
Certificate in Debt Capital Markets

Pricing and Valuation of Debt Instruments

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Accrued Interest: The interest that has accumulated on a bond since the last interest payment date. Accrued interest is typically calculated based on the number of days since the last interest payment and the bond's coupon rate.

Amortization: The process of gradually paying off a debt instrument over time through a series of scheduled payments. Each payment includes both interest and principal, with a larger portion of the payment going towards interest in the early years of the loan.

Asset-Backed Securities (ABS): Debt instruments that are backed by a pool of assets, such as mortgages, auto loans, or credit card receivables. The cash flows from the underlying assets are used to make payments to the holders of the ABS.

Callable Bond: A bond that can be redeemed by the issuer before it matures. The issuer typically calls the bond when prevailing interest rates are lower than the bond's coupon rate, allowing them to refinance at a lower cost.

Clean Price: The price of a bond without including any accrued interest. Clean price is also known as flat price or quoted price.

Coupon Rate: The annual interest rate paid by the issuer of a bond to the bondholder. The coupon rate is typically fixed at the time of issuance and is used to calculate the periodic interest payments.

Credit Default Swap (CDS): A financial derivative that allows investors to hedge against the risk of default on a debt instrument. The buyer of a CDS makes periodic payments to the seller in exchange for protection in the event of default.

Credit Risk: The risk that a borrower will default on their debt obligations, resulting in a loss for the lender. Credit risk is influenced by factors such as the borrower's creditworthiness, financial stability, and the terms of the debt instrument.

Debt Capital Markets (DCM): The market in which debt instruments are issued and traded. DCM includes bond markets, loan markets, and other debt securities markets where companies and governments raise capital by issuing debt.

Discount Rate: The rate used to discount future cash flows to their present value. In the context of debt instruments, the discount rate is often the yield to maturity on a bond or the required rate of return for an

investor.

Duration: A measure of the sensitivity of a bond's price to changes in interest rates. Duration takes into account the timing and size of the bond's cash flows, helping investors assess the bond's interest rate risk.

Face Value: The principal amount of a bond that is repaid to the bondholder at maturity. Face value is also known as par value or nominal value.

Fixed-Income Securities: Debt instruments that pay a fixed rate of interest to investors. Fixed-income securities include bonds, notes, and other debt instruments with predetermined interest payments.

Floating Rate Note (FRN): A bond with a variable interest rate that is tied to a benchmark interest rate, such as LIBOR or the prime rate. The interest rate on a FRN changes periodically based on movements in the benchmark rate.

High-Yield Bond: A bond issued by a company with a lower credit rating, typically below investment grade. High-yield bonds offer higher yields to compensate investors for the increased risk of default.

Interest Rate Risk: The risk that changes in interest rates will affect the value of a debt instrument. Rising interest rates typically lead to lower bond prices, while falling interest rates result in higher bond prices.

Investment-Grade Bond: A bond issued by a company or government with a high credit rating, typically BBB- or higher. Investment-grade bonds are considered low-risk investments due to the issuer's strong creditworthiness.

Leverage Ratio: A financial ratio that measures the amount of debt a company has relative to its equity. Leverage ratios are used to assess a company's financial risk and ability to meet its debt obligations.

Liquidity Risk: The risk that an investor may not be able to buy or sell a debt instrument at a fair price due to a lack of market liquidity. Liquidity risk is higher for less actively traded securities.

Market Value: The price at which a debt instrument can be bought or sold in the open market. Market value is influenced by factors such as prevailing interest rates, credit quality, and supply and demand dynamics.

Maturity Date: The date on which a debt instrument is due to be repaid to the investor. At maturity, the issuer must pay back the principal amount of the bond along with any remaining interest payments.

Option-Adjusted Spread (OAS): The spread over a benchmark interest rate that accounts for the embedded options in a bond, such as call or put options. OAS adjusts the yield of a bond to reflect the impact of these options on its value.

Par Yield: The yield at which the present value of a bond's cash flows equals its current market price. Par yield is also known as the internal rate of return (IRR) on a bond.

Principal: The initial amount of money borrowed by the issuer of a debt instrument. The principal is repaid to the investor at maturity, along with any accrued interest.

Rating Agency: A company that assesses the creditworthiness of issuers of debt instruments and assigns credit ratings based on their ability to repay their debt obligations. Rating agencies include Moody's, S&P, and Fitch.

Reinvestment Risk: The risk that cash flows from a debt instrument will need to be reinvested at a lower rate than the original investment. Reinvestment risk is higher when interest rates are falling.

Securitization: The process of pooling together similar debt instruments, such as mortgages or auto loans, and issuing securities backed by the cash flows from these assets. Securitization allows lenders to transfer risk and raise capital.

Spread: The difference in yield between a debt instrument and a benchmark interest rate, such as the Treasury yield. Spread is used to measure the credit risk of a bond issuer and to compare the relative value of different bonds.

Term Structure of Interest Rates: The relationship between interest rates and the time to maturity of debt instruments. The term structure is typically upward sloping, with longer-term bonds having higher yields to compensate for increased risk.

Yield Curve: A graphical representation of the term structure of interest rates, showing the yields of debt instruments at different maturities. The yield curve is used by investors to assess future economic conditions and interest rate expectations.

Yield to Maturity (YTM): The total return an investor can expect to earn on a bond if held to maturity, taking into account the bond's price, coupon payments, and time to maturity. YTM is used to compare the returns of different bonds.

Zero-Coupon Bond: A bond that does not pay periodic interest payments but is sold at a discount to its face value. The investor earns a return by receiving the face value of the bond at maturity.