DOWNLOAD PDF SALE OF FOREIGN BONDS OR SECURITIES IN THE U.S.

Chapter 1 : Foreign selling of U.S. Treasuries in April was most since data | Reuters

Given the difficulty of researching foreign securities and the desire for diversification, mutual funds are a common way to gain exposure to global markets. But U.S. tax law treats American.

Treasury note[edit] This is the modern usage of "Treasury Note" in the U. Thus, for example, a quote of Several different notations may be used for bond price quotes. Notation such as The year Treasury note has become the security most frequently quoted when discussing the performance of the U. They have a coupon payment every six months like T-Notes, and are commonly issued with maturity of thirty years. Federal government suspended issuing year Treasury bonds for four years from February 18, to February 9, When the CPI rises, the principal adjusts upward. If the index falls, the principal adjusts downwards. TIPS were introduced in The name derives from the days before computerization, when paper bonds were physically traded; traders would literally tear the interest coupons off of paper securities for separate resale. STRIPS are used by the Treasury and split into individual principal and interest payments, which get resold in the form of zero-coupon bonds. Because they then pay no interest, there is not any interest to re-invest, and so there is no reinvestment risk with STRIPS. Nonmarketable securities[edit] Zero-Percent Certificate of Indebtedness[edit] The "Certificate of Indebtedness" C of I is a Treasury security that does not earn any interest and has no fixed maturity. It can only be held in a TreasuryDirect account and bought or sold directly through the Treasury. It is intended to be used as a source of funds for traditional Treasury security purchases. Purchases and redemptions can be made at any time. Unlike Treasury Bonds, they are not marketable. In , the Treasury Department started changing the savings bond program by lowering interest rates and closing its marketing offices. Interest accrues monthly and is paid when the holder cashes the bond. Bonds issued in May or later pay a fixed interest rate for the life of the bond 0. Series I[edit] ad for U. Series I bonds have a variable yield based on inflation. The interest rate consists of two components: The second component is a variable rate reset every six months from the time the bond is purchased based on the current inflation rate. New rates are published on May 1 and November 1 of every year. In August, six months after the purchase month, the inflation component will now change to the rate that was published in May while the fixed rate remains locked. Interest accrues monthly, in full, on the first day of the month i. The fixed portion of the rate has varied from as much as 3. Bonds purchased using Form are issued as paper bonds and mailed to the address listed on the tax return. Taxpayers may purchase bonds for themselves or other persons such as children or grandchildren. Unlike Series EE and I bonds, they do not increase in value, but pay interest every six months for 20 years. When they are cashed in or mature they are still worth face value. Issuance of Series HH bonds ended August 31,

Chapter 2 : Foreign central banks are snapping up U.S. mortgage bonds after a long lull | Finance

When U.S. residents invest in securities issued by foreign governments or companies, returns on those investments can be taxed both in the investment's country and back home by the IRS. Some.

Securities and Exchange Commission. The Securities and Exchange Commission is adopting amendments to the Regulation S safe harbor procedures for offshore sales of equity securities of U. The amendments are designed to stop abusive practices in connection with offerings of equity securities purportedly made in reliance on Regulation S. The Securities and Exchange Commission the "Commission" is adopting amendments to Rule 1 of Regulation S, 2 the issuer safe harbor under the Securities Act of 3 for offshore offerings of securities, to address abusive practices that have developed. The amendments apply to the offshore sales of equity securities of domestic issuers. The Commission is also adopting amendments to Rule a 3 4 and a new Rule 5 that classify these equity securities as "restricted securities," as defined in Rule under the Securities Act. In addition, Rule makes clear that offshore resales under Rule 6 of restricted equity securities of domestic issuers will not alter the status of these securities as restricted securities after the resale. The Commission also is replacing the current requirement that reporting issuers file a Form 8-K to disclose Regulation S sales of equity securities within 15 days of the transaction with a requirement that these sales be reported on Forms Q, QSB, K or KSB, as appropriate. In addition to these changes, the Commission is adopting other technical amendments to Regulation S to make the rule clearer and more concise. Although the regulation has proved successful for many types of offerings, abuses in connection with sales of domestic equity securities have been common. Regulation S has been used as a means of perpetrating fraudulent and manipulative schemes, especially schemes involving the securities of thinly capitalized or "microcap" companies. These types of securities are particularly vulnerable to fraud and manipulation because little information about them is available to investors. The Commission is seeking to enhance investor protection with respect to microcap securities through various initiatives, including amendments to Regulation S. The changes to the regulation adopted today should prevent further abuses of this rule, but also allow continued reliance on Regulation S in legitimate offshore offerings. The Regulation S amendments adopted today are as follows: The amendments are substantially as proposed with some important differences. To avoid undue interference with offshore offering practices of foreign companies, the amendments will apply to the equity securities of U. The distribution compliance period applicable to issuers and distributors under Rule will be extended to one year, rather than the proposed two years, to align Regulation S more precisely with the Rule resale restrictions. In addition, promissory notes will not be prohibited in Regulation S transactions; rather, the notes must satisfy certain conditions set forth in Rule before the purchaser can resell pursuant to that rule. These conditions should ensure that promissory notes are not used as a means to distribute securities into the United States. This refined approach will still forestall abuses related to the use of promissory notes in Regulation S transactions. Finally, the change from Form 8-K reporting to quarterly reporting will be delayed to allow the Commission staff to monitor developments under the amended rule. The Commission first stated its position about these abuses in a June interpretive release that described certain problematic practices under Regulation S. The Commission proposed to classify these equity securities of domestic and foreign companies placed offshore under Regulation S as "restricted securities" within the meaning of Rule , and to revise the applicable offering restrictions to ensure that these equity securities could not be sold or resold to U. Others believed the proposals would severely restrict the ability of U. Several commenters objected to the extension of the revisions in the rule to foreign private issuers that have their principal market in the United States. These commenters urged that the application of the new resale restrictions, including the legending and stop transfer requirements, would be inconsistent with the requirements of offshore trading markets and public offering practices. Scope of the Amendments 1. Will Not Apply to Foreign Issuers for Which the United States is the Principal Market Although abusive practices under Regulation S have not been evident in offerings by foreign issuers, the Commission was concerned that abusive practices might develop in the future since the economic incentives for indirect distributions and resales into the United States are the same for equity offerings of both domestic companies and foreign companies where the principal market for their securities is in the United States. The commenters strongly opposed this approach. They pointed out that subjecting foreign issuer securities to these restrictions was unnecessary in light of the absence of abuses with respect to those securities. They also asserted that there should be no presumption that a foreign issuer offering securities overseas is doing so to avoid the registration and disclosure requirements of the U. The commenters also noted that if equity securities issued by these foreign companies are deemed restricted securities, the issuers in essence would be applying to their offshore offerings many of the standard practices used in U. The certification and purchaser agreement requirements would impose a significant burden on foreign issuers that wish to conduct public offerings in their home jurisdictions. In addition, many foreign stock exchanges will not permit trading of legended securities. The commenters asserted that the legending and stop transfer restrictions, as well as to a lesser extent the disclosure and certification requirements that would be imposed by the rule, would impede both public offerings and trading in those securities on offshore public markets that do not accept legended stock for trading. While the Commission remains concerned with the potential for abuse, it has determined not to extend, at this time, the new requirements to the securities of foreign private issuers, regardless of the relative size of their U. However, the Commission will monitor practices in this area, and will revisit the issue if abuses occur. Meanwhile, purchasers of these securities are reminded that Regulation S does not provide a safe harbor for resales of securities into the United States, and any resales must be made pursuant to a registration statement or an exemption from the Securities Act. Will Apply to Public Offerings Several commenters expressed the view that the proposed restrictions, including the designation of equity securities issued under Regulation S as restricted securities, were inconsistent with offshore public offering practices and the requirements of foreign trading markets. These commenters urged the Commission to adopt a distinction based on whether there was or will be a public trading market for the securities offshore following the offer, or whether the offering was subject to a foreign regulatory scheme governing public offerings. As discussed below, 18 the Commission believes that offering practices can be adopted to allow the new restrictions to be applied in the context of a public offering by domestic issuers, including share acquisitions. The existence of an offshore trading market would not eliminate the potential for abuse; for example, an offering could be made at a discount to purchasers offshore who may engage in an illegal distribution back into the United States. The Commission also is concerned that otherwise limited distributions to a small group of offshore investors easily could be structured as underwritten public offerings to avoid any additional restrictions on resales by those investors back into the United States. Accordingly, the amendments do not incorporate a distinction based upon whether a public trading market for the securities exists offshore, or whether the securities were issued in a public offering. Will Apply to All Equity Securities of Domestic Companies, Including Convertible Securities Consistent with the proposal, the new procedures and restrictions and the "restricted securities" classification will apply only to offerings of equity securities. Rule of Regulation C under the Securities Act defines the term "equity security" to include stock, securities convertible or exchangeable into stock, warrants, options, rights to purchase stock, and other types of equity-related securities. However, the new restrictions will apply to offerings of convertible debt securities because Regulation S abuses have involved the use of convertible or exchangeable securities and warrants. Under that approach, a convertible security is not treated as the same class as the underlying equity security if it has a conversion premium exceeding a specified percentage threshold over the market price of the underlying securities at the time of issuance. The new rules and restrictions will apply to all equity securities of U. It is clear that these securities can and have been used in abusive transactions. The potential for abuse exists whenever a domestic issuer can create offshore, in a transaction not subject to the registration provisions of the U. The Commission is reluctant to specify a conversion premium and thus possibly be viewed as condoning abusive practices in securities set above that threshold. In any event, given the volatility of the markets for the types of small capitalization companies in which the Commission has witnessed abuses, it would be difficult to set an appropriate threshold for all types of issuers. Finally, as discussed below, even with application of the new restrictions to convertible securities, the Commission does not believe that Regulation S will eliminate the use of these securities as a means to lower a U. Many issuers do not need to rely on Regulation S with respect to their sales of convertible securities because they can use Form S-3 to register the securities. Since new Rule would extend to all equity securities of domestic issuers, however, the proposals would classify those equity securities as restricted securities within the meaning of Rule when issued to the employee. Several commenters believed that it was inappropriate to require non-U. To the extent reporting U. Consequently, the Commission has determined to apply Rule to these securities as proposed. The effect of the proposals would have been to lengthen the distribution compliance period for U. Issuers previously subject to Category 3 for their equity offerings -- non-reporting domestic issuers and foreign issuers with a significant U. During this period, issuers, distributors, and their affiliates would have been required to comply with the documentation and disclosure requirements imposed by Rule , and any offers and sales during this period could not be made to a U. In response to concerns raised by commenters, the Commission is adopting a modified version of these proposals. In addition, to further avoid confusion between the requirements applicable to issuers and distributors as a condition to perfecting their Rule safe harbor and the Rule safe harbor applicable to resales of the securities into the United States by the purchasers of those securities, the restricted period has been renamed the "distribution compliance period. Extension of the Distribution Compliance Period A distribution compliance period is required for Category 2 and Category 3 offerings under the issuer safe harbors because there is a greater likelihood that the securities will flow back into the United States. The purpose of the distribution compliance period is to ensure that during the offering period and the subsequent aftermarket trading that takes place offshore, the persons relying on the safe harbor -- issuers, distributors and their affiliates -- are not engaged in an unregistered, non-exempt distribution into the United States capital markets. The Commission proposed the two-year distribution compliance period to make the restrictions on issuers and distributors consistent with the Rule holding periods applicable to purchasers of the Regulation S securities under new Rule and the amendments to Rule The commenters generally agreed that the current day distribution compliance period was insufficient to protect against use of an offshore offering to make an indirect offering into the United States, at least with respect to equity securities of domestic issuers. Some commenters argued, however, that the two-year period was not necessary and that a day period, like that originally proposed when Regulation S was first formulated, would be sufficient. However, the documentation, disclosure and certification requirements linked to the distribution compliance period, as well as the prohibition against offers and sales to a U. Extending those requirements for a period of time after the closing of the offering is necessary, particularly with respect to distributors of those securities who may immediately make a market for the securities offshore. The purposes of the protections would be defeated if the requirements are applied only to the initial purchasers. The Commission has decided to extend the distribution compliance period substantially beyond 40 days to one year. The expiration of the one-year period will coincide with the period when limited resales may begin under Rule At that point, the distribution compliance period is unnecessary. A two-year distribution compliance period, as originally proposed, could be confusing to apply because the distribution compliance period under Regulation S would cover a longer period than the holding period under Rule Offering Restrictions Category 2 and Category 3 of Rule require that "offering restrictions" 27 be implemented during the distribution compliance period. For offerings classified as Category 3, these offering restrictions include agreements by distributors that the securities will only be sold in accordance with the Securities Act or Regulation S, and a requirement for disclosure in all offering materials to the same effect. The amendments adopted today do not affect these requirements other than to: Purchaser Agreements and Certifications Category 3 imposes additional requirements not included in Category 2 relating to purchaser certifications and agreements. Those requirements will be imposed on equity offerings of domestic reporting companies for the first time under the amendments. In addition, the issuer and distributors will be subject to the additional requirements for a longer period, as a result of the longer distribution compliance period. In keeping with a more restrictive approach to the types of Regulation S offerings where the Commission has observed the greatest potential for abuse, the Commission is adopting amendments that will require purchasers of equity securities in Category 3 offerings to agree to resell the securities, or to engage in hedging transactions, only in accordance with the registration or exemptive provisions of the Securities Act, or in accordance with Regulation S. Purchasers of domestic equity securities of reporting companies also will now be required to certify that they are not U. This certification procedure should make it clear to all parties involved in the Regulation S offering that the rule may not be used to circumvent the registration requirements of the Securities Act. This should prevent some of the "sham" transactions described in the Interpretive Release where issuers or distributors "park" securities offshore with affiliates or shell entities that are actually owned by U. Legending and Stop Transfer Requirements Under the amendments, Category 3 will now require all domestic issuers of equity securities to place a legend on the securities sold offshore under Regulation S. This legend will advise that transfer of such securities is prohibited other than in accordance with Regulation S, pursuant to registration under the Securities Act, or pursuant to an available exemption from registration. The legend requirement will provide notice to any subsequent purchasers of the resale restrictions applicable to the securities. Legending equity securities of domestic reporting issuers until the expiration of the current day distribution compliance period appears to be a common practice under Regulation S. The extension of the express legending requirement to reporting companies, when limited to domestic issuers, should not impose a different or new burden. In addition, as proposed, the current legending requirement is being amended, so that purchasers are aware that hedging transactions may not be conducted except in compliance with the Securities Act. Category 3 also requires an issuer, by contract or a provision in its bylaws, articles, charter or comparable document, to refuse to register any transfer of securities unless made in accordance with the registration or exemptive provisions of the Securities Act, or in accordance with Regulation S. This requirement imposes on issuers a monitoring role similar to that which is often imposed in connection with unregistered private placements. In light of the abuses in this area, domestic reporting issuers should be held more accountable for compliance in these offerings. Commenters were concerned that these procedures -- which have existed under Category 3 since before the adoption of Regulation S 29 and now are merely being extended to a broader class of issuers -- are inconsistent with public offering practices and that imposing these requirements will prevent the issuer from engaging in offshore public offerings or listings. Since these concerns were raised principally with respect to foreign issuers, they have been addressed by the decision not to extend Category 3 to reporting foreign issuers that have their principal market in the United States. Absent measures like those required in Category 3, the Commission is concerned that abusive practices will continue.

Chapter 3 : Information about Foreign Issuers - Division of Corporation Finance

Sale of foreign bonds or securities in the United States: hearings before the Committee on Finance, United States Senate, Seventy-second Congress, first session, pursuant to S. Res. 19 a resolution authorizing the Finance Committee of the Senate to investigate the sale, flotation, and allocation by banks, banking institutions, corporations, or individuals of foreign bonds or securities in the.

Foreign Investors in U. Securities Offerings More and more U. Additional requirements apply, but often the extra effort is easily worth it. A securities offering limited to California only an "intrastate" offering is governed by California law alone. If the offering is made to non-U. That means that federal registration or use of a federal exemption such as Rule is required. It is perfectly fine to use one of the standard federal exemptions like Rule when an offering includes both U. The problem is that the company making the offering may not like some of the restrictions the exemption imposes. For example, with a Rule offering no public advertising is allowed and all investors must be accredited or sophisticated which often rules out some friends and family members. Federal Regulation S provides another exemption, though. It states that no registration or exemption is required if an offering is completely limited to foreign residents, each investor is not present in the U. There must also be a legend on the stock certificate or other evidence of ownership to that effect. Note, though, that federal law regarding securities fraud still applies, so all information that a potential investor would reasonably want to know before deciding to invest must be disclosed. The company can still make a separate even simultaneous intrastate offer, though, as the federal regulations state that a Reg. S offering will not be considered to be "integrated" with another offering even if that offering is coincident. California law, for example, still requires that California registration or a California exemption be used. While the California f exemption does not allow public advertising, the California n exemption allows a brief public "tombstone" advertisement, and California qualification by permit allows full public advertising. With a California qualification by permit offering, the only to allow public advertising to potential foreign investors is to use TWO of these offerings, one for California investors only and one for foreign investors only. Otherwise federal law applies as well. That requires two private placement memorandums, two subscription agreements and separate filings for the n forms â€" but it takes relatively little additional work to edit the first offering to make a second one. The information presented here is general only, and should not be taken as legal advice. We cannot guarantee that the materials here will apply to your specific situation.

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Chapter 4 : Report On U.S. Portfolio Holdings Of Foreign Securities At End-Year

U.S. portfolio holdings of foreign securities by country at the end of were the largest for the Cayman Islands ($ trillion), followed by the United Kingdom ($ trillion), Japan ($ billion), and Canada ($ billion) (see Table 2).

Treasury securities to Japan. Chinese authorities sacrificed the coveted position, which has significant financial and diplomatic value, because they are engaged in the bigger battle of protecting the value of the yuan from falling rapidly. The battle will intensify in because the yuan is expected to come under severe pressure during the Donald Trump presidency, analysts say. This was the fifth consecutive monthly drop of Chinese holdings. The sell-off has been prompted by the need to raise funds for defending the yuan, the value of which has been pushed down mainly by capital flight and a strengthening dollar. Treasury securities was driven by market conditions and was not a strategic move. Treasury securities as an important target for their foreign exchange reserve investment, and China is no exception. President-elect Donald Trump is seen at a bookstore in Beijing, Dec. What Trump may do There are strong signs it will slide further if Trump implements his promises about high infrastructure spending, which will further strengthen the dollar. Add that to the potential danger that Trump will make good on his election promise to declare China a currency manipulator. China might intensify its sale of U. Treasury securities in as part of its reserve management. T-bills just before U. Treasurys, we take into consideration a package of factors, such as the interest rate hike by the U. Federal Reserve and the changes in yields, and based on that, we make dynamic adjustment to our holdings," Chinese media quoted an unnamed SAFE official as saying. High reserves helped China enhance its international clout and played a key role in attracting over 70 countries to join the Beijing-sponsored Asian Infrastructure Investment Bank. An important reason for the slide in yuan is continuous capital flight from China. High-end Chinese savers have demonstrated a strong tendency to sneak money out of the country despite strong official measures to prohibit it. But if these savers lose confidence in the yuan, analysts say they most likely would suddenly try to get their money out of China, which could make the financial crisis a self-fulfilling prophecy. If it did not do so, there would quickly be an imbalance between buyers and sellers of the yuan, and the value of the yuan would plummet.

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Chapter 5 : China Sells Off Stock of US Treasury Securities to Protect Yuan

Currency risk and its effects on principal and interest -Purchasing foreign currency bonds involves conversion from U.S. dollars into a foreign currency and is subject to exchange rates. The exchange risk can account for a significant portion of a bond's risk and return.

When Americans buy stocks or bonds from a company based overseas, any investment income interest, dividends and capital gains are subject to U. If this double taxation sounds draconian, take heart. Basics of the Foreign Tax Credit Every country has its own tax laws, and they can vary dramatically from one government to the next. Many countries have no capital gains tax at all or waive it for foreign investors. The tax treatment of dividend and interest income runs the gamut as well. Box 6 will show how much of your earnings were withheld by a foreign government. The official IRS website offers a basic description of the foreign tax credit. A deduction, while simpler to calculate, offers a reduced benefit. If the tax you paid to the foreign government is higher than your U. If the tax you paid to the foreign government is lower than your tax liability in the U. Example 1 Now imagine just the opposite. When your taxes abroad are higher, you can only claim the U. You can skip the Form and report the entire amount paid as a credit on your Form In order to qualify for this de minimus exemption , the foreign income earned on the taxes paid must be qualified passive income. Any investor who must pay taxes to a foreign government on investment income realized from a foreign source may be eligible to recoup some or all of the tax paid via this credit. But he or she must have paid foreign income taxes, excess profit taxes or other similar taxes. More specifically, they include: Taxes that resemble U. The credit is disallowed for nonresident aliens, unless they were residents of Puerto Rico for a full taxable year or were engaged in a U. Citizens living in a U. Finally, no credit is available for investment income realized from any source within a country that has been designated as harboring terrorist activities IRS Publication provides a list of these countries. Be Careful with Overseas Fund Companies Given the difficulty of researching foreign securities and the desire for diversification, mutual funds are a common way to gain exposure to global markets. If a foreign-based mutual fund or partnership has at least one U. But overall, such investments are at a significant disadvantage to U. For example, current distributions from a PFIC are generally treated as ordinary income , which is taxed at a higher rate than l ong-term capital gains. In a lot of cases, American investors, including those living abroad, are better off sticking with investment firms based on U. The Bottom Line For the most part, the foreign tax credit protects American investors from having to pay investment-related taxes twice. Just watch out for foreign-based mutual fund companies , for which the tax code can be much less forgiving. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 6 : Foreign Securities and Taxation

Note: U.S. securities are securities issued by U.S.-resident entities and that are established under U.S. law. U.S. securities may be issued in the United States or in foreign countries, and may be denominated in any currency, including the euro, yen, or U.S. dollars.

Foreign private issuers are exempt from the disclosure requirements of Regulation FD ; Foreign private issuers may use particular registration and reporting forms designed specifically for them; and Foreign private issuers may use a special exemption from registration under the Exchange Act. The particular registration requirements depend upon whether the foreign private issuer is registering a transaction or a class of securities, as outlined below. After registration under either the Securities Act or the Exchange Act, a company becomes subject to periodic reporting requirements, and is required to report information to the Commission in annual and other reports, as discussed below. Public Offering Under the U. Although specific exemptions exist with respect to both the type of security and type of transaction at issue, those most often relevant to foreign private issuers include offerings made on a limited basis either not to the general public or outside the United States. Please see below for a general overview of exemptions and safe harbors available to foreign private issuers. If no exemption or safe harbor applies, offers and sales must be effected by means of a publicly-filed Securities Act registration statement. Quotations in the U. Foreign private issuers may also register a class of securities under Section 12 g to facilitate trading in other U. Asset and Shareholder Thresholds; Rule 12g b Exemption Foreign private issuers may be required to register a class of equity securities under the Exchange Act based upon the size of the company and the nature of its share ownership, both globally and within the United States. In measuring the number of shareholders, issuers must "look through" the record ownership of brokers, dealers, banks, or nominees holding securities for the accounts of their customers, and consider any beneficial ownership reports or other information provided to the issuer in order to determine the residency of shareholders. Under Rule 12g b , a foreign private issuer is provided an automatic exemption from registration under Section 12 g if it meets the following three conditions: The exemption provided by Rule 12g b is self-executing; it does not require foreign private issuers to make a formal application to the Commission for the exemption or submit materials to the Commission to maintain the exemption. To establish the exemption initially, the foreign private issuer must have published electronically in English its non-U. Disclosure by Foreign Private Issuers Under the Securities Act and the Exchange Act As noted earlier, an issuer may register a public offering of securities under the Securities Act or may register a class of equity securities under the Exchange Act or both. As discussed below, the disclosure forms available to foreign private issuers have been designed with reference to international disclosure standards, both in scope and timing requirements for filing. Most foreign private issuers opt to file under those forms instead of the forms available to domestic issuers. While foreign private issuers may voluntarily choose to register and report using domestic forms e. Although Form F is most often filed as an annual report under the Exchange Act, it is also used to register classes of securities under the Exchange Act. In addition, the disclosure required by each Securities Act registration statement form cross-references the disclosure requirements of Form F. The disclosure requirements of Form F are, in large part, very similar to those required of domestic issuers. There are, however, several significant differences, mostly with respect to financial statement and executive compensation disclosure. Foreign private issuers may provide financial statements prepared in accordance with U. GAAP, consisting of a discussion and quantification of the material differences between the financial statements presented and the requirements of U. The Division of Corporation Finance has published informal, non-authoritative guidance on financial reporting matters in its Financial Reporting Manual ; in particular, Topic 6 of this manual addresses matters specific to foreign private issuers. To the extent a foreign private issuer discloses more extensive executive compensation information in accordance with home market requirements or voluntarily, such information must also be disclosed under Form F. Importantly, all eligible companies including foreign private issuers that elect to use the scaled disclosure regime for smaller reporting companies must file on the forms applicable to domestic issuers and present their financial statements in accordance with U. Foreign private issuers that qualify as emerging growth companies may take advantage of applicable provisions of the JOBS Act to the same extent as U. The JOBS Act provides modified disclosure requirements for emerging growth companies, including, among other things, two years of audited financial data in the Securities Act registration statement for an initial public offering of common equity securities and no requirement for Sarbanes-Oxley Act Section b auditor attestations of internal control over financial reporting. The JOBS Act also permits emerging growth companies to submit initial Securities Act registration statements for review on a confidential basis, as discussed below. Under Section of the Sarbanes-Oxley Act, it is unlawful for any audit firm that is not registered with the PCAOB to prepare, issue, or participate in the preparation or issuance of any audit report with respect to any issuer. The Division of Corporation Finance has published a description of its review process on its website. Various registration forms are available exclusively to foreign private issuers under the Securities Act and Exchange Act, depending upon the purpose for registration. In general, each form applies to the following circumstances: Form F-1 is the form prescribed for initial public offerings and other first-time registrations by foreign private issuers. It is also the default form for transactions for which no other form is authorized or prescribed. Form F-3 may be available in other circumstances as well. Form F-4 is the form prescribed for business combinations and exchange offers. Form F-6 is the form for American Depositary Receipts. Form F is the form generally used by foreign private issuers that wish to register their securities under Section 12 b of the Exchange Act and list on a national securities exchange. Foreign private issuers that wish to voluntarily register their securities under Section 12 g may also file a Form F to register their securities under the Exchange Act. Foreign private issuers that meet certain shareholder and asset thresholds both globally and within the United States and that do not qualify for the Rule 12g b exemption are also required to register using Form F under Section 12 g of the Exchange Act. Issuers are encouraged to contact the staff of the Office of International Corporate Finance to discuss these questions. While the staff will often respond to inquiries about form requirements or procedures informally, more complex or sensitive disclosure and accounting issues are usually best submitted to the staff on a pre-filing basis in writing. The inquiry should identify clearly the company, its country of organization and the issue on which staff guidance or relief is requested. The Division affords certain first-time foreign private issuers and foreign governments the ability, in limited circumstances, to submit registration statements and amendments to the staff on a non-public basis. This allows the staff to review and comment on the disclosure for certain issuers and the issuers to respond to staff comments before a public filing is made through the EDGAR system. As with any registration statement filed with the Commission, a registration statement confidentially submitted to the staff must be complete in all material respects at the time of first submission. The staff will defer the review of an incomplete or deficient non-public registration statement. In addition, Section of the JOBS Act added Section 6 e to the Securities Act under which an emerging growth company may confidentially submit to the Commission an initial registration statement under the Securities Act for confidential, non-public review by the Commission staff before public filing, provided that the initial confidential submission and all amendments thereto are publicly filed not later than 21 days before the date on which the issuer conducts a road show, as this term is defined in Securities Act Rule h 4. For information about the procedures for the confidential submissions, please refer to the Division announcement regarding confidential submission of draft registration statements under the JOBS Act. Periodic and Ongoing Reporting Obligations After a foreign private issuer has completed an offering registered under the Securities Act or registered as a class of securities under the Exchange Act, it is required to file reports with the Commission on an ongoing basis. In broad outline, these reporting obligations are as follows: Annual Reports â€” foreign private issuers file annual reports on Form F. Foreign private issuers are required to file Form F within four months of the end of the fiscal year. Other Reports â€" foreign private issuers meet their other reporting obligations under the Exchange Act by filing reports on Form 6-K. Quarterly reports are not required. Form 6-K refers to general areas of disclosure, including: Form 6-K must be filed promptly after the material contained in the report is made public. English Translations â€" All filings made with the Commission must be in English. If a filing or submission requires the inclusion of a document that is in a foreign language, the issuer must submit instead a fair and accurate English translation of the foreign language document pursuant to Rule under the Securities

Act and Rule 12b under the Exchange Act. Whereas summaries may be provided for certain documents, others require a full translation. Among other requirements , any summary submitted must both fairly and accurately summarize the terms of each material provision contained in the foreign language document as well as describe the terms that have been omitted or abridged. Beneficial Ownership Disclosure Obligations Arising from Registration One of the consequences for investors in a corporation registered under the Exchange Act is the application of beneficial ownership reporting requirements. This system is designed to provide investors and the issuer with information about accumulations of securities that may have the potential to change or influence control of the issuer. These requirements are the same for foreign private issuers as for other companies. Deregistration In , the Commission adopted a separate regime that facilitates the ability of foreign private issuers to deregister and terminate their reporting obligations under the Exchange Act, should a foreign private issuer decide that registration of its securities is no longer desired. Equity Securities For equity securities, there are two alternatives for deregistration. The first, pursuant to Exchange Act Rule 12h-6 a 4 i , permits deregistration of equity securities if the average daily trading volume of the subject class in the United States for a recent month period is no more than five percent of the average daily trading volume of that class of securities on a worldwide basis for the same period. The second, pursuant to Exchange Act Rule 12h-6 a 4 ii , permits deregistration of equity securities if, on any date within days before filing for deregistration, the foreign private issuer has less than record holders worldwide. As with measuring such shareholders for the purpose of registration, deregistration requires issuers to "look through" the record ownership of brokers, dealers, banks, or nominees holding securities for the accounts of their customers, and also consider any beneficial ownership reports or other information provided to the issuer in order to determine the residency of shareholders. In addition to the specific requirements for each alternative, a foreign private issuer must also meet three general conditions in order to deregister. First, a registrant must have at least one year of Exchange Act reporting, be current in filing all reports under the Exchange Act, and have filed at least one Exchange Act annual report. Second, the registrant must not have sold securities in a registered offering in the United States during the 12 months preceding deregistration, except for specified exceptions noted in the rule. Debt Securities A foreign private issuer may deregister and terminate its reporting obligations for debt securities registered under the Exchange Act if two conditions are met, as provided in Exchange Act Rule 12h-6 c. First, the foreign private issuer must have filed or furnished all reports required under the Exchange Act, including at least one Exchange Act annual report. Second, the foreign private issuer must, on any date within days before filing for deregistration, have had less than record holders worldwide. Exemptions from Securities Act Registration â€" Initial Distributions and Resales Foreign private issuers may raise capital in the United States through a registered offering of securities or through offerings that are exempt from the registration requirements. Exemptions from registration are strictly construed, however, and the burden of proof is on the issuer claiming the exemption. As a result, issuers must take precautions when offering and selling securities pursuant to an exemption, to ensure, if assessed at a later time, that the facts surrounding the issuance supported such an exemption. Private and Limited Offering Exemptions Foreign private issuers may make private or limited offerings of securities in the United States by relying on exemptions from the registration requirements of the Securities Act. These exemptions are described on the Small Business webpage. Two of the most frequently used means by which issuers make private or limited offerings are by the exemption provided in Securities Act Section 4 a 2 and the safe harbor provisions outlined in Regulation D of the Securities Act. Offshore Sales and Regulation S Regulation S provides that offers and sales of securities occurring outside of the United States are not subject to the registration requirements contained in Section 5 of the Securities Act. Regulation S sets forth non-exclusive safe harbors for extraterritorial offers, sales, and resales of securities in Rules and under the Securities Act. If an offering fails to qualify for coverage under Regulation S, it may still qualify as a valid non-public offering under one of the other available exemptions. Additionally, securities may be offered and sold outside the United States pursuant to Regulation S at the same time as those offered and sold pursuant to Regulation D. In such cases, the number of purchasers and the total proceeds raised pursuant to Regulation S are not included in calculating the limits set forth in Regulation D. General Conditions In general, an offering may qualify for non-registration pursuant to Regulation S if it meets two conditions: An Offshore Transaction is defined as one in which: The offer is not made to a person in the United States; and Either: Issuer Safe Harbor The issuer safe harbor contains three categories of offerings, based on the nationality and reporting status of the issuer, and degree of U. The three categories have varying levels of procedural safeguards imposed which are designed to assure that the securities offered pursuant to a Regulation S offering are not part of an unregistered distribution of securities in the United States. For offerings in this category, there are no requirements other than the Regulation S General Conditions. In addition to the Regulation S General Conditions, certain other offering restrictions apply and no offer or sale may be made to a U. This includes equity securities of a reporting U. Equity securities of non-reporting issuers: Resales of Securities Sold in Unregistered Offerings The registration requirement under Section 5 of the Securities Act generally applies on a transaction-by-transaction basis. As a result, securities sold initially pursuant to an exemption or safe harbor from registration may not then be resold unless either an exemption is available or the resale is then registered under the Securities Act.

Chapter 7 : â€¢ Major foreign holders of U.S. treasury securities | Statistic

According to the Federal Reserve and U.S. Department of the Treasury, foreign countries held a total of trillion U.S. dollars in U.S. treasury securities as of June

We identify the long-run relation by normalizing. The long-run coefficients under this normalization are presented in table 5. The parameter estimates are fairly insensitive to the lag choice. The coefficients on foreign official holdings in the term-premium equation range from 0. The coefficients on foreign private holdings are similar in magnitude, but only statistically significant for the specifications with 8 or more lags. The long run relation is given by 5 These estimates imply that a one percent increase in either foreign official or foreign private holdings of U. They also suggest that a decline in foreign officials holdings that is offset by an increase in foreign private holdings would leave the term premium roughly unchanged. All told, when we allow foreign private investors to react endogenously to the yield changes induced by an exogenous shock to foreign official holdings, the effects of foreign official flows on the term premium are dampened. Note that all three variables are endogenous but does not respond directly to deviations in the long relation because the estimate of is not different from zero. The long-run relation suggests that an increase in foreign holdings of U. Treasury securities lowers the term premium, regardless of whether the increase is undertaken by foreign official holders or by foreign private investors. In this section, we examine the effects of foreign inflows on ex-post realized excess returns, which is not model dependent. We estimate 2SLS regressions using the same instrumental variables as in the term-premium regressions. All flow variables are expressed as sums during the 1-year holding period ending at time. So in contrast to the short-run estimates derived earlier from regressions using monthly flow data, the effect we are estimating here is a medium term elasticity. Our a-priori hypothesis is that foreign official inflows during the holding period would increase excess returns by raising the price or lowering the yield of the 6-year bond when it is sold as a 5-year bond at the end of the holding period. The first column of table 6 shows the OLS estimates for the variables measured in levels. The coefficients on foreign official and foreign private flows are positive but not statistically significant. In the column 2, we perform 2-stage least squares using Japanese foreign exchange interventions to instrument for foreign official flows. The second stage coefficient on foreign official inflows is 0. The coefficient on foreign private inflows is similar in magnitude, and also statistically significant. In order to convert the coefficient estimate of 0. Doing so, we obtain that a 1 percentage point increase in foreign official flows into U. Treasuries notes and bonds over a one-year period as a share of outstanding notes and bonds lowers the yield on the 5-year bond at the end of that year by 12 basis points. The p-value associated with the Cumby-Huizinga test statistic suggests that the residuals are autocorrelated, which is why we report Newey-West HAC standard errors. To address the autocorrelation problem explicitly, we try estimating the short-run effect by re-estimating the regression using first differences of the variables columns 4 and 5. The coefficient on foreign official inflows is still positive and of similar magnitude to the one in column 3, but is no longer statistically significant. This suggests that the short-run and medium-run elasticities may be similar to each other. As a robustness check, we estimate the excess returns regression using different combinations of instruments. The results are shown in table 7. The instruments pass the weak instruments test in specifications 1 and 2 only. Our short-run elasticity estimates of roughly basis points are roughly in line with those of the other studies. In some cases, the similarity in the estimates may be pure coincidence. For example, McCauley and Jiang regress 5-year and year Treasury yields on weekly changes in foreign official holdings held in custody at the New York Fed. They acknowledge that their results are "not very robust" to changes in methodology because "widening the regression window to 52 weeks results in less reliable estimates. The estimates of the medium-term effects of foreign official flows on yields are derived from regressions using rolling sums of month flows. These estimates are similar to our short run elasticities. Warnock and Warnock find a similarly large effect, whereas Rudebusch, Swanson, and Wu find no significant effect. However, as documented by Beltran, Kretchmer, Marquez, and Thomas , the results in these studies are not robust to minor changes in specification. The long-run elasticities shown in the bottom portion of table 8 are derived from regressions using holdings by foreign official investors, or cumulated purchases by the Fed through the LSAPs. Our estimates from the cointegration analysis are a bit higher than those of Bertaut, DeMarco, Kamin, and Tryon which regress nominal Treasury yields on the level of foreign holdings. A possible explanation for this difference is that Bertaut, DeMarco, Kamin, and Tryon treat the level of foreign official holdings as exogenous, whereas we allow it to respond to yields and other factors. In contrast, because foreign exchange reserves have steadily grown over the last couple of decades, purchases of U. Treasuries by foreign official investors are more likely to be perceived as permanent. Also, surveys of inflation forecasts show an increase in the dispersion of the forecast means around the time the LSAPs came into effect figure 11 , suggesting an increase in inflation uncertainty. If the LSAPs increased the amount of uncertainty surrounding the level of future inflation, the inflation risk premium would have risen, exerting upward pressure on long-term interest rates. Finally, there are some difficulties with gauging the effects of the the LSAPs using event studies that try to measure the reaction of yields within specific LSAP announcement windows e. Gagnon, Raskin, Remache, and Sack If investors had already formed expectations of purchases prior to the announcement window, the response of yields may have occurred prior to the announcement window, and thus would not be captured in the announcement effect. In sum, these conceptual and methodological issues could explain why our estimates are higher than those of the LSAP event studies. We find strong evidence that foreign official inflows into the United States respond to such things as implied volatility of U. When we treat foreign official inflows as an endogenous regressor, the estimated effect of these inflows on yields becomes stronger more negative. One reason for this is that periods of high investor risk aversion are usually associated with strong private inflows into U. Treasuries, lower Treasury yields, and a stronger dollar. In turn, a stronger dollar alleviates the pressure on emerging economies to intervene to prevent their currencies from appreciating, reducing foreign official inflows. In sum, sharp increases in investor risk aversion usually result in slower official inflows together with falling yields. Therefore, a model that treats foreign official inflows as exogenous will associate lower yields with slower official inflows in periods of high investor risk aversion, dampening the estimated overall effect of official inflows on yields. Treasury notes and bonds lowers the 5-year yield by roughly 40 to 60 basis points in the short run. Treasury notes and bonds. This effect is large enough to have implications for the effectiveness of monetary policy. Our estimates can be used to gauge the overall effect of the global savings glut on U. Treasury securities by the official sector. In other words, if countries stop accumulating reserves and as a result no longer invest in Treasuries, our estimates could be used to gauge the effect on Treasury yields. But our results should not be used to gauge the effect on Treasury yields if a large holder of U. Treasuries such as China were to shift its reserves away from U. Treasuries into say, German Bunds. Such re-allocation of reserves would likely put downward pressure on Bunds yields which, through private sector rebalancing, would in time put downward pressure on Treasury yields as well. Estimating this diversification effect would likely involve estimating a global portfolio balance model using time-series data on the composition of foreign exchange reserves and global cross-border flows, which are not publicly available. Given that there is ample evidence to suggest that reserves diversification is already taking place see figure 12, for example , this is an important question for future research. Treasury Yields and Foreign Holdings of U. Department of the Treasury Securities as of June 30, ," http: Senate, February 16, http: The impact of the euro and the prospects for the dollar," Journal of the Japanese and International Economies, 20 4 , How Countries Manage Reserve Assetschap. Federal funds rate and Treasury yields. Foreign official inflows into Treasury and agency securities, expressed as a 6-month moving average. Global foreign exchange reserves. Supply and demand for U. Geography of foreign holdings of U. Foreign official and foreign private holdings of U. Treasury securities as a share of Treasury securities outstanding. Foreign holdings of long-term notes and bonds and short-term bills as a share of these respective securities outstanding. Foreign official and foreign private holdings of Treasury notes and bonds as a share of Treasury notes and bonds outstanding. Inflation uncertainty as measured by the dispersion of forecasts for year-ahead CPI inflation. Survey of Professional Forecasters. Dollar-denominated share of foreign exchange reserves. Estimates based on COFER data adjusted for unallocated reserves and with non-dollar reserves valued at Q1 exchange rates. Term premium regressions 2 IV:

Chapter 8 : Investorâ€™s Guide to U.S. Treasury Securities | Project Invested

Currency arbitrage is _____. A) the practice of insuring against potential losses that result from adverse changes in exchange rates B) the profit-motivated purchase and sale of interest-paying securities denominated in different currencies.

Treasury Securities Tab 1 of 11 Overview After you decide to invest in bonds, you then need to decide what kinds of bond investments are right for you. Depending on your goals, your tax situation and your risk tolerance, you can choose from municipal, government, corporate, mortgage-backed or asset-backed securities and international bonds. Within each broad bond market sector you will find securities with different issuers, credit ratings , coupon rates, maturities, yields and other features. Each one offers its own balance of risk and reward. Use this section to clarify the differences among your bond investment alternatives: Tab 2 of 11 The Role of U. Treasury securities is safety. No other investment carries as strong a guarantee that interest and principal will be paid on time. Because these payments are predictable, many people invest in them to preserve and increase their capital and to receive a dependable income stream. In fact, the U. Call provisions, common in municipal and corporate bonds, permit the issuer to pay off the bond in full before its scheduled maturity. This is especially likely to happen when interest rates decline, as an issuer will refinance its debt to obtain the lower prevailing interest rate. When that happens, the investor would be forced to pay more to earn the same interest rate. If you own Treasuries that have no call provisions, you know exactly how long your income stream will last. Another advantage of Treasuries is that they are available with a wide range of maturity dates. This allows an investor to structure a portfolio to specific time horizons. Because many consider them the safest investments available, Treasury securities pay somewhat lower interest rates than other taxable fixed-income investments. Many investors accept this as a trade-off for security. In a diversified portfolio, U. Treasury securities usually represent money that investors want to keep safe from risk. An added benefit of Treasuries is that their interest payments are generally exempt from state and local income taxes but not federal taxes. This has the effect of increasing the after-tax benefits of these investments. Investors in high-tax states should take special note of this benefit. Another important characteristic of the U. Treasury market is its high level of liquidity , which means that Treasuries are easy to buy and sell. Because they trade so frequently in large volume, the spreads between what a dealer would be willing to pay and what a dealer would be willing to sell for is lower than for other securities. Lower trade transaction costs and more efficient price discovery determining the best possible price for buyers and sellers result from such great liquidity in the U. Treasury market, benefits which are ultimately translated to the individual investor. Tab 3 of 11 What are U. Treasury securities are debt obligations of the U. Treasury securities are widely considered the safest of all investments. Treasuries generally offer lower interest rates than other widely traded, riskier debt securities, like corporate bonds. Conversely, investments with higher risk offer a higher potential return but that higher risk also brings a greater possibility of losses. The total amount of marketable U. Because of their low risk of default and relatively high level of liquidity , Treasuries are popular with all types of investors. As of the end of , the U. Federal Reserve estimated that 8. This guide focuses primarily on marketable U. Treasury securities, which trade on the open market. There are other classes of Treasury debt, known as non-marketable securities, like U. Treasury bill, note or bond. Your investment is tracked in a book-entry system of accounts that generates a receipt and periodic statements. They fill investment needs similar to money market funds and savings accounts. The Treasury bill market is highly liquid; investors can quickly convert bills to cash through a broker or bank. Treasury bills function like zero- coupon bonds, which do not pay periodic interest payments. Investors buy bills at a discount from the par , or face value, and then receive the full amount when the bill matures. These are typically purchased for specific future expenses, such as college tuition, or used to generate cash flow during retirement. Interest is paid semi-annually. Interest is also paid semi-annually. Tab 5 of 11 Why invest in U. Individuals can invest in a wide range of bonds, such as U. A financial professional can explain the available options, taking into account investment goals, income needs, and risk tolerance. Investors buy Treasuries for a variety of reasons: Because their risk of default is so low, individual investors buy Treasuries to preserve their capital while receiving a dependable income stream. While Treasury securities pay somewhat lower interest rates than other taxable fixed-income securities, many investors accept lower rates in exchange for a more secure investment. Treasury securities usually represent money that investors want to protect from risk. Call provisions, common in municipal and corporate bonds, permit the issuer to repay a bond before its scheduled maturity. This repayment risk is more likely when interest rates decline, as an issuer will refinance its debt to obtain the lower prevailing interest rate. When that happens, the holder of that bond would have to reinvest those proceeds at a lower interest rate, and therefore receive a lower income stream. Since Treasuries have no call provisions, you know exactly how long your income stream will last. Treasury has not issued callable securities since Wide range of maturities. Another feature of Treasuries attractive to investors is that they are available with a wide range of maturity dates, allowing an investor to structure a portfolio to meet specific time horizons. Treasury interest payments are exempt from state and local income taxes but not from federal taxes. SIFMA does not provide tax advice, and the foregoing is not intended to be a substitute for a consultation with a tax professional who knows the characteristics of the bond and your tax circumstances. A tax professional can help explain the tax implications of investing in Treasuries and other securities. Relative ease of buying and selling. Treasury market has a high level of liquidity , so Treasuries are generally easy to buy and sell. Greater liquidity can lower trade transaction costs and enable more efficient price discovery between buyers and sellers. Tab 6 of 11 Understanding risk and U. Treasury securities Although Treasuries have very low credit risk , they are affected by other types of riskâ€"mainly interest-rate risk and inflation risk. While investors are effectively guaranteed to receive interest and principal payments as promised, the underlying value of the bond itself may fluctuate depending on prevailing interest rates. As with all fixed-income securities, if interest rates rise after a U. Treasury security is issued, its value will fall, since new bonds entering the market will pay higher rates of interest. Similarly, if interest rates fall, the value of the older, higher-paying bond will rise in comparison with new issues. Investors often are content to hold their bonds to maturity , disregarding the interim changes in the market value of their bonds. Some investors structure their bond holdings to minimize the impact of interest rate risks and adjust their portfolio based on market opportunities. An example of this approach is a technique called laddering , which structures a portfolio so that securities mature at regular intervals, allowing the investor to make new investments with the cash available from the maturing securities. In the event of rising inflation, which reduces the value of U. To help investors deal with inflation risk, the U. When a TIPS matures, you are paid the adjusted principal or original principal, whichever principal is greater. Your investment is tracked in an electronic book-entry system of accounts that generates a receipt and periodic statements. Investors should understand the differences between bills, notes and bonds: Treasury bills, as the U. Treasury securities at-a-glance table on page 8 indicates, are short-term instruments with maturities of no more than one year. They fill an investment need similarly to a money market fund or savings account. Investors buy a Treasury bill at a discount from the par , or face value, and then receive the full amount when the bill matures. Treasury notes are intermediate- to long-term investments, typically issued in maturities of two, three, five, seven, and 10 years. Treasury bonds cover terms of longer than 10 years, and are currently being issued in maturities of 30 years, with interest paid semi-annually. Treasury introduced notes and bonds in a new form designed to protect the investor from the effects of inflation. A fixed rate of interest is paid semi-annually on this adjusted principal. At maturity , if inflation has increased the value of the principal, the investor receives the higher, adjusted amount back. If deflation has decreased the value, the investor nevertheless receives the original face amount of the security. The note pays 3. At mid-year, the CPI indicates that inflation has been 1. Because of the built-in inflation protection, these securities usually offer lower interest rates than U. Treasuries of similar maturities without this protection. However, since , the process has been facilitated through the U. Once a bond is stripped, investors can buy any or all of the available components.

Chapter 9 : Bond (finance) - Wikipedia

True or False, Interest arbitrage is the profit-motivated purchase and sale of interest-paying securities denominated in different currencies. True Currency speculation is the purchase or sale of a currency with the expectation that its value will remain constant.

Etymology[edit] In English , the word " bond " relates to the etymology of "bind". In the sense "instrument binding one to pay a sum to another", use of the word "bond" dates from at least the s. The most common process for issuing bonds is through underwriting. When a bond issue is underwritten, one or more securities firms or banks, forming a syndicate , buy the entire issue of bonds from the issuer and re-sell them to investors. The security firm takes the risk of being unable to sell on the issue to end investors. Primary issuance is arranged by bookrunners who arrange the bond issue, have direct contact with investors and act as advisers to the bond issuer in terms of timing and price of the bond issue. The bookrunner is listed first among all underwriters participating in the issuance in the tombstone ads commonly used to announce bonds to the public. In contrast, government bonds are usually issued in an auction. In some cases, both members of the public and banks may bid for bonds. In other cases, only market makers may bid for bonds. The overall rate of return on the bond depends on both the terms of the bond and the price paid. In the case of an underwritten bond, the underwriters will charge a fee for underwriting. An alternative process for bond issuance, which is commonly used for smaller issues and avoids this cost, is the private placement bond. Bonds sold directly to buyers may not be tradeable in the bond market. This was called a tap issue or bond tap. Treasury Bond Nominal, principal, par, or face amount is the amount on which the issuer pays interest, and which, most commonly, has to be repaid at the end of the term. Some structured bonds can have a redemption amount which is different from the face amount and can be linked to the performance of particular assets. Maturity[edit] The issuer has to repay the nominal amount on the maturity date. As long as all due payments have been made, the issuer has no further obligations to the bond holders after the maturity date. The length of time until the maturity date is often referred to as the term or tenure or maturity of a bond. The maturity can be any length of time, although debt securities with a term of less than one year are generally designated money market instruments rather than bonds. Most bonds have a term of up to 30 years. Some bonds have been issued with terms of 50 years or more, and historically there have been some issues with no maturity date irredeemable. In the market for United States Treasury securities, there are three categories of bond maturities: Coupon[edit] The coupon is the interest rate that the issuer pays to the holder. Usually this rate is fixed throughout the life of the bond. The name "coupon" arose because in the past, paper bond certificates were issued which had coupons attached to them, one for each interest payment. On the due dates the bondholder would hand in the coupon to a bank in exchange for the interest payment. Interest can be paid at different frequencies: Yield[edit] The yield is the rate of return received from investing in the bond. It usually refers either to The current yield , or running yield, which is simply the annual interest payment divided by the current market price of the bond often the clean price. The yield to maturity , or redemption yield, which is a more useful measure of the return of the bond. This takes into account the current market price, and the amount and timing of all remaining coupon payments and of the repayment due on maturity. It is equivalent to the internal rate of return of a bond. Credit quality[edit] The quality of the issue refers to the probability that the bondholders will receive the amounts promised at the due dates. This will depend on a wide range of factors. High-yield bonds are bonds that are rated below investment grade by the credit rating agencies. As these bonds are riskier than investment grade bonds, investors expect to earn a higher yield. These bonds are also called junk bonds. Market price[edit] The market price of a tradable bond will be influenced, amongst other factors, by the amounts, currency and timing of the interest payments and capital repayment due, the quality of the bond, and the available redemption yield of other comparable bonds which can be traded in the markets. The price can be quoted as clean or dirty. The net proceeds that the issuer receives are thus the issue price, less issuance fees. The market price of the bond will vary over its life: Others[edit] Indentures and Covenants â€" An indenture is a formal debt agreement that establishes the terms of a bond issue, while covenants are the clauses of such an agreement. Covenants specify the rights of bondholders and the duties of issuers, such as actions that the issuer is obligated to perform or is prohibited from performing. The terms may be changed only with great difficulty while the bonds are outstanding, with amendments to the governing document generally requiring approval by a majority or super-majority vote of the bondholders. Occasionally a bond may contain an embedded option ; that is, it grants option-like features to the holder or the issuer: Callability â€" Some bonds give the issuer the right to repay the bond before the maturity date on the call dates; see call option. These bonds are referred to as callable bonds. Most callable bonds allow the issuer to repay the bond at par. With some bonds, the issuer has to pay a premium, the so-called call premium. This is mainly the case for high-yield bonds. These have very strict covenants, restricting the issuer in its operations. To be free from these covenants, the issuer can repay the bonds early, but only at a high cost. Putability â€" Some bonds give the holder the right to force the issuer to repay the bond before the maturity date on the put dates; see put option. These are referred to as retractable or putable bonds. Call dates and put datesâ€"the dates on which callable and putable bonds can be redeemed early. There are four main categories: A Bermudan callable has several call dates, usually coinciding with coupon dates. A European callable has only one call date. This is a special case of a Bermudan callable. An American callable can be called at any time until the maturity date. Sinking fund provision of the corporate bond indenture requires a certain portion of the issue to be retired periodically. The entire bond issue can be liquidated by the maturity date; if not, the remainder is called balloon maturity. Issuers may either pay to trustees, which in turn call randomly selected bonds in the issue, or, alternatively, purchase bonds in open market, then return them to trustees. Bonds are often identified by its international securities identification number, or ISIN , which is a 12 digit alphanumeric code that uniquely identifies debt securities. The following descriptions are not mutually exclusive, and more than one of them may apply to a particular bond: Fixed rate bonds have a coupon that remains constant throughout the life of the bond. A variation are stepped-coupon bonds, whose coupon increases during the life of the bond. Floating rate notes FRNs, floaters have a variable coupon that is linked to a reference rate of interest, such as Libor or Euribor. The coupon rate is recalculated periodically, typically every one or three months. Zero-coupon bonds zeros pay no regular interest. They are issued at a substantial discount to par value , so that the interest is effectively rolled up to maturity and usually taxed as such. The bondholder receives the full principal amount on the redemption date. An example of zero coupon bonds is Series E savings bonds issued by the U. Zero-coupon bonds may be created from fixed rate bonds by a financial institution separating "stripping off" the coupons from the principal. In other words, the separated coupons and the final principal payment of the bond may be traded separately. High-yield bonds junk bonds are bonds that are rated below investment grade by the credit rating agencies. These are known as hybrid securities , because they combine equity and debt features. Exchangeable bonds allows for exchange to shares of a corporation other than the issuer. Inflation-indexed bonds linkers US or Index-linked bond UK , in which the principal amount and the interest payments are indexed to inflation. The interest rate is normally lower than for fixed rate bonds with a comparable maturity this position briefly reversed itself for short-term UK bonds in December However, as the principal amount grows, the payments increase with inflation. The United Kingdom was the first sovereign issuer to issue inflation linked gilts in the s. Asset-backed securities are bonds whose interest and principal payments are backed by underlying cash flows from other assets. Subordinated bonds are those that have a lower priority than other bonds of the issuer in case of liquidation. In case of bankruptcy, there is a hierarchy of creditors. First the liquidator is paid, then government taxes, etc. The first bond holders in line to be paid are those holding what is called senior bonds. After they have been paid, the subordinated bond holders are paid. As a result, the risk is higher. Therefore, subordinated bonds usually have a lower credit rating than senior bonds. The main examples of subordinated bonds can be found in bonds issued by banks, and asset-backed securities. The latter are often issued in tranches. The senior tranches get paid back first, the subordinated tranches later. Covered bonds are backed by cash flows from mortgages or public sector assets. Contrary to asset-backed securities the assets for such bonds remain on the issuers balance sheet. They have no maturity date. Some of these were issued back in and still trade today, although the amounts are now insignificant.