When does a spin-off start having returns?

When-issued market mechanics, the CRSP convention, and how RiskModels incorporates spin-off pricing — the IBM/Kyndryl case

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Two careful data sources can disagree about a spin-off's returns — on exactly two kinds of days — while both being internally consistent. This note documents the mechanics behind that disagreement, states precisely when RiskModels begins using a spun-off company's data, and contrasts it with the CRSP (WRDS) convention. The worked example is the Kyndryl (KD) spin-off from IBM in November 2021.

The key insight is not a data-quality question. It comes from the mechanics of the **when-issued market** — a real, exchange-sanctioned market in shares that do not exist yet — and from where each methodology chooses to draw the line on using its prices.

The when-issued market

In a spin-off, there is a gap between the day the distribution is fixed and the day the new shares are delivered. For IBM/Kyndryl:

- **Record date** — Oct 25, 2021: IBM holders of record become entitled to 1 KD share per 5 IBM shares.
- **Distribution date** — Nov 3, 2021: KD shares are delivered.
- **Regular-way trading** — Nov 4, 2021: KD trades as an ordinary listed security.

Starting Oct 22 — before any KD share existed — the NYSE opened a **when-issued market** ("KD WI"): binding trades in the *entitlement* to shares, with settlement deferred until after the distribution. Had the spin-off been cancelled, all when-issued trades would have been voided. In parallel, regular-way IBM traded with **due bills** attached through Nov 3, so IBM buyers in that window still received the KD distribution — which is why IBM's price did not drop until Nov 4.

When-issued prices are real price discovery. Volume is thinner and the participants skew institutional, but the trades are binding and arbitrage-linked to the regular-way market that follows: the last when-issued close and the first regular-way price are mechanically the same instrument.

Where each methodology draws the line

RiskModels (built on exchange-tape vendor data) carries the when-issued tape under the regular ticker. KD's price history therefore begins **Oct 22, 2021** — the first when-issued print — with the first *return* on Oct 25 (the first day with a prior close). The transition from when-issued to regular-way is continuous; no special handling is applied, and none of the pre-listing history is synthesized.

CRSP books when-issued trading separately (its own identifier, flagged as a when-issued share class) and starts the regular security at **regular-way trading with the first return missing**. KD's first CRSP return on the main identifier is Nov 5, 2021.

Both choices are defensible. RiskModels' convention captures ten extra trading days of genuine price discovery on the new entity; CRSP's convention guarantees every return is computed within a single trading regime. The consequence is that a cross-check between the two will show "mismatches" on every day from the first when-issued print through the first regular-way day — dates on which, in CRSP's framing, the security does not yet exist.

KYNDRYL, DAY BY DAY

Date	KD close	RiskModels return	CRSP-convention return	Regime
2021-10-22	40.75	NaN (first observation)	— not covered	when-issued
2021-10-25	37.85	–7.12%	— not covered	when-issued
2021-10-26	35.50	–6.21%	— not covered	when-issued
2021-10-27	33.00	–7.04%	— not covered	when-issued
2021-10-28	32.00	–3.03%	— not covered	when-issued
2021-10-29	31.50	–1.56%	— not covered	when-issued
2021-11-01	33.50	+6.35%	— not covered	when-issued
2021-11-02	31.25	–6.72%	— not covered	when-issued
2021-11-03	28.50	–8.80%	— not covered	distribution date
2021-11-04	**26.38**	**–7.44%**	**missing (first day)**	**regular-way begins**
2021-11-05	24.25	–8.07%	–8.07%	identical from here on
2021-11-08	23.75	–2.06%	–2.06%	identical

Two things are worth noting. First, the when-issued slide from 40.75 to 28.50 was genuine: the market repricing standalone Kyndryl ahead of delivery. Second, the –7.44% on Nov 4 — the day CRSP reports as missing — is a real move whose denominator happens to be a when-issued close. Discarding it would delete information, not noise.

NOT A RATIO IMPUTATION

A natural suspicion is that pre-Nov-4 KD prices are synthesized from IBM via the 0.2 distribution ratio. The arithmetic rules this out:

Date	IBM close	IBM × 0.2 (imputed would be)	Actual KD close
2021-11-01	126.28	25.26	33.50
2021-11-02	126.18	25.24	31.25
2021-11-03	127.13	25.43	28.50

The when-issued prints sit 12–30% above any ratio-scaled IBM price, the gap changes daily, and the two series move independently — on Nov 3, KD fell 8.8% while IBM rose 0.75%. A ratio-imputed series would be perfectly correlated with the parent by construction. KD's series also starts abruptly at Oct 22 (the when-issued open), not at some arbitrary lookback depth, which is the signature of an independent tape rather than a back-filled transform.

The parent's ex-date return: one day, one wedge

The second — and subtler — divergence is in the **parent's** return on the ex-date, and it persists even after the child's coverage question is settled.

IBM's raw price drop on Nov 4 was –4.94% (127.13 → 120.85), most of which is the value of the distributed Kyndryl shares leaving the stock. Any total-return methodology adds that value back. The conventions differ only in *which KD price* values the distribution:

- **CRSP** values the distribution at the child's **same-day (ex-date) close**: (120.85 + 0.2 × 26.38) / 127.13 – 1 = **–0.79%**. This measures the realized wealth change of a holder who received the shares.
- **Vendor adjustment factors** (the standard commercial-data approach, used by the tape behind RiskModels) are fixed **before the ex-date open**, so the distribution is valued at the child's price known beforehand — the when-issued close / opening indication, here ~27.8: (120.85 + 0.2 × 27.80) / 127.13 – 1 = **–0.57%**.

Date	IBM close	KD close	RiskModels return	CRSP-convention return
2021-11-01	126.28	33.50	+0.94%	+0.94%
2021-11-02	126.18	31.25	–0.08%	–0.08%
2021-11-03	127.13	28.50	+0.75%	+0.75%
2021-11-04	**120.85**	**26.38**	**–0.57%**	**–0.79%**
2021-11-05	123.61	24.25	+2.28%	+2.28%
2021-11-08	124.54	23.75	+0.75%	+0.75%

The entire gap is the child's own first-day move scaled by the distribution ratio:

> 0.2 × (27.80 – 26.38) / 127.13 ≈ **22 bp**

Every other day matches exactly. The wedge appears only on spin-off ex-dates, is bounded by `distribution ratio × child's first-day move ÷ parent price`, and **nets out over any multi-day window** — both series converge on the same prices immediately afterward. Neither number is an error: one is an ex-ante adjustment factor, the other an ex-post realized total return, and they answer slightly different questions on one day.

Summary of conventions

Question	RiskModels	CRSP
When does the child's price history start?	First when-issued print (e.g., KD: Oct 22, 2021)	First regular-way day (KD: Nov 4, 2021)
Child's first return	First when-issued day with a prior close	Missing on day one; first return on day two of regular-way
When-issued period	Included, under the regular ticker	Separate when-issued identifier
Parent's ex-date distribution valuation	Adjustment factor fixed pre-open (prior / when-issued price)	Child's same-day close
Are pre-regular-way prices imputed?	No — independent when-issued tape	n/a

For model estimation the distinction is further insulated: a new listing enters the RiskModels universe only at a month-end rebuild, and beta estimation requires a minimum data density over a 126-day window, so the earliest (thinnest) when-issued days do not drive risk estimates. The convention difference is visible primarily on the per-ticker daily returns surface — and, as documented here, it is a difference in where two methodologies draw the same line, not a disagreement about what traded.