

CFA® SAMPLE QUESTION - LEVEL I

Fixed Income

Q: Which of the following statements is TRUE about a call provision?

CORRECT ANSWER:

Ⓒ A call provision will benefit the issuer in times of declining interest rates.

Remember that a call provision gives the bond issuer the right to call back the bond at a price specified in the bond indenture.

Usually a bond issuer may want to call a bond if interest rates have decreased (==> bond price increase) so that the borrowing costs can be decreased by replacing the bond with a lower coupon issue.



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