



**The Hong Kong Capital Markets
Association**

Bond Market Fundamentals

September 2005

About the HKCMA

- Established in 1986, the Hong Kong Capital Markets Association (HKCMA) is an industry association founded by a group of financial institutions active in the Hong Kong market to help promote the development of the local and regional debt capital markets.
- Since its inception, the HKCMA has performed four main functions:
 - Providing various professional recommendations and feedback to regulators with respect to developmental issues of the debt markets
 - Providing a forum for market professionals to discuss and implement best practices guidelines;
 - Organising regular functions for market participants to network.
 - Providing bond market education and training to the public
- Website: <http://www.hkcma.org>

Basic Bond Maths

Yield calculations

- Cash flows
- Time value of money

$$PV = FV / (1+I)^n$$

- Choice of discount rate
- Yield to maturity

Basic Bond Maths

Market conventions

- Payment frequency
- Day counts
- Compounding

Benchmarks

- Government bond benchmarks (e.g. UST, EFN)
- Other benchmarks (LIBOR, HIBOR)

Pricing Bond Issues

- Size of issue
- Maturity (dated vs. perpetual)
- Type of issue (senior vs. subordinated)
- Structure (straight bond vs. asset-backed securities)

Pricing Bond Issues

Relative Value

- Liquidity
- Credit
- Diversification
- Yield anomalies
- Supply of bonds

Types of Issuers

- Supranational borrowers
- Government and agencies
- Corporate borrowers
- Financial institutions
- Special purpose vehicles

Types of Investors

Institutional investors

- Banks
- Insurance Companies
- Provident Funds
- Bond Funds
- Corporates

Retail investors

- Individuals
- Private banking clients
- Charitable organisations

Intermediaries

- Financial advisors
- Arrangers
- Market-makers

The New Issue Process

Participants

- Lead managers
- Co-lead managers
- Co-managers
- Underwriters
- Legal counsel
- Trustee
- Fiscal agent
- Paying agent

The New Issue Process

- Fee structures
- Syndication
- Distribution
- Trading
- Settlement

New issue terms

- Issuer
- Ranking
- Rating
- Maturity
- Announcement date
- Allotment date
- Payment Date
- Issue Price
- Reoffer Price
- Interest Rate
- Denomination
- Selling Restrictions

New Issue Terms

- Force Majeure
- Cross-default
- Negative Pledge
- Governing Law
- Stabilisation

Documentation

- Invitation fax

- Commitment fax

- Allotment fax

- Red Herring

- Prospectus



- Subscription Agreement

- Trust Deed

- Fiscal agency agreement

- Paying agency agreement

- Global Note

Structural Variations

Fixed Rate Bonds

- Zero-coupon
- Puts and calls
- Stepped-up callable
- Range accruals

Structural Variations

Floating Rate Notes

- Cap and floor
- Collared
- Stepped-up callable
- Inverse floaters

Credit Ratings

- Rating agencies: Standard & Poor's, Moody's, Fitch
- What the agencies rate
- The ratings
- Solicited & unsolicited ratings
- The power of rating agencies