Who Makes the Choice on IPO Underwriting Methods? Issuers vs. Underwriters

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ABSTRACT
Using unique Taiwanese initial public offering (IPO) features, we examine whether the underwriters control the issue method choice (the expected revenue collection hypothesis) or whether the issuers make the choice in the best interests of the pre-IPO shareholders (the expected net wealth gain hypothesis). We find that the choice of issue method is consistent with maximizing pre-IPO shareholders’ expected net wealth gains. The findings also suggest that most IPO issuers do not choose auctions. Though we offer insights into why IPO auctions have been declining, we note that this evidence cannot completely explain the total disappearance of auctions in many countries.

Keywords: Initial public offerings (IPOs); Fixed price public offer; Auction

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