

TABLE 5.—Average number of bids¹ for competitively offered issues: By size of issue, 1957-65

	Size of issue ² (dollar amounts in millions)				
	0 to \$0.25	\$0.25 to \$0.50	\$0.5 to \$1	\$1 to \$5	\$5 and over
Year:					
1957-----	1.87 (1,571)	2.12 (670)	2.47 (551)	3.85 (756)	3.01 (306)
1958-----	2.26 (1,697)	2.68 (672)	3.36 (613)	4.29 (831)	2.76 (381)
1959-----	2.58 (1,566)	3.19 (608)	3.79 (619)	4.90 (844)	3.27 (251)
1960-----	2.56 (1,372)	3.52 (642)	3.89 (651)	5.07 (946)	3.50 (234)
1961-----	2.30 (1,295)	3.12 (678)	3.74 (659)	4.53 (1,321)	3.32 (425)
1962-----	2.45 (1,159)	3.22 (644)	3.67 (768)	5.08 (1,432)	3.92 (444)
1963-----	2.64 (1,121)	3.41 (663)	4.19 (664)	5.82 (1,144)	4.20 (493)
1964-----	3.13 (1,395)	4.21 (805)	4.44 (1,049)	5.60 (1,757)	5.87 (1,003)
1965-----	3.06 (1,262)	3.92 (794)	4.40 (820)	6.27 (1,981)	4.97 (1,024)

¹ Represents number of known bids. Actual number of bids higher but by an undeterminable amount.

² Number of issues in sample shown in parentheses.

Source: Investment Bankers Association of America.

Two prominent relationships relating to the number of competitive bids are demonstrated in table 5. First, the average number of bids increases as the size of the issue increases up to \$5 million but decreases for the category \$5 million or more. In all but one instance (1964 issues of \$5 million or more) this relationship has held for all categories. Secondly, a pronounced trend of increasing number of bids exists for all categories over the past 9 years. For all categories, the average number of competitive bids was at least 50 percent higher in 1965 than 1957.

Underwriting spreads.—Underwriting spread is the difference (per \$1,000 value of bonds) between the underwriter's purchase price and the price at which he offers these bonds for sale. It is an average for all of the bonds included in the issue, and will vary depending on the rating, average maturity, and other factors of the issue. For competitively purchased issues, it is the return to the underwriter for risk, distribution, and overhead expenses associated with bidding. For negotiated issues, it also includes a return for financial services required to organize and plan the issue (when such services are required for a competitively sold issue, this cost is borne separately by the issuer.)

Spread represents the anticipated gross return to the underwriter if all bonds are sold at the syndicate's agreed upon price level. In a favorable market all bonds are quickly sold and spread equals gross profit. In an unfavorable market it may be necessary for the syndicate to lower prices. In such a situation the hoped for spread will not be realized. Because of this "one way" (downward) price adjusting process, spreads tend to overstate gross profits.

Table 6 presents the average spread for the years 1958, 1959, 1963, 1964, and 1965 grouped by size of issue. The number of issues used to calculate the average spread is included in parentheses. The sample for the years 1958 and 1959 is particularly small but has been included to provide information on the long-run trend in spreads.¹⁸

¹⁸ Because different methods were used to record data for these two periods (1958 and 1959 versus 1963 through 1965) minor differences in the data may exist.