## Question #1 of 28

Question ID: 1458467

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. ✗

**Explanation**

Government bond trades typically settle on the next trading day (T + 1) or have cash settlement (settle on the same day).

(Module 43.1, LOS 43.d)

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## Question #2 of 28

Question ID: 1458464

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

**A)** from a dealer's inventory. ✓

**B)** in a private placement. ✗

**C)** on a best-efforts basis. ✗

**Explanation**

When bonds are sold from a dealer's inventory, the bonds have already been sold once and the transaction takes place on the secondary market. The other transactions in the responses take place in the primary market. When bonds are sold on a best-efforts basis, the investment banker does not take ownership of the securities and agrees to sell all she can. In a private placement, the bonds are sold privately to a small number of investors.

(Module 43.1, LOS 43.c)

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## Question #3 of 28

Question ID: 1462918

Medium-term notes (MTNs) *most likely*:

**A)** have maturities between 2 and 10 years.

**B)** are sold through an underwritten offering.

**C)** have less liquidity than long-term bonds of the same issuer.

**Explanation**

As they are most often custom debt instruments, medium-term notes typically have less liquidity than a regular bond issue from the same issuer. Medium-term notes can have any maturity and are sold through agents.

(Module 43.2, LOS 43.g)

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## Question #4 of 28

Question ID: 1462917

Which of the following statements about debt securities is *least accurate*?

**A)** A medium-term note (MTN) is a corporate bond with an original maturity of 2 to 10 years.

**B)** Commercial paper is a short-term vehicle for corporate borrowing.

**C)** A securitized bond is a security whose cash flows are linked to a pool of underlying loans or financial instruments.

**Explanation**

The name "medium-term note" does not imply anything about the original maturity of the security.

(Module 43.2, LOS 43.g)

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## Question #5 of 28

Question ID: 1458486

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

**A)** higher repo rate and repo margin.

**B)** lower repo rate and higher repo margin.

**C)** lower repo rate and repo margin.

**Explanation**

Both the repo rate and the repo margin tend to be higher for longer repo terms. Therefore an overnight repo should have a lower repo rate and a lower repo margin than a term (i.e., longer than overnight) repo.

(Module 43.2, LOS 43.j)

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## Question #6 of 28

Question ID: 1458469

Which of the following is most likely the settlement practice for corporate bonds?

**A)** Cash settlement.

**B)** Trade date + 1 day.

**C)** Trade date + 3 days.

**Explanation**

Corporate bonds typically settle on the second or third trading day after the trade (T + 2 or T + 3). Some money market securities are settled on the trade date (cash settlement) and government bonds typically settle on the trading day following the trade date (T + 1).

(Module 43.1, LOS 43.d)

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## Question #7 of 28

Question ID: 1458463

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

**A)** bank.

**B)** currency.

**C)** maturity.

**Explanation**

Libor rates are averages calculated from a number of different banks' quotes on the interbank money market. Each Libor rate refers to a specific maturity (in a range from overnight to one year) and currency.

(Module 43.1, LOS 43.b)

## Question #8 of 28

Question ID: 1458474

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)** Amortizing maturity structure. ✗

**B)** Serial maturity structure. ✗

**C)** Term maturity structure. ✓

**Explanation**

These bonds have a term maturity structure because the issuer has agreed to pay the entire amount borrowed in one lump-sum payment at maturity.

(Module 43.2, LOS 43.g)

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## Question #9 of 28

Question ID: 1458482

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

**A)** banks' borrowing of reserves from the central bank. ✗

**B)** trading of negotiable certificates of deposit. ✗

**C)** unsecured short-term loans from one bank to another. ✓

**Explanation**

The interbank funds market refers to short-term unsecured loans between banks. It does not refer to trading of negotiable certificates of deposit. Borrowing from the central bank is said to occur in the central bank funds market.

(Module 43.2, LOS 43.i)

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## Question #10 of 28

Question ID: 1458480

An investor pays $100,000 for a security that consists of a zero-coupon bond that will pay $90,000 in three months and $11,000 worth of call options on an equity index that expire in three months. This security is *most accurately* described as a:

**A)** capital protected instrument.

**B)** guarantee certificate.

**C)** participation instrument.

**Explanation**

The security described here is a capital-protected instrument, but it is not a guarantee certificate because the capital protection (promised payment at maturity) is less than the initial cost of the security. It is not a participation instrument because it does not promise payments that are based on the value of the reference instrument.

(Module 43.2, LOS 43.h)

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## Question #11 of 28

Question ID: 1458483

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

**A)** central bank funds rate.

**B)** interbank lending rate.

**C)** reserve swap rate.

**Explanation**

Required reserves are deposits with a country's central bank. Banks that deposit more than the required amount with the central bank are said to have excess reserves and may lend these to other banks. This lending is said to take place in the central bank funds market and the interest rates on such loans are known as central bank funds rates.

(Module 43.2, LOS 43.i)

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## Question #12 of 28

Question ID: 1458470

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.

**Explanation**

Corporate bonds typically settle on the second or third trading day after the trade (T + 2 or T + 3), although in some markets their settlement can be as much as T + 7. Some money market securities are settled on the trade date (cash settlement) and government bonds typically settle on the trading day following the trade date (T + 1).

(Module 43.1, LOS 43.d)

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## Question #13 of 28

Question ID: 1458465

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

**A)** grey market transaction.

**B)** underwritten offering.

**C)** private placement.

**Explanation**

In a private placement, an entire bond issue is sold to a single investor or a small group of investors, rather than being offered to the public.

(Module 43.1, LOS 43.c)

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## Question #14 of 28

Question ID: 1458462

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

**A)** currency.

**B)** maturity.

**C)** reset frequency.

**Explanation**

An appropriate reference rate for a floating-rate note should match its currency and the frequency with which its coupon rate is reset, such as 90-day yen Libor for a yen-denominated note that resets quarterly.

(Module 43.1, LOS 43.b)

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## Question #15 of 28

Question ID: 1458481

Which of the following coupon payment structures represents a leveraged inverse floater?

**A)** 10% – 0.75 times 180-day Libor. ✗

**B)** 6% – 30-day Libor. ✗

**C)** 8% – 1.5 times 90-day Libor. ✓

**Explanation**

A leveraged inverse floater has a coupon that increases or decreases by more than the change in its reference rate. A deleveraged inverse floater has a coupon that increases or decreases by less than the change in its reference rate.

(Module 43.2, LOS 43.h)

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## Question #16 of 28

Question ID: 1458472

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

**A)** has been upgraded. ✗

**B)** is indexed for inflation. ✓

**C)** trades at a premium. ✗

**Explanation**

Inflation-indexed bonds often have a capital-indexed structure in which the principal value is adjusted periodically by the inflation rate. Credit rating upgrades or downgrades do not affect the principal value of bonds. A bond is trading at a premium when its market price is greater than its principal value.

(Module 43.1, LOS 43.e)

## Question #17 of 28

Question ID: 1458459

Fixed income classifications by geography *most likely* include:

**A)** emerging market bonds.

**B)** municipal bonds.

**C)** supranational bonds.

**Explanation**

Classifying fixed income securities as developed market or emerging market bonds is an example of classification by geography. Supranational bonds are a classification by type of issuer. Municipal bonds are a classification by type of issuer or by taxable status.

(Module 43.1, LOS 43.a)

## Question #18 of 28

Question ID: 1462916

The bid-ask spread for a bond *most likely* conveys information about:

**A)** its liquidity, but not its credit quality.

**B)** its credit quality, but not its liquidity.

**C)** both its liquidity and its credit quality.

**Explanation**

Bond dealers' bid-ask spreads depend primarily on the liquidity of an issue. Spreads are narrower for highly liquid issues and wider for less liquid issues. Credit quality and liquidity are both reflected in yield spreads.

(Module 43.1, LOS 43.d)

## Question #19 of 28

Question ID: 1458461

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

**A)** 30-day LIBOR.

**B)** overnight LIBOR.

**C)** 1-year LIBOR.

**Explanation**

The reference rate for floating-rate debt should match the frequency with which the coupon rate is reset.

(Module 43.1, LOS 43.b)

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## Question #20 of 28

Question ID: 1458485

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

**A)** a bond dealer is the lender.

**B)** collateral is delivered to the lender and returned to the borrower.

**C)** the repurchase price is lower than the sale price.

**Explanation**

Bond dealers frequently use repurchase agreements as sources of funding. When a bond dealer enters a repo as the lender instead of the borrower, the agreement is referred to as a reverse repo.

(Module 43.2, LOS 43.j)

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## Question #21 of 28

Question ID: 1458473

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

**A)** supranational bonds.

**B)** non-sovereign government bonds.

**C)** quasi-government bonds.

**Explanation**

Supranational bonds are issued by multilateral organizations such as the IMF.

Quasi-government bonds are issued by agencies established or sponsored by national government.

Non-sovereign government bonds are issued by state, provincial, and local government or municipal entities.

(Module 43.1, LOS 43.f)

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## Question #22 of 28

Question ID: 1458476

A structured security is a combination of:

**A)** a corporate bond and a syndicated loan. ✗

**B)** a medium-term note and a derivative. ✓

**C)** commercial paper and a backup line of credit. ✗

**Explanation**

Medium-term notes (MTNs) that are combined with derivatives to create features desired by an investor are known as structured securities.

(Module 43.2, LOS 43.g)

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## Question #23 of 28

Question ID: 1458466

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

**A)** Corporate. ✗

**B)** Municipal. ✗

**C)** Sovereign. ✓

**Explanation**

Many national governments use auctions to issue sovereign bonds. Corporate bonds are typically issued in an underwriting or private placement process while municipal bonds are typically issued in a negotiated or underwritten process.

(Module 43.1, LOS 43.c)

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## Question #24 of 28

Question ID: 1458484

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

**A)** Greater demand for the underlying security results in a lower repo margin.

**B)** Higher credit rating of the underlying collateral results in a higher repo rate.

**C)** Lower credit rating of the underlying collateral results in a lower repo margin.

**Explanation**

Other things equal, the repo margin (percent difference between the market value of the collateral and the loan amount) is lower if the collateral is in greater demand. The repo margin and repo rate (the annualized percent difference between the sale price and repurchase price of the collateral) are inversely related to the credit quality of the collateral.

(Module 43.2, LOS 43.j)

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## Question #25 of 28

Question ID: 1458475

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

**A)** backup line of credit.

**B)** syndicated loan.

**C)** bilateral loan.

**Explanation**

Syndicated loans are funded by more than one bank. A bilateral loan involves only one bank ("bilateral" refers to the lender and the borrower). A backup line of credit is an agreement to provide funds if needed and may be used, for example, to provide credit enhancement for a commercial paper issue.

(Module 43.2, LOS 43.g)

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## Question #26 of 28

Question ID: 1458468

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

A) a corporate bond.

B) non-investment grade.

C) relatively illiquid.

**Explanation**

The spread between the bid and ask prices is one-half percent of par, which most likely reflects an illiquid market for this bond. Bonds with liquid secondary markets typically have bid-ask spreads of approximately 10 to 12 basis points.

(Module 43.1, LOS 43.d)

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## Question #27 of 28

Question ID: 1458460

Fixed income classifications by issuer *most likely* include:

A) Financial sector bonds.

B) Floating-rate bonds.

C) Money market securities.

**Explanation**

Corporate bonds are frequently classified by issuer as financial or non-financial. Floating-rate bonds are a classification by coupon structure. Money market securities are a classification by original maturities.

(Module 43.1, LOS 43.a)

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## Question #28 of 28

Question ID: 1458479

TBTF Bank issues credit-linked notes (CLNs) that have 5-year debentures of Ossien Company as their reference asset. If Ossien defaults on its debentures, the CLNs will be redeemed:

A) for less than their par value.

B) for their par value plus a premium.

C) immediately for their par value.

**Explanation**

A credit-linked note (CLN) returns less than the full principal amount at redemption if a credit event on a reference asset has occurred. A CLN returns its full principal at redemption if a credit event on a reference asset has not occurred. In effect the CLN buyer takes on the credit risk of the reference asset.

(Module 43.2, LOS 43.h)