

# Reading 50: Fixed-Income Securities: Defining Elements

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## Question #1 of 43

Question ID: 415462

The coupon rate of a fixed income security is stated as 90-day LIBOR plus 125 basis points. This security is *most accurately* described as a(n):

- A) variable-rate note.
  - B) floating-rate note.
  - C) reference-rate note.
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## Question #2 of 43

Question ID: 415439

Every six months a bond pays coupon interest equal to 3% of its par value. This bond is a:

- A) 6% semiannual coupon bond.
  - B) 3% semiannual coupon bond.
  - C) 6% annual coupon bond.
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## Question #3 of 43

Question ID: 415446

A covenant that requires the issuer not to let the insurance coverage lapse on assets pledged as collateral is an example of a(n):

- A) affirmative covenant.
  - B) negative covenant.
  - C) inhibiting covenant.
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## Question #4 of 43

Question ID: 415442

Which of the following contains the overall rights of the bondholders?

- A) Rights offering.
  - B) Covenant.
  - C) Indenture.
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## Question #5 of 43

Question ID: 460678

A bond initially does not make periodic payments but instead accrues them over a pre-determined period and then pays a lump sum at the end of that period. The bond subsequently makes regular periodic payments until maturity. Such a bond is *best* described as a:

- A) step-up note.
  - B) deferred-coupon bond.
  - C) zero-coupon bond.
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### Question #6 of 43

Question ID: 434403

Treasury Inflation Protected Securities, which provide investors with protection against inflation by adjusting the par value and keeping the coupon rate fixed, are *best* described as:

- A) indexed-annuity bonds.
  - B) capital-indexed bonds.
  - C) interest-indexed bonds.
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### Question #7 of 43

Question ID: 415461

A bond whose periodic payments are all equal is said to have a(n):

- A) bullet structure.
  - B) amortizing structure.
  - C) balloon structure.
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### Question #8 of 43

Question ID: 415444

Features specified in a bond indenture *least likely* include the bond's:

- A) par value and currency.
  - B) coupon rate and maturity date.
  - C) issuer and rating.
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### Question #9 of 43

Question ID: 415465

Which of the following statements about the call feature of a bond is *most* accurate? An embedded call option:

- A) describes the maturity date of the bond.
- B) stipulates whether and under what circumstances the issuer can redeem the bond prior to maturity.

- C) stipulates whether and under what circumstances the bondholders can request an earlier repayment of the principal amount prior to maturity.
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### Question #10 of 43

Question ID: 434399

Restrictions on asset sales and borrowings most accurately describe:

- A) affirmative covenants.
  - B) negative covenants.
  - C) neutral covenants.
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### Question #11 of 43

Question ID: 415448

In most countries including the United States, debenture is defined as:

- A) an unsecured bond.
  - B) a bond secured by specific assets.
  - C) a short-term debt instrument.
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### Question #12 of 43

Question ID: 441029

An investor holds \$100,000 (par value) worth of TIPS currently trading at par. The coupon rate of 4% is paid semiannually, and the annual inflation rate is 2.5%. What coupon payment will the investor receive at the end of the first six months?

- A) \$2,050.
  - B) \$2,025.
  - C) \$2,000.
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### Question #13 of 43

Question ID: 415457

Consider a floating rate issue that has a coupon rate that is reset on January 1 of each year. The coupon rate is defined as one-year London Interbank Offered Rate (LIBOR) + 125 basis points and the coupons are paid semi-annually. If the one-year LIBOR is 6.5% on January 1, which of the following is the semi-annual coupon payment received by the holder of the issue in that year?

- A) 3.875%.
  - B) 3.250%.
  - C) 7.750%.
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### Question #14 of 43

Question ID: 460676

Which of the following securities is *least likely* classified as a eurobond? A bond that is denominated in:

- A) U.S. dollars and issued in Japan.
  - B) euros and issued in the United States.
  - C) euros and issued in Germany.
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### Question #15 of 43

Question ID: 415451

Which of the following is a general problem associated with external credit enhancements? External credit enhancements:

- A) are subject to the credit risk of the third-party guarantor.
  - B) are only available on a short-term basis.
  - C) are very long-term agreements and are therefore relatively expensive.
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### Question #16 of 43

Question ID: 415441

An analyst observes a 5-year, 10% coupon bond with semiannual payments. The face value is £1,000. How much is each coupon payment?

- A) £100.
  - B) £25.
  - C) £50.
- 

### Question #17 of 43

Question ID: 415443

A bond's indenture *least likely* specifies the:

- A) covenants that apply to the issuer.
  - B) source of funds for repayment.
  - C) identity of the lender.
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### Question #18 of 43

Question ID: 415456

Allcans, an aluminum producer, needs to issue some debt to finance expansion plans, but wants to hedge its bond interest payments against fluctuations in aluminum prices. Jerrod Price, the company's investment banker, suggests a commodity index floater. This type of bond is *least likely* to provide which of the following advantages?

- A) Payment structure helps protect Allcan's credit rating.
- B) The bond's coupon rate is linked to the price of aluminum.

C) Allows Allcans to set coupon payments based on business results.

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### Question #19 of 43

Question ID: 415450

Which of the following is *least likely* an example of external credit enhancements?

- A) Bank guarantees.
  - B) Excess spread.
  - C) Letters of credit.
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### Question #20 of 43

Question ID: 415460

Which of the following statements about U.S. Treasury Inflation Protection Securities (TIPS) is *most* accurate?

- A) The coupon rate is fixed for the life of the issue.
  - B) Adjustments to principal values are made annually.
  - C) The inflation-adjusted principal value cannot be less than par.
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### Question #21 of 43

Question ID: 415469

The indenture of a callable bond states that the bond may be called on the first business day of any month after the first call date. The call option embedded in this bond is a(n):

- A) American style call option.
  - B) Bermuda style call option.
  - C) European style call option.
- 

### Question #22 of 43

Question ID: 415453

Which of the following issues is *most accurately* described as a eurobond?

- A) South Korean firm's euro-denominated bonds sold to investors in the European Union.
  - B) Brazilian firm's U.S. dollar-denominated bonds sold to investors in Canada.
  - C) European Union firm's Japanese yen-denominated bonds sold to investors in Japan.
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### Question #23 of 43

Question ID: 627889

Which of the following entities play a critical role in the ability to create a securitized bond with a higher credit rating than the corporation?

- A) Investment banks.
  - B) Rating agencies.
  - C) Special purpose entities.
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### Question #24 of 43

Question ID: 460680

Which of the following embedded bond options tends to benefit the borrower?

- A) Put option.
  - B) Interest rate cap.
  - C) Conversion option.
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### Question #25 of 43

Question ID: 415437

Which of the following statements about zero-coupon bonds is *least* accurate?

- A) A zero coupon bond may sell at a premium to par when interest rates decline.
  - B) The lower the price, the greater the return for a given maturity.
  - C) All interest is earned at maturity.
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### Question #26 of 43

Question ID: 434400

Which of the following statements regarding Eurobonds is *least accurate*? Eurobonds are:

- A) typically registered rather than bearer bonds.
  - B) issued simultaneously to investors in many countries.
  - C) issued in a currency other than the issuer's domestic currency.
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### Question #27 of 43

Question ID: 415468

Which of the following embedded options in a fixed income security can be exercised by the issuer?

- A) Call option.
  - B) Conversion option.
  - C) Put option.
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### Question #28 of 43

Question ID: 722203

PRC International just completed a \$234 million floating rate convertible bond offering. As stated in the indenture, the interest rate on the bond is the lesser of 90-day LIBOR or 10%. The indenture also requires PRC to retire \$5.6 million per year with the option to retire as much as \$10 million. Which of the following embedded options is *most likely* to benefit the investor? The:

- A) conversion option on the convertible bonds.
  - B) sinking fund provision for principal repayment.
  - C) 10% cap on the floating interest rate.
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### Question #29 of 43

Question ID: 415440

Which of the following fixed income securities is classified as a money market security?

- A) Newly issued security that will mature in one year.
  - B) Security issued 18 months ago that will mature in six months.
  - C) Security issued six months ago that will mature in one year.
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### Question #30 of 43

Question ID: 415463

Consider \$1,000,000 par value, 10-year, 6.5% coupon bonds issued on January 1, 20X5. The market rate for similar bonds is currently 5.7%. A sinking fund provision requires the company to redeem \$100,000 of the principal each year. Bonds called under the terms of the sinking fund provision will be redeemed at par. A bondholder would:

- A) prefer to have her bonds called under the sinking fund provision.
  - B) prefer not to have her bonds called under the sinking fund provision.
  - C) be indifferent between having her bonds called under the sinking fund provision or not called.
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### Question #31 of 43

Question ID: 722202

Which of the following statements regarding a sinking fund provision is *most* accurate?

- A) It requires that the issuer retire a portion of the principal through a series of principal payments over the life of the bond.
  - B) It requires that the issuer set aside money based on a predefined schedule to accumulate the cash to retire the bonds at maturity.
  - C) It permits the issuer to retire more than the stipulated amount if they choose.
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### Question #32 of 43

Question ID: 415458

A bond has a par value of \$5,000 and a coupon rate of 8.5% payable semi-annually. The bond is currently trading at 112.16. What is the dollar amount of the semi-annual coupon payment?

- A) \$212.50.
  - B) \$425.00.
  - C) \$238.33.
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### Question #33 of 43

Question ID: 434401

Which of the following is *least likely* a form of internal credit enhancement for a bond issue?

- A) Covering the bond issue via a surety bond.
  - B) Including a tranche system to identify priority of claims.
  - C) Structuring the asset pool such that it has an excess spread.
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### Question #34 of 43

Question ID: 415445

Which of the following bond covenants is considered *negative*?

- A) Maintenance of collateral.
  - B) Payment of taxes.
  - C) No additional debt.
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### Question #35 of 43

Question ID: 415454

Securitized bonds are *most likely* to be issued by:

- A) banking institutions.
  - B) special purpose entities.
  - C) supranational entities.
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### Question #36 of 43

Question ID: 415452

To reduce the cost of long-term borrowing, a corporation with a below average credit rating could:

- A) decrease credit enhancement.
  - B) issue securitized bonds.
  - C) issue commercial paper.
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### Question #37 of 43

Question ID: 655192

A company desiring to issue a fixed-income security has placed \$10 million worth of loan receivables in a special purpose entity (SPE) that is independent of the issuer. The credit rating agencies suggest the company secure a third-party guarantee in order to have the security rated AAA. After completing the transfer of assets to the SPE and obtaining a letter of credit from a national bank, the company issues the AAA rated security. The securities are *most likely*:

- A) global bonds.
  - B) commercial paper.
  - C) asset backed securities.
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### Question #38 of 43

Question ID: 485805

Which of the following statements about floating-rate notes is *most accurate*?

- A) Floating-rate notes have built-in floors, while inverse floating-rate notes have built-in caps.
  - B) The coupon payment on a floating-rate note at each reset date is typically based on LIBOR as of that date.
  - C) Inverse floating-rate notes are attractive to investors who expect interest rates to rise, while floating-rate notes are attractive to investors who expect interest rates to fall.
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### Question #39 of 43

Question ID: 415447

Which of the following is *least likely* an example of external credit enhancement?

- A) Surety bond.
  - B) Excess spread.
  - C) Bank guarantee.
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### Question #40 of 43

Question ID: 415455

Which of the following statements with regard to floating rate notes that have caps and floors is *most accurate*?

- A) A cap is an advantage to the bondholder while a floor is an advantage to the issuer.
  - B) A cap is a disadvantage to the bondholder while a floor is a disadvantage to the issuer.
  - C) A floor is a disadvantage to both the issuer and the bondholder while a cap is an advantage to both the issuer and the bondholder.
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### Question #41 of 43

Question ID: 415438

A bond is trading at a premium if its:

- A)** redemption value is greater than its face value.
  - B)** yield is greater than its coupon rate.
  - C)** price is greater than its par value.
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### Question #42 of 43

Question ID: 415466

As compared to an equivalent noncallable bond, a callable bond's yield should be:

- A)** lower.
  - B)** the same.
  - C)** higher.
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### Question #43 of 43

Question ID: 415467

As compared to an equivalent nonputtable bond, a puttable bond's yield should be:

- A)** higher.
- B)** lower.
- C)** the same.