40 FIXED-INCOME MARKETS ISSUANCE TRADING AND FUNDING

1. 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.

2. The interbank funds market is most accurate/ydescribed 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.

3. Which of the following statements about debt securities is least accurate?
   (A) A securitized bond is a security whose cash flows are linked to a pool of underlying loans or financial instruments.
   (B) Commercial paper is a short-term vehicle for corporate borrowing.
   (C) A medium-term note (MTN) is a corporate bond with an original maturity of 2 to 10 years.

4. 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.

5. 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.

6. 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.

7. The reference rate for a floating-rate note should least likely match the note's:
   (A) currency.
   (B) maturity.
   (C) reset frequency.

8. 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.

9. 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.

10. 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.

11. 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.

12. Fixed income classifications by issuer most likely include:
   (A) Financial sector bonds.
   (B) Floating-rate bonds.
   (C) Money market securities.

13. 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.

14. 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.

15. Bonds issued by the International Monetary Fund (IMF) are most accurately described as:
    (A) quasi-government bonds.
    (B) non-sovereign government bonds.
    (C) supranational bonds.

16. 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.

17. Which type of issuer is most likelyto issue bonds by auction?
    (A) Corporate.
    (B) Municipal.
    (C) Sovereign.

18. 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.

19. 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.

20. If two banks fund a loan to a corporation, the loan is most accurately described as a:
    (A) syndicated loan.
    (B) backup line of credit.
    (C) bilateral loan.

21. 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.

22. 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.

23. The bid-ask spread for a bond most likely conveys information about:
    (A) its credit quality, but not its liquidity.
    (B) both its liquidity and its credit quality.
    (C) its liquidity, but not its credit quality.

24. 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.

25. Which of the following /east 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.

26. 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.

27. A quoted Libor interest rate is least likely to refer to a specific:
    (A) bank.
    (B) currency.
    (C) maturity.

28. Fixed income classifications by geography most likely include:
    (A) emerging market bonds.
    (B) municipal bonds.
    (C) supranational bonds.