**Proposal No.: \_\_\_\_**

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**Scientific Abstract:** **IPO Underpricing in an Era of Asset Manager Capitalism: Theory, Evidence, and Policy**

The past decade has witnessed the meteoric rise of asset management giants, igniting intense scrutiny form legal scholars and economists. Among other concerns, the control wielded by these behemoths over vast capital pools and their outsized influence on financial markets have shown to pose myriad economic, social, and corporate governance challenges. This research proposal aims to uncover a critical yet overlooked arena in which the market power of these institutional investors is manifesting additional deleterious consequences: capital markets, specifically in the context of initial public offerings (IPOs).

At the core of our theory is that the concentration in the asset management industry and the rise of financial behemoths that exert enormous influence over financial markets has empowered these entities with significant market power in the primary market. This market power, we argue, is strategically leveraged by large, powerful institutional investors to depress stock prices in IPOs, holding explanatory power for the documented surge in IPO underpricing. Over the last decade, IPO underpricing—defined as the difference between the offer price and the stock’s (higher) closing price on the first day of trading—has soared to extraordinary levels, resulting in an unprecedented $90 billion left “on the table” by issuers.

Our focus is on the “Big Three” largest institutional investors—BlackRock, Vanguard, and Fidelity—whose market power can be attributed to their relative market size and order volume in public offerings as well as to their market-leading status and significant pricing role during price discovery. Our preliminary results support our hypothesis. We find that the simultaneous participation of the Big Three in US IPOs increased underpricing levels by an average of 16.7 percentage points. To make our hypothesis more robust, we plan to extend our empirical examination of the correlation between underpricing levels and the participation of key institutional investors, particularly the Big Three, in US IPOs. This analysis will meticulously control for various factors, including the market cap of the issuers and the particular sector, as well as investor sentiment and the relationship between underwriters and certain institutional investors.

Our novel analysis of underpricing through the lens of institutional-investor market power takes into account shifts in the US capital market landscape, particularly the escalating dominance of a few giant institutional investors, as an important driver of IPO underpricing. We aim to conduct theoretical and empirical analyses to reveal how the joint participation of dominant market actors in IPOs affects underpricing levels. We also plan to identify key junctures in the IPO process where strategic behavior by institutional investors is likely to occur, and to expose shortcomings in the current regulatory regime. Specifically, we will identify the susceptibly of the book-building process—originally designed to facilitate efficient price discovery by incorporating market information from sophisticated institutional investors—to the abuse of market power by heavyweight institutional investors. We also aim to offer policy recommendations for fostering a more transparent and competitive IPO process, which would be more attracted to potential issuers.