



FIN251 Fixed Income Securities

Subject outline

FIN251 Fixed Income Securities

Section 1 — General information

1.1 Administrative details

Duration	Credit points	Level
One study period (12 weeks)	6	AQF8

1.2 Core or elective subject

This is an elective subject for the Graduate Certificate in Applied Finance, Graduate Diploma of Applied Finance and Master of Applied Finance.

1.3 Delivery mode

This subject is delivered online.

1.4 Assumed knowledge

Kaplan assumes that students have completed FIN206 Investment Management or understand the content covered in this subject, prior to undertaking FIN251 Fixed Income Securities.

1.5 Course transition subject equivalence

Students may not be required to complete this subject if they have transitioned from a SIA/Finsia/Kaplan course and have completed the following subjects:

- E101 Interest Rate Markets and Risk Management
- FIN240 Interest Rate Markets.

1.6 Work integrated learning

There are no placements, internships or work experience requirements associated with undertaking this subject.

1.7 Other resource requirements

Students do not require access to specialist facilities and/or equipment to undertake this subject.

Section 2 — Academic details

2.1 Subject overview

This subject provides an overview of non-equity markets, with a primary focus on interest rate markets and foreign exchange markets. It investigates fixed interest products and their use in wealth creation, financing and the management of interest rate risk. Fixed interest pricing calculations are also discussed, along with the management of an interest rate portfolio. This subject lastly examines the role of foreign exchange rates and other assets in portfolio management. Students apply this knowledge via critical analysis of journal articles, and analysis of a company in a fictional case study.

2.2 Subject learning outcomes

On successful completion of this subject, students should be able to:

1. Discuss the factors that influence interest rate markets and prices.
2. Discuss the features of short term and long term physical debt securities.
3. Analyse fixed interest derivatives and securitised products.
4. Compare the characteristics of Australian and international fixed interest markets, as well as understand the various government and non-government debt products.
5. Understand the features of the foreign exchange markets and assess foreign exchange products and derivatives.
6. Evaluate non-equity financial markets and their role in portfolio management.

2.3 Topic learning outcomes

Topic 1: Factors affecting interest rates

On successful completion of this topic, students should be able to:

- define the structure of interest rate markets
- describe the instruments traded in the Australian interest rate markets
- describe the various interest rate indicators
- explain the role of the regulatory authorities in Australia
- outline the regulatory framework of interest rate markets in Australia
- explain how the RBA uses monetary policy to manage interest rates
- discuss the different theories that seek to explain the term structure of interest rates
- distinguish between the factors that influence the level and the shape of the yield curve
- discuss the various tools used in forecasting interest rates
- formulate a set of interest rate forecasts, based on economic analysis of the key macroeconomic factors.

Topic 2: Interest rate calculations and measurement

On successful completion of this topic, students should be able to:

- price discount and coupon securities
- calculate returns on different compounding periods
- evaluate different investment opportunities
- calculate profits and losses on investments
- calculate the value of securities using the bill pricing formulae, the RBA bond pricing formulae and the FRN formula
- apply market conventions to calculations
- explain the risks of interest rate securities
- calculate the sensitivity of bonds
- calculate dollar value per basis point (DVPBP)
- calculate the duration of an interest rate security
- calculate the modified duration of an interest rate security
- calculate the convexity of an interest rate security
- calculate the DVPBP duration, modified duration and convexity of a portfolio of interest rate securities
- explain the use of hedging as an interest rate risk management tool.

Topic 3: Physical fixed interest securities

On successful completion of this topic, students should be able to:

- describe the features of physical securities traded on the short-term securities market in Australia
- explain the role of the main institutions in the short-term securities market in Australia
- calculate the price and yield of physical securities
- explain the development of the long-term debt market in Australia and identify the key factors involved
- describe the types of physical securities traded on the long-term debt market in Australia
- compare key features of long-term securities
- explain the role of the main institutions in the long-term debt market in Australia.

Topic 4: Fixed interest derivatives and other debt products

On successful completion of this topic, students should be able to:

- describe the features of derivative products traded on the short-term securities market in Australia
- calculate the price and yield of derivatives products
- describe the types of derivative products traded on the long-term debt market in Australia
- critically evaluate the different types of securitised products
- calculate a buying and selling hedge using long-term bond futures
- explain how swaps are structured and used to manage interest rate exposure.

Topic 5: Non-government debt markets

On successful completion of this topic, students should be able to:

- describe the features of current trends in the Australian corporate bond markets
- describe the main features of corporate bonds, mortgage-backed securities, asset-backed securities, infrastructure bonds and credit derivatives
- explain the different types of risks relevant to non-government debt
- describe methods to measure risks relevant to non-government debt
- explain the importance of credit ratings
- describe the relationship between credit spreads and pricing non-government debt.

Topic 6: International debt markets

On successful completion of this topic, students should be able to:

- explain the reasons for interest rate variations among different countries
- explain an investor's reasons for investing in overseas markets
- explain a borrower's reasons for borrowing in overseas markets
- describe the main features of the principal overseas markets
- describe some of the special risks involved in the use of overseas markets, including currency risk, and perform calculations to illustrate currency risk.

Topic 7: The FX market

On successful completion of this topic, students should be able to:

- describe the global nature of FX markets, major participants in the market and the sources of supply and demand of a currency
- identify the various currency abbreviations and the various 'expressions' in regards to how currencies are quoted and analysed (including the more familiar currency pair and effective exchange rate index, and nominal and real effective exchange rates)
- explain the importance of a country's balance of payments with respect to the value of the currency
- define 'purchasing power parity' and describe the effect of interest rate differentials and economic growth on international capital flows
- distinguish between direct and indirect quotations and differentiate between a price maker and a price taker
- choose the rate from a two-way price appropriate to a given situation
- describe how value dates are determined
- convert currencies and calculate cross rates
- describe and apply market conventions when dealing in FX
- explain the role of participants in the forward market and identify the day basis applied for interest rates of different currencies
- calculate a forward margin/FX swap price and calculate the implied commodity (i.e. terms currency interest rates)
- describe the concepts of forward dates and the terms:
 - overnight
 - tom/next
 - even months
 - broken dates
 - month end dates
- explain the fundamentals of trading in the forward market.

Topic 8: FX borrowing and risk

On successful completion of this topic, students should be able to:

- explain the reasons for interest rate variations among different countries
- explain an investor's reasons for investing in overseas markets
- explain a borrower's reasons for borrowing in overseas markets
- describe the main features of the principal overseas markets
- describe some of the special risks involved in the use of overseas markets, including currency risk, and perform calculations to illustrate currency risk
- discuss the importance of management control in FX operations.

Topic 9: Portfolio management implications

On successful completion of this topic, students should be able to:

- define the fundamental objective of portfolio management
- describe key factors that need to be considered when constructing a portfolio (objectives and constraints)
- define the various types of risk to which a fixed interest fund manager is exposed
- discuss the role of fixed interest investments and currency in portfolio management
- assess the effectiveness of a fixed interest portfolio in asset and liability management
- compare the techniques of active portfolio management and passive portfolio management in fixed interest securities
- assess fixed interest portfolio performance and describe techniques used to enhance returns.

2.4 Assessment schedule

Assessment	Description	Week	Topics	Weighting	Subject learning outcomes assessed
Assignment 1	Short-answer questions	Week 4	1–3	20%	LO1–LO2
Assignment 2	Scenario based assessment	Week 8	1–6	40%	LO1–LO4
Assignment 3	Short-answer questions	Week 12	4–9	40%	LO3–LO6

Please refer to our website www.kaplanprofessional.edu.au to review student policies relating to your assessment, including the *Kaplan Assessment Policy* and *Academic Integrity and Conduct Policy*.

2.5 Prescribed text

There is no prescribed text for this subject. Students are provided with key readings and access to Kaplan's online databases. Students are encouraged to research and read widely on the topic.

2.6 Study plan

Week(s)	Topic name	Study load in hours
1	Topic 1: Factors affecting interest rates	7
2	Topic 2: Interest rate calculations and measurements	12
3	Topic 3: Physical fixed interest securities	12
4	Topic 4: Fixed interest derivatives and other debt products Assignment 1 (Weighting 20%)	8
5	Topic 5: Non-government debt markets	12
6	Topic 6: International debt markets	12
7	Topic 7: The FX market	15
8	Assignment 2 (Weighting 40%)	5
9	Topic 8: FX borrowing and risk	10
10	Topic 9: Portfolio management implications	7
11	Assignment 3 preparation	12
12	Assignment 3 (Weighting 40%)	8
Total minimum study load		120 hours

Additional study hours (if required), dependent on knowledge and personal commitments	60 hours
Total study load, including additional study hours	180 hours