Special Underwriter-Reputation Measuring Method From a Small Emerging Economy

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Abstract

Owing to the lack of an underwriter-reputation ranking system fit for the Tunisian context, we undertake to set up an alternative underwriter-reputation special proxy, based on the length of the period ranging from the issue closing date to the beginning of the exchange-trading listing date.

Keywords: underwriter reputation, Tunisian IPO

1. Introduction

Since the "tombstone announcements" are not applied in Tunisia, we consider developing a special underwriter-reputation measuring method.

In the relevant literature, several underwriter reputation methods have been designed and applied. Johnson and Miller (1988), Carter and Manaster (1990), Megginson and Weiss (1991).

In this context, Teja (2021) used the measures of Megginson and Weiss (1991), and Su and Bangassa (2011) to calculate underwriter's rank in Indonesia because this market does not have an underwriter reputation rank.

Regarding the American market context, the Carter and Manaster (1990) devised measurement stands as the most significant and commonly used.

Accordingly, the 'tombstone announcements' have since been applied to estimate and classify the underwriters' ranking in relation to the number of undertaken IPOs. In addition, they also appeal to the frequency and order wherein the underwriter figures and ranks in other syndicates/trade unions/circles. Thereby, the underwriters' measuring ranks range from 1 to 9 according to the set scale.

As regaeds the Tunisia market, Gana and El Ammari (2008) and Jeribi (2015) are pioneers in setting up a special underwriter-reputation measuring system. With respect to Gana and El Ammari (2008), they relied on the size of issues, whereby, if the underwriter introduces a firm with issue size exceeding the average, the underwriter is then considered to be reputed. Concerning the Jeribi (2015) devised measure, it rests on the quantity or size of IPO shares requested by each underwriter relevant to the total amount requested throughout the subscription period. Thereby, the highly reputed underwriters are those whose investors appear to request the highest quantity of IPO shares over the subscription period.

Owing to the lack of an underwriter-reputation ranking system fit for the Tunisian context, we undertake to set up an alternative underwriter-reputation special proxy, based on the length of the period ranging from the issue closing date to the beginning of the exchange-trading listing date. Accordingly, should an underwriter introduce a firm whose time period separating the issue closing date and the trading-listing day (IPO quality proxy)is inferior (respectively superior) to the average duration, the underwriter is then ranked reputable. In this regard, on examining the underwriter reputation associated role, Carter and Manaster (1990) concluded that the most prestigious underwriters are those who introduce low-risk firms. Their empirical study reached results revealed the persistence of a negative relationship between the underwriter reputation level and IPO return.Similarly, to proxy for IPO quality, Cheng et al. (2005) used the length of the period seperating the last IPO application day and the listing day, which they dubbed:

IPO investment period.They predicted a negative relationship to prevail between the investment period length and IPO quality. Their findings actually highlighted the presence of a negative relationship between IPO investment period and IPO return.

Unlike the Cheng et al. (2005) as well as Carter and Manaster (1990) conducted studies, the present work provides a different interpretation of the investment period and underwriter reputation variables, depicted in a rather straight forward manner.

In this context, we maintain that a longer investment period reflects a low-quality IPO, and that the most prestigious underwriter is that who displays a strong signal of corporate effectiveness regarding the firm deciding to go public. Therefrom, the time period ranging from the IPO application deadline to the listing day should serve as a convenient proxy for ranking the underwriter's reputation. This newly conceived alternative, clearly defining the underwriter-reputation specifying proxy, is unique to this study, in absence of a clear underwriter-reputation ranking system special to Tunisia. To our knowlege, none of the existing literature related works seems to document the investment period and underwriter reputation binding relationship as a proxy with regard to any particular context. The remainder of this paper is organized as follows. Section 2 includes the model and the Section 3 encloses the major concluding remarks and suggestions for future research veins.

2. Model

First, we calculate the number of days from the closing subscription period deadline to the listing day for all IPOs.

NSL_i: the number of days from the closing subscription period deadline to the listing day for IPO firms i.

Second, we calculate the average duration for all number of days from the closing subscription period deadline to the listing day for IPO firm (i).

$Average_i = Average (NSL_i)$

If an underwriter introduces a firm whose time period separating the issue closing date and the trading-listing day is inferior to the average duration, the underwriter is then ranked reputable; it is assigned one, and zero otherwise.

3. Conclusion

In this paper, we focused to develop an alternative underwriter-reputation special proxy, in Tunisia, as an emerging market, investigated through a sample involving 35 IPOs, observed over the period ranging from 2005 to 2020. Our measure is based on the length of the period ranging from the issue closing date to the beginning of the exchange-trading listing date.

This measure can be helpful for practitioners and academics that tested the relationship between IPO underpricing, IPO liquidity and underwriter reputation.

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