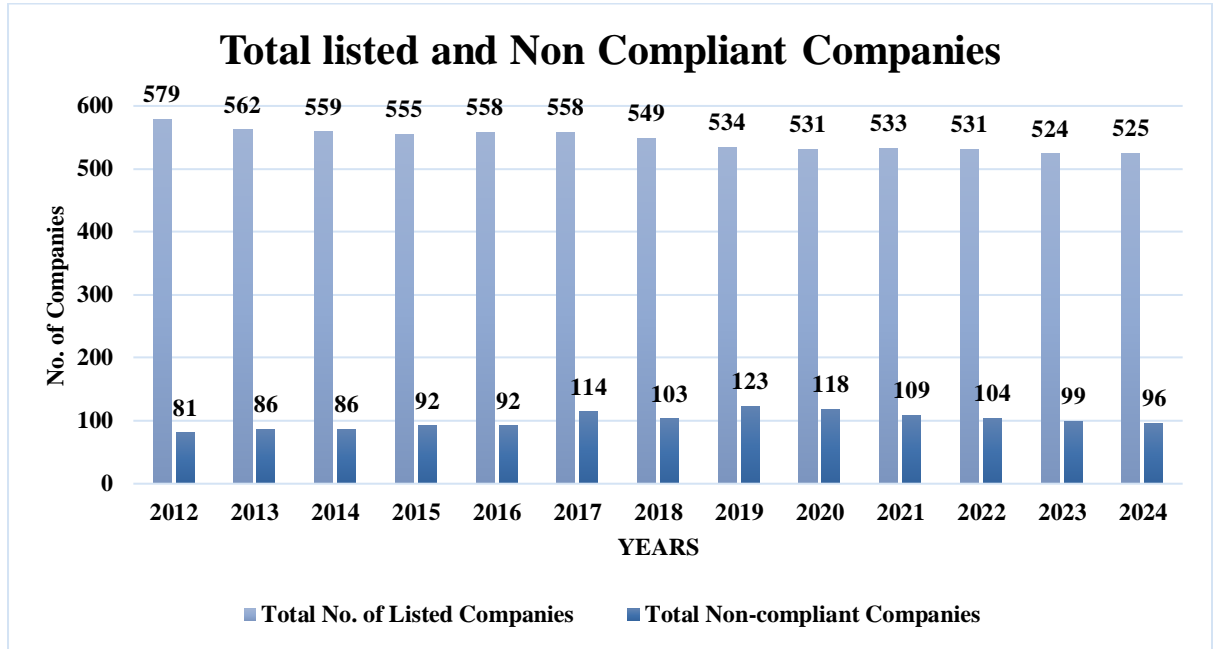
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## APPENDICES

### Appendix 1:

The graph below shows the number of listed companies and non-compliant companies' year-wise, as it is drawn from the annual analysis report on the PSX website.

**Figure 1: Total listed and noncompliant companies listed on PSX**



*Source: PSX Analysis Report (2024)*

Notwithstanding the trend of listed companies has been declining slightly year by year (it was 562 in 2013 and 524 in 2023), the number of defaulted companies has increased over the years, from 81 companies in 2012 to 104 in 2022. Nonetheless, in 2023, both defaulted firms (99) and listed firms (524) decreased.

### Appendix 2:

The table below shows the listed and non-compliant companies as per PSX

**Table 1.1: No. of listed and defaulted Firms**

<i>Years</i>	<i>Total No. of Listed Companies</i>	<i>Total Non-Compliant Companies</i>
<b>2012</b>	579	81
<b>2013</b>	562	86

<b>2014</b>	559	86
<b>2015</b>	555	92
<b>2016</b>	558	92
<b>2017</b>	558	114
<b>2018</b>	549	103
<b>2019</b>	534	123
<b>2020</b>	531	118
<b>2021</b>	533	109
<b>2022</b>	531	104
<b>2023</b>	524	99
<b>2024</b>	525	96

*Note: The above data is derived from the annual analysis report on the PSX. (<https://dps.psx.com.pk/analysis-reports>)*

### **Appendix 3:**

This portion shows the reason behind the non-compliant companies as per the PSX Rulebook Chapter 5 section 5.11, the reasons for the companies to be placed in the non-compliance segment. The following are:

#### **NATURE OF NON-COMPLIANCES**

- a)** Failed to comment on its commercial production/business operations within ninety (90) days.
- b)** Suspended commercial production business operations in its principal line of business for a consecutive period of one year.
- c)** It complies with the provision of failed to hold the AGM.
- d)** Did not provide its annual audited accounts for the financial year, which immediately precedes the financial year in which the company reckons.
- e)** It failed to make provision for the settlement of the due amount of the exchange.
- f)** It did not register under the (CDS) after the securities of the company have been categorized as eligible security.
- g)** The CDC has banned eligibility for (CDS).
- h)** The CDC has withdrawn the eligibility for (CDS).
- i)** A statutory auditor has issued a qualified opinion on the going concern assumption or has issued or revoked a disclaimer or an adverse opinion in the

audit report.

- j) The license of the listed company has been suspended, withdrawn, or rescinded by the commission or certifying authority.
- k) Did not meet any requirement under the listed companies & securities regulation
- l) The Commission has issued the Company with a show cause notice to support the winding-up process.
- m) The creditor or the shareholder in the Court presents a winding-up petition.
- n) Voluntary winding up takes place by passing a special resolution.

#### Appendix 4

**Table 4.2: Non-Compliant Companies and Their Initial Noncompliance Violations**

<i>S.No</i>	<i>Current Companies</i>	<i>Non-Compliance</i>	<i>Initial Violations</i>	<i>Non-Compliance(s)</i>	<i>/</i>
1	Al Shaheer Corporation Ltd		5.11.1.(b), 5.11.1.(c)		
2	Al Abid Silk Mills Ltd		5.11.2.(a), 5.11.2.(c)		
3	Amtex Ltd		5.11.1.(g)		
4	Ansari Sugar Mills		5.11.1.(b), 5.11.1.(c)		
5	Aruj Industries Ltd		5.11.1.(b), 5.11.1.(c)		
6	Bawany Air Products		5.11.1.(g)		
7	Bilal Fibres Ltd		5.11.1.(a), 5.11.1.(g)		
8	Chakwal Spinning Mills		5.11.1.(d)		
9	Dadabhoy Cement Industries		5.11.1.(d), 5.11.2.(b)		
10	Dewan Khalid Textiles Mills		5.11.1.(a), 5.11.1.(g)		
11	Dewan Mushtaq Textile Mills		5.11.1.(a), 5.11.1.(g)		
12	Dewan Salman Fibre		5.11.2.(a), 5.11.2.(c)		
13	Dewan Sugar Mills		5.11.1.(g)		
14	Dewan Textile Mills		5.11.2.(c)		
15	Dost Steels Ltd		5.11.1.(g)		
16	First National Bank Modaraba		5.11.2.(b)		
17	Gulistan Spinning Mills		5.11.1.(b), 5.11.1.(d), 5.11.2.(b)		
18	Gulshan Spinning Mills		5.11.1.(b), 5.11.1.(d), 5.11.2.(b)		
19	Hascol Petroleum Ltd		5.11.1.(b), 5.11.1.(c)		
20	Haseeb Waqas Sugar Mills		5.11.1.(d)		
21	Hira Textile Mills		5.11.1.(g)		
22	Huffaz Seamless Pipe		5.11.1.(b), 5.11.1.(c)		
23	Jubilee Spinning & Weaving Mills		5.11.1.(a), 5.11.1.(g)		
24	Khalid Siraj Textile Mills Ltd		5.11.1.(d), 5.11.2.(b)		
25	Mubarak Textile Mills		5.11.2.(b)		
26	Nazir Cotton Mills		5.11.2.(b)		
27	Pakistan Engineering		5.11.1.(b), 5.11.1.(c)		

28	Pakistan Hotel Developers Ltd	5.11.2.(d)
29	Pakistan PVC Ltd	5.11.1.(g)
30	Paramount Spinning Mills	5.11.1.(b),5.11.1.(c),5.11.1.(d), 5.11.2.(b)
31	Pervez Ahmed Securities	5.11.1.(g)
32	PICIC Insurance	5.11.1.(a), 5.11.1.(g)
33	Quetta Textile Mills	5.11.1.(g)
34	Ruby Textile Mills	5.11.1.(g)
35	Safa Textiles Ltd	5.11.1.(b), 5.11.1.(c), 5.11.1.(d)
36	Sakrand Sugar Mills	5.11.1.(b), 5.11.1.(c)
37	Sally Textile Mills	5.11.1.(g)
38	Salman Noman Enterprises	5.11.1.(d)
39	Saritow Spinning Mills	5.11.1.(g)
40	Saudi Pak Leasing	5.11.1.(b), 5.11.1.(c)
41	Security Leasing	5.11.1.(g), 5.11.1.(h), 5.11.2.(a)
42	Shaffi Chemical Industries	5.11.1.(d), 5.11.2.(b)
43	Shakarganj Ltd	5.11.1.(g)
44	Siddiqsons Tin Plate	5.11.1.(b), 5.11.1.(c)
45	Sitara Peroxide	5.11.1.(d)
46	Sme Leasing	5.11.1.(g)
47	Suhail Jute Mills	5.11.1.(d)

Table 4.2 shows the 47 non-compliant companies listed on the PSX. In certain areas of regulatory requirements, found in Sections 5.11.1 and 5.11.2 of the PSX Listing Regulations<sup>3</sup>. These violations include 5.11.1. (b) (not holding AGM within 2 years) or 5.11.1. (d) (not paying annual listing fees or penalties) and imply transgressions against existing guidelines, which put these companies on a list of Non-Compliant Segment and can subsequently be subject to additional disciplinary measures like suspension of trading or risk warning.

## Appendix 5

**Table 4.3 Current Noncompliance Companies and Event Date**

<i>S.No</i>	<i>Current Non-Compliance Companies</i>	<i>Event Date</i>
1	Al Shaheer Corporation Ltd	6 Nov, 2024
2	Al Abid Silk Mills Ltd	21 Dec, 2017
3	Amtex Ltd	7 Feb, 2019
4	Ansari Sugar Mills	8 Apr, 2019
5	Aruj Industries Ltd	5 Dec, 2024

<sup>3</sup>[https://www.psx.com.pk/psx/themes/psx/uploads/N98\\_Defaulters\\_Segment\\_and\\_Reverse\\_Merger\\_Regulations\\_\(January\\_30,\\_2023\).pdf](https://www.psx.com.pk/psx/themes/psx/uploads/N98_Defaulters_Segment_and_Reverse_Merger_Regulations_(January_30,_2023).pdf)

6	Bawany Air Products	7 Feb, 2019
7	Bilal Fibres Ltd	7 Feb, 2019
8	Chakwal Spinning Mills	4 Nov, 2020
9	Dadabhoy Cement Industries	19 Dec, 2014
10	Dewan Khalid Textiles Mills	7 Feb, 2019
11	Dewan Mushtaq Textile Mills	7 Feb, 2019
12	Dewan Salman Fibre	21 Dec, 2017
13	Dewan Sugar Mills	8 Apr, 2019
14	Dewan Textile Mills	21 Mar, 2018
15	Dost Steels Ltd	18 Nov, 2019
16	First National Bank Modaraba	4 Apr, 2018
17	Gulistan Spinning Mills	12 Oct, 2015
18	Gulshan Spinning Mills	12 Oct, 2015
19	Hascol Petroleum Ltd	28 Jun, 2021
20	Haseeb Waqas Sugar Mills	12 Nov, 2019
21	Hira Textile Mills	23 Jan, 2020
22	Huffaz Seamless Pipe	29 Dec, 2021
23	Jubilee Spinning & Weaving Mills	7 Feb, 2019
24	Khalid Siraj Textile Mills Ltd	23 Oct, 2017
25	Mubarak Textile Mills	21 Dec, 2017
26	Nazir Cotton Mills	21 Dec, 2017
27	Pakistan Engineering	13 Nov, 2019
28	Pakistan Hotel Developers Ltd	1 Jan, 2025
29	Pakistan PVC Ltd	7 Feb, 2019
30	Paramount Spinning Mills	12 Oct, 2015
31	Pervez Ahmed Securities	4 Jun, 2021
32	PICIC Insurance	3 Jul, 2019
33	Quetta Textile Mills	28 Dec, 2023
34	Ruby Textile Mills	3 Nov, 2020
35	Safa Textiles Ltd	13 Feb, 2018
36	Sakrand Sugar Mills	1 Mar, 2022
37	Sally Textile Mills	7 Feb, 2019
38	Salman Noman Enterprises	30 Oct, 2018
39	Saritow Spinning Mills	5 Dec, 2024
40	Saudi Pak Leasing	1 Feb, 2018
41	Security Leasing	4 Oct, 2019
42	Shaffi Chemical Industries	24 Mar, 2017
43	Shakarganj Ltd	16 Feb, 2023
44	Siddiqsons Tin Plate	5 Dec, 2024
45	Sitara Peroxide	31 Oct, 2023
46	Sme Leasing	11 Jan, 2024
47	Suhail Jute Mills	12 Oct, 2015

The above table 4.3 lists the selected non-compliant companies on the PSX, along with

the date on which they were declared as non-compliant, which is also considered an Event date.

## **Appendix 6**

This section provides the background of the 47 noncompliant companies. It outlines the reasons for noncompliance, initial violations, rectified violations, and current noncompliance violations. Additionally, it contains the actions taken by the PSX and remarks to the companies.

### **4.1.1 Al Shaheer Corporation Limited (ASC):**

The (PSX) placed (ASC) in the Non-Compliant Segment on November 6, 2024, because of various regulatory non-compliances under clause 5.11.1(b), 5.11.1(c), and 5.11.1(d). Even with a six-month extension of the deadline, the company still did not hold its (AGM) and send its annual financial statements for the fiscal year ending June 30, 2024. Due to such prolonged non-compliance, on May 6, 2025, PSX issued a Risk Warning Alert (RWA) against ASC. The violations have been addressed to some extent, but the persistent failure to adhere to the prescribed listing requirements continues to place the company in the Non-Compliant Segment. If ASC fails to comply for two consecutive years, the trading of its shares will be suspended to reinforce PSX's commitment to corporate governance and timely disclosure of information.

### **4.1.2 Al-Abid Silk Mills Limited (AASM)**

On December 21, 2017, Abid Silk Mills Limited (AASM) was moved to the Non-Compliant Segment, and the shares of such company were suspended on February 20, 2018. The first non-compliances entailed the breach of PSX Regulations 5.11.2. (a) and 5.11.2. (c). Other non-compliances of 5.11.1. (a) and 5.11.1. (g) were also found, followed by the earlier violations of 5.11.2. (a) and 5.11.2. (c) were also found. One of the company's creditors has presented a winding-up petition against the company, and what happens next all depends on the court's ruling. The (PSX) has notified that, in the event a liquidator is appointed by the court for the company, a delisting process will commence.

### **4.1.3 Amtex Limited (AMTEX)**

On February 7, 2019, Amtex Limited (AMTEX) was listed in the Non-Compliant Segment of the (PSX) for its non-compliance with clause 5.11.1(g) of the PSX Rule Book. The company has corrected some of the violations in clause 5.11.1(d), but it is still not in compliance with clauses 5.11.1(d) and 5.11.1(g). It is important to note that AMTEX was not making the annual listing fee (ALF) to the Exchange for two successive years, though

the said time had elapsed. Therefore, the PSX Regulation 5.1.1(j) has set out a Risk Warning Alert (RWA) against the company with effect from January 23, 2025. The company has been given up to 90 days, until 21st April 2025, to remedy the non-compliance. In case AMTEX does not solve the problem within the specified period, PSX could go ahead to issue a buyback directive against the company.

#### **4.1.4 Ansari Sugar Mills Limited (ANSM)**

On April 8, 2019, Ansari Sugar Mills Limited (ANSM) was shifted to the Non-Compliant Segment, and trading in its shares was suspended on January 29, 2020. Non-compliances that were there at the beginning and that are still occurring by the company are both based on the violation of PSX Rules 5.11.1. (b) and 5.11.1. (c). ANSM is a strong fight to overcome such a situation by conducting late (AGMs) and by filing annually audited accounts. The (PSX) has made it clear that the trading in the shares of ANSM could resume after the AGM of the company, ending September 30, 2022, is conducted and all the regulatory obligations of PSX Regulations are fulfilled. Moreover, when all non-compliances are resolved, ANSM can be transferred to the normal counter once again.

#### **4.1.5 Aruj Industries Limited (ARUJ)**

On December 5, 2024, Aruj Industries Limited (ARUJ) was placed in the non-compliant segment. Initial non-compliances occurred, breaching PSX Regulation 5.11.1. (b) and 5.11.1. (c), are still in effect, as are further current breaches of 5.11.1. (d) and 5.11.1. (g). Although ARUJ has held its AGM and filed its annual report accounts for the year ended June 30, 2024, its statutory auditor has provided a disclaimer of opinion in its audit report relating to the period. Additionally, ARUJ has not paid a penalty under PSX Regulation 5.21.1 within the stipulated timeframe. The company has been given 90 days, until 28 July 2025, to rectify its non-compliances. Failure to adhere to this prolonged deadline will result in a Regulatory Warning Action (RWA) being issued against ARUJ by the Pakistan Stock Exchange (PSX).

#### **4.1.6 Bawany Air Products Company Limited (BAPL)**

On February 7, 2019, Bawany Air Products Company Limited (BAPL) was put in the Non-Compliant Segment. The first and existing non-compliance is the breach of the PSX Rules 5.11.1 (g). Moreover, there is a non-compliance with 5.11.1(a), which is current. The (PSX) has stated that non-compliances with these are currently actionable, preventing qualification for the Defaulters Segment. All the non-compliances that BAPL had under PSX Regulations will be addressed, and the company will be brought back to the Normal

Counter.

#### **4.1.7 Bilal Fibres Limited (BILF)**

Bilal Fibres Limited (BILF) has been placed in the Non-Compliant Segment as of February 7, 2019. The first non-compliance entailed the breach of PSX Regulations 5.11.1. (a) and 5.11.1. (g). Presently, the company is not compliant with 5.11.1 (a), 5.11.1 (d), and 5.11.1 (g). BILF has not complied with the Compulsory Buy-Back Direction, nor has it corrected its non-compliances in time. Therefore, in a notice dated July 29, 2024, the PSX declared that it meant to act under PSX Regulation 5.11.3. (g), which refers to forwarding the case of the company to the to start the winding-up proceeding. This notwithstanding, the decision to restart trading in the shares of BILF has succeeded after amendments have been made to the PSX Regulations. Nonetheless, there will be the resumption of suspension of trading when the SECP has filed a winding-up appeal in the court.

#### **4.1.8 Chakwal Spinning Mills Limited (CWSM)**

On November 4, 2020, Chakwal Spinning Mills Limited (CWSM) was listed in the Non-Compliant Segment. The first breach occurred in the violation of PSX Regulation 5.11.1(d). Presently, the company has several correction needs related to non-compliance, involving unwarranted infringement of Section 511.1. (b), 511.1.(c), and 511.1.(d) several times besides occurrence of 511.1.(a) and 511.1.(g) which are new offenses. However, CWSM has already imposed the sanction imposed by the PSX in the form of an Enforcement Order dated October 25, 2024. After full correction of all the non-compliances owed by the company, the company will be transferred to the Normal Counter.

#### **4.1.9 Dadabhoj Cement Industries Limited (DBCI)**

On December 19, 2014, Dadabhoj Cement Industries Limited (DBCI) was classified as being in the Non-Compliant Segment. First, the company contravened PSX Rules 5.11.1 (d) and PSX Regulations 5.11.2 (b). Since then, DBCI has corrected the non-compliance concerning PSX Regulation 5.11.1. (d) It has many non-compliances that have not been rectified, such as violation of 5.11.1. (b), 5.11.1. (c) and multiple incidences of 5.11.1. (d), 5.11.1.(g) and 5.11.2.(b) through payment of its outstanding dues. Also, the non-compliances that are present today are 5.11.1. (a) and 5.11.1.(g). According to the PSX, DBCI can be transferred to the Normal Counter when all the current outstanding non-compliances are rectified.

#### **4.1.10 Dewan Khalid Textile Mills Limited (DKTM)**

(DKTM) was transferred to the Non-Compliant Segment on February 7, 2019, and the transfer of the company's shares was suspended on May 29, 2019. Initially, the company failed to comply with PSX Regulations 5.11.1 (a) and 5.11.1 (g). Presently, DKTM has a wider extent of violations not rectified, such as 5.11.1. (a), 5.11.1.(b), 5.11.1.(c), 5.11.1.(d), 5.11.1.(g), 5.11.2.(a), & 5.11.2.(c). One of its creditors has filed a winding-up petition against DKTM, and the SECP has also ordered that a winding-up request should be filed. Moreover, DKTM has not conducted its AGMs in the two preceding years ending June 30, 2023, & June 30, 2024, and has not produced the annual audited financial reports for these years. Additionally, the company has experienced delays in paying the Annual Listing Fee (ALF) to the Exchange over the last two years. In the case of a court-appointed liquidator, it has been said that delisting procedures will commence at the Pakistan Stock Exchange (PSX).

#### **4.1.11 Dewan Mushtaq Textile Mills Limited (DMTM)**

On February 7, 2019, Dewan Mushtaq Textile Mills Limited (DMTM) was placed under the Non-Compliant Segment based on the initial infractions of PSX Regulations 5.11.1 (a) and 5.11.1 (g). Even though a contravention in 5.11.2. (b) was lifted, the company is still not in compliance with 5.11.1. (a), 5.11.1. (b), 5.11.1. (c), 5.11.1. (d), and 5.11.1.(g). Regardless of such concerns, DMTM has in the recent past conducted its long overdue AGM and delivered its annual audit financial statements as at June 30, 2023. In turn, DMTM has resumed trading of its shares. Nevertheless, considering its non-payment of the due dues to the PSX, another compulsory directive relating to buy-back has been issued to the major shareholders/sponsors of DMTM, under Clause 5.11.3. (e) PSX Regulations. They are allowed 90 days up to July 21, 2025, to do this buyback. In case they do not do so within this given time, the case of DMTM will be passed on to the SECP, where winding-up proceedings will be initiated.

#### **4.1.12 Dewan Salman Fibre Limited (DSFL)**

On February 20, 2018, its shares were suspended, and on December 21, 2017, Dewan Salman Fibre Limited (DSFL) was put under the Non-Compliant Segment. These non-compliances constitute an infringement of the PSX Regulations, Section 5.11.2. (a) and 5.11.2. (c). Such violations are not only recent, but also there are other unresolved non-compliances with the requirements of 5.11.1. (a) and 5.11.1. (g). One of its debtors has filed a winding-up petition against DSFL, and the SECP has also issued an order to start winding-up proceedings against the company. As per the PSX guidelines, delisting will commence if a liquidator is appointed by the court.

#### **4.1.13 Dewan Sugar Mills Limited (DWSM)**

DWSM was relegated to the Non-Compliant Segment on April 8, 2019, that is, first because of the violation of PSX Regulation 5.11.1 (g). Although the initial violation in section 5.11.1. (g) is no longer in place, the company still has several outstanding non-compliances listed in section 5.11.1. (d) and another violation of section 5.11.1. (g). DWSM has not paid the penalty as specified under Clause 5.11.1 (d) of the PSX Regulations. It has given the company a 90-day grace, i.e., up to September 10, 2025, to correct this non-compliance. According to the Pakistan Stock Exchange (PSX), if non-compliance is not rectified within the specified time limit, a Risk Warning Alert will be issued.

#### **4.1.14 Dewan Textile Mills Limited (DWTM)**

DWTM was admitted to the Non-Compliant Segment on March 21, 2018, as the company had violated PSX Regulation 5.11.2(c). This first non-compliance has not yet been remedied, nor has the present 5.11.1. (a), 5.11.1.(d), 5.11.1.(g) and 5.11.2.(a) violations. This is not the first time that DWTM has defaulted in paying the Annual Listing Fee (ALF) to the Exchange after the preset time. Thus, a Risk Warning Alert (RWA) as per PSX Regulation 5.1.1. (j) was placed against DWTM with effect January 23, 2025. The company has been granted 90 days, ending on April 21, 2025, to correct its non-compliance. The Pakistan Stock Exchange (PSX) has stated that if DWTM fails to rectify the non-compliance within the specified timeframe, then PSX may issue a buy-back directive against the company.

#### **4.1.15 Dost Steels Limited (DSL)**

On November 18, 2019, Dost Steels Limited (DSL) was moved to the Non-Compliant Segment of the Pakistan Stock Exchange (PSX) because of a breach of clause 5.11.1 (g) of the PSX Rule Book. Though they have since then remedied non-compliances to clause 5.11.1(d), the company remains in violation of clauses 5.11.1(a), 5.11.1(d), and 5.11.1(g). DSL has also not complied with the penalty as PSX imposed on it under clause 5.21 of the PSX Regulations. Consequently, PSX has allowed the company to extend the 90-day ending date of July 30, 2025, to fix the non-compliance through the settlement of the existing dues. If DSL does not submit within this period, PSX will proceed to issue a Risk Warning Alert (RWA) against the company.

#### **4.1.16 First National Bank Modaraba (FNBM)**

On April 4, 2018, First National Bank Modaraba (FNBM) was put in the Non-Compliant Section of the PSX according to breaching clause 5.11.2(b) of the PSX Rule Book. Later,

it had to freeze trading on December 4, 2020. Although no violation has been corrected yet, Modaraba is currently violating clause 5.11.1. (a) and 5.11.2. (b). The Registrar Modaraba of the SECP recorded a winding-up request against FNBM. Where the court appoints a Liquidator, PSX will commence the delisting of the Modaraba.

#### **4.1.17 Gulistan Spinning Mills Limited (GUSM)**

GUSM was moved to the Non-Compliant Segment of the PSX on October 12, 2015, because of a breach of clauses 5.11.1(b), 5.11.1(d), and 5.11.2(b) of the PSX Rule Book. The company has also suffered non-compliances over time under clauses 5.11.1(c), 5.11.1(g), and 5.11.2(b), some of which, such as 5.11.1(c), 5.11.1(d), and 5.11.1(i), have been subsequently rectified. The organization is, however, still non-compliant with clauses 5.11.1(a), 5.11.1(d), and 5.11.2(a). SECP has given an order for the winding-up petition against GUSM. Nevertheless, trading in the company's shares has been temporarily revived through the issuing of the RWA due to recent amendments made to the PSX Regulations. But the suspension of trading will happen once more when SECP files the winding-up petition with the court.

#### **4.1.18 Gulshan Spinning Mills Limited (GSPM)**

GSPM was positioned in the Non-Compliant Column of the Pakistan Stock Exchange (PSX) on October 12, 2015, on account of basic contravention of clauses 5.11.1 (b), 5.11.1 (d), and 5.11.2 (b) of the PSX Rule Book. The company also became non-compliant with clauses 5.11.1 (c) and 5.11.1 (g) over time, but the violations related to clauses 5.11.1 (c), 5.11.1 (d), and 5.11.1 (i) have been rectified accordingly. GSPM is currently non-compliant with the following clauses: 5.11.1(a) and 5.11.1(d). In line with recent regulatory changes, trading of the company's shares has resumed with the issuance of a RWA. However, the GSPM case shall be referred to the SECP for subsequent legal action in accordance with the law.

#### **4.1.19 Hascol Petroleum Limited (HASCOL)**

The Pakistan Stock Exchange (PSX) placed Hascol Petroleum Limited (HASCOL) on the Non-Compliant Segment on June 28, 2021, in consequence of non-compliance with the provisions of clause 5.11.1(b) and 5.11.1(c) of the PSX Rule Book. The non-compliance with these clauses was repeated several times in the company, but the company has now corrected the same. Currently, HASCOL remains non-compliant with clause 5.11.1(g). Some of the corrective measures undertaken by the company include holding its due Annual General Meeting (AGM) as well as submitting annual audited financial statements by December 31, 2024. When the non-compliance that remains is fully rectified, then

HASCOL could be transferred back to the Normal Counter.

#### **4.1.20 Haseeb Waqas Sugar Mills Limited (HWQS)**

On November 12, 2019, Haseeb Waqas Sugar Mills Limited (HWQS) was found in the Non-Compliant Portion of the PSX because it is the first breach of clause 5.11.1(d) of the PSX Rule Book. The company also registered future non-compliances related to various clauses, specifically 5.11.1(b), 5.11.1(c), 5.11.1(d), and 5.11.1(g), which were repeated. Nonetheless, the violation under clause 5.11.1(d) has been rectified by HWQS. Currently, the company is not in compliance with 5.11.1 (a). PSX has stated that once all non-compliances are rectified, HWQS will be migrated to the Normal Counter.

#### **4.1.21 Hira Textile Mills Limited (HIRAT)**

HIRAT was moved to Non-Compliant Part of the PSX on January 23, 2020 as multiple violations were committed, such as failure to hold Hira Textile Mills Limited AGM and submission of annual financial statements as required in the (PSX) Rules, 5.11.1(b), (c), (d) and (g). Although some of these non-compliances have since been addressed along the way, the company is still not in compliance with some of the requirements. It is instructive to mention that HIRAT has not hosted its AGM and filed audited financial statements on time as required at the end of its 2024 financial year, six months after the due date. Proceeding, PSX has issued a Risk Warning Alert (RWA) on the company since April 25, 2025. In the event of two consecutive years of non-compliance, it is possible to suspend the trading of the shares in HIRAT.

#### **4.1.22 Huffaz Seamless Pipe Industries Limited (HSPI)**

HSPI has been non-compliant with several important regulatory requirements since December 29, 2021, due to failing to conduct Annual General Meetings, submit audited financial statements, and comply with a mandatory buy-back directive. As a result, trading in its shares was suspended on November 18, 2024. HSPI has not made a payment of the penalty despite being punished as provided in Clause 5.21.1 or PSX Regulations. The Pakistan Stock Exchange (PSX), in response, issued a notice on May 20, 2025, stating that it is referring the case of HSPI to the SECP to initiate winding-up proceedings under the Companies Act, 2017. The proceedings initiated by the SECP will determine the additional steps.

#### **4.1.23 Jubilee Spinning & Weaving Mills Ltd. (JUBS)**

On February 7, 2019, Jubilee Spinning & Weaving Mills Ltd. (JUBS) was put into the Non-Compliant Section of the (PSX) on account of defaulting on Sections 5.11.1.(a) and 5.11.1.(g) of the PSX Laws. Although trading of its shares has not been suspended, the

company remains non-compliant, and these issues have yet to be addressed. Since such acts as these are only good to have them get into the Defaulters Segment, the PSX has not done anything more punitive. The JUBS has, however, been urged to make double efforts to clear the outstanding non-compliances.

#### **4.1.24 Khalid Siraj Textile Mills Limited (KSTM)**

On October 23, 2017, Khalid Siraj Textile Mills Limited (KSTM) was in the Non-Compliant Segment because it had breached the regulatory provisions under Sections 5.11.1 and 5.11.2 of the PSX Regulations on multiple occasions. Though the company tackled some of these concerns, it remains non-adherent to most of the requirements, such as the mandatory buy-back directive. Since KSTM has not resolved such violations within the stipulated timeframe, winding-up proceedings against it under the Companies Act, 2017, have been referred by the PSX to the SECP under Regulation 5.11.3 (g). SECP has an option to file the winding-up petition in a court, and it is possible to suspend the trading of KSTM shares after the petition.

#### **4.1.25 Mubarak Textile Mills Limited (MUBT)**

Mubarak Textile Mills Limited (MUBT) was placed in the Non-Compliant Segment on December 21, 2017, and it was suspended from trading on March 1, 2019. The company has continued to breach the regulation at Clause 5.11.2.(b) and, having partially addressed the previous concerns, the company has yet to comply with Clause 5.11.1.(a), 5.11.1.(g), and 5.11.2.(b). Due to this, the (SECP) has made a winding-up petition against MUBT. If the Court appoints a liquidator, the (PSX) will initiate the delisting of the company.

#### **4.1.26 Nazir Cotton Mills Limited (NCML)**

On December 21, 2017, the (PSX) placed Nazir Cotton Mills Limited (NCML) in the Non-Compliant Segment due to the company's violation of certain clauses, including Clause 5.11.2. (b). Although it has since addressed some of the compliance issues by settling overdue dues, as well as the breach under Clause 5.11.1. (d), it has not complied with Clause 5.11.1.(a) and 5.11.1.(g). As soon as these pending violations are cleared up, the PSX is supposed to move NCML to the Normal Counter (NC).

#### **4.1.27 Pakistan Engineering Company Limited (PECO)**

On November 13, 2019, Pakistan Engineering Company Limited (PECO) was moved into the Non-Compliant Section of the (PSX), primarily due to non-compliance with Clause 5.11.1. (b) and 5.11.1. (c), relating to the failure to conduct an Annual General Meeting. The company had some areas where it fell short of compliance, such as Clause 5.11.1. (d) still, it has declined to obey with Clause 5.11.1.(b),(c), and (g). Although the lapse has not

prompted PSX to halt trading at its current status, recognizing the efforts of PECO and considering the interests of shareholders, PSX has warned that a lack of total compliance may necessitate additional measures.

#### **4.1.28 Pakistan Hotels Developers Limited (PHDL)**

On January 1, 2025, it was decided that Pakistan Hotels Developers Limited (PHDL) is in the NCS of the PSX due to non-compliance with Clause 5.11.2. (d). A special resolution to voluntarily wind up the company was made on December 31, 2024, and the trading in its shares was suspended as of January 21, 2025. Through the delisting procedure, the company would be formally withdrawn from the exchange after the appointment of a liquidator, and the required documentation would be filed with the PSX.

#### **4.1.29 Pakistan PVC Limited (PPVC)**

On February 7, 2019, Pakistan Stock Exchange (PSX) placed Pakistan PVC Limited (PPVC) in the Non-Compliant Segment due to the breach of Clause 5.11.1 (g) of PSX Regulations. The violation of the trading rules has not resulted in the suspension of trading, as the given violation is not severe enough to warrant suspension. PPVC is also not compliant with regulatory bodies; however, upon full rectification of all regulatory breaches, the company will be shifted to the Normal Counter.

#### **4.1.30 Paramount Spinning Mills Limited (PASM)**

On October 12, 2015, Paramount Spinning Mills Limited (PASM) was moved to the NCS of the PSX due to several regulatory breaches related to Clauses 5.11.1 and 5.11.2. Over time, the company was able to address these issues and make corrections to non-compliance problems, specifically those related to Clause 5.11.1.(c), (d) and (i). Consequently, current trading in shares of PASM has been reinstated, but the new PSX regulations have issued a Risk Warning Alert; nevertheless, unresolved violations under Clauses 5.11.1. (a) and (d) still occur, and this will require PSX to refer the case to the (SECP) to initiate further prosecution.

#### **4.1.31 Pervez Ahmed Consultancy Services Ltd. (PASL)**

On June 4, 2021, (PASL) was placed on the Non-Compliant Segment of the (PSX) in violation of Clause 5.11.1 (g). Since then, there have been additional non-compliances against the Company in Clauses 5.11.1.(a) and (g). These violations are, however, punishable only through the Defaulters' Segment and no other disciplinary measures, including suspension of trading, have been imposed. When PASL resolves all pending regulatory issues within the PSX Regulations, the same will be declassified back to the Normal Counter.

#### **4.1.32 PICIC Insurance Limited (PIL)**

On July 3, 2019, PICIC Insurance Limited (PIL) was placed in the NCS of the (PSX) due to its failure to comply with Clause 5.11.1. (a), and Clause 5.11.1. (g). Although the company has addressed non-compliance attributed to Clause 5.11.1. (d) Moreover, corrected a default in Clause 5.11.1. (e), it is still non-compliant in Clauses 5.11.1.(a) and (g). PIL is still on the path to becoming fully compliant, and no suspension on trading has been issued so far, as it continues to rectify itself.

#### **4.1.33 Quetta Textile Mills Limited (QUET)**

On December 28, 2023, Quetta Textile Mills Limited (QUET) was placed on the Non-Compliant Segment of the Pakistan Stock Exchange (PSX) after the statutory auditor delivered an Adverse Opinion on the audited financial statements of the company, as at June 30, 2023, relating to Clause 5.11.1. (g), which was a violation. None of the violations have been resolved yet, and the company is not compliant with the use of the same clause. Nevertheless, PSX has suggested that once the noted non-compliance has been addressed, QUET will be transferred to the Normal Counter.

#### **4.1.34 Ruby Textile Mills Limited (RUBY)**

On November 3, 2020, Ruby Textile Mills Limited (RUBY) was moved to the NCS of the (PSX) with Clause 5.11.1 (g). The company also rectified a violation of Clause 5.11.1. (d) by settling on its long-overdue Annual Listing Fee. It is, however, not in compliance with Clauses 5.11.1 (a) and 5.11.1 (g). When these outstanding violations are completed, PSX will restore RUBY to the Normal Counter.

#### **4.1.35 Safa Textiles Limited (SFAT)**

On February 13, 2018, Safa Textiles Limited (SFAT) was in the NCS of the PSX under Clause 5.11.1. (b), (c), and(d) because of encountered violations. On October 29, 2019, its shares were banned. Although the company has been able to address a couple of them, especially Clause 5.11.1. (d) and 5.11.2.(b), It still lacks compliance with Clause 5.11.1. (b), (c) and (d). Consequently, PSX has initiated the delisting process of SFAT, and the delisting is expected to be completed once all regulatory procedures have been fulfilled.

#### **4.1.36 Sakrand Sugar Mills Limited (SKRS)**

(SKRS) was listed in the NCS of the PSX on March 1, 2022, on non-compliance with Clauses 5.11.1. (b) and (c). Although the company has a recurring pattern of this kind of violation, it is also currently non-compliant with Clause 5.11.1 (g). This infraction is not enough to warrant the suspension of trading, as this is only followed by placement in the Defaulters' Segment. SKRS will be upgraded to the Normal Counter once all the

outstanding non-compliances have been rectified in line with PSX Regulations.

#### **4.1.37 Sally Textile Mills Limited (SLYT)**

SLYT has been put in the NCS of the PSX on February 7, 2019, because of a breach in Clause 5.11.1. (g) to begin with. Since then, the company's status has become non-compliant, and it has various non-compliances, as outlined in Clause 5.11.1. (a), (d), (g), and 5.11.2.(a). Although trading in SLYT shares has been temporarily opened for trading under a risk warning alert in amended PSX regulations, the scenario remains delicate. If the Securities and Exchange Commission of Pakistan (SECP) files any winding-up petitions in court, SLYT share trading will be suspended again.

#### **4.1.38 Salman Noman Enterprises Limited (SANE)**

Salman Noman Enterprises Limited (SANE) became listed in the NCS of the PSX on October 30, 2018, because of the non-compliance with Clause 5.11.1 (d) to start with. It became non-compliant in Clause 5.11.1. (a), (d), (g), and 5.11.2.(b) too. Therefore, SANE shares were subsequently suspended under regulation 5.11.2. (b) on October 7, 2024. Later, the Securities and Exchange Commission of Pakistan (SECP) petitioned the Lahore High Court (C.O. No. 51617 of 2024) for a winding-up order. PSX has declared that it will proceed with delisting the company after an official liquidator has been appointed.

#### **4.1.39 Saritow Spinning Mills Limited (SSML)**

(SSML) was listed under the NCS of the PSX on December 5, 2024, after contravening Clause 5.11.1 (g). This action was taken because a statutory auditor issued an Adverse opinion on the company's audited financial reports for the year ended June 30, 2024. SSML has not yet rectified this NC; however, PSX has indicated that the company will be shifted to the Normal Counter after all regulatory concerns are addressed.

#### **4.1.40 Saudi Pak Consultancy Company Limited (SPCL)**

On February 1, 2018, Saudi Pak Consultancy Company Limited (SPCL) was put in the NCS of the PSX due to infractions of Clause 5.11.1. (b) and (c). Although the company corrected a few actions that were in violation, such as Clause 5.11.1.(b), (c), (d), and 5.11.2.(b), there is still a non-compliance with the following Clauses 5.11.1.(a) and (g), and 5.11.1.(h). Trading in SPCL shares was suspended on March 24, 2022. However, the company has settled its dues to the Exchange, and the case is now under the SECP legal action, as per the rules.

#### **4.1.41 Security Leasing Corporation Limited (SLCL)**

SLCL was designated to the NCS of the PSX on October 4, 2019. Shortly after, on October 24, 2019, trading was suspended. The company did not comply with Clause 5.11.1. (g),

(h) and 5.11.2.(a), and it is still non-compliant with Clauses 5.11.1.(a), (g), (h), and 5.11.2.(a). Notably, SLCL has not been able to comply with the basic limit set out in Clause 5.11.1. (j) Within the stipulated period. Consequently, PSX has stopped listing and started delisting by Regulation 5.11.2 (f) in the interest of protecting investors. The case will now be submitted to the SECP under Regulation 5.11.2(g), where further legal actions will be taken.

#### **4.1.42 Shaffi Chemical Industries Limited (SHCI)**

On March 24, 2017, Shaffi Chemical Industries Limited (SHCI) was moved to the NCS of the PSX, and its shares had been suspended in the market on June 22, 2017. The company violated Clauses 5.11.1.(d) and 5.11.2.(b) initially, and it does not comply with Clause 5.11.1.(a), (d), and 5.11.2.(b) at present. Through such long-term abuse, the Securities and Exchange Commission of Pakistan (SECP) has petitioned for a winding-up in the court. In case the Court appoints a liquidator, PSX would delist the company formally.

#### **4.1.43 Shakarganj Limited (SML)**

Shakarganj Limited (SML) was listed in the NCS of the PSX on February 16, 2023, as it failed to comply with Clause 5.11.1 (g) of the PSX Policies. The nature of this noncompliance warranted the company's placement in the Defaulters Segment, and no suspension of trading has been made. SML does not comply with the same clause at this point, but it will be reinstated to the Normal Counter once the regulatory issue is mitigated.

#### **4.1.44 Siddiqsons Tin Plate Limited (STPL)**

Siddiqsons Tin Plate Limited (STPL) entered the NCS of the PSX on December 5, 2024, as it failed to observe Clauses 5.11.1.(b) and (c), i.e. not conducting its AGM, and not uploading its annual accounts, in the financial year ending June 30, 2024. These problems are yet to be solved by the company. Provided that STPL will continue to be non-compliant after the due date (i.e., until June 5, 2025), a (RWA) will be sent. If non-compliance persists for two years, it will be prohibited from trading its shares.

#### **4.1.45 Sitara Peroxide Limited (SPL)**

On October 31, 2023, Sitara Peroxide Limited (SPL) was put in the NCS of the PSX on initial non-compliance with Clause 5.11.1 (d). The firm has since partially complied with filing its audited financial accounts and scheduled an AGM for the fiscal year ended June 30, 2023, and in so doing solved the initial non-compliance. Nevertheless, SPL continues to be non-compliant in Clause 5.11.1. (b), (c) and (g). In case the company does not

conduct its AGM and file financial statements for the year ended June 30, 2024, by May 22, 2025, PSX will give a Risk Warning Alert. A case of default on two successive years can culminate in a halt of trade in the stock of a company.

#### **4.1.46 SME Leasing Limited (SLL)**

On January 11, 2024, SME Leasing Limited (SLL) was put in the NCS of the PSX due to failing to meet Clause 5.11.1 (g) of the PSX. The fact that it addressed certain problems in Clauses 5.11.1. (b) Moreover, (c) notwithstanding, the company is still not complying with various regulations, namely, Clauses 5.11.1. (b), (c), (g), and (h). SLL has also not conducted the Annual General Meeting and filed audited financial reports of the company as per the year ended 31st December 2024. Since non-compliance and failure to comply with the required buy-back directive were persistent, PSX issued a notice on April 28, 2025, stating that the case was served on the SECP to initiate winding-up proceedings under the Companies Act, 2017.

#### **4.1.47 Suhail Jute Mills Limited (SUHJ)**

On October 12, 2015, Suhail Jute Mills Limited (SUHJ) was moved to the NCS of the PSX because it violated Clause 5.11.1 (d). Although it has since resolved some regulatory breaches, as there have been Clauses 5.11.1.(d), (g), 5.11.2.(b) and of late recently 5.11.1.(l), It has nonetheless not fulfilled the requirement of 5.11.1 (a) of the Regulatory Code. According to PSX, the company will revert to the Normal Counter when all the pending regulatory requirements have been addressed.