7.01 Fixed-Income Instrument Features

Question 1
The city of Dallas, Texas issues a nine-month bond to finance its operations while it receives property taxes. The bond's principal amount will be paid from the property tax receipts. The issue's interest rate is significantly below market interest rates. Which of the following *best* describes the bond?
A. Surety bond
B. Money market security
C. Sovereign government bond

Question 2
Last year, a company issued bonds with a total principal amount of €65 million. The face value of each bond was €5,000. The bonds' price at the end of last year was 101. At the end of last year, the total number of bonds issued was *closest* to:
A. 12,871
B. 13,000
C. 13,130

Question 3
Which of the following would *most likely* be considered a positive covenant for a bond issuer?
A. To provide audited financial statements on an annual basis
B. To refrain from issuing new bonds that are senior to the existing debt
C. To impose a limit on disposal of company assets during the bond's term

Question 4
An investor purchases a bond that makes coupon payments in JPY, with the principal paid in USD. This bond is *best* described as a:
A. Samurai bond.
B. dual-currency bond.
C. currency option bond.

Question 5
A promise by an issuer to pay all taxes that it incurs is *most likely* an example of a(n):
A. surety bond.
B. affirmative covenant.
C. internal credit enhancement.

Question 6
In a corporate bond indenture, which of the following is *most likely* a negative covenant?
A. Prohibiting a bond call before the first call date
B. Restricting the issuance of debt senior to existing bond issues
C. Limiting interest payments on bonds if profitability fails to meet specified thresholds

Question 7
A floating rate note (FRN) pays coupon interest quarterly on 31 March, 30 June, 30 September, and 31 December. The coupon rate for each payment is calculated as three-month LIBOR plus 50 basis points. Three-month LIBOR was 2.25% on 31 March, 2.50% on 30 June, 2.00% on 30 September, and 2.75% 31 December. The month in which the coupon rate was 2.50% is:
A. June.
B. September.
C. December.

Question 8
If securities are issued in the structured finance sector, which of the following is *most likely* the issuer?
A. A special legal entity holding a collateral pool of securitized assets.
B. A nonsovereign government imposing a special tax to repay a bond.
C. A business pledging operating assets it owns as collateral on a debt issue.

Question 9
With regard to credit enhancement, cash collateral accounts *most likely*:
A. are a form of external credit enhancement.
B. expose the investor to greater counterparty risk.
C. are pledges of cash from a third-party financial institution.

Question 10
The terms in a bond indenture that require the issuer to make interest payments at specific periods are known as:
A. collateral.
B. covenants.
C. credit enhancements.

Question 11
Which of the following is *least likely* a form of internal credit enhancement?
A. Letter of credit
B. Credit tranching
C. Reserve account

Question 12
Overcollateralization is a credit enhancement most likely used for:
A. surety bonds.
B. mortgage-backed securities.
C. debentures issued by United States issuers.

Question 13
In the context of bonds, a cash collateral account is an example of a(n):

A. covered bond.
B. credit enhancement.
C. affirmative covenant.

Question 14
A trustee of a bond indenture is *most likely* appointed by a bond issuer to:
A. broker the sale of the bonds.
B. disburse coupon and principal payments.
C. monitor issuer compliance with bond covenants.

Question 15
With regards to a bond issue, a trust deed can be *best* described as:
A. a contract that forms the legal basis of a bond issue.
B. the legal restrictions placed on the issuer when a new bond is issued.
C. a pledge by a financial institution to provide credit support for a bond issue.

Question 16
The main difference between a covered bond and other types of asset-backed securities is:
A. only covered bonds are overcollateralized.
B. a covered bond's collateral remains on the issuer's balance sheet.
C. the issuer of a covered bond does not substitute for defaulted collateral.

Question 17
A bond with principal and interest payable in either USD or EUR, at the investor's discretion, is *best* described as a:
A. Eurodollar bond.
B. Dual-currency bond.
C. Currency option bond.