



September 4, 2018

Dear FTC Chairman Mr. Joe Simons and members of the Commission:

I would like to thank the Chairman and the Commission for accepting comments on the “Competition and Consumer Protection in the 21st Century Hearings.” It is always greatly appreciated when policymakers seek comments from the public and academics.

I am an Instructor of Finance and a Ph.D. Candidate in Finance at the University of Toronto, Rotman School of Management. My research focus is on competition, industrial organization, corporate governance, and asset management. As well, I have been working on competition related issues for several years, and since about two years, I have been carefully examining whether there are indeed anti-competitive effects of common-ownership. I am writing this commentary to share my concerns that some policymakers are incorrectly relying on empirical findings of recent academic studies that are not well sounded and robust. Additionally, given the lack of understanding of various data challenges in the institutional ownership datasets that are used in these empirical studies, some law professors have been making severe and unrealistic suggestions to implement stricter rules and regulations that would eliminate or severely reduce common-ownership positions by institutional investors. I find it very unfortunate and disappointing that such academics are not being careful when drawing policy-relevant conclusions. In this commentary, I would like to share some insights from my research and issues I have found in empirical studies that suggest that there are anti-competitive effects of common-ownership.

Although the empirical findings of recent empirical studies which claim that there are anti-competitive effects of common-ownership, such as the Airline study by Azar, Schmalz, and Tecu (2018, *The Journal of Finance*), AST henceforth, are interesting and intellectually stimulating, there are several major issues with these academic studies. The results of these empirical studies are very sensitive to the underlying assumptions the authors of these studies make.

First, the institutional ownership data used in the AST study comes from Thomson Reuters (called the S34 dataset). In this particular dataset, most of the institutional investor have been assigned a single unique manager number (i.e., MGRNO). However, some other institutional investors have multiple MGRNOs, such as BlackRock Inc. that has seven MGRNOs. Given that large institutions block vote, linking the MGRNOs of such institutions to a single MGRNO seems to be correct based on several studies [e.g., Ben-David, Itzhak, Francesco Franzoni, Rabih Moussawi, and John Sedunov (*Ohio State, Fisher College of Business Working Paper No. 2015-03-09*); Lewellen and Lewellen (*Dartmouth, Tuck School of Business Working Paper 2018*)]. Unfortunately, the AST study, however, was not very transparent on how they did such an aggregation given that their results are very sensitive to such an aggregation (even though my co-authors have been trying to contact the authors several times). Just a few days ago, *the Journal of Finance* has published a replication package of the main findings of the AST study. In the replication package, an Excel



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was included that shows which institutions (i.e., MGRNOs) were aggregated in the AST study. After carefully examining this file, my co-authors and I have found major issues in the aggregation. For example, MGRNO = 81575 belongs to an entity called “STATE STR RESEARCH MGMT CO”, and in the AST study, this MGRNO was merged into MGRNO = 81540, which belongs to the passive investor “State Street”. However, after carefully examining whether indeed these firms are legally connected, one will find out that these institutions are separate entities and have no legal linkages. In other words, these MGRNOs do not belong to the same entity. There are many other such incorrect aggregations of MGRNOs. Although at first glance this may seem like a minor issue that could create noise in the data, when carefully aggregating the MGRNOs, the results of the AST study change completely. In fact, Dennis, Gerardi, and Schenone (University of Virginia Working Paper, January 2018) examine whether there are indeed rises in ticket prices in the airline industry due to common-ownership positions by institutional investors, by more carefully aggregating the MGRNOs and constructing the ownership variables, this study finds the opposite of what the AST study finds; there are no anti-competitive effects of common-ownership.

Furthermore, last year in September, I presented a study on common-ownership and market competition at the University of Toronto. In this particular study, I have found that academic studies that examine whether there are anti-competitive effects of common-ownership incorrectly use quasi-random events to draw causal inference [e.g., He and Huang (2017, *Review of Financial Studies*); Azar, Schmalz, and Tecu (2018, *The Journal of Finance*)]. This study will shortly be available on SSRN. We would greatly appreciate if the Commission takes the findings into account when considering implementing changes to the existing policies on competition and institutional ownership.

Without having a solid and objective understanding whether or not institutional investors engage with portfolio firms to encourage anti-competitive behavior that may lead to higher consumer prices, it would be unjust to implement stricter rules to institutional investors. Without a doubt, I strongly believe that the Commission will be very careful when analyzing the arguments displayed at the upcoming hearings on the competitive effects of common-ownership. I would like to sincerely thank the Commission for considering my comment.

Sincerely,

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