

The Impact on IPOs Issued by Fraudulent Underwriters

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Last Updated: January 31, 2009

JEL Codes: G24, G12, G14

*We thank Johnny K. Chan at Western Kentucky University and the referee for the help and suggestions.

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ABSTRACT

Several underwriters in the United States have been convicted by the Securities Exchange Commission (SEC) for their fraudulent behaviors in the wrongful allocation of IPOs and inappropriate manipulation of the stock supply post issuance. We show that such fraudulent behaviors can have a significantly negative impact on the wealth of the uninformed IPO investors. More specifically, IPOs underwritten by fraudulent underwriters are more likely to have larger issuance size, leave more the money on the table, have higher first-day returns, and worse long-term performance than IPOs underwritten by non-fraudulent underwriters.