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**IMPACT OF IPO LOCKUP EXPIRATIONS AND ITS DETERMINANTS:
MALAYSIAN EVIDENCE**



**Dissertation Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfilment of the Requirement for the Doctor of Business Administration**



**OTHMAN YEOP ABDULLAH GRADUATE SCHOOL OF BUSINESS
UNIVERSITI UTARA MALAYSIA**

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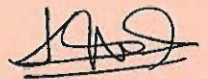
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Nama Penyelia/Penyelia-penyelia
(Name of Supervisor/Supervisors)

: **Assoc. Prof. Dr. Kamarun Nisham Taufil Mohd.**



Assoc. Prof. Dr. Nurwati Ashikkin bt. Ahmad Zaluki



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ABSTRACT

This dissertation examines the impact of lockup expiration and its determinants in Malaysia using 292 IPOs during the period 2003-2012. Impact of lockup on abnormal returns, impact of lockup on abnormal trading volume, impact of regulatory changes on abnormal returns, and determinants of share price behavior as a proxy of abnormal returns at lockup expiration are the four study objectives. The research hypotheses are tested using event study method and multiple regressions. Results show the existence of significant negative abnormal returns surrounding the date of lockup expirations, hence contradicting evidence of the efficient market hypothesis. Further, this study also finds the existence of abnormal trading volumes. Both of these results are in line with those of the US studies. Meanwhile, there are two lockup regimes involved in this study arising from regulatory change that takes effect on 1 May 2003 and 3 August 2009, referred to as Regime #1 and Regime #2, respectively. However, the results show that the change in lockup regulation does not have an impact on the abnormal returns at lockup expiration. Furthermore, the variables identified in the regression analysis are lockup regime, fractions of insiders buying and selling before and after expiration, company size and age, offer price, underwriter, auditor, and technology company. Results show that company size, fraction of insider selling and buying after lockup expiration are the significant factors in relations to abnormal returns which is driven by Regime #1. Implications of the study to SC are improving the present regulation by imposing the minimum requirement and allowing for longer lockup period to be determined between underwriter and IPO issuer, to Bursa Malaysia in posting the upcoming lockup expiration dates on their website to alert investors, and to research houses by starting coverage on earnings forecast and providing recommendations surrounding lockup expiration.

Keywords: IPO, Lockup Provisions, Event Study, Market Efficiency, Insider Trading

ABSTRAK

Disertasi ini mengkaji impak dan penentu bagi penamatan tempoh sekatan jualan di Malaysia menggunakan 292 IPO bagi tempoh 2003-2012. Impak sekatan jualan terhadap pulangan tidak normal, impak sekatan jualan terhadap jumlah dagangan yang tidak normal, impak perubahan kawal selia terhadap pulangan tidak normal, dan penentu gelagat harga saham sebagai proksi pulangan tidak normal pada tamat tempoh sekatan jualan adalah empat objektif kajian ini. Hipotesis kajian diuji dengan menggunakan kaedah kajian peristiwa dan regresi berganda. Keputusan kajian yang menunjukkan kewujudan signifikan pulangan negatif tidak normal pada tarikh tamat tempoh sekatan jualan, memberikan bukti yang bercanggah dengan hipotesis pasaran cekap. Di samping itu, kajian ini juga menunjukkan kewujudan jumlah dagangan yang tidak normal. Kedua-dua dapatan ini selaras dengan kajian-kajian yang telah di jalankan di Amerika Syarikat. Sementara itu, terdapat dua rejim sekatan jualan terlibat dalam kajian ini berikutan perubahan peraturan kawal selia berkuat kuasa pada 1 Mei 2003 dan 3 Ogos 2009, dikenali sebagai Rejim #1 dan Rejim #2. Namun, dapatan kajian menunjukkan bahawa perubahan dalam peraturan sekatan jualan tidak memberi kesan terhadap pulangan tidak normal ketika tamat tempoh sekatan jualan. Selanjutnya, pemboleh ubah yang dikenal pasti dalam analisis regresi adalah rejim sekatan jualan, bahagian dagangan dalaman yang berjual-beli sebelum dan selepas tamat tempoh sekatan jualan, saiz dan usia syarikat, harga tawaran, penaja jamin, juruaudit, dan syarikat teknologi. Hasil dapatan menunjukkan bahawa saiz syarikat, bahagian jualan dagangan dalaman dan bahagian belian dagangan dalaman selepas tamat tempoh sekatan jualan merupakan faktor-faktor signifikan dalam hubungan dengan pulangan tidak normal yang didorong oleh Rejim #1. Implikasi kajian terhadap SC adalah penambahbaikan pengawalan semasa, iaitu dengan mengenakan sekatan minimum dan membolehkan tempoh sekatan jualan yang lebih panjang ditentukan antara penaja jamin dan penerbit IPO; terhadap Bursa Malaysia, adalah penyiaran tarikh-tarikh penamatan sekatan jualan akan datang di laman sesawang mereka untuk perhatian pelabur; dan terhadap firma penyelidikan, adalah penyediaan liputan awal berkaitan unjuran pendapatan dan cadangan sekitar tamat tempoh sekatan jualan.

Kata kunci: IPO, Peruntukan Sekatan Jualan, Kajian Peristiwa, Pasaran Cekap, Dagangan Dalaman

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LIST OF ABBREVIATIONS

ACE	Access, Certain, Efficiency
AAR	Average Abnormal Return
CAR	Cumulative Abnormal Return
CAAR	Cumulative Average Abnormal Return
CMSA	Capital Market Services Act
IPC	Infrastructure Project Company
IPO	Initial Public Offering
KLCI	Kuala Lumpur Composite Index
KLSE	Kuala Lumpur Stock Exchange
MAR	Market adjusted returns model
MENA	Middle East and North Africa
MESDAQ	Malaysian Exchange of Securities Dealings and Automated Quotation
MM	Market model
SC	Securities Commission
SEBI	Securities and Exchange Board of India
SPAC	Special Purpose Acquisition Company
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background

An initial public offering or IPO of equity is the event where a company's share is offered for sale the first time to the public. It is the process of the company's official transition from private to public status. Both the terms IPO and "going public" are being used interchangeably. In this route, companies create new shares, or an existing shareholder offers for sale a certain proportion of shares they owned, resulting in the changing of the ownership structure. These shares are first sold on the primary market, followed by the secondary market on the listing date or the debut on the stock exchange.

In Malaysia, the two common types of IPOs are the "public offer" and the "offer for sale". The former is related to new issue of shares whereas the latter involves the existing shares which have not been traded before by the existing shareholders. Some companies are also making a mixture of both the public offer and the offer for sale resulting in a "combination offering". In connection with the combination offering, the share sale is both partially from the issuing company and the existing shareholders. In terms of the absolute holdings, the existing shareholders are not affected in a public offer since new shares are being offered but their percentage of shareholdings in the company will be reduced. In contrast, under an offer for sale, both the absolute holdings and the

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