

# [Underwriting: equity and dept](https://assignbuster.com/underwriting-equity-and-dept/)

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The investment banks play the role of underwriters during the launch of IPOs by several companies that are looking to raise money from the market. In order to raise money from the market, the companies issue shares through the process of initial public offering. There are various factors that are involved for successful launch of the IPOs. These include the availability of the public investors, the promotion of the stocks offered in the market and the demand for these stocks that are issued during the IPO. In providing the underwriting services during the launch of IPO, the investment banks accept the role of conducting the activities of an IPO at the cost of a certain amount of premium. The investment banks incur the underwriting risks which are related to the performance of the IPO. The target group of investors is identified by the underwriters or the investment banks. The performance of the companies and the expected return from the investment in the stocks offered in the IPO are also guaranteed by the investment banks who plays the role of underwriters (Liaw, 2006, p. 84). Although the investment banks charge a certain amount of premium on the IPO amounts, there are risks associated to the low sales of the stocks offered in the IPO. In such cases, the investment banks would need to hold the stocks until a favourable price for sale is obtained from the market. The investment banks also incur the reputational risk during the underwriting services. The low performance of the stocks issued in the IPOs would lead to loss of credibility of the investment bank in providing underwriting services to other issuers and public investors.
Auction process for UK government securities
The auction process for the UK government securities starts with the announcement of the auction for the sale of UK government securities eight days before the actual sale of the stocks. This is followed by the issue and sale of the prospectus and the application forms for the proposed auction of the UK securities. The securities are then listed in the UK stock exchange with temporary codes, namely the ISIN code and the Sedol codes (Rutterford and Davidson, 2007, p. 75). During this period, the intended public investors purchase the prospectus and the application forms for the proposed auction of the securities. The prospectus contains the details about the stocks and the securities that are to be auctioned. Finally, the auction takes place on the day and time under the supervision of the underwriter. The bids for the auction are accepted and the decisions for sale of the securities are taken as per the rule of auction. The auction result in then declared by announcing a meeting which is attended by the bidders, investors and the public (Fleuriet, 2008, p. 92). The trade of the securities is settled on the settlement date of the auction. The winners of the auction are provided with new ISIN and Sedol codes when the UK securities are finally transferred to the public.
References
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Liaw, K. T. 2006. The business of investment Banking, 2nd edition. NJ: Wiley.
Rutterford, J and Davidson, M. 2007. An introduction to stock exchange investment. New York: Palgrave.