

Municipal financial reporting and competition among underwriters for new issues of general obligation bonds*

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First published: Spring 1990

<https://doi.org/10.1111/j.1911-3846.1990.tb00776.x>

Citations: 2

* We are grateful to the editor and two anonymous reviewers for their many helpful comments and suggestions.

Abstract

Abstract. This study develops and tests the hypothesis that the quality and quantity of municipal financial information are positively associated with increased competition in the primary market for new issues of general obligation bonds. A measure of market competition, the number of underwriter bids tendered, is regressed on several market-related and issue-specific control variables and a group of financial reporting test variables. A sample of 224 new issues of municipal general obligation bonds sold by competitive bid between 1978 and 1983 is examined. The results generally support the hypothesis. Employment of an independent CPA firm auditor and more extensive disclosure increase competition, as expected. However, no support was found for the argument that holding a Government Finance Officers Association Certificate of Conformance increases the level of underwriter competition.

Résumé. Les auteurs établissent et vérifient l'hypothèse selon laquelle la qualité et la quantité d'information financière municipale sont en relation positive avec l'augmentation de la concurrence sur le marché primaire pour les nouvelles émissions d'obligations générales. Une mesure de la concurrence sur le marché, soit le nombre d'offres de preneurs ferme, est soumise à une analyse de régression basée sur plusieurs variables de contrôle reliées au marché et particulières à l'émission et sur un groupe de variables-tests reliées à l'information financière. Les auteurs examinent un échantillon de 224 nouvelles émissions d'obligations municipales générales vendues par soumission concurrentielle entre 1978 et 1983. Les résultats obtenus corroborent de façon générale l'hypothèse posée. Le recours à un vérificateur d'un cabinet de CPA indépendant et la publication d'informations plus étendues accentuent la concurrence, comme prévu. Cependant, rien ne confirme l'hypothèse selon laquelle la détention d'un *Government Finance Officers Association Certificate of Conformance* intensifie le degré de concurrence chez les preneurs ferme.

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