

Date of the event:

On Tuesday 13th April 2010
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before April 12th, 2010
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Conferences/Seminars-Workshops>



The LSF is pleased to invite you to the following
lunch seminar:

Laddered IPO – A Case of Ineffective Regulation?

*By Mr Robin Braun
Maastricht University*

**Tuesday 13th April 2010
From 01:00 PM to 2:00 PM**

Laddered IPO A Case of Ineffective Regulation?

By Robin Braun

The Luxembourg School of Finance

Is pleased to invite you to the

LSF Seminar

We study the effect of regulation on financial markets using the case of mysterious disappearance of lawsuits in 2001. Using data of initial public offerings (IPO) between 1995 and 2007 and identifying causes and consequences of shareholder litigation against issuers and underwriting investment banks, we give answers to the paramount degree of underpricing in hot issue markets. We study a notorious investment bank practice on Wall Street known as tie-in agreements (“laddering”, henceforth). The underwriter will allocate the IPO shares to investors at the offer price conditional on these same investors committing to purchase additional stock in the aftermarket on predetermined dates. This practice is deceitful to those investors unaware of this and undermines the integrity of financial markets. We show that this practice has substantial effects on the first day return of the IPO. But underpricing is in excess to what is ex-post optimal from the litigation perspective. More than that, there is also a substantial degree of underwriter post-IPO involvement in the form of ownership through the financial conglomerate’s asset management arms. This gives evidence to coordinated behavior of financial conglomerates. The consequence of that is a stabilized stock price, which does not statistically underperform a matched non-manipulated sample and outperforms the average IPO firm. Potential beneficiaries are corporate insiders and pre-IPO investors, which can exit more easily, at higher prices at favorable trading conditions. And indeed, we find that insiders of laddered IPOs sell their shares earlier, at higher volumes and to a stronger extent: irrespective of which insider type we consider or whether we put restrictions on minimum trading amounts we find that laddered firm insiders are significant net sellers. Decreasing stock markets and an increasing awareness of the financial press have caused an exogenous change in the degree of the enforcement of Regulation M, which intends to proscribe market manipulation. We then show that after 2001, when no lawsuits were any longer filed, this overall behavior still persists. We build a model to predict laddering out-of-sample and show that “predicted laddered” IPOs display significant higher insider trading activity and a higher stake of the conglomerate affiliated with the underwriter. This trading takes place a convenient – in the sense of low price impact – trading conditions. This suggests that in spite of regulatory intervention, a practice similar to laddering still takes place. The fact that regulatory change did not cause differences in the regulated subjects is an evidence of “captive regulation”.

