

Lecture 1 Summary

LO. Describe the basic features of a fixed-income security.

The basic features of a fixed-income security include the specification of:

- Issuer: It is the entity that has issued the bond. The types of issuers include supranational organizations, sovereign governments, non-sovereign governments, quasi-government entities, and companies.
- Maturity: It is the date on which the last payment is made for a bond. Based on maturity, bonds can be classified into money market security, capital market security, and perpetual bonds.
- Par value: It is the amount an issuer agrees to pay the investor or bondholder on maturity date. A bond is premium if sold above par, discount if sold below par, and at par if sold at face value.
- Coupon rate and frequency: Coupon rate is the interest rate paid on a bond every year by the issuer until its maturity date. Bonds that have only one payment at maturity are called zero-coupon bonds.
- Currency denomination: A bond can be issued in any currency: the local currency, or in a widely traded one like the yen, euro, or U.S. dollar. Bonds that pay coupon in one currency and principal in another currency are called dual currency bonds.