

Bond Case Briefs

Municipal Finance Law Since 1971

Competitive Bidding for Primary Offerings of Municipal Securities: More Bids, Better Pricing for Issuers?

Abstract

This paper examines the competitive bidding activity in municipal securities during the primary offering process. The prevalent view among industry participants is that when an issuer chooses the competitive offering method over the negotiated offering method or the private placement method, it is in the interest of the issuer to solicit as many bids as possible from competing underwriters or underwriter syndicates. Presumably, when underwriters compete to win the offering at a cost of sacrificing the profit margin, the issuer would benefit from the competition by selling the securities at the most advantageous price, or the lowest yield. There has been, however, scant research literature in recent years empirically investigating the relationship between competitive bidding activities and the resulting primary offering profit margin earned by the winning bidder from reselling.

This paper analyzes two aspects of the competitive offering process in recent years:

1. the average number of competitive bids received by an issuer; and
2. the impact of the bidding competition on winning underwriters' profit margins.

We found that the average number of competitive bids received gradually increased over the past 10 years, from an average of 4.4 competitive bids per issuance in 2009 to an average of 5.7 competitive bids per issuance in the first half of 2019. This conclusion holds regardless of the size of an issuance, the population of the state where the issuance originated (referred to in this paper as "issuance origination state") or the per capita income level of an issuance origination state. In addition, we found that the winning bidder's primary offering spread was negatively correlated with the number of competitive bids received after controlling for characteristics of each offering, such as offering size, time to maturity and yield, etc. Therefore, all things being equal, soliciting more competitive bids does indeed improve an issuer's selling price and reduce the yield cost for the issuer.

We caution that the conclusion from this paper is preliminary and may warrant further investigation, such as further exploring immediate trading in the secondary market during the first 30 days subsequent to the initial offerings.

[Continue reading.](#)

Municipal Securities Rulemaking Board

by Simon Wu, Ph.D.

Chief Economist at Municipal Securities Rulemaking Board

Published on July 14, 2020

