

Fixed Income Markets

MODULE SPECIFICATION

1. Title	Fixed Income Markets	
2. Start date	2016	
3. Level of module	Level 6 FHEQ	
4. Number of credits	30 Credits	ECTS Value
		15
5. Status	Compulsory	
6. Recommended prior modules	N / A	
7. Programmes of study to which module contributes	BSc (Hons) in Finance, Investment and Risk (full- and part-time)	
8. Campus/Partner	N / A	
9. Syllabus overview		
<p>This module offers an in-depth review of fixed income instruments which are traded on the global financial markets. The module will analyse the characteristics, pricing and electronic trading conventions of a variety of fixed income securities including government issued debt, corporate bonds, retail bonds and private placement issuance on the USPP and Schuldschein markets. The module will therefore not only focus on the traditional fixed income markets, but also investigate key contemporary developments that are revolutionising the fixed income market and engaging an ever increasing range of investors seeking returns and to diversify their portfolio.</p> <p>A prime example of this innovation within the market is the launch of the London Stock Exchange electronic order book for retail bonds (ORB) which gives retail investors the ability to easily access the bond market in a cost effective way. The module will also explore other bond structures such as securitised products which include a detailed look at residential backed mortgage securities and the risks such products carry, both for investors and the wider financial system. Further developments will be analysed including the growing importance of green bonds.</p> <p>Students will analyse fixed income products from a variety of perspectives to ensure a holistic understanding of how bonds are issued and then traded from an investor's risk-reward perspective. This will include the detailed investigation and measurement of the risks associated with investing in fixed income securities, such as the analysis of interest rate risk, credit risk and liquidity risk. Statistical measures of market risk, such as standard deviation and Value at Risk will be explored along with identifying key fixed income benchmarks to accurately assess investment performance. The role and importance of credit ratings agencies will also be explored.</p> <p>The syllabus also provides a detailed understanding of the key drivers of bond prices both on a micro and macro level. This underpinning will then be used to derive a technical understanding of how bonds are priced and yields quoted. Finally, the module will look at the use of bonds within a portfolio and the techniques fund managers use to construct, monitor and manage a fixed income portfolio.</p> <p>In summary, the module develops a wide-ranging practical approach to debt financing decisions and how the different bond instruments are used by borrowers in the wholesale markets. The module also evaluates the risk-reward considerations of institutional investors and how these are met through the use of the different bond instrument types available.</p>		

10. Intended subject specific learning outcomes and, as appropriate, their relationship to programme learning outcomes

On completion of this module, students will be able to:

- a) describe and analyse the main types of fixed income instruments and markets which such instruments are traded;
- b) appreciate the trading and pricing conventions present within global fixed income markets and the important role of credit rating agencies;
- c) undertake advanced calculations to determine how bonds are priced and to establish the risks and returns derived from investing in fixed income securities;
- d) carry out problem-solving exercises designed to demonstrate the different applications of fixed income market instruments and trading strategies;
- e) articulate the importance of debt capital market instruments to wider economic development;
- f) explain the use and application of debt capital wholesale markets and bond instruments for a range of issuers and investors; and
- g) analyse contemporary developments in the global fixed income markets.

These intended module learning outcomes contribute to the following programme learning outcomes:

- BSc (Hons) in Finance, Investment and Risk: A2, A3 and A4.

11. Intended generic learning outcomes and, as appropriate, their relationship to programme learning outcomes

On completion of this module, students will be able to demonstrate achievement of the following generic learning outcomes:

1. Critical thinking skills.
2. Ability to learn through reflection on practice and experience.
3. Ability to work with complex material.
4. Ability to analyse problems and identify appropriate solutions.
5. Ability to work and study independently and in groups, and utilise resources effectively.
6. Communication and report writing skills.

These intended generic learning outcomes contribute to the following programme learning outcomes:

- BSc (Hons) in Finance, Investment and Risk: B–D.

12. Learning and teaching

A. Learning hours

For a module of study worth 30 credits, the total expected study hours are 300 (ie ten hours per credit). The contact hours will depend upon the student's mode of study.

B. Tuition support

Distance learning

Distance learning allows students to study independently within a clear framework, but at a pace that suits their personal circumstances and study needs. Over their course of study (24 weeks), students will be provided with comprehensive learning materials, study guides and will be assigned to a subject specialist academic tutor to support their studies. Distance learners will have regular contact with their The London Institute of Banking & Finance Academic Tutor and further practical support is available from The London Institute of Banking & Finance Student Services.

Flexible learning

Flexible learning allows distance learners to opt for three face-to-face workshops of approximately six hours each, evenly spread at appointed dates in each session (24 weeks).

Dispersed campuses

Dispersed campus students will have regular face-to-face sessions over each session of study. The timing will depend upon local timetabling arrangements (eg via evening classes)

Full-time students

Full-time students will study on a semester basis supported by their module lecturer. The weekly timetable will be advised at the start of the programme.

C. Learning materials and learning outcomes

The teaching and learning strategy is designed to ensure that the students achieve the learning outcomes by the end of the module. The teaching and learning methods include formal lecture and tutorial (full-time), online learning support from an appointed lecturer (distance / flexible learning), private study of text and other supporting materials, a formal coursework assignment, informal exercises (both individual and group-based), and pooling of experience and knowledge through class / forum and individual discussion. Whenever possible, written and video / audio materials from the news and professional investor organisations will be used to support the different topics throughout the module. The assessment strategy is designed to achieve a balance between testing the student's skills of knowledge recall and understanding and those of research and application.

D. Reading

Students will be provided with one core text, as detailed below, but will also be expected to read and research a variety of sources. Lecturers will also recommend additional reading throughout the module.

Essential reading

- Fabozzi, F. J. and Mann, S. V. (2011) *The handbook of fixed income securities*. 8th edn. McGraw-Hill, MyiLibrary [online]. Available through KnowledgeBank website at: <http://www.myilibrary.com?ID=342557> [Accessed: 28 April 2015]

Further reading

- Choudhry, M., Moskovic, D. and Wong, M. (2014) *Fixed income markets*. Management, Trading and Hedging 2nd edn, Singapore: John Wiley & Sons Ltd.

Journals

- The Economist.
- Financial World (students will receive this automatically as members of The London Institute of Banking & Finance).

Each student will have access to the Virtual Learning Environment (VLE) and to KnowledgeBank learning resources (an electronic library service). Students will be issued with a study guide to support their learning on the module.

- It should be noted that due to the rapidly changing environment that encapsulates the financial services sector, the reading list above is indicative only. It is subject to review and update at the discretion of the module team. An up-to-date reading list is made available to students at the commencement of the module.

13. Assessment

Component	Duration / Length	Weighting
Component 1 Summative assignment	4,000 words including quotations and in-text citations	30%
Component 2 Examination	3 hours (plus 15 minutes' preparation time)	70%

Component 1: Summative assignment

This component will contribute 30% of the overall assessment and will be based upon the submission of one assignment (maximum 4,000 words including quotations and in-text citations). Students will also be required to present a 10-minute presentation of their findings to a given 'problem' or 'scenario' at a seminar (full-time) or online presentation (part-time) linked to the summative assignment. The focus of the assignment will be on exploring the relationships between issues and topics within the module syllabus.

The pass mark for this component is 40%.

Component 2: Examination

This component will contribute 70% of the overall assessment. A variety of question styles and approaches may be included in the examination. Questions might require responses that involve both discursive and quantitative elements. Students will typically be required to explore and compare specific aspects of an issue or to apply their technical abilities and understanding to, for example, solve a problem or provide a recommendation.

The question paper will be structured as follows:

- **Section A:** One compulsory question worth 40 marks.
- **Section B:** Three 20-mark questions, from a choice of four.

The pass mark for this component is 40%.

Time allowed: 3 hours (plus 15 minutes' reading time)

You may use a scientific calculator but it must not be programmable, nor have a wireless-communications capability, nor be capable of storing textual information. It must also not require a mains electricity supply. Calculators with any further functions are not allowed in the examination room.

At regular intervals during the course of study, students will be expected to complete formative assignments. These assignments will take the form of developmental learning activities towards the assessed coursework and unseen examination components and will

be integrated within the study plan. They will provide students both with opportunities to reinforce their learning as they progress through the course of study and the opportunity to prepare for both the summative assignment and unseen examination.

Whilst these formative assignments will not contribute to the overall assessment, students are strongly advised to take the opportunity to complete them, as feedback will be provided from their lecturer on their progress through the course of study.

Students should be aware of the regulations governing the award of credit and the arrangements for compensation, condonement and the capping of marks. Students should also be aware of the regulations relating to the resitting of assessment components and / or the retaking of modules. This information is contained within The London Institute of Banking & Finance's [General and Academic Regulations](#) for Students sections 7, 8 and 9.

Module Grading

A student's module performance grade is determined by their overall weighted average percentage score in accordance with the following:

3 rd	40% - 49%
2.2	50% - 59%
2.1	60% - 69%
1 st	70% - 100%

14. Syllabus

1. Overview of types and features of fixed income securities

- Introduction to fixed income securities.
- Overview of the main types of fixed income securities including corporate, government and securitised.
- The role and importance of bonds within global financial markets.
- Overview of the current conditions impacting the fixed income markets.
- Basis points and types of interest rate conventions.

2. Government, agency and municipal bonds

- UK government securities including index linked bonds and pricing conventions.
- The role of the debt management office and Gilt Edged Market Makers.
- The primary and secondary markets for UK government issued debt.
- Other leading treasury securities including US and EU issued debt.
- Agency and municipal debt securities.

3. Corporate, leveraged and convertible bonds

- Corporate bond fundamentals.
- The role and importance of credit rating agencies.
- Security, covenants and corporate debt investor relations.
- Introduction to the risks associated with investing in corporate bonds.
- Key practical considerations for retiring debt.
- Leveraged and high yield corporate bonds.

4. New and developing bond markets

- Case studies in non-listed retail bonds.
- The London stock exchange electronic order book for retail bonds.
- Fundamentals of the UK retail bond market.
- Case studies in the UK retail bond market.
- Issues in the development of a UK private placement market.
- The US private placement market (USPP).
- Schuldschein market.
- Mittelstand-bond (M-Bond) market.
- Other global fixed income markets and developments.
- Green bonds and green bond principles.

5. Other bond types

- Convertible bonds.
- Covered bonds.
- Structured bonds.
- Inflation linked bonds.
- Floating rate securities.
- Private money market instruments including commercial paper.
- Fixed income exchange traded bonds.

6. International bond markets

- Size and importance of international bond markets.
- Eurobonds.
- Case studies in Eurobonds including Apple and Berkshire Hathaway.
- Impact of economic conditions on the flow of funds into Eurobond markets.
- Emerging market bonds.

7. Bond market Indices

- The need and purpose of fixed income indices.
- The main national, regional and global fixed income market indices (including corporate and sovereign issued debt).
- Bond market index calculation methodologies.
- Alternative bond indices.
- Using indices to benchmark fixed income investment performance.

8. Electronic trading for fixed income markets

- Leading centres of fixed income trading.
- Growth of electronic trading.
- Overview of trading platforms.
- Pricing and quotation conventions.

9. Risks associated with investing in fixed income securities

- Interest rate risk.
- Reinvestment risk.
- Prepayment risk.
- Credit risk.
- Inflation risk.
- Liquidity risk.
- Currency risk.
- Volatility risk.
- Political and legal risk.
- Event and sector risk.
- Statistical measurements of portfolio / market risk including standard deviation, kurtosis

and value at risk.

- Other risks.

10. Bond pricing, yield measures and returns

- Principles of bond pricing.
- Yield and total return measures.
- Duration, modified duration, effective duration and convexity.
- Yield curve fitting.
- Yield curve analysis and interpretation.
- The term structure of interest rates.

11. Bond portfolio management

- Index tracking vs active bond portfolio management.
- Total return analysis.
- Analysing high yield bonds and value analysis.
- Distressed debt investing.
- Constructing a fixed income portfolio.
- Managing risks within a fixed income portfolio.
- Hedge fund trading strategies in fixed income securities.
- Credit rating considerations.

12. Securitised bond instruments and other securities

- The securitisation process.
- Residential and commercial Mortgage and agency backed securities.
- Credit card backed securities.
- Credit derivatives.
- Auto loans and other collateralised loan obligation.
- Other securitised debt obligation.
- The risks of securitisation.
- The role of securitisation in the 2007/08 global financial crisis.

13. Contemporary developments and trends in bond markets

- The future growth of the fixed income markets.
- The role of the fixed income markets during a flight to safety.
- New product development.
- The role of exchanges in the fixed income markets.
- Changing participants in the global fixed income markets.
- The role of fixed income markets within sustainable finance.
- Regulatory developments.
- Case studies in fixed income markets.