

**Conflict or Credibility: Analyst Conflicts of Interest  
and the Market for Underwriting Business  
(35 J. OF LEGAL STUDIES (June 2006))**

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**USC Center in Law, Economics and Organization  
Research Paper No. C06-3  
USC Legal Studies Research Paper No. 06-6**



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SERIES**

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This paper argues that, contrary to conventional wisdom, conflicts of interest among equities research analysts (i.e., where investment banks would offer positive analyst research in quid pro quos for underwriting business) were beneficial to the capital markets. First, conflicted analyst research credibly signaled positive inside information that is otherwise too costly to communicate under Securities Act liability, correcting informational asymmetries. Second, conflicted analyst research mitigated agency costs between issuer and underwriter by allowing the underwriter to credibly commit to exerting more effort than the underwriter would prefer. Third, analyst research quid pro quos took the form of a competitive bidding market among underwriters, and may have improved competition in the underwriting industry. In light of these conclusions, recent reforms prohibiting analyst conflicts of interest are counterproductive. Preferable modes of regulation include liberalizing Securities Act liability, increasing mandatory disclosure of conflicts, and increasing fraud penalties.