



Rotman School of Management UNIVERSITY OF TORONTO

January 14th, 2019

Office of the Secretary
Federal Trade Commission
600 Pennsylvania Avenue NW
Suite CC-5610 (Annex C)
Washington, DC 20580

Re: FTC Hearing #8: Competition and Consumer Protection: Holdings of Non-Controlling Ownership Interests in Competing Companies

Dear Honorable Commissioners of the Federal Trade Commission:

I would like to express my gratitude for providing the opportunity to express my personal views on the recent discussion on the role of institutional investors in product market outcomes. I have been studying this topic throughout my doctoral studies at the University of Toronto, by working on several empirical studies that examine whether indeed institutional investors induce, either directly or indirectly, anti-competitive effects.

Many empirical studies that examine whether common-ownership has anti-competitive effects on product market outcomes, including the Airline study by Azar, Schmalz, and Tecu, published in the *Journal of Finance*, rely on financial institution mergers (e.g., the 2009 BlackRock acquisition of Barclays Global Investors) as an econometric setting to draw causal conclusions. In one of my paper, which will be available on SSRN shortly and send directly to the FTC, I find that studies that rely on such quasi-random experiments to draw casual inference on potential anti-competitive effects of newly-established common-ownership positions do not examine the post-merger activities of institutional investors, but rather rely on implausible assumptions that are based on pre-merger activities. I show that when one examines the post-merger activities of institutional investors, the economic results change in direction (i.e., there is no evidence in support of the so-called anti-competitive effects of common-ownership positions).



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In addition to my work on common-ownership that finds no evidence on anti-competitive effects of common-ownership, several recent studies (please see appendix) draw similar conclusions that there are major flaws in the econometric specifications of empirical studies that suggest that there are anti-competitive effects of common-ownership positions. Although the academic debate on the role of common-ownership by institutional investors in product market outcomes has just recently started, there is sufficient evidence that suggests no causal linkages between institutional common-ownership and anti-competitive effects. Therefore, there is no need for any regulatory intervention by the FTC on common-ownership positions by institutional investors.

Disclosure of no conflict of interest: I do not sit on any board of directors, have never received any financial benefits from any institutional investor for consulting activities (or any other related activities), and have not received any financial benefit for my research on common-ownership from any institutional investor. I am solely interested in the academic debate of this topic and the policy-implications. The sole reason why I have raised my voice with this letter is to provide my personal concerns on a possible regulatory intervention on common-ownership holdings of institutional investors that may impact public markets negatively. The role of institutional investors is fundamental to healthy capital markets. As well, any regulatory intervention at this stage would be a waste of valuable resources, especially tax-payers' money. I sincerely appreciate the efforts of the FTC in organizing thought provoking discussions on the role of institutional investors in product market outcomes, but I do not believe that there is any need for any further action. The academic debate is still in progress and policy intervention at this stage will be improper.

Sincerely,

Eyub Yegen

Ph.D. Candidate and Instructor of Finance

Rotman School of Management

University of Toronto

Toronto, Canada

Email:



Appendix: References

Dennis, Patrick, Kristopher Gerardi, and Carola Schenone, 2018. Common ownership does not have anti-competitive effects in the airline industry. Working Paper, University of Virginia.

Gilje, Erik P., Todd A. Gormley, and Doron Levit, 2018. Who's Paying Attention? Measuring Common Ownership and Its Impact on Managerial Incentives. Working Paper, University of Pennsylvania.

Kennedy, Pauline, Daniel P. O'Brien, Minjae Song, and Keith Waehrer. 2017. The Competitive Effects of Common Ownership: Economic Foundations and Empirical Evidence. Working Paper.

Kwon, Heung Jin, 2017. Executive Compensation under Common Ownership. Working paper, University of Chicago.

O'Brien, Daniel P. and Keith Waehrer. 2017. The Competitive Effects of Common Ownership: We Know Less than We Think. Working Paper.