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Underwriters Do Not Use Green Shoe Options to Profit from IPO Stock Pops

Harvard Law School Forum on Corporate Governance

WRITTEN BY

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New York Partner and Co-Chair of Locke Lord's Capital Markets Group **Rob Evans** authored an article for the Harvard Law School Forum on Corporate Governance as a response to a prior post by Professor Patrick M. Corrigan of Notre Dame Law School. Corrigan, in his piece, offers a theory about why some IPO stocks pop and others suffer steep drops, and ultimately points to underwriters. His "principal trading theory" maintains that, contrary to accepted wisdom, overallotments and green shoe options in IPOs are used to maximize trading payoffs for underwriters.

Evans explains that "transforming a privately-held venture into a NYSE- or Nasdaq-traded company involves considerable art as well as science." However, Evans disputes from Corrigan's outlook that underwriters profit due to conspiring to underprice IPOs.

Evans concludes: "It is important to let markets function and allow sophisticated parties to adapt to new developments in the law and in the markets. Too much regulation, such as that proposed by Professor Corrigan, particularly if sparked by unjustified concerns, can destroy value and inhibit innovation. And bottom line, additional regulation is not called for here."

To read the full article, click **here**.

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