

offer, say, twice as many bonds as it had in the past—a not infrequent occurrence—then two (or more) syndicates may merge for that particular sale and submit a single bid. In extreme cases, all of the groups formed to bid for an issue may, for one reason or another, determine to merge together into a single large syndicate and submit one bid to the issuer. In modern competitive markets this seldom occurs unless there is some special consideration such as the unusual size of the offering or the presence of an unusual degree of risk involved in the underwriting.

In the formation of syndicates the primary goal of the managers is to form as strong and competitive groups as possible. The manager invites firms with strong underwriting and strong selling potentials. Many times in a single week dealers A, B, and C may bid against each other in syndicates, or dealers A and B may be together bidding against C, or dealers A and C may be in a syndicate bidding against B. In short, the composition of the syndicate for a particular issue—e.g. Port of New York Authority—may be entirely different from that formed by the same manager for, say, State of North Carolina.

PARTICIPATION AND UNDERWRITING LIABILITY WITHIN A SYNDICATE

In forming a syndicate, the manager assigns to each participant a definitive number of bonds which that participant will underwrite. These amounts are assigned on the basis of size of firm, underwriting and selling potential, historical and known ability to distribute a certain issue or type of bonds, and in part upon the request of the participant. Each group contains one or more “major underwriters,” including the manager, who take the largest participations. Following this group are other underwriters in various groups or categories appropriate to their underwriting and distributing capabilities. During the pricing process, changes in participations may occur as members withdraw and participations must be revised. After the submission of the bid, the participations are frozen.

With respect to individual liability of the members of a syndicate, two types of agreements exist—the “eastern or undivided account” and the “western or divided account.” In the undivided account, each member is liable for his proportionate share of any bonds remaining unsold in the account at any time, regardless of the number of bonds which such member may have sold himself. In the divided account, the liability of each member is limited to his participation in the account at the time of purchase of the bonds; a member may sell a volume of bonds equal to his participation and eliminate his liability, even though bonds remain unsold in the syndicate. Both forms are prevalent, although the undivided account is more widely used, particularly in underwriting serial bond issues. Divided accounts are customarily formed for term bond issues, and occasionally part of an issue may be on an undivided liability basis and part on a divided liability basis. Examples of the typical syndicate agreement forms for each type of account are found in the appendix.

SYNDICATE PRICING

Having formed a syndicate to bid for an issue, the manager(s) then proceeds to determine what price should be bid. The usual pro-