

# ***The Evolving Municipal Advisor Market in the Post Dodd-Frank Era***

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## Our Approach to this Study

- Systematically analyze changes in the size, structure, type of advice and regulatory/violation history of municipal advisors in the post Dodd-Frank era (2010-2018) – extension of Luby and Hildreth (2014) study
- Analyze the impact of select MA firm characteristics on average bond price increases in immediate post-issuance market
- Created 13 data tables and summaries available on the MFC conference website
- Primary data sources include SEC, MSRB and Mergent with some merging of all three

## If you have to leave early....

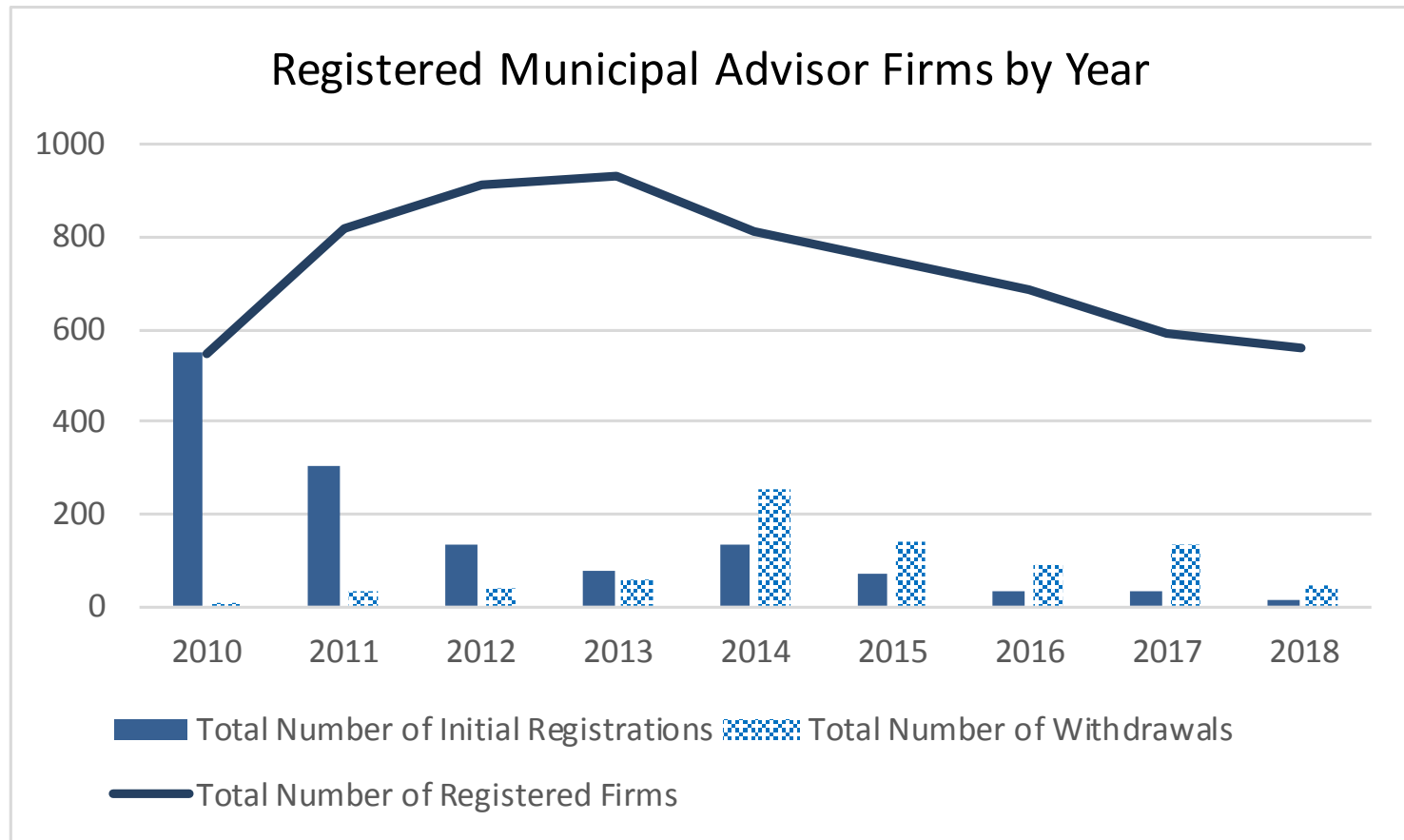
- If you go to the MSRB website, you will find 525 firms listed that have an advisor who has passed the Series 50 exam
- If you go to the SEC website, you will find 593 firms listed as currently serving as municipal advisors (221 have filed MA-W filings and officially withdrawn)
- Of these 593 firms, 182 have not updated their MA filings since calendar 2016; 39 have not since 2014

# Presentation Outline

1. Registration Activity
2. Firm Characteristics
3. Type of Advice
4. Regulatory and Violation Actions
5. Select Characteristics of MA Professionals by Firm Type
6. Select MA Characteristics Impact on Average Bond Price Increase

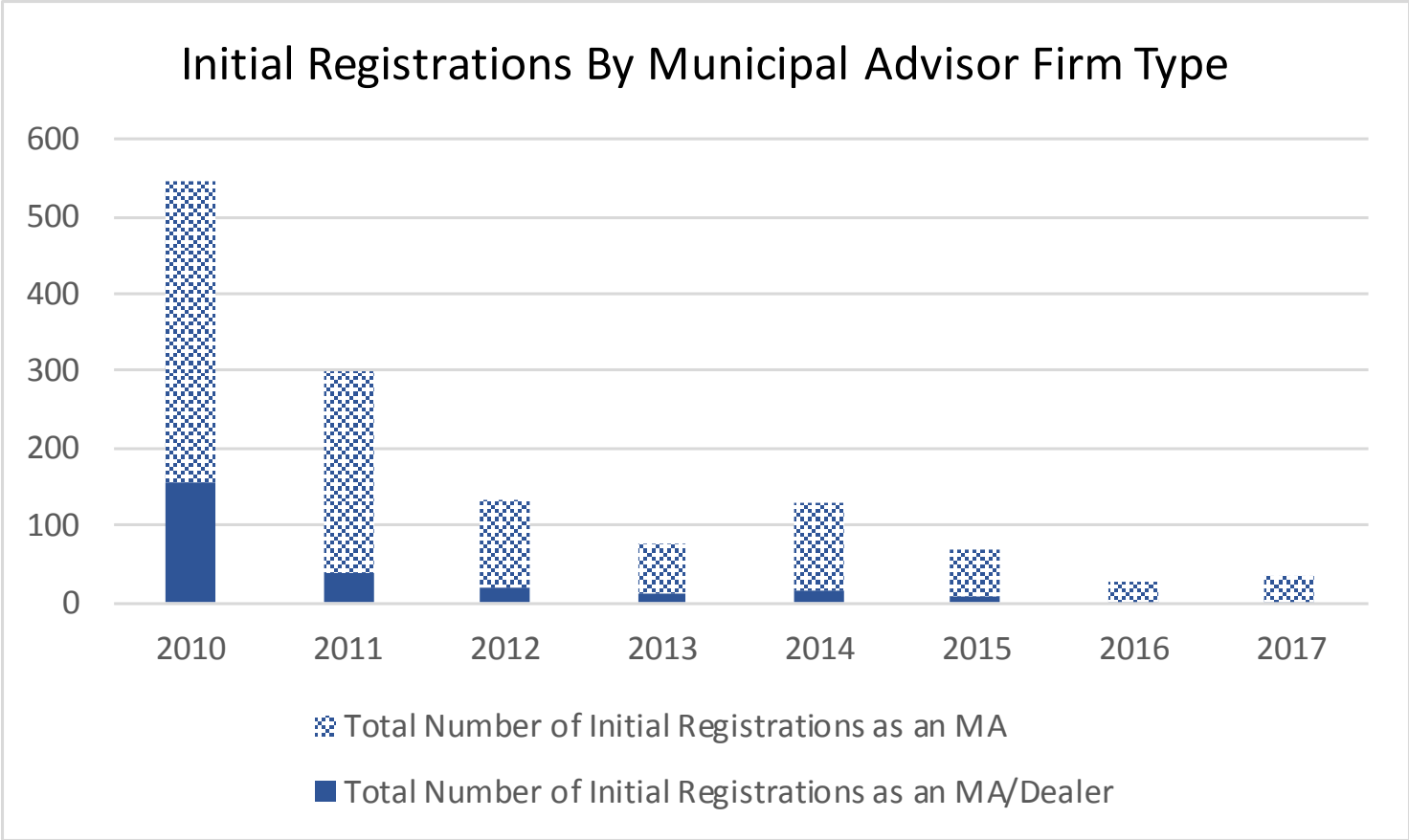
# 1. Registration Activity

# Annual Municipal Advisor Firm Registration Activity



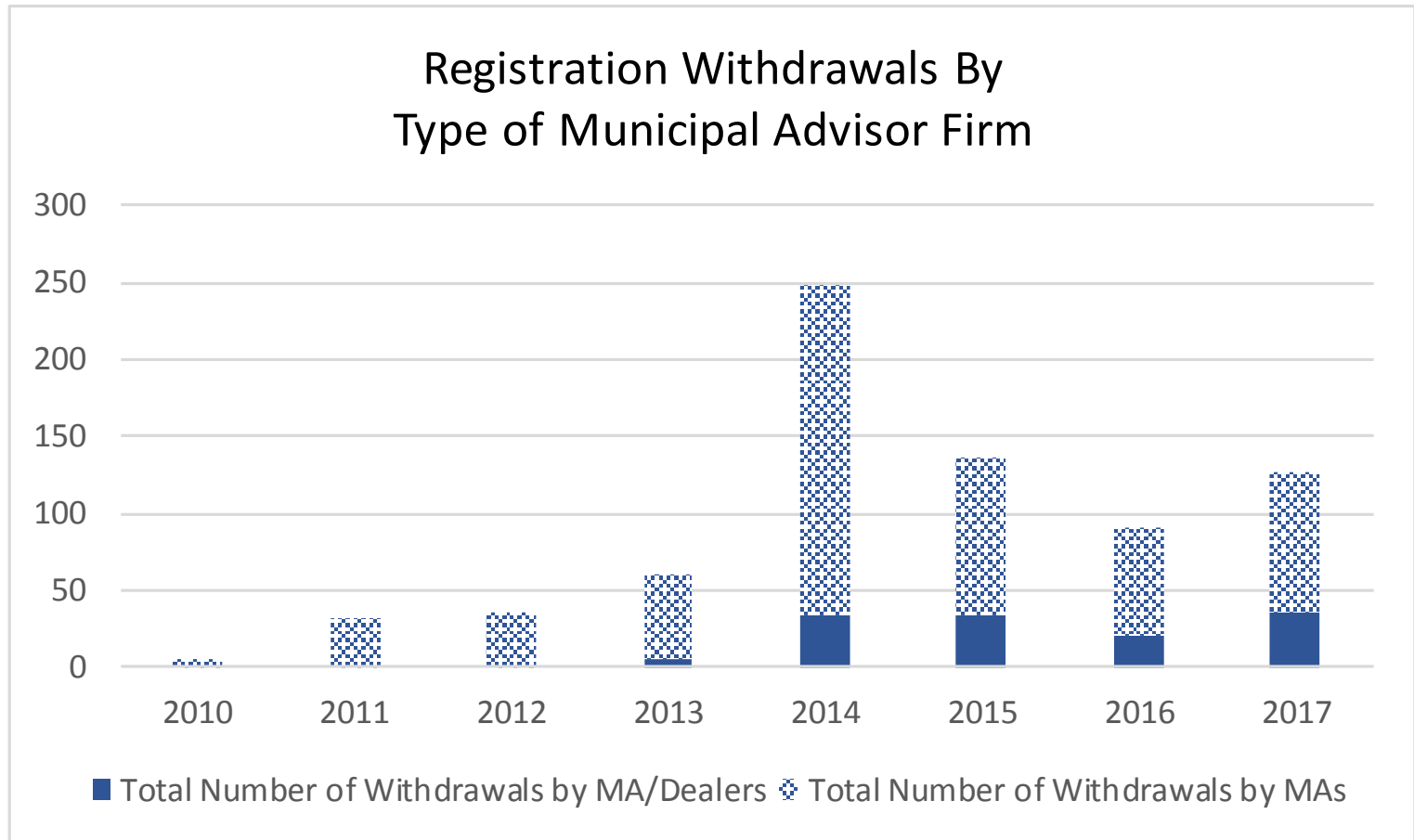
Source: MSRB

# Initial Municipal Advisor Firm Registration Activity



Source: MSRB

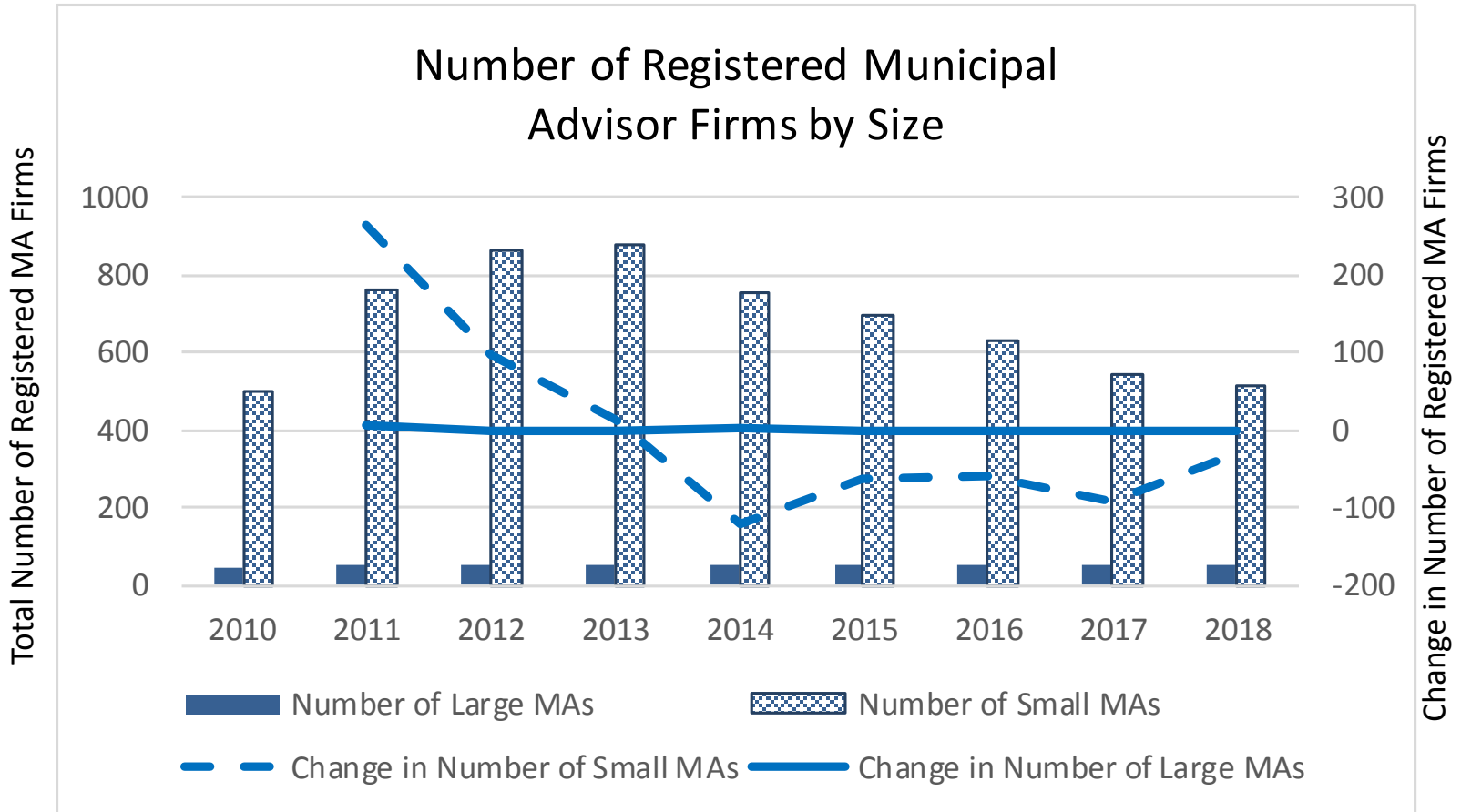
# Municipal Advisor Firm Registration Withdrawal Activity



Likely causes for “spike-ups”: 2014/2015 due to implementation of final MA rule;  
2017 due to Series 50 examination requirement



# Municipal Advisor Firm Registrations by Size



“Large Firms” = 20 or more employees  
 “Small Firms” = less than 20 employees

## Registration Activity: Takeaways

- Municipal advisor market remains mainly constituted by non-dealer MAs
- MA market has seen a substantial decline in the number of registered firms – most firms that have withdrawn have been MA firms not MA-dealer firms
- Registration withdrawals accelerated in 2014 (final MA rule) but has continued steadily since, with uptick in 2017 (post Series 50 requirement)
- The decline in MA registrations has mainly come from withdrawals of “small” firms rather than “large” firms

## Registration Activity: Takeaways

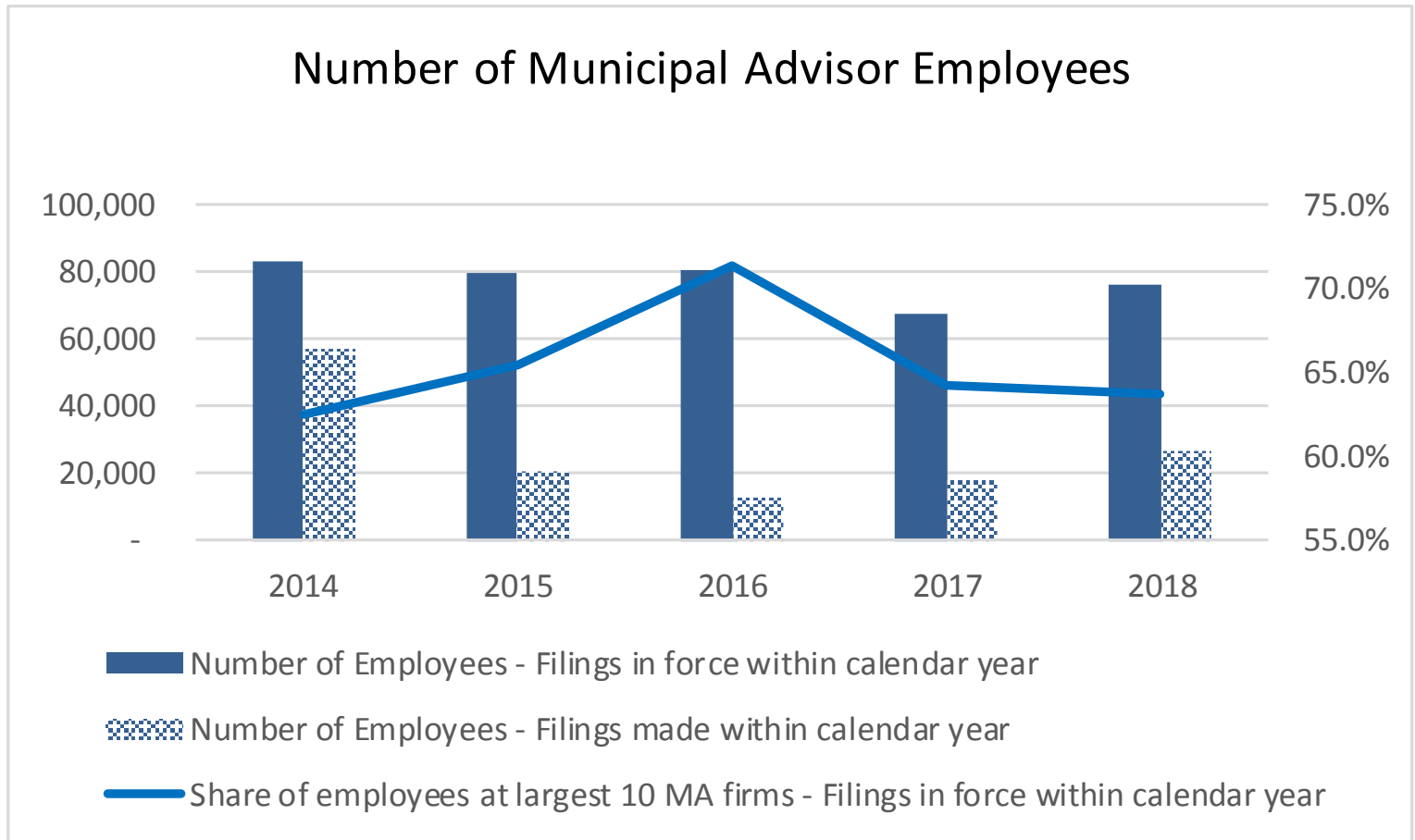
- 1,348 MA firms ever registered with the MSRB; 525 firms currently have a registered advisor who has passed the Series 50 exam.
- Uptick in withdrawals in 2017: Municipal advisors and associated persons need to take and pass the Series 50 exam. MSRB currently identifies 3,321 individuals at 525 distinct firms that have passed the Series 50
- Median firm (out of 525 firms) has 2 employees who have passed the Series 50 exam. Median advisor works at firm with 21 advisors who have passed exam

## **2. Firm Characteristics**

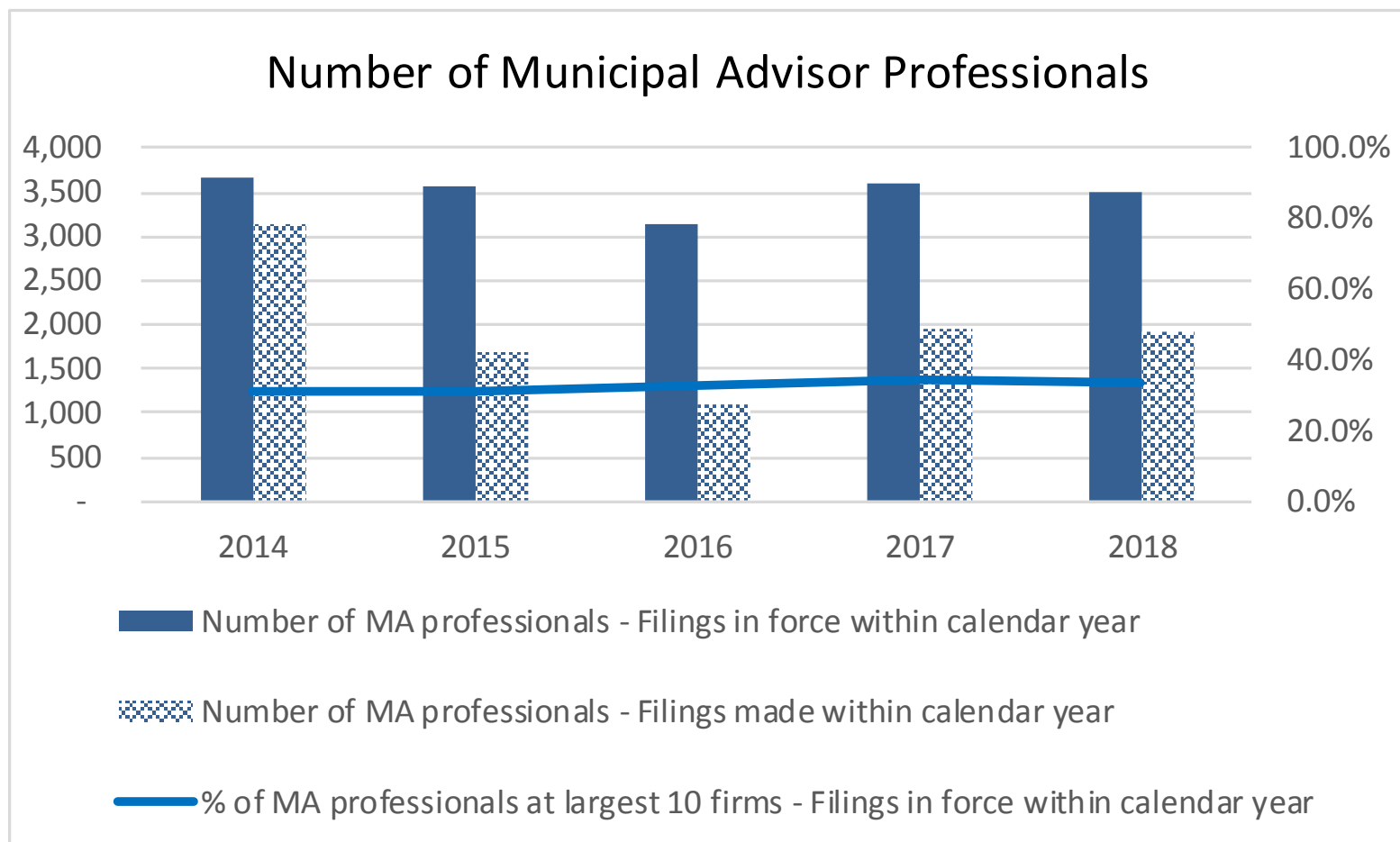
# Data Challenge: Timing of Filing Updates

| Panel A : Filings made within the calendar year |     |         |                    |                         |                     |                        |
|---|-----|---------|--------------------|-------------------------|---------------------|------------------------|
|   | All | Regular | Within-year update | Registration withdrawal | Match to MSRB data? | Match to Mergent data? |
| 2014  | 538 | 508     | 27                 | 3                       | 530                 | 350                    |
| 2015  | 800 | 530     | 230                | 40                      | 783                 | 483                    |
| 2016  | 651 | 377     | 224                | 50                      | 633                 | 433                    |
| 2017  | 751 | 390     | 245                | 116                     | 739                 | 458                    |
| 2018  | 436 | 316     | 107                | 13                      | 426                 | 293                    |
| Panel B: Filings in force within calendar year  |     |         |                    |                         |                     |                        |
|   | All | Regular | Within-year update | Registration withdrawal | Match to MSRB data? | Match to Mergent data? |
| 2014  | 508 | 482     | 23                 | 3                       | 500                 | 328                    |
| 2015  | 589 | 422     | 124                | 43                      | 577                 | 325                    |
| 2016  | 592 | 375     | 125                | 92                      | 573                 | 331                    |
| 2017  | 752 | 406     | 140                | 206                     | 730                 | 393                    |
| 2018  | 810 | 492     | 100                | 218                     | 782                 | 416                    |

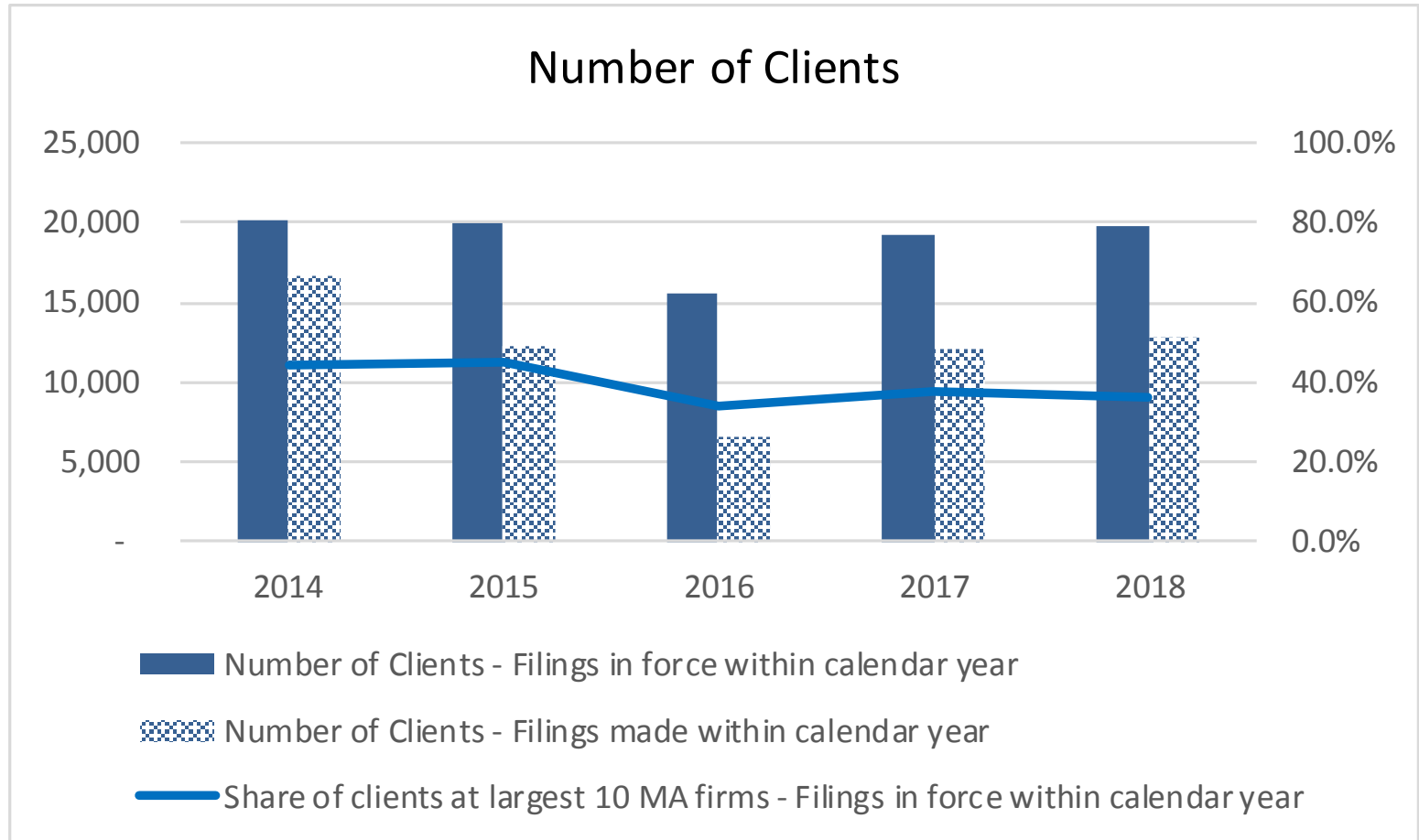
# Number of Municipal Advisor Employees (All MA Firm Employees)



# Number of Municipal Advisor Professionals (Only MA Professionals)

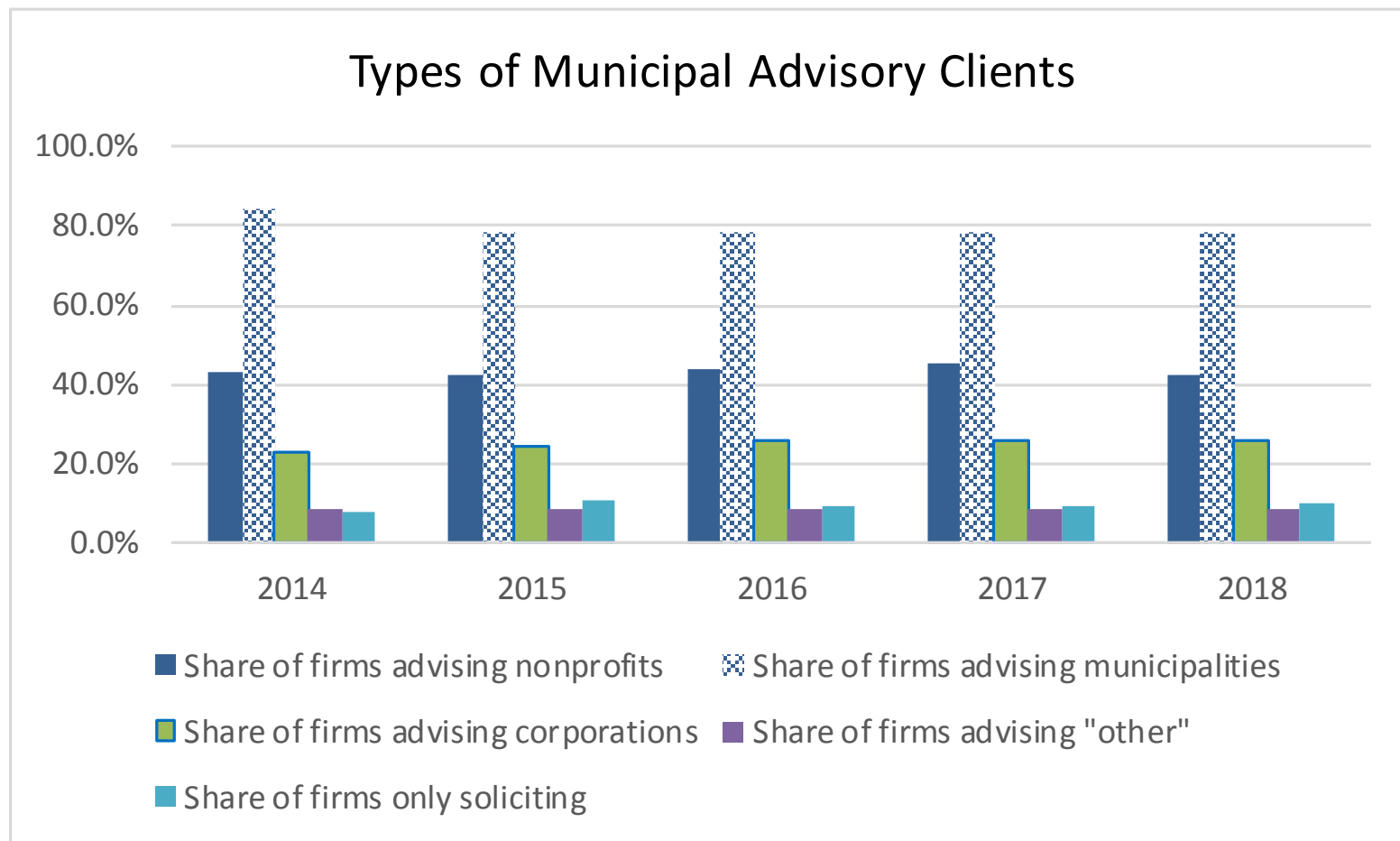


# Number of Municipal Advisory Clients





# Types of Municipal Advisory Clients



# Municipal Advisor Firms Non-MA Engagements

| Other Businesses<br>(Filings in force within calendar year) |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
|   | 2014  | 2015  | 2016  | 2017  | 2018  |
| 1 - Broker-Dealer   | 26.7% | 27.8% | 25.8% | 24.2% | 23.7% |
| 2 - Registered rep  | 4.4%  | 4.4%  | 3.0%  | 3.5%  | 3.7%  |
| 3 - Commodity Pool  | 0.8%  | 0.7%  | 0.8%  | 0.4%  | 0.5%  |
| 4 - CTA   | 2.8%  | 2.9%  | 2.4%  | 2.7%  | 2.7%  |
| 5 - Futures commission                                      | 1.0%  | 0.5%  | 0.8%  | 0.7%  | 0.7%  |
| 6 - Swap participant  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| 7 - sec-based swap  | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| 8 - Swap dealer   | 0.2%  | 0.2%  | 0.2%  | 0.2%  | 0.2%  |
| 9 - Sec-based swap dlr                                      | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| 10 - Trust co   | 2.0%  | 2.0%  | 1.8%  | 2.0%  | 2.0%  |
| 11 - Real estate  | 0.6%  | 0.9%  | 1.4%  | 1.5%  | 1.2%  |
| 12 - Insurance  | 4.8%  | 5.3%  | 5.6%  | 4.8%  | 4.6%  |
| 13 - Bank   | 4.2%  | 3.3%  | 2.4%  | 2.7%  | 2.5%  |
| 14 - Inv advisor  | 14.3% | 15.2% | 13.8% | 14.3% | 14.4% |
| 15 - ATTORNEY   | 1.0%  | 1.6%  | 2.6%  | 2.0%  | 2.4%  |
| 16 - ACCT   | 2.6%  | 3.5%  | 3.0%  | 2.9%  | 3.2%  |
| 17 - ENG  | 1.6%  | 0.9%  | 0.8%  | 0.7%  | 1.0%  |
| 18 - OTHER  | 8.9%  | 9.9%  | 10.4% | 12.6% | 11.8% |

Source: SEC

## Firm Characteristics: Takeaways

- Data analysis for many of these characteristics is confounded by MA firms seemingly not updating their forms consistently with the MSRB and SEC
- Based on filings in force within calendar year, the number of MA professionals has remained steady over the period
- Similar # of MA professionals (even as # of MA firms has declined) are “chasing” similar # of clients (2014-2018)
- Composition of client types has not changed since 2014
- Greater regulation has not stopped MA firms from continuing to engage in robust amount of non-MA engagements

## **3. Type of Advice**

## Type of Advice – Static by Year

(Percentage of Total Registered Firms)

|   | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|------|------|------|------|------|------|------|------|
| Issuance Advice   | 66%  | 63%  | 62%  | 59%  | 57%  | 56%  | 57%  | 56%  |
| Guaranteed Investment Contract                            | 19%  | 18%  | 17%  | 15%  | 14%  | 13%  | 14%  | 13%  |
| Investment Advice - Proceeds of Municipal Securities      | 13%  | 11%  | 9%   | 6%   | 0%   | 0%   | 0%   | 0%   |
| Investment Advice - Funds of Municipal Entity             | 10%  | 8%   | 7%   | 4%   | 0%   | 0%   | 0%   | 0%   |
| Municipal Derivatives Advice                              | 23%  | 22%  | 21%  | 19%  | 19%  | 18%  | 19%  | 19%  |
| Solicitation of Business – Investment Advisory            | 5%   | 4%   | 3%   | 2%   | 0%   | 0%   | 0%   | 0%   |
| Municipal Escrow Investment Advice                        | 8%   | 6%   | 4%   | 3%   | 0%   | 0%   | 0%   | 0%   |
| Municipal Escrow Investment Brokerage                     | 3%   | 2%   | 2%   | 1%   | 0%   | 0%   | 0%   | 0%   |
| Solicitation of Business – Other than Investment Advisory | 5%   | 4%   | 3%   | 2%   | 0%   | 0%   | 0%   | 0%   |
| Municipal Advisor/Underwriter Selection Advice            | 15%  | 12%  | 9%   | 5%   | 0%   | 0%   | 0%   | 0%   |
| Other Services  | 18%  | 17%  | 18%  | 17%  | 19%  | 18%  | 19%  | 15%  |

Source: MSRB

## Type of Advice – Latent Capacity

(Percentage of Total Registered Firms)

|   | 2018* | 2018  | 2017  | 2016  | 2015  | 2014  | 2013  | 2012  | 2011  | 2010  |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Issuance Advice   | 82.2% | 85.4% | 84.0% | 82.7% | 80.9% | 80.4% | 78.3% | 77.1% | 78.2% | 80.5% |
| Guaranteed Investment Contract                            | 32.3% | 36.4% | 35.0% | 33.2% | 31.3% | 29.7% | 27.4% | 26.6% | 27.2% | 29.8% |
| Investment Advice - Proceeds of Municipal Securities      | 43.7% | 46.5% | 44.9% | 42.1% | 39.3% | 36.5% | 27.1% | 25.4% | 25.5% | 28.1% |
| Investment Advice - Funds of Municipal Entity             | 28.7% | 31.4% | 31.3% | 29.4% | 28.1% | 24.9% | 18.7% | 17.1% | 17.4% | 19.1% |
| Municipal Derivatives Advice                              | 34.8% | 38.1% | 37.3% | 36.1% | 34.9% | 32.9% | 31.7% | 30.7% | 31.9% | 34.0% |
| Solicitation of Business – Investment Advisory            | 14.4% | 20.1% | 19.9% | 20.5% | 20.2% | 19.0% | 15.1% | 14.1% | 13.0% | 13.6% |
| Municipal Escrow Investment Advice                        | 39.6% | 40.6% | 39.2% | 35.4% | 32.8% | 29.8% | 23.4% | 22.1% | 22.9% | 25.7% |
| Municipal Escrow Investment Brokerage                     | 12.8% | 14.4% | 14.2% | 12.7% | 12.0% | 10.8% | 8.3%  | 7.6%  | 7.8%  | 9.4%  |
| Solicitation of Business – Other than Investment Advisory | 14.8% | 21.2% | 21.5% | 21.5% | 20.9% | 20.2% | 15.9% | 14.3% | 14.1% | 14.7% |
| Municipal Advisor/Underwriter Selection Advice            | 66.7% | 67.9% | 65.9% | 62.9% | 58.7% | 53.8% | 42.5% | 39.7% | 40.0% | 44.9% |
| Other Services  | 30.1% | 32.3% | 33.1% | 33.6% | 34.5% | 34.9% | 35.2% | 34.6% | 35.0% | 33.3% |

Source: MSRB

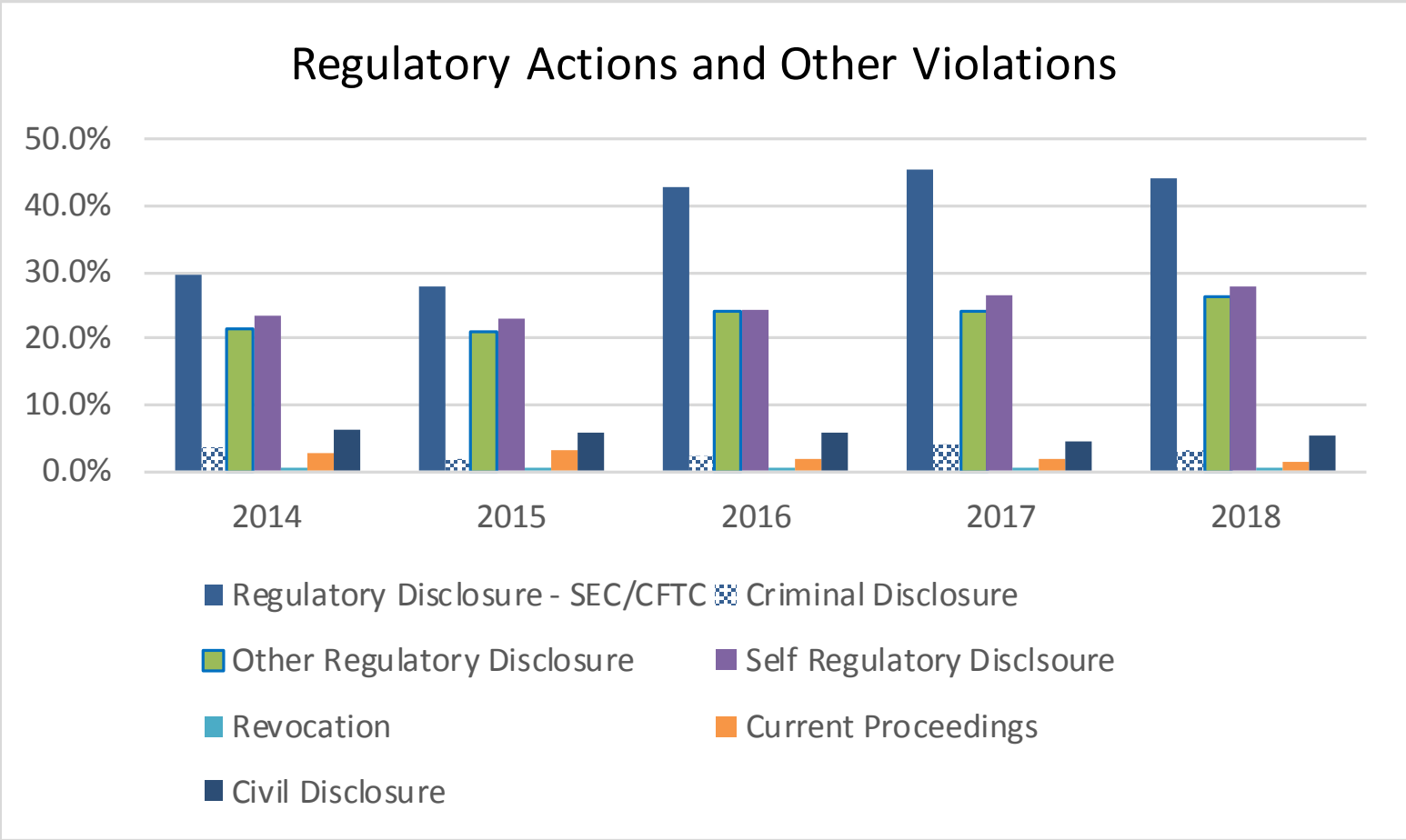
## Type of Advice: Takeaways

- Primary type of service that MAs provide remains advice on the issuance of municipal securities
- But many firms are “full service” advisors offering advice on a wide portfolio of services
- Solicitation other than investment advisory remains a relatively small part of advisory activities
- In recent years (static analysis), most MAs represent that they do not provide advice on the selection of underwriters – somewhat surprising finding

## **4. Regulatory and Violation Actions**

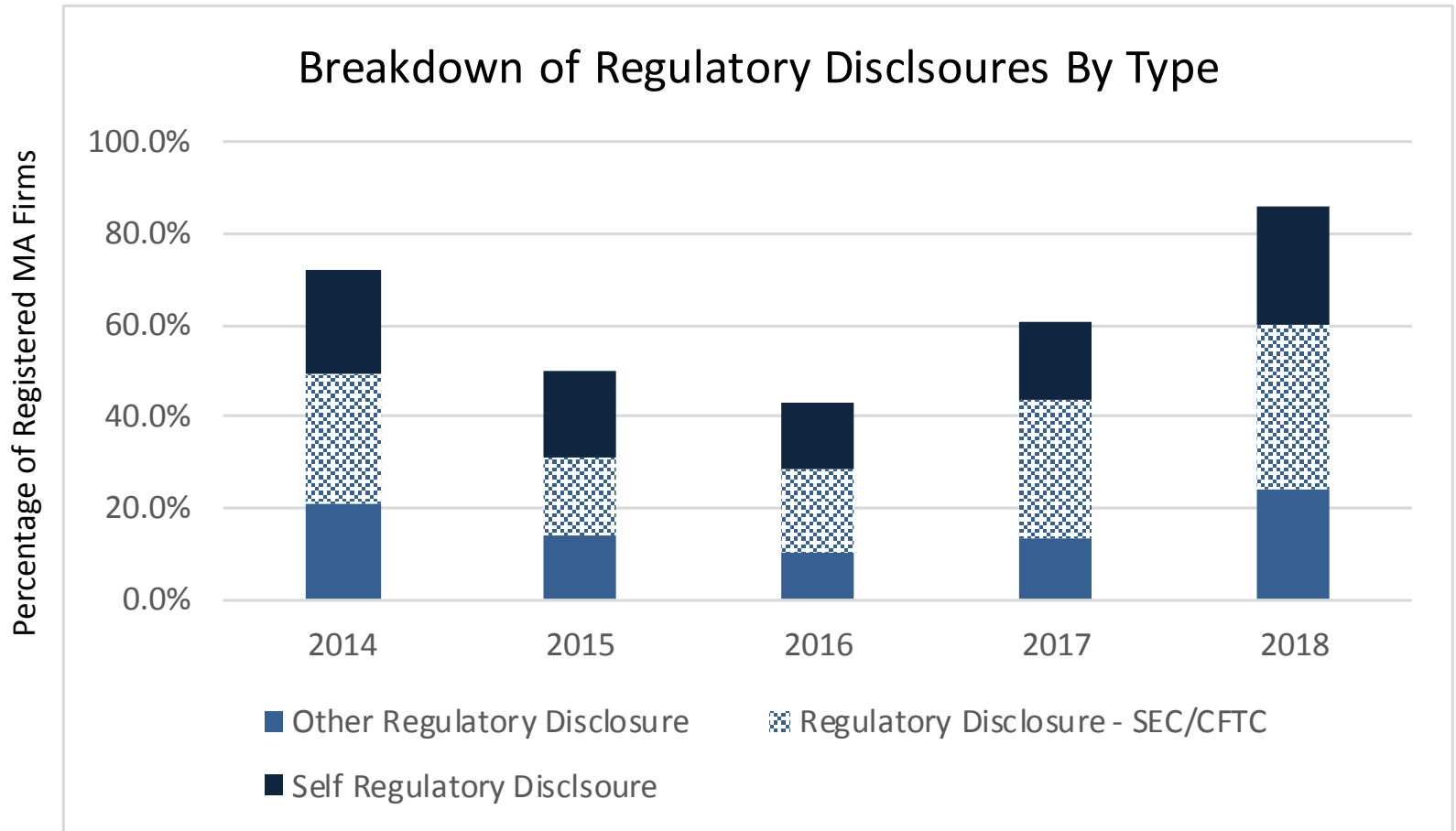


# Regulatory Actions and Violations



Source: SEC

# Regulatory Disclosure Breakdown



## Regulatory and Violations: Takeaways

- Firms with criminal disclosures trending downward between 2014 and 2018
- Firms with regulatory experience trending upward between 2014 and 2018
- Firms with regulatory experience with SEC/CFTC trending upward between 2014 and 2018

## **5. Select Characteristics of MA Professionals by Firm Type**

## Select Descriptive Statistics on MA Professionals

|                              | All Firms | Small Firms | Large Firms | Firms that have withdrawn | Firms that are still registered | Individuals with adverse disclosure | No adverse disclosure |
|------------------------------|-----------|-------------|-------------|---------------------------|---------------------------------|-------------------------------------|-----------------------|
| Years on current job         | 6.47      | 7.32        | 5.93        | 8.25                      | 6.07                            | 7.54                                | 6.42                  |
| Years in municipal industry  | 9.46      | 10.13       | 9.03        | 9.99                      | 9.34                            | 11.39                               | 9.37                  |
| Years of employment          | 14.70     | 15.02       | 14.49       | 15.21                     | 14.58                           | 15.90                               | 14.64                 |
| Hours/week in other jobs     | 9.90      | 17.17       | 5.28        | 10.00                     | 9.88                            | 12.51                               | 9.78                  |
| Disclosure dummy (violation) | 4.6%      | 6.3%        | 3.5%        | 5.3%                      | 4.4%                            | 100.0%                              | 0.0%                  |

Source: SEC

## Individual MAs: Takeaways

- Individuals in large and small firms are not substantially different in terms of the average years in current job, years in municipal industry and years of total employment
- Individuals in small firms tend to devote more hours to other non-MA activities than individuals in large firms
- Individuals in firms that have withdrawn do not seem to be any different than all firms in terms of their opportunity to devote more time to non-MA jobs as a decision criteria to leave the MA business

## **6. Select MA Characteristics Impact on Average Bond Price Increases in Post-Issuance Market**

# Regression Analysis Variables

- Dependent Variable
  - Average bond price increase (ABPI)
    - Difference between the initial offering price of a bond and the average price the bond is sold to final investors in the first 30 days after the initial offering sale
- Independent Variables of Interest:
  1. Log of total amount of bonds firms advised on
  2. Concentration of advisor-underwriter link
  3. Concentration of advisor by state
  4. Whether the firm is a broker-dealer
  5. Number of regulatory disclosure items
  6. Average number of disclosure items on matched individual filings.



# Regression Analysis Results

| Statistical Associations Between Average Bond Price Increase (ABPI) and Select Municipal Advisor Characteristics |                      |                     |                      |                       |                     |                     |                     |
|--|----------------------|---------------------|----------------------|-----------------------|---------------------|---------------------|---------------------|
|  | ABPI                 | ABPI                | ABPI                 | ABPI                  | ABPI                | ABPI-adjusted       | ABPI-adjusted       |
| Log total bonds advised by advisor   | 0.0196***<br>(-3.62) | -0.00293<br>(-0.41) | 0.000487<br>(0.07)   | 0.00344<br>(0.52)     | 0.00364<br>(0.55)   | 0.00840<br>(1.31)   | 0.00325<br>(0.49)   |
| Concentration of advisor-underwriter link  |                      | 0.156**<br>(2.59)   | 0.0831<br>(1.52)     | 0.0934<br>(1.68)      | 0.0947<br>(1.70)    | 0.0286<br>(0.53)    | 0.0638<br>(1.04)    |
| Concentration of advisor by state  |                      | 0.104**<br>(2.77)   | 0.142***<br>(4.11)   | 0.141***<br>(4.11)    | 0.141***<br>(4.09)  | 0.158***<br>(4.78)  | 0.160***<br>(4.78)  |
| Average number of trades in post-issuance market   |                      |                     | 0.00966**<br>(8.46)  | * 0.0101***<br>(7.89) | 0.0101***<br>(7.88) | 0.00798**<br>(6.67) | 0.00766**<br>(4.66) |
| Broker-dealer dummy  |                      |                     | -0.0654**<br>(-3.04) | -0.0418<br>(-1.62)    | -0.0420<br>(-1.62)  | -0.0263<br>(-1.05)  | -0.0138<br>(-0.55)  |
| Count of disclosure items  |                      |                     |                      | -0.00582<br>(-1.48)   | -0.00589<br>(-1.50) | -0.00338<br>(-0.89) | -0.00298<br>(-0.78) |
| Average count of disclosure items on matched individual filings  |                      |                     |                      |                       | 0.00558<br>(0.27)   | -0.00183<br>(-0.09) | -0.0102<br>(-0.51)  |
| N  | 355                  | 355                 | 355                  | 325                   | 325                 | 324                 | 299                 |

## Regression Analysis: Takeaways

- Under certain model specifications, the greater degree of concentration of MAs with specific underwriters, the higher the average bond price increase
  - Implies that issuers should rotate their bond financing teams more regularly
- The higher the concentration of use of in-state MAs, the higher the average bond price increase
  - Implies that “national” MAs may do a better job in advising on the pricing of securities
  - This finding does not shed any light on the quality of other activities that national or in-state MAs provide
- The number of disclosure items is not statistically associated with average bond price increase
  - Implies that MA firms that have more disciplinary actions in their past may not perform any worse in providing pricing advice

# Conclusions

1. UPDATE YOUR FILINGS
  - See slide at beginning of presentation
2. Number and composition of MA firm types has changed but number of MA professionals, types of clients and service types has remained consistent
3. Some evidence on underwriter advisor links consistent with previous Moldogaziev and Luby (2016) work
4. Evidence on concentration of in-state municipal advisors