

7 Endnotes

1. A term used in economics for the non-financial economy.
2. There is one exception: the perpetual bond, which has no redemption date.
3. An example of an exchange-driven market is the South African bond market – the exchange is called Bond Exchange of South Africa (BESA).
4. As in the case of South Africa (the Bond Exchange of South Africa – BESA).
5. As well as certain other non-member banks that trade in bonds, local and international.
6. This particular bond has already expired, but has been resurrected and digitally “doctored” in order to extend its life (maturity). The coupon has also been changed. The currency (LCC = local country currency) is fictitious.
7. Note that most bonds are now immobilised / dematerialised.
8. This has changed in a number of countries, and will be discussed in full in a separate section.
9. This instrument has different meanings in different countries. In certain countries warrants are retail options, while in others they are options to take up further bonds.
10. This list is obtained from the Bond Exchange of South Africa (BESA) but the additions are logical inferences.
11. Note that there are other features of credit enhancement such as a liquidity requirement.
12. These unrated bonds are often taken up by the sponsor. The value of these bonds can be seen as the capital of the SPV entity.
13. These numbers apply to South Africa but will tend to be the same in many other countries.
14. Interest rate risk pertains to banks in the form of mismatches in the repricing dates of liabilities and assets.
15. Please note that there is much overlap in this list, i.e. each bond is not necessarily a separate bond. For example, a plain vanilla bond can be a registered bond or a bearer bond, a senior bond can also be a registered bond or a bearer bond, a retail bond can be a plain vanilla bond, and so on.
16. This name differs from country to country.
17. Note that these names differ from country to country.
18. Source: many sources on the internet.
19. Source: <http://www.scripophily.net/fopean18.html>
20. If it is not dematerialised.
21. This paragraph benefited from comments made by Mark Raffaelli; the author is grateful.
22. The details of the following three bonds are gleaned from McInish (2000: 208–209).
23. McInish (2000: 209–210).
24. For details on this and the following bond see Mayo (2003: 477).
25. This draws heavily on: IBRD, ECB and IMF, 2009.
26. Note that this is a generic term that covers any person or institution that is involved in the financial markets either as a broker (does not take positions) or a dealer (does take positions) or both (does broking and dealing – e.g. a bank)
27. Source: www.bondexchange.co.za
28. Although nothing legal prevents them from dealing with the investing institutions, there exists an understanding that the members will not deal with them if they do so.

29. LCC100% (i.e. per LCC100) or LCC1.0 (i.e. per unit of LCC1); from here on we leave off the currency.
30. Note that the period differs from country to country.
31. In practice (see below) the standard bond formula first calculates the all-in price. The interest factor is deducted in order to arrive at the clean price. In the case of an ex interest deal, the interest factor is added in order to arrive at the clean price. Many market participants, however, see the different prices as described above.
32. This is similar to the standard formula for interest add-on money market securities such as NCDs. The maturity value (or FV) is the sum of the nominal value plus the final half coupon payment.
33. http://www.bondexchange.co.za/besa/action/media/downloadFile?media_fileid=5381 is the BESA webpage from which this section benefited substantially. The relevant document is: Raffaelli, M, 2005. "BESA floating rate note (FRN) pricing specification". Johannesburg: Bond Exchange of South Africa.
34. A reminder: interbank agreed rate, the average rate at which the banks will lend to one another (gathered from a number of banks by an independent organisation).
35. Note that this is only true if and only if the credit spread (which is reflected in the margin) stays the same, the interest is paid daily, and the change in IBAR makes only one change per day which is reflected in the reset rate. This footnote is attributable to Mark Raffaelli, with appreciation.
36. Discussed in a separate section.
37. See www.treasury.gov.za (2003).
38. Steiner, R (1998, p. 97).
39. This section relies heavily on Mayo (2003: 506–507).
40. It makes sense to use homogenous securities such as government securities in yield curve construction because they are comparable in terms of the major risk, credit risk (zero in this case).
41. In this regard see: Blake (2000).
42. In this regard see: Blake (2000).
43. This section benefited much from discussions with Mr Mark Raffaelli.
44. This section relies heavily on Blake (2000).
45. See Fabozzi, 2000.