BOOK BUILDING VS. FIXED PRICE OFFER:
EVIDENCE FROM THE ISTANBUL STOCK EXCHANGE

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Abstract

The Turkish IPO market gives issuers and underwriters a choice of different IPO selling mechanisms. Accordingly, firms may offer their shares to the public through one of the following two methods of sale; Collection of Bids (Fixed-Price Offering and Book Building Method) and Sale through the Stock Exchange. In this paper we try to answer the question of "What kind of selling and underwriting procedure might be preferred for controlling the amount and volatility of underpricing in the Istanbul Stock Exchange (ISE)". Using 1993-2005 firm and issue data, we compare the *book building mechanism* and the *fixed price* offer available in the ISE. The empirical analysis reveals significant first day underpricing of 7.13% in fixed price offers and 10.61% in book building mechanism. We also show that market returns prior to IPOs, a proxy for the overall market's price momentum in the 3 months prior to an offering, is a significant ex ante predictor of the level of underpricing. Our findings confirm that firms prefer to go public in "hot markets" and the *Market Return* variable, calculated as the weighted average of the returns of the market index for the 3 months before the IPO pricing date, in Turkish IPOs has a significant impact on the underpricing of the issues..

Key words: IPOs, under pricing, fixed price offers, book building.

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