

# Bond Market Fundamentals

**Brian C.P. Yiu, Chairman**  
**The Hong Kong Capital Markets Association**



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# 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

# The New Issue Process

## Participants

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

# The New Issue Process

- Fee structures
- Syndication
- Distribution
- Trading
- Settlement

# Types of Issuers

- Supranational borrowers
- Governments and agencies
- Financial institutions
- Corporate borrowers
- 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 / Lead Managers
- Market-makers

# Credit Ratings

- Rating agencies: Standard & Poor's, Moody's, Fitch
- Importance of ratings for bond issues
- International vs. local agencies
- What the agencies rate
- The ratings
- Solicited & unsolicited ratings

# New Issue Terms

- Issuer / Guarantor
- Ranking
- Rating(s)
- Maturity
- Announcement date
- Allotment date
- Payment Date
- Put / Call Date
- Issue Price
- Reoffer Price
- Interest Rate
- Denomination

# New Issue Terms (cont'd)

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

# 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

# Pricing Bond Issues

## 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

# Documentation

- Invitation fax

- Commitment fax

- Allotment fax

- Red Herring

- Prospectus



- Subscription Agreement

- Trust Deed

- Fiscal agency agreement

- Paying agency agreement

- Global Note