LM05 · FIXED INCOME · CFA LEVEL I

Fixed-Income Markets for Government Issuers

Sovereign, non-sovereign, quasi-government, and supranational debt: features, issuance, and trading.

Learning Outcomes

LOS a Describe fixed-income securities issued by sovereign governments

LOS b Describe securities issued by non-sovereign governments, quasi-government entities, and supranationals

LOS c Compare issuance of government vs. corporate fixed-income instruments

LOS A · SOVEREIGN DEBT

Sovereign Debt

Sovereign debt issues typically include:

- **Short-term bills** — maturities from 1 to 12 months (e.g., U.S. T-bills).
- **Medium- and long-term notes and bonds** (e.g., U.S. Treasury notes 2–10 yr and bonds 10–30 yr).
- **Bonds guaranteed but not directly issued** by the sovereign (e.g., some agency bonds).
- **Inflation-linked issues** (e.g., U.S. TIPS, UK index-linked gilts).

Key sovereign bond characteristics

- **On-the-run** bonds — most recently issued in a given maturity; typically most liquid.
- **Off-the-run** — older issues; typically less liquid, may trade at slight yield premium.
- Currency: usually local (highest ability to pay); sometimes foreign (additional FX / transfer risk).

LOS B · NON-SOVEREIGN GOV'T, QUASI-GOV, SUPRANATIONAL

Non-Sovereign Government Debt

General obligation (GO) bonds

Backed by the **taxing authority** of the issuing non-sovereign government. Credit analysis is similar to sovereign analysis.

Revenue bonds

Support specific projects (toll roads, bridges, airports, other infrastructure). Credit analysis depends on the **income-generating capacity of the project**.

Quasi-Government Entities (Agencies)

Government-related agencies that issue debt to fund specific public goods or services (e.g., the Airport Authority of Hong Kong). Debt may or may not carry an explicit sovereign guarantee.

Supranational Organizations

Created and supported by multiple sovereign governments for a common objective — fostering economic cooperation, promoting trade, or financing emerging economies. Members provide backup finance; the organization issues bonds and lends to EM borrowers.

Examples: World Bank, IMF, Asian Development Bank (ADB), European Investment Bank (EIB).

LOS C · SOVEREIGN VS. CORPORATE ISSUANCE

Government vs. Corporate Issuance

Sovereign issuance

- Typically issued through a **public auction**.
- Prospective investors submit **competitive bids** (specify price and quantity) or **non-competitive bids** (accept auction price, always receive allocation).
- A group of financial intermediaries serves as **primary dealers** and must participate in all auctions with competitive prices.
- Once issued, sovereign debt **trades OTC**, similar to corporate debt.

Non-sovereign and supranational issuance

- Often underwritten by syndicates of investment banks.
- Benchmarks may be sovereign curves in the same currency; spreads over benchmark reflect credit risk.

CHECKPOINT 1

Quiz 1: Sovereign & Non-Sovereign

Answer all questions to test your understanding. Your score updates on the final step.

Q1. In a sovereign bond auction, a non-competitive bidder *most accurately*:

Q2. General obligation (GO) bonds issued by a non-sovereign government are *best* described as bonds:

Q3. The World Bank is *best* classified as:

Q4. A country’s debt denominated in a *foreign currency* is *most likely* to have:

Q5. An on-the-run sovereign bond is *most accurately*:

MARKETS · TRADING AND LIQUIDITY

Government Bond Trading

- Sovereign debt typically trades on **OTC markets** via brokers/dealers, similar to corporate debt.
- On-the-run issues form the **benchmark** government curve used to price other bonds (via spreads).
- Primary dealers provide market-making and support primary auctions.
- Some sovereign curves have a liquid futures market (e.g., U.S. Treasury futures).

CHECKPOINT 2

Quiz 2: Supranationals & Issuance

Answer all questions to test your understanding. Your score updates on the final step.

Q6. A supranational organization is *most likely* to fund itself by:

Q7. A revenue bond issued to finance a toll bridge is *best* analyzed based on:

Q8. Primary dealers for sovereign debt *most accurately*:

Q9. Compared to corporate bond issuance, sovereign debt issuance *most commonly* uses:

Q10. A quasi-government agency’s bond is *least likely* to:

REVIEW · GOVERNMENT DEBT DECISION TABLE

Government Debt Types — Decision Table

ISSUER	PRIMARY REPAYMENT SOURCE	EXAMPLE
Sovereign (local currency)	Taxation + ability to print currency	U.S. Treasuries, UK gilts
Sovereign (foreign currency)	Tax revenue + FX reserves	EM hard-currency bonds
Non-sovereign GO	Taxing authority of state/municipality	U.S. state GO bonds
Non-sovereign revenue	Project cash flows	Toll-road bonds
Quasi-government agency	Agency cash flows (sometimes + guarantee)	Airport authorities; GSEs
Supranational	Member-government capital + loan cash flows	World Bank, IMF, ADB

CHECKPOINT 3 · SYNTHESIS

Quiz 3: Synthesis

Answer all questions to test your understanding. Your score updates on the final step.

Q11. An off-the-run sovereign bond *most likely*:

Q12. Relative to a sovereign's local-currency debt, foreign-currency sovereign debt *most likely*:

Q13. Which of the following would *most likely* be analyzed similarly to a sovereign's credit?

Q14. U.S. Treasury bills have an original maturity of:

Q15. The benchmark yield curve used to price corporate bonds is *most commonly*:

MODULE COMPLETE

Your Scorecard

0 / 15

LM05 Key Takeaways — Exam-Ready Cheat Sheet

Sovereign debt

Bills (≤1yr), notes (2–10yr), bonds (10–30yr), inflation-linked, and sovereign-guaranteed. On-the-run → benchmark, most liquid. Local currency < foreign currency in risk.

Non-sovereign + supranational

GO — taxing authority. Revenue — project cash flows. Quasi-government — agency funding, sometimes with implicit/explicit guarantee. Supranational — multi-sovereign backing (World Bank, IMF, ADB).

Issuance vs. corporate

Sovereign = auctions with competitive / non-competitive bids; primary dealers required. Corporate = underwriting / best-effort / shelf / private placement. Both trade OTC after issuance.

Step 1 of 10