



Municipal Securities Rulemaking Board

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

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Background: MSRB and Municipal Securities Primary Offering Process

The Municipal Securities Rulemaking Board (MSRB)

- The MSRB is an SRO chartered by Congress in 1975
- Responsible for protecting municipal bond investors and issuers
- Safeguards the \$4 trillion municipal securities market through:
 - Establishing (SEC-approved) rules for dealers and municipal advisors (but not 50,000+ municipal entities)
 - Collecting and disseminating market information through EMMA®
 - Providing educational resources and market analysis for stakeholders

Primary Offering Methods

- Competitive sales
 - Issuers dictate the structure of an offering up front, usually with the advice of a municipal advisor, before soliciting competitive bids from underwriters/syndicates
 - Once all bids are collected at the specified time, the issuer evaluates the bids and awards the offering
- Negotiated sales
 - Sale of a new issue directly to a pre-selected underwriter/syndicate
 - Negotiation on interest rates, call features and purchase prices of the issue without public competition
- Private placements
 - A placement agent sells a new issue on behalf of the issuer directly to a limited number of sophisticated investors

Summary Stats – Primary Offerings

Year	Percent Competitive	Percent Negotiated	Percent Private Placement
2009	39.4%	57.8%	2.7%
2010	38.2%	59.3%	2.5%
2011	42.3%	54.3%	3.4%
2012	40.5%	55.4%	4.1%
2013	41.0%	51.4%	7.6%
2014	42.7%	49.6%	7.8%
2015	40.6%	51.2%	8.3%
2016	40.8%	50.5%	8.6%
2017	40.8%	48.3%	10.9%
2018	46.7%	43.8%	9.5%
2019 (Jan - Jun)	46.5%	46.9%	6.6%
Percentage of Offerings with Municipal Advisors	88.0%	51.0%	37.0%

Previous Research

- Bergstresser and Cohen (2015) examined competitive bids for municipal offerings and documented a “winners’ curse” effect
 - Data from 2005 to 2011
 - Bonds where the distance between the winning bid and the next highest bid was higher saw smaller price increases in the post-issuance secondary market
 - This winners’ curse effect appears to vary significantly across time, being lower at the peak of the financial crisis, as well as by bond type
- Other research papers mostly addressed the difference between the competitive and negotiated sales and the relevant borrowing costs for issuers



Main Findings

Data and Methodology

- Data
 - Bids data (2009 – 2019) provided by the IHS Markit Ipreo
 - MSRB's RTRS and Security Master Database
 - Thomson Reuters' municipal market primary offering data
- A competitive bid is quoted either on a net interest cost (NIC) or a true interest cost (TIC) basis
- Bids are for an entire issue rather than for each individual security
 - For primary offering spread calculation, a weighted-average of reoffering yield is calculated for each issue

Number of Competitive Bids Received Increased

Year	Number of Competitive Offerings (Per CUSIP Numbers)	Number of Competitive Bids
2009	5,873	4.4
2010	6,496	4.9
2011	5,819	4.9
2012	6,669	4.9
2013	6,020	4.9
2014	6,016	5.1
2015	6,543	4.9
2016	6,686	4.9
2017	6,035	5.1
2018	5,690	5.1
2019 (Jan - Jun)	2,907	5.7
Total	64,754	4.9

Number of Bids Received Stable or Increased Regardless of Issuance Size or Locations

- By issuance size: Larger offerings received more bids than smaller offerings, but all sizes received a stable to slightly larger number of bids
- By location (states): Offerings located in states with the largest population or the highest per capita income did not necessarily receive more bids than offerings in states with the smallest population or the lowest per capita income
 - All four groups of states have experienced a gradual rise in the number of competitive bids received
- The regression model confirms the upward trend after controlling for offering characteristics

Bid Price Dispersion Narrowed

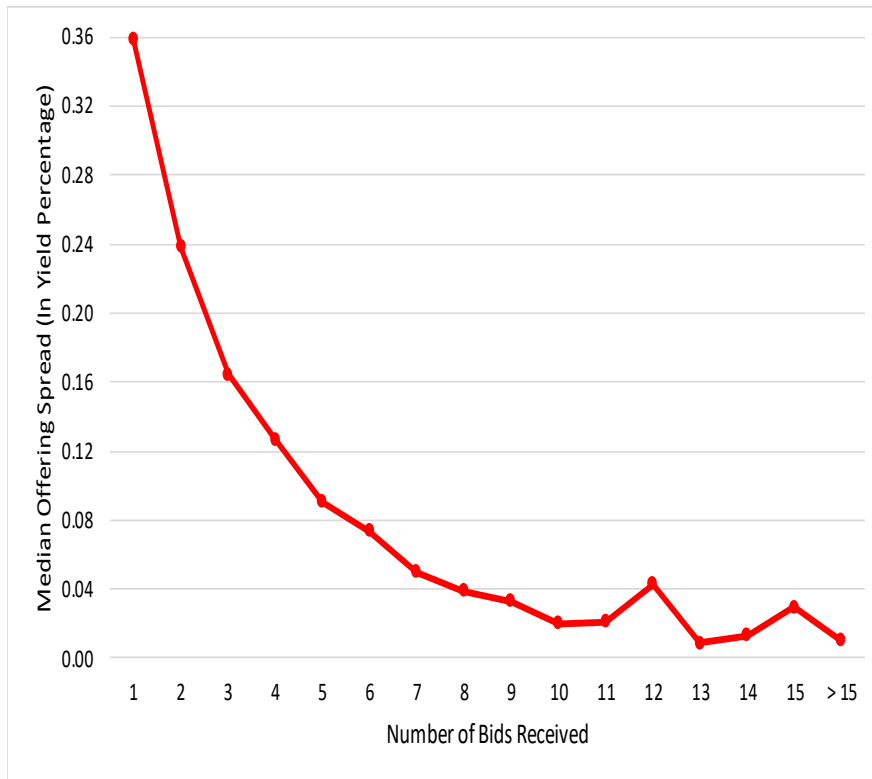
Year	Number of Competitive Offerings	In Percentage	
		Median Spread Between Winning Bids and Least Bids	Median Spread Between Winning Bids and Cover Bids
2009	5,758	0.383	0.071
2010	6,415	0.334	0.052
2011	5,711	0.342	0.057
2012	6,565	0.290	0.050
2013	5,911	0.285	0.046
2014	5,891	0.239	0.041
2015	6,529	0.227	0.036
2016	6,650	0.213	0.032
2017	6,002	0.195	0.032
2018	5,640	0.180	0.030
2019 (Jan - Jun)	2,905	0.183	0.025

Primary Offering Spread

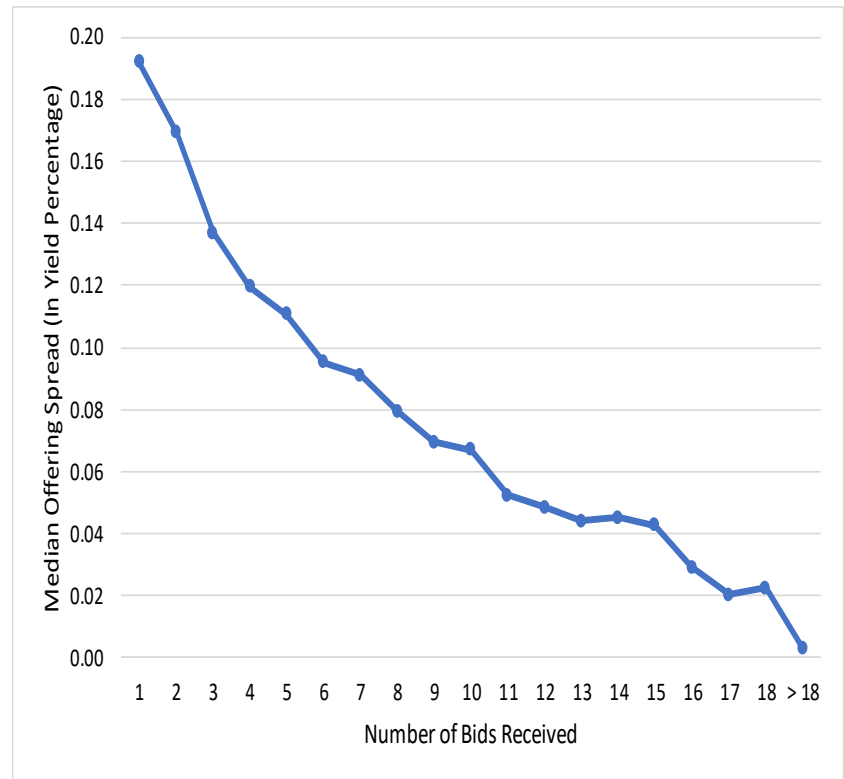
Bidding Rate Basis	Number of Competitive Offerings	Median Offering Spread (In Percentage)	
		Non-Weighted	Weighted by Principal Amount
NIC	19,488	0.137	0.020
TIC	15,728	0.101	0.060

More Bids, Less Primary Offering Spread

NIC-Based Bids



TIC-Based Bids



Conclusion – More Bids Are Good for Issuers

Hypothetical Primary Offering Spread	Model-Predicted Primary Offering Spread When Doubling Number of Bids Received
0.100%	0.095%
0.200%	0.189%

- The regression model confirms the correlation after controlling for offering characteristics
 - All else equal, doubling the number of competitive bids leads to a 0.011% improvement in offering spread from 0.2% for issuers
- Interestingly, usage of municipal advisors by issuers leads to more bids and lower primary offering spread, all else equal



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Thank You

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