Quid Pro Quo in IPO Auctions

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Abstract

Is there quid pro quo in auctioned IPOs (an alternative to bookbuilding in U.S. and elsewhere)? Using proprietary data on uniform-pricing IPO dirty auctions from China, we show when the share allocation rule shifted from pro rata to lottery draw (that makes quid pro quo valuable), fund families having pre-shift stronger commission ties with the underwriter submit bids later, place more strategic and accurate bids, have more bids qualified for the allocation round, and are more likely to receive share allocation than other fund families. The evidence supports quid pro quo facilitated by the underwriter’s leakage of privileged bidding information.

Keywords: IPO; uniform price; auction; quid pro quo; underwriter favoritism; rent extraction.

JEL code: