20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Debt markets let governments and companies borrow money by issuing fixed income securities like bonds, T-bills, and debentures.**
   In return, the borrower promises periodic coupon interest and repayment of principal at maturity.

2. **Bond prices and yields move in opposite directions, described as the most tested concept in IIBF TIRM.**
   When interest rates rise, new bonds offer higher returns, making existing lower-rate bonds less attractive and cheaper.

3. **A bondholder is a lender to the issuer, while a shareholder is an owner of the company.**
   This distinction drives most exam questions on rights, risk, and returns between debt and equity.

4. **Government securities (G-Secs) are considered among the safest investments because they carry sovereign backing.**
   This gives G-Secs almost zero credit risk compared to corporate debt instruments.

5 **Treasury Bills (T-Bills) are short-term instruments issued at a discount and redeemed at face value with no separate coupon.**
They are a money market instrument used by government to raise short-term funds.

6 **Commercial Papers (CPs) are short-term, unsecured promissory notes issued by highly rated corporates for working-capital needs.**
CPs are a money market instrument distinct from long-term corporate bonds.

7 **Certificates of Deposit (CDs) are short-term negotiable instruments issued by banks and financial institutions.**
Like CPs and T-Bills, CDs are classified as money market instruments.

8 **A repurchase agreement (repo) involves selling securities with an agreement to buy them back later at a higher price.**
This effectively functions as a collateralised short-term loan used to manage liquidity.

9 **Yield to Maturity (YTM) is the total return an investor earns if a bond is held until maturity, accounting for all coupons and price paid.**
YTM is described as the most important yield measure in the TIRM syllabus.

10 **Duration measures how sensitive a bond's price is to a change in interest rates.**
A bond with longer duration moves more sharply in price when interest rates change.

11 **Interest rate risk in a bond portfolio is managed using duration analysis and hedging techniques.**
This risk arises when rising rates reduce the value of existing bonds.

12 **Credit risk in fixed income refers to the risk that the issuer defaults on interest or principal payments.**
It is managed by checking credit ratings and diversifying across issuers.

13 **Liquidity risk is the risk of being unable to sell a security quickly without incurring a loss.**
G-Secs are described as highly liquid, while many corporate bonds are not.

14 **Reinvestment risk is the risk that coupon payments must be reinvested at a lower rate than the original yield.**
This is one of the main risks a bond portfolio faces that treasuries must manage.

15 **Diversification across issuers, sectors, and maturities is a technique treasuries use to reduce concentration risk.**
This spreads exposure so no single issuer or sector dominates portfolio risk.

16 **Duration management involves shortening duration when rates are expected to rise and lengthening it when rates are expected to fall.**
This adjusts a bond portfolio's interest-rate sensitivity to anticipated market movements.

17 **Coupon rate is the fixed annual interest stated on a bond as a percentage of its face value.**
This differs from current yield and YTM, which factor in market price and holding period.

18 **Current yield is calculated as the annual coupon divided by the current market price of the bond.**
It differs from the coupon rate because it reflects the bond's current market price, not just face value.

19 **Fixed-income debtholders are generally paid before shareholders in the event of an issuer default.**
Shareholders hold a residual claim and are paid last, which is why equity carries higher risk than debt.

20 **State Development Loans (SDLs) are bonds issued by state governments to fund their budgets.**
They are part of the broader category of government securities alongside central government T-Bills and dated securities.

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