

## SS 15 Fixed Income: Basic Concepts

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### Question #1 of 69

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) £25.
  - B) £100.
  - C) £50.
- 

### Question #2 of 69

Question ID: 415447

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

- A) Surety bond.
  - B) Bank guarantee.
  - C) Excess spread.
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### Question #3 of 69

Question ID: 415443

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

- A) source of funds for repayment.
  - B) identity of the lender.
  - C) covenants that apply to the issuer.
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### Question #4 of 69

Question ID: 472420

Which of the following statements regarding repurchase agreements is *most accurate*?

- A) Lower credit rating of the underlying collateral results in a lower repo margin.
  - B) Greater demand for the underlying security results in a lower repo margin.
  - C) Higher credit rating of the underlying collateral results in a higher repo rate.
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### Question #5 of 69

Question ID: 460676

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

- A) euros and issued in Germany.
  - B) U.S. dollars and issued in Japan.
  - C) euros and issued in the United States.
- 

### Question #6 of 69

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) negative covenant.
  - B) inhibiting covenant.
  - C) affirmative covenant.
- 

### Question #7 of 69

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) 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.
  - C) The coupon payment on a floating-rate note at each reset date is typically based on LIBOR as of that date.
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### Question #8 of 69

Question ID: 415484

Which of the following sources of short-term funding is available to banks but typically unavailable to other corporations?

- A) Syndicated loans.
  - B) Central bank funds.
  - C) Commercial paper.
- 

### Question #9 of 69

Question ID: 415444

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

- A) coupon rate and maturity date.
  - B) par value and currency.
  - C) issuer and rating.
- 

### Question #10 of 69

Question ID: 415475

A purchase of a new bond issue by a single investor is *most accurately* described as a(n):

- A) private placement.
  - B) underwritten offering.
  - C) grey market transaction.
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### Question #11 of 69

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) All interest is earned at maturity.
  - C) The lower the price, the greater the return for a given maturity.
- 

### Question #12 of 69

Question ID: 415448

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

- A) a bond secured by specific assets.
  - B) a short-term debt instrument.
  - C) an unsecured bond.
- 

### Question #13 of 69

Question ID: 415438

A bond is trading at a premium if its:

- A) redemption value is greater than its face value.
- B) price is greater than its par value.

C) yield is greater than its coupon rate.

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### Question #14 of 69

Question ID: 415483

A structured security is a combination of:

- A) commercial paper and a backup line of credit.
  - B) a corporate bond and a syndicated loan.
  - C) a medium-term note and a derivative.
- 

### Question #15 of 69

Question ID: 415473

The reference rate for a floating-rate note should *least likely* match the note's:

- A) currency.
  - B) maturity.
  - C) reset frequency.
- 

### Question #16 of 69

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) zero-coupon bond.
  - B) deferred-coupon bond.
  - C) step-up note.
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### Question #17 of 69

Question ID: 434404

Fixed income classifications by issuer *most likely* include:

- A) Floating-rate bonds.
- B) Financial sector bonds.
- C) Money market securities.

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**Question #18 of 69**

Question ID: 434401

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

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

**Question #19 of 69**

Question ID: 415460

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

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

**Question #20 of 69**

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) 6% annual coupon bond.
  - C) 3% semiannual coupon bond.
- 

**Question #21 of 69**

Question ID: 415487

A repurchase agreement is described as a "reverse repo" if:

- A) the repurchase price is lower than the sale price.
  - B) collateral is delivered to the lender and returned to the borrower.
  - C) a bond dealer is the lender.
- 

**Question #22 of 69**

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) commercial paper.
  - B) asset backed securities.
  - C) global bonds.
- 

### Question #23 of 69

Question ID: 550543

Settlement for corporate bond trades generally happen on what basis?

- A) Trade date + 1 day.
  - B) Cash settlement.
  - C) Trade date + 3 days.
- 

### Question #24 of 69

Question ID: 598999

Settlement for corporate bond trades is *most likely* to happen on what basis?

- A) Cash settlement.
  - B) Trade date + 1 day.
  - C) Trade date + 3 days.
- 

### Question #25 of 69

Question ID: 415468

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

- A) Conversion option.
  - B) Put option.
  - C) Call option.
- 

### Question #26 of 69

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) \$2,025.
  - B) \$2,050.
  - C) \$2,000.
- 

### Question #27 of 69

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) \$238.33.
  - B) \$425.00.
  - C) \$212.50.
- 

### Question #28 of 69

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 bondholders can request an earlier repayment of the principal amount prior to maturity.
  - C) stipulates whether and under what circumstances the issuer can redeem the bond prior to maturity.
- 

### Question #29 of 69

Question ID: 415445

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

- A) No additional debt.
  - B) Payment of taxes.
  - C) Maintenance of collateral.
- 

### Question #30 of 69

Question ID: 434400

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

- A) issued in a currency other than the issuer's domestic currency.
- B) typically registered rather than bearer bonds.

C) issued simultaneously to investors in many countries.

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### Question #31 of 69

Question ID: 460681

Three bonds are identical in credit quality and all other respects except the following:

- Bond X: Noncallable, accelerated sinking fund.
- Bond Y: Callable, accelerated sinking fund.
- Bond Z: Noncallable, no sinking fund.

The correct order for these three bonds, from highest yield to lowest yield, is:

- A) Bond Y; Bond X; Bond Z.
  - B) Bond X; Bond Z; Bond Y.
  - C) Bond Y; Bond Z; Bond X.
- 

### Question #32 of 69

Question ID: 653094

Settlement for a government bond trade *most likely* occurs on the:

- A) next trading day after the trade.
  - B) second trading day after the trade.
  - C) third trading day after the trade.
- 

### Question #33 of 69

Question ID: 415452

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

- A) issue securitized bonds.
  - B) issue commercial paper.
  - C) decrease credit enhancement.
- 

### Question #34 of 69

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) floating-rate note.
  - B) reference-rate note.
  - C) variable-rate note.
- 

### Question #35 of 69

Question ID: 415472

The *most appropriate* reference rate for a one-year, U.S. dollar denominated, floating-rate note that resets monthly is:

- A) overnight LIBOR.
  - B) 1-year LIBOR.
  - C) 30-day LIBOR.
- 

### Question #36 of 69

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) 7.750%.
  - B) 3.875%.
  - C) 3.250%.
- 

### Question #37 of 69

Question ID: 460680

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

- A) Conversion option.
  - B) Put option.
  - C) Interest rate cap.
- 

### Question #38 of 69

Question ID: 415455

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

- A) 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.
  - B) A cap is a disadvantage to the bondholder while a floor is a disadvantage to the issuer.
  - C) A cap is an advantage to the bondholder while a floor is an advantage to the issuer.
- 

### Question #39 of 69

Question ID: 415440

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

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

### Question #40 of 69

Question ID: 460679

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) 10% cap on the floating interest rate.
  - C) accelerated sinking fund provision for principal repayment.
- 

### Question #41 of 69

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

### Question #42 of 69

Question ID: 415480

Bonds issued by the International Monetary Fund (IMF) are *most accurately* described as:

- A) non-sovereign government bonds.
  - B) quasi-government bonds.
  - C) supranational bonds.
- 

### Question #43 of 69

Question ID: 496428

The interest rate on excess reserves borrowed by one bank from another bank is *most accurately* described as a(n):

- A) reserve swap rate.
  - B) interbank lending rate.
  - C) central bank funds rate.
- 

### Question #44 of 69

Question ID: 415454

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

- A) banking institutions.
  - B) special purpose entities.
  - C) supranational entities.
- 

### Question #45 of 69

Question ID: 415450

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

- A) Letters of credit.
  - B) Bank guarantees.
  - C) Excess spread.
- 

### Question #46 of 69

Question ID: 415471

Fixed income classifications by credit quality *most likely* include:

- A) investment grade bonds.
- B) money market securities.
- C) developed market bonds.

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**Question #47 of 69**

Question ID: 415485

The interbank funds market is *most accurately* described as:

- A) trading of negotiable certificates of deposit.
  - B) unsecured short-term loans from one bank to another.
  - C) banks' borrowing of reserves from the central bank.
- 

**Question #48 of 69**

Question ID: 415474

Which of the following *least likely* represents a primary market offering? When bonds are sold:

- A) in a private placement.
  - B) from a dealer's inventory.
  - C) on a best-efforts basis.
- 

**Question #49 of 69**

Question ID: 415482

If two banks fund a loan to a corporation, the loan is *most accurately* described as a:

- A) bilateral loan.
  - B) backup line of credit.
  - C) syndicated loan.
- 

**Question #50 of 69**

Question ID: 487761

Which type of issuer is *most likely* to issue bonds by auction?

- A) Sovereign.
  - B) Municipal.
  - C) Corporate.
- 

**Question #51 of 69**

Question ID: 415461

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

- A) balloon structure.
  - B) bullet structure.
  - C) amortizing structure.
- 

### Question #52 of 69

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) The bond's coupon rate is linked to the price of aluminum.
  - B) Allows Allcans to set coupon payments based on business results.
  - C) Payment structure helps protect Allcan's credit rating.
- 

### Question #53 of 69

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) be indifferent between having her bonds called under the sinking fund provision or not called.
  - C) prefer not to have her bonds called under the sinking fund provision.
- 

### Question #54 of 69

Question ID: 415479

The principal value of a sovereign bond is \$1,000 at issuance and \$1,055 two years after issuance. This bond *most likely*:

- A) is indexed for inflation.
  - B) has been upgraded.
  - C) trades at a premium.
- 

### Question #55 of 69

Question ID: 415466

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

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

### Question #56 of 69

Question ID: 434399

Restrictions on asset sales and borrowings most accurately describe:

- A) neutral covenants.
  - B) affirmative covenants.
  - C) negative covenants.
- 

### Question #57 of 69

Question ID: 415477

A bond is quoted at 96.25 bid and 96.75 ask. Based only on this information, this bond is *most likely*:

- A) non-investment grade.
  - B) a corporate bond.
  - C) relatively illiquid.
- 

### Question #58 of 69

Question ID: 415442

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

- A) Covenant.
  - B) Indenture.
  - C) Rights offering.
- 

### Question #59 of 69

Question ID: 415486

Compared to a term repurchase agreement, an overnight repurchase agreement is *most likely* to have a:

- A) lower repo rate and higher repo margin.
- B) lower repo rate and repo margin.

C) higher repo rate and repo margin.

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### Question #60 of 69

Question ID: 415459

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.
- 

### Question #61 of 69

Question ID: 415451

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

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

### Question #62 of 69

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) Special purpose entities.
  - B) Rating agencies.
  - C) Investment banks.
- 

### Question #63 of 69

Question ID: 496427

A quoted Libor interest rate is *least likely* to refer to a specific:

- A) maturity.
  - B) bank.
  - C) currency.
-

### Question #64 of 69

Question ID: 460682

An indenture is *most likely* to specify a bond's:

- A) credit rating.
  - B) covenants.
  - C) underwriter.
- 

### Question #65 of 69

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.
- 

### Question #66 of 69

Question ID: 415470

Fixed income classifications by geography *most likely* include:

- A) municipal bonds.
  - B) supranational bonds.
  - C) emerging market bonds.
- 

### Question #67 of 69

Question ID: 415467

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

- A) higher.
  - B) lower.
  - C) the same.
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### Question #68 of 69

Question ID: 415481

On November 15, 20X1, Grinell Construction Company decided to issue bonds to help finance the acquisition of new construction equipment. They issued bonds totaling \$10,000,000 with a 6% coupon rate due June 15, 20X9. Grinell has agreed



to pay the entire amount borrowed in one lump sum payment at the maturity date. Grinell is not required to make any principal payments prior to maturity. What type of bond structure has Grinell issued?

- A) Term maturity structure.
  - B) Amortizing maturity structure.
  - C) Serial maturity structure.
- 

### Question #69 of 69

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) interest-indexed bonds.
- B) capital-indexed bonds.
- C) indexed-annuity bonds.