Measuring Underwriter Reputation: Evidence from The Tunisian Stock Market

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Abstract
In our paper, we develop a new method for measuring underwriter reputation. Our measure is based on the number of IPO shares requested by each underwriter in the total shares requested upon the subscription period, the underwriter’s capital, the issue size of the IPO firms introduced by the underwriter, the underwriter’s turnover and age. Our measure assigns a ranking to Tunisian underwriter.

Keywords
Underwriter reputation, Tunisia, IPO. JEL classification: G15, G21

I. Introduction
Several methods are applied in IPO literature to measure underwriter’s reputation. Logue (1973) and Beatty and Ritter (1986), Johnson and Miller (1988), Carter and Manaster (1990) and Megginson and Weiss (1991) are among the first to develop a measure of the underwriter’s reputation. Beatty and Ritter (1986) ranked underwriters in terms of their absolute standardized average residuals (ASAR). They classified the 49 underwriters of their sample into two distinct categories. The 24 underwriters with the largest ASAR are referred to as pricing ‘off the line’, whereas the remaining 25 are referred to as pricing ‘on the line’. Carter and Manaster (1990) are based on the “tombstone announcements” in order to create an underwriter ranking according to the number of IPOs. They used the frequency and the order by which the underwriter appears in other syndicates. The measure used by these authors ranks underwriters from 1 to 9. Megginson and Weiss (1991) are based on the volume of IPO business lead by an underwriter.

II. Model
In a first step, we are based on the measure of Jeribi and Jarboui (2014). First, we calculate the part of each underwriter for all IPOs in the total amount requested during the subscription period.

\[ Part_{i,j} = \frac{RQ_{i,j}}{\sum_{i=1}^{n} RQ_{i,j}} \]

With

\[ Part_{i,j} : \text{The part of underwriter (i) in the total number of shares of firm (j) requested during the subscription period}, \]
\[ RQ_{i,j} : \text{The requested number of IPO shares of firm (j) by underwriter (i) during the subscription period.} \]

Second, we calculate the median for the parts of all underwriters for IPO firm (j).

\[ Median_j = \text{Median}(Part_{i,j}) \]

If underwriter (i) has a part above the median, it is assigned one, and zero otherwise.

\[ \text{If } Part_{i,j} \geq Median_j, \text{Note}_{i,j} = 1 \]
\[ \text{If } Part_{i,j} < Median_j, \text{Note}_{i,j} = 0 \]

Third, we calculate the total score of each underwriter.

\[ Score_i = \sum_{j=1}^{n} \text{Note}_{i,j} \]

In 2014, there were 23 Tunisian underwriters. After calculating
the total score of each underwriter, we classify all of them in a descending order according to the obtained score. The one at the top is assigned 23 points, while the one at the bottom is given 1 point.

In a second step, we use the measure of Michaely and shaw (1994) and classify underwriters in a descending order according to their capital, the same way as it with the obtained score. In a third step, we are based on the measure of Megginson and Weiss (1991). We classify underwriters in descending order according to the issue size of the IPO firms (inflation adjusted to the 2014 value) that introduce. The one at the top is assigned 23 points, while the one at the bottom is given 1 point. In a fourth step, we classify underwriters in descending order according to their turnover. We grant for the first 23 points and the last one point. In a fifth step, we classify underwriters in descending order according to their age, the same way as it with the obtained score. In the end, the sum of points obtained is calculated.

III. Conclusion

In this study, we tried to develop a new method to measure underwriter’s reputation. Hence, we used the measures of Megginson and Weiss (1991), Michaely and shaw (1994) and Jeribi and Jarboui (2014). Our measure is based on the number of IPO shares requested by each underwriter in the total shares requested upon the subscription period, the underwriter’s capital, the issue size of the IPO firms introduced by the underwriter and the underwriter’s turnover and age. Our measure assigns a mark for each Tunisia underwriter. This measure can be helpful for practitioners and academics that tested the relationship between IPO underpricing and underwriter reputation.

References


