Learning Module 3: Fixed Income Issuance and Trading

Q.841 In which of the following bond issuing mechanisms does an investment bank *most likely* have the highest risk?

A. Auction.

B. Best effort offering.

C. Underwritten offering.

The correct answer is **C.**

In the case of an underwritten offering, the investment bank guarantees the sale of the bonds issued at the offering price and, thus, assumes a higher risk in comparison to the best effort offering and the auction. The bank is obliged to buy any portion of the bond that is not successfully taken up by investors.

A is incorrect. In an auction, the public will be invited to place(price) bids. In the US, the winning bids will receive the same coupon rate and pay the same price for the bonds. In Canada and Germany, multiple price auctions exist. One bond issue will therefore generate multiple prices and coupon rates. In either of these arrangements, the risk of undersubscription is generally lower than under an underwritten offering.

B is incorrect. In a best-effort offering, the investment bank acts as an agent that tries its best to sell the bonds. As compared to an underwriting offering, the investment bank does not bear any risk in a best-effort offering (i.e., the risk of undersubscription).

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.842 The time frame for the settlement of corporate bonds is *most likely*:

A. T+1 days.

B. T+3 days.

C. T+6 days.

The correct answer is **B.**

The standard settlement period for corporate bonds is typically T+3 days. This means that the transaction is settled three business days after the trade date. The T+3 settlement cycle has been a longstanding practice in the securities industry, providing a buffer period for the parties involved to complete all necessary processes, including verification, paperwork, and the actual transfer of securities and payment. This period allows for the efficient and orderly settlement of transactions, reducing the risk of default by either party.

A is incorrect. While T+1 settlement periods are more common for government securities, reflecting their highly liquid and less complex nature, corporate bonds typically involve more detailed verification and processing, necessitating a longer settlement period.

C is incorrect. Proposing a T+6 days settlement period for corporate bonds significantly exceeds the standard practice. While longer settlement periods might be necessary under exceptional circumstances, such as international transactions involving multiple time zones or specific types of securities with unique requirements, T+3 days remains the norm for corporate bonds.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.2478 If an investment bank sells bonds on a commission basis, this is *most likely* an example of a/an:

A. syndicate offering.

B. best efforts offering.

C. underwritten offering.

The correct answer is **B.**

In a best efforts offering, the investment banks sell the bonds on a commission basis. It is an offering of a security using an investment bank in which the investment bank, as agent for the issuer, promises to use its best efforts to sell the offering but does not guarantee that a specific amount will be sold.

A is incorrect. In a syndicated offering, several investment banks and broker-dealers form a "syndicate" to underwrite and distribute new security to the public jointly.

C is incorrect. In an underwriting offering, the bank bears all the risk. In Layman's language, the bank buys all the bonds from the issuer and then sells them to the investing public. The underwriter takes the risk of buying the newly issued bonds from the issuer, and then reselling them to investors or to dealers who then sell them to investors.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.2482 Institutions that have variable rate sources of funds will *most likely* prefer:

A. floating rate bonds.

B. investment grade bonds.

C. money market securities.

The correct answer is **A.**

Institutions that have variable rate sources of funds will prefer floating rate bonds which would give them a chance to capitalize and make the most of decreases in the reference rate. If the reference rate decreases, the institution would pay a lower coupon rate compared to an otherwise comparable institution that pays a fixed rate.

Floating rate notes (FRNs) are bonds that have a variable coupon, equal to a money market reference rate, like LIBOR or federal funds rate, plus a quoted spread (also known as quoted margin). The spread is a rate that remains constant. It is set when the bond is issued and does not change afterward.

B is incorrect. An investment-grade bond is a bond classification used to denote bonds that carry a relatively low credit risk compared to other bonds.

C is incorrect. Money market securities are fixed-income securities with maturities at issuance of one year or less.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.2484 A feature of on-the-run bonds is *most likely* that:

A. it is the most recent traded security and has a coupon rate closest to the current market discount rate for that maturity.

B. it is the least traded security and has a coupon rate closest to the current market discount rate for that maturity.

C. it is the most traded security and has a coupon rate furthest from the current market discount rate for that maturity.

The correct answer is **A.**

On-the-run bonds are the most recently issued U.S. Treasury bonds or notes of a particular maturity. They are characterized by being the most actively traded securities in the bond market. The coupon rate of on-the-run bonds is typically closest to the current market discount rate for that maturity, which implies that these bonds are priced close to their par value. This feature makes on-the-run bonds highly liquid and an accurate reflection of the current interest rate environment.

B is incorrect. This option inaccurately describes on-the-run bonds as being the least traded securities, which contradicts their defining characteristic of high liquidity and active trading. The high trading volume enhances their liquidity, making them more, not less, traded compared to off-the-run bonds.

C is incorrect. In reality, the coupon rate of on-the-run bonds is set close to the prevailing market rates at the time of issuance. This alignment with current market rates is what typically allows these bonds to be priced near par value. Bonds with coupon rates significantly divergent from the market rates are more likely to experience greater price volatility and are not characteristic of on-the-run bonds.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.2485 Which of the following statements is/are *most likely* accurate?
Statement I. Non-sovereign bonds usually trade at a higher yield and lower price than sovereign bonds with similar characteristics because their credit risk is perceived to be higher than that of sovereign bonds.

Statement II. Bonds issued by states, provinces, counties, and sometimes by entities created to fund and provide services such as for the construction of hospitals, airports, and other municipal services are called Agency bonds.

A. Both statements are correct.

B. Both statements are incorrect.

C. Only one statement is correct.

The correct answer is **C.**

Statement I is correct. Credit ratings for non-sovereign bonds vary widely because of the differences in credit and collateral quality. Because default rates of non-sovereign bonds are historically low, they very often receive high credit ratings. However, non-sovereign bonds usually trade at a higher yield and lower price than sovereign bonds with similar characteristics because they are perceived to carry more credit risk compared to sovereigns.

The additional yield depends on the credit quality, the liquidity of the bond issue, and the implicit or explicit level of guarantee or funding commitment from the national government. The additional yield is the lowest for non-sovereign bonds that have high credit quality, are liquid, and are guaranteed by the national government.

Statement II is incorrect. It describes non-sovereign bonds, not agency bonds. Agency bonds are comprised of (1) bonds issued or guaranteed by U.S. federal government agencies; and (2) bonds issued by government-sponsored enterprises (GSEs).

The national government does not guarantee non-sovereign bonds despite their low default rates and relatively high credit ratings. They are issued by Provinces, regions, states, and cities to finance schools, hospitals, highways, bridges, etc.

CFA Level I, Fixed Income, Learning Module 15: Credit Analysis for Government Issuers, LOS 15a: explain special considerations when evaluating the credit of sovereign and non-sovereign government debt issuers and issues.

Q.2490 Which of the following is *least likely* a classification of secondary markets?

A. Organized exchanges

B. Over the counter (OTC) markets

C. Aftermarkets

The correct answer is **C.**

Secondary markets are "aftermarkets" where existing securities are traded among investors. Aftermarkets is not a classification of secondary markets, but a term used to refer to secondary markets.

A is incorrect. Organized exchanges is one of the two main classifications of secondary markets. This is where buyers and sellers transact according to exchange rules.

B is incorrect. Over the counter (OTC) markets is the other main classification of secondary markets. This is where buy and sell orders are matched via a broker-dealer network.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.2494 The repo margin is *most likely* increased by the following factors except:

A. a longer repo term.

B. a higher credit quality of the borrower.

C. a low demand of the collateral security.

The correct answer is **B.**

A higher credit quality of the borrower: This statement is false. If the credit quality of the borrower is higher, this means the borrower is less likely to default on their obligations. Therefore, the repo margin, which is essentially a form of risk protection, wouldn't need to be as high.

A is incorrect. The longer the term of the repo, the more credit risk and market risk the lender is exposed to, which would necessitate a higher repo margin.

C is incorrect If the demand for the collateral is low, it might be harder for the lender to sell it in the event of a default. Therefore, to protect against this risk, the repo margin would likely be higher.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.3884 Which of the following issues is *most likely* classified as a domestic bond?

A. A French company issues Euro-denominated bonds in Germany.

B. A U.S. company issues U.S. dollar-denominated bonds in Canada.

C. A Swedish company incorporated in Japan issues Yen-denominated bonds in Japan.

The correct answer is **C.**

This scenario fits the definition of a domestic bond perfectly, as the issuer is considered a local entity in Japan due to its incorporation there, and the bond is issued in the local currency, which is Yen.

A is incorrect. This option describes a situation where a French company issues Euro-denominated bonds in Germany. Although the bond is issued in a currency that is widely used within the issuer's and investor's region (Eurozone), the fact that the issuer is a French company operating in Germany does not meet the criteria for a domestic bond. Instead, this scenario is more characteristic of a Eurobond.

B is incorrect. This option involves a U.S. company issuing U.S. dollar-denominated bonds in Canada. Despite the bond being denominated in the issuer's home currency (U.S. dollars), the issuance takes place in a foreign country (Canada). This scenario fits the description of a foreign bond, specifically a Yankee bond, which is a U.S. dollar-denominated bond issued by a foreign entity in the U.S. market.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.3888 The settlement date for which of the following bonds *most likely* occurs the day following the transaction date?

A. Eurobonds.

B. Corporate bonds.

C. Quasi-government bonds.

The correct answer is **C.**

The settlement date for quasi-government bonds most likely occurs the day following the transaction date, known as T+1 in financial terminology. This quick settlement period is characteristic of government and quasi-government securities, facilitating faster transactions and reducing the risk associated with changes in market conditions between the transaction and the settlement dates.

A is incorrect. Eurobonds typically have a settlement date of T+2, meaning two business days after the transaction date. This longer settlement period compared to quasi-government bonds allows for the international nature of Eurobonds transactions, which may require additional time for processing due to different time zones, currencies, and regulatory practices.

B is incorrect. Corporate bonds generally have a settlement date of T+3, which is three business days after the transaction date. This settlement period is longer than that of quasi-government bonds and reflects the additional risk and due diligence associated with corporate debt securities. The T+3 settlement allows for thorough verification of transaction details and the financial status of the corporate issuer, ensuring that all parties have adequate time to fulfill their obligations.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (a): Describe fixed-income market segments and their issuer and investor Participants.

Q.4419 The yield difference between a corporate bond and a comparable sovereign bond is *most likely* a measure of:

A. Credit risk.

B. Maturity risk.

C. Liquidity risk.

The correct answer is **A.**

The yield difference, often referred to as the credit spread, between a corporate bond and a sovereign bond with similar maturity is primarily a reflection of credit risk. Credit risk refers to the risk that the market value of a contract or a specific instrument is reduced based on the actions of the counterparty. Because sovereign bonds, particularly those issued by stable governments, are generally considered to be almost free of default risk, the higher yield on corporate bonds compensates investors for the higher risk of potential default by the corporate bond issuer.

B is incorrect. Maturity risk, also known as interest rate risk, is associated with the length of time until a bond's maturity. It is not directly measured by the yield spread between a corporate bond and a comparable sovereign bond, as this spread is more reflective of credit risk than the potential impact of interest rate changes over time.

C is incorrect. While liquidity risk does affect a bond's yield, with less liquid bonds typically offering higher yields to compensate investors for the difficulty they might face when trying to sell the bond, it is not the primary measure that the yield spread between a corporate and a sovereign bond indicates. The key differential factor that this spread is pointing towards is the credit quality and the associated default risk of the corporate bond in comparison to the sovereign bond.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed-Income Issuance and Trading. LOS 3a: describe fixed-income market segments and their issuer and investor participants.

Q.4437 Which of the following *best* describes fixed-income securities that are segmented by a maturity duration of less than one year?

A. Long-term

B. Short-term

C. Intermediate-term

The correct answer is **B.**

Fixed-income securities that are segmented by a maturity duration of less than one year are best described as short-term. These securities are particularly appealing to investors who prioritize liquidity and wish to minimize their exposure to risk. The shorter maturity period means that the principal investment is returned within a year, reducing the time during which the investment could be affected by adverse interest rate movements or other market risks.

A is incorrect. Long-term securities are characterized by a maturity duration that exceeds 10 years. These securities, such as long-term bonds, are typically issued by entities that require capital for extended periods. Investors in long-term securities are exposed to greater risk, including interest rate risk, credit risk, and inflation risk, over the duration of their investment.

C is incorrect. Intermediate-term securities have a maturity duration that falls between 1 to 10 years. This category serves as a middle ground between short-term and long-term securities, offering investors a compromise between the lower risk associated with short-term investments and the higher yields offered by long-term investments. Intermediate-term securities can include corporate bonds, government notes, and some types of asset-backed securities.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (a): Describe fixed-income market segments and their issuer and investor Participants.

Q.4438 Which issuer type in the fixed-income market is *most likely* to be perceived as having the lowest credit risk, especially from developed markets?

A. Corporations

B. Private institutions

C. Sovereign Governments

The correct answer is **C.**

Sovereign Governments, especially those from developed markets, are typically perceived as having the lowest credit risk in the fixed-income market. This perception is largely due to several key factors that differentiate sovereign governments from other types of issuers.

Firstly, sovereign governments have the authority to levy taxes, which provides a steady and predictable stream of revenue to meet their debt obligations.

Additionally, they possess the unique capability to print more money to fulfill their debt obligations, further lowering their perceived credit risk.

Also, sovereign governments often have larger and more diversified economies compared to corporations or private institutions, which can help absorb economic shocks and maintain financial stability.

A is incorrect. Corporations, while significant issuers in the fixed-income market, generally carry a higher credit risk compared to sovereign governments. This increased risk stems from the fact that corporations do not have the same financial levers as governments, such as the ability to levy taxes or print money. Furthermore, corporations are more susceptible to market competition and economic downturns, which can adversely affect their financial health and ability to meet debt obligations.

B is incorrect. Private institutions may issue bonds as part of their financing strategy, but their credit risk is not uniformly low. Like corporations, the credit risk associated with bonds issued by private institutions depends on their specific financial health, operational performance, and the sector in which they operate. Unlike sovereign governments, private institutions do not have the authority to levy taxes or other sovereign financial mechanisms to ensure debt repayment.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (a): Describe fixed-income market segments and their issuer and investor Participants.

Q.4439 Which of the following characteristics *best* distinguishes fixed-income indexes from equity indexes?

A. Fixed-income indexes typically have fewer constituents than equity indexes.

B. Fixed-income indexes have a lower turnover rate compared to equity indexes.

C. Fixed-income indexes often have a larger number of constituents due to multiple securities from a single issuer.

The correct answer is **C.**

Fixed-income indexes, such as those tracking bonds, often include a larger number of constituents. This is primarily because a single issuer in the fixed-income market, such as a government or corporation, can issue multiple securities with different characteristics, including varying maturities, coupon rates, and terms. As a result, fixed-income indexes need to account for this diversity by including a wide array of securities to accurately reflect the market's performance.

A is incorrect. While equity indexes can also include a significant number of constituents, fixed-income indexes are more likely to have a larger number due to the nature of the fixed-income market. In this market, a single issuer can have many different types of bonds outstanding at any given time, each with its own set of characteristics.

B is incorrect. Turnover rate refers to the frequency with which securities are added or removed from an index. In reality, fixed-income indexes can exhibit higher turnover rates than equity indexes. This higher turnover is due to the nature of fixed-income securities, where bonds are regularly reaching maturity and being replaced by new issues. Additionally, credit rating changes can lead to the inclusion or exclusion of bonds from an index more frequently than the changes in equity indexes.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (b): Describe types of fixed-income indexes.

Q.4440 Which of the following bond markets are debut issuers, such as new corporate entities formed post-merger or acquisition, *most likely* to issue their bonds?

A. Primary bond markets.

B. Tertiary bond markets.

C. Secondary bond markets.

The correct answer is **A.**

Debut issuers, such as new corporate entities formed post-merger or acquisition, are most likely to issue their bonds in the primary bond markets. The primary bond market is where new issues of securities are first offered to the public, providing a crucial platform for issuers to raise capital. This market serves as the initial sale point for bonds, where issuers directly sell new bonds to investors, often with the assistance of underwriting firms.

B is incorrect. The term "tertiary bond market" does not exist within the standard financial terminology. The primary and secondary bond markets are the two main classifications in the bond market, with the primary market focused on the issuance of new bonds and the secondary market concerned with the trading of existing bonds among investors.

C is incorrect. The secondary bond market is where existing bonds are traded among investors after their initial issuance in the primary market. This market does not involve the direct sale of new bonds by the issuers but rather the trading of bonds between investors. For debut issuers looking to raise capital through bond issuance, the secondary market is not the venue for this activity.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.4442 Which of the following securities in the fixed-income space is *most likely* to be traded at prices significantly below their par value due to expected non-receipt of all promised payments?

A. Distressed Debt.

B. Recently issued corporate bonds.

C. On-the-run developed market sovereign bonds.

The correct answer is **A.**

Distressed debt securities are typically issued by companies facing significant financial difficulties, including the potential for bankruptcy. These securities are traded at prices significantly below their par value due to the high risk associated with the issuer's inability to meet its financial obligations. Investors in distressed debt are exposed to the risk of not receiving all promised payments, which is reflected in the discounted trading prices of these securities.

B is incorrect. Recently issued corporate bonds are typically considered investment-grade securities and are issued by companies with strong creditworthiness. These bonds often have lower default risk compared to distressed debt. While it's possible for the prices of recently issued corporate bonds to fall below par value due to changes in market conditions or company-specific factors, it's less common for them to trade significantly below par value solely due to expected non-receipt of all promised payments.

C is incorrect. On-the-run developed market sovereign bonds are typically considered to be among the safest investments, as they are backed by governments with stable financial systems. These bonds are highly liquid and are generally expected to meet all promised payments, hence they trade close to or at their par value.

CFA Level I, Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.4443 Which of the following statements *best* compares equity and fixed-income markets?

A. Equity markets have lower liquidity than most fixed-income market segments.

B. Equity markets and fixed-income markets both primarily operate over the counter.

C. Just as companies can have IPOs in equity markets, issuers can debut in the bond market.

The correct answer is **C.**

Just as companies can have an initial public offering (IPO) in the equity market, issuers can approach the bond market for the first time to raise capital through a primary bond offering. This process in the bond market is analogous to an IPO in the equity market, where a company sells shares to the public for the first time. In the bond market, the initial offering is a way for entities to raise funds by issuing debt securities to investors.

A is incorrect. The assertion that equity markets have lower liquidity than most fixed-income market segments does not hold universally. Liquidity, the ease with which an asset can be bought or sold in the market without affecting its price, varies widely across different segments of both markets. While certain segments of the fixed-income market, like government bonds, are known for their high liquidity, others, such as corporate bonds or high-yield bonds, may exhibit lower liquidity.

B is incorrect. Fixed-income markets, particularly for bonds, do indeed have a significant portion of their activities conducted OTC, where transactions occur directly between parties without the use of a centralized exchange. This OTC nature can affect the visibility and liquidity of certain fixed-income securities. On the other hand, equity markets are predominantly organized through centralized exchanges, such as the New York Stock Exchange (NYSE) or the NASDAQ.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.4444 In the context of fixed-income indexes, what does a high turnover *most likely* result from?

A. The consistent performance of bonds over time.

B. The finite maturity of bonds and frequent introduction of new issuances.

C. The changes in the bond market landscape, such as shifts in credit quality.

The correct answer is **B.**

High turnover in fixed-income indexes is primarily a result of the finite maturity of bonds and the frequent introduction of new issuances. This characteristic of the bond market ensures that indexes must regularly update their constituents to reflect the current market. As bonds reach maturity, they are removed from the index, and new issuances are added to maintain the index's relevance and accuracy in representing the market. This process of constant updating due to the bonds' finite maturity periods leads to high turnover rates within fixed-income indexes.

A is incorrect. The consistent performance of bonds over time does not directly lead to high turnover in fixed-income indexes. While consistent performance might affect the valuation of bonds within the index, it does not necessitate the frequent addition or removal of bonds. High turnover is more directly influenced by the structural aspects of the bond market, such as the expiration and issuance of bonds, rather than their performance.

C is incorrect. Changes in the bond market landscape, such as shifts in credit quality, can indeed influence the composition of fixed-income indexes. However, these changes do not inherently result in high turnover. While significant market shifts may lead to adjustments in the index to better reflect current conditions, such as removing bonds that no longer meet credit quality criteria, these adjustments are not as frequent or systematic as those caused by the finite maturity of bonds and the introduction of new issuances.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (b): Describe types of fixed-income indexes.

Q.4452 Which of the following measures is *most likely* a crucial indicator of liquidity in secondary fixed-income markets?

A. Bid–offer spread.

B. Total volume traded.

C. Frequency of bond issuance.

The correct answer is **A.**

The bid–offer spread is indicative of liquidity in the secondary fixed-income markets. A narrow spread typically signifies that security can be bought or sold quickly without causing a significant impact on its price, which is characteristic of a liquid market. Conversely, a wide bid–offer spread suggests a less liquid market, as the seller may have to accept a lower price or the buyer may have to pay a higher price to execute a trade. This spread is thus a real-time reflection of the ease with which a security can be traded in the market.

B is incorrect. Total volume traded does indicate activity levels but does not necessarily reflect the ease with which securities can be bought and sold at or near the current market prices, which is a more direct measure of liquidity.

C is incorrect. The frequency of bond issuance pertains to the primary market activities and does not provide immediate information regarding the current liquidity in the secondary markets, where existing securities are traded among investors.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.

Q.4455 Which fixed-income issuance process is *most likely* to involve selling bonds to a select group of investors, often when the bond size is small, or the issuer is less known?

A. Private Placement

B. Best-Efforts Offering

C. Underwritten Bond Offering

The correct answer is **A.**

Private Placement is the process most likely to involve selling bonds to a select group of investors, especially when the bond size is small or the issuer is less known. This method allows issuers to sell securities directly to a small group of institutional or accredited investors. Private placements are typically less regulated than public offerings, making them an attractive option for smaller companies or those seeking to avoid the complexities and costs associated with a public offering.

B is incorrect. In an underwritten bond offering, an investment bank or a syndicate of banks commits to buying the entire issue of bonds from the issuer and then resells them to the general market. This process involves a broader distribution of bonds and is typically used by well-known issuers seeking to raise significant amounts of capital. The underwriters assume the risk of selling the bonds, which contrasts with the targeted, less risky approach of private placements.

C is incorrect. Best-Efforts Offering is a method where the underwriter agrees to sell as much of the bond offering as possible but does not guarantee the sale of the entire issue. The underwriter returns any unsold bonds to the issuer without assuming financial responsibility for the unsold portion. It represents a less committed arrangement between the issuer and the underwriter, where the risk of unsold bonds remains with the issuer.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (a): Describe fixed-income market segments and their issuer and investor Participants.

Q.4456 For a bond to be included in the Bloomberg Barclays MSCI Euro Corporate Sustainable SRI Index, which of the following is the *most likely* minimum MSCI ESG rating, it must have?

A. A

B. AA

C. BBB

The correct answer is **C.**

For a bond to be included in the Bloomberg Barclays MSCI Euro Corporate Sustainable SRI Index, it must have a minimum MSCI ESG rating of BBB. This requirement ensures that only bonds issued by companies with a certain level of commitment to environmental, social, and governance (ESG) criteria are considered for inclusion. The MSCI ESG rating is a comprehensive measure that evaluates a company's resilience to long-term, industry material ESG risks.

A is incorrect. While an A rating is higher than the minimum requirement and indicates a strong commitment to managing ESG risks relative to industry peers, the question specifically asks for the minimum rating necessary for inclusion. Therefore, while bonds with an A rating certainly qualify for inclusion, stating A as the minimum requirement would be inaccurate.

B is incorrect. An AA rating is one of the higher ESG ratings a company can achieve, indicating that the company is a leader in managing ESG risks compared to its industry peers. However, suggesting AA as the minimum requirement for inclusion in the index would exclude a significant number of bonds from companies that are still effectively managing their ESG risks but have not achieved such a high rating.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (b): Describe types of fixed-income indexes.

Q.4457 Which of the following *most likely* describes an environment where the majority of trading happens directly between buyers and sellers rather than on a centralized exchange?

A. IPO Market.

B. Primary Market.

C. Over-the-counter (OTC) Market.

The correct answer is **C.**

The Over-The-Counter (OTC) Market is characterized by trading that occurs directly between buyers and sellers without the use of a centralized exchange. This decentralized nature of the OTC market allows for a wide variety of securities to be traded, including stocks, bonds, and derivatives that may not meet the listing requirements of formal exchanges. The OTC market is facilitated by dealer networks that provide liquidity and pricing for securities.

A is incorrect. The IPO (Initial Public Offering) market refers specifically to the process through which a private company offers its shares to the public for the first time. This is a one-time event for each company going public and occurs in the primary market. The IPO process is a way for companies to raise capital by selling shares to public investors.

B is incorrect. The primary market is where new securities are issued and sold for the first time. This includes IPOs, as well as the issuance of new bonds or other securities. Transactions in the primary market involve the original issuer of the security and the initial buyers. While the primary market is essential for raising new capital, it does not describe the ongoing trading environment where securities are bought and sold after their initial issuance.

CFA Level I, Topic 7 - Fixed Income, Learning Module 3: Fixed Income Issuance and Trading. LOS (c): Compare primary and secondary fixed-income markets to equity Markets.
