

# Equity Issues and the Impact of Lead Manager Affiliation on Broker Market Share and Trading Volume

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The data used is provided by ASX and Thomson Reuters.

**Keywords:**

*Seasoned equity offerings; Equity issues; Broker affiliation; Broker market share*

Seasoned equity offerings (SEOs) are widely regarded as one of the most important capital structure events for listed companies. CMCRC researchers show brokers affiliated with SEO managers gain additional market share during SEOs as compared to unaffiliated brokers. This could be interpreted as contributing to compensation for management and underwriting services.

A firm's management initiates an SEO typically to either reduce a firm's leverage or to finance capital expenditure such as the purchase of assets or acquisitions. The purpose of an SEO could however influence the performance or health of a firm and is typically associated with abnormally high trading activity around such events. Anecdotal evidence suggests that this abnormal trading activity is concentrated amongst brokers affiliated to managers and underwriters of SEOs. This arises due to the connections between the corporate advisory and brokerage departments of the investment bank employed in managing SEOs. This research examines this period of abnormally high trading behaviour and documents the allocation of order flow to brokers according to whether they are or are not affiliated to an SEO manager.

Specifically, broker-level data is employed to investigate the drivers behind the trading behaviour of affiliated and unaffiliated brokers around private placements and rights offerings in the Australian equity market between 2000 and 2009. The results suggest affiliated brokers outperform other unaffiliated brokers by 147 percent in terms of trading volume on the SEO announcement day and by 179 percent in the post-announcement period. Around issuance days, affiliated brokers obtain at least 151 percent more trading volume compared to their average volume for that stock, and their volumes are 264 percent higher than those of unaffiliated brokers.

The research also examines the key determinants of broker trading activities around SEOs. Higher broker reputation, greater market capitalization of the offering firm, and larger offer size are all shown to be major factors that positively influence affiliated broker market share around SEOs.

The research documents an amount of indirect compensation for SEO management and underwriting which is evidenced through increased market share for their brokerage division. This additional indirect compensation should be considered by investment banks when pricing SEO management and underwriting services.

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