TWO PAPERS ON INITIAL PUBLIC OFFERING ISSUE

OUYANG ZHIWEI

MASTER OF PHILOSOPHY
CITY UNIVERSITY OF HONG KONG
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Ouyang Zhiwei
歐陽至偉

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This thesis includes two papers on initial public offering (IPO) issue. The first paper examines the underpricing of IPOs in the Chinese A-share market during the period from 1992 to 2006. Since its inception, the Chinese IPO market has transformed from a tightly-controlled system to a more market-oriented system. Reforms include the abolishment of listing quotas and fixed issue price determination; allowing for more market participation in IPO pricing. This study documents the regulatory reforms during the sample period and investigates how these regulatory changes affect IPO underpricing in China. During this period, the results show that Chinese IPOs exhibit a huge underpricing. The size of the underpricing, however, decreases over the sample period. This study further finds that the IPO pricing method before the regulatory changes, which was based on a fixed P/E ratio pre-determined by the regulators, contributed significantly to the IPO underpricing in China. After adopting a series of regulatory reforms allowing underwriters discretion in the determination of issue price, this regulatory underpricing component vanishes. This study has policy implications in demonstrating the impacts of regulatory frameworks on IPO underpricing.
The second paper examines the underpricing of IPOs in the Hong Kong market during the period from 1994 to 2005. The IPO underpricing of the Hong Kong market reaches 10.3%, which is comparable to the US market. This paper investigates how the intended use of proceeds and corporate governance factors affect the IPO underpricing in Hong Kong. This paper also pays special focus on the multiple identities of the chairman of the board. Results show that different use types of proceeds have no significant impact on IPO underpricing, while corporate governance factors have significant impact. Firms with higher board independence are associated with lower IPO underpricing, which suggests that better corporate governance practices could mitigate IPO underpricing to some extent. According to the multiple identities of the chairman of the board, IPOs are further categorized into four subgroups: 1) pure-chairman firms, whose chairman of the board is neither the founder/co-founder nor the CEO of the company; 2) founder-chairman firms, whose chairman of the board is also the founder/co-founder but does not serve as the CEO of the company; 3) CEO-chairman firms, whose chairman of the board serves as the CEO but is not the founder/co-founder of the company; and 4) founder-CEO-chairman, whose chairman of the board is the founder/co-founder and also served as the CEO of the company. Results show that the underpricing level of the four subgroups presents a significant descending pattern, which could be explained by
different incentive and behavior mechanisms due to the multiple identities of the chairman of the board.
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