

**1. A regional government issues bonds to finance the construction of a new public transit system. Which of the following is most likely to serve as a source of repayment for these bonds?**

- a. Sovereign tax revenues collected by the national government
- b. Fares and fees generated by the transit system
- c. Operating cash flows from the construction contractor

**2. In a corporate liquidation, which class of creditor is last in line to receive any remaining asset value?**

- a. Secured bondholders
- b. Senior unsecured bondholders
- c. Junior unsecured bondholders

**3. A bond covenant requires the issuer to provide bondholders with audited financial statements within 90 days of each fiscal year-end. What type of covenant is this?**

- a. A negative covenant
- b. An affirmative covenant
- c. An incurrence covenant

**4. An asset-backed security is structured into three tranches — A, B, and C. Cash flows from the underlying loans are distributed in strict order of priority. Which tranche receives cash flows last?**

- a. Tranche C
- b. Tranche A
- c. Tranche B

**5. A corporate issuer with volatile operating cash flows is considering pledging specific assets as security for a new bond issue. What is the primary trade-off associated with this decision?**

- a. Higher borrowing costs in exchange for fewer covenant requirements
- b. Lower borrowing costs with no operational or contractual constraints
- c. Lower borrowing costs in exchange for reduced operating flexibility

**6. Compared with equity investors, bondholders generally have limited influence over an issuer. What mechanism provides bondholders with their primary form of contractual influence over issuer behaviour?**

- a. Bond covenants agreed upon at the time of issuance
- b. Voting rights exercised at shareholder meetings
- c. The right to appoint members to the issuer's board of directors

**7. A bond indenture contains the following clause: the issuer is restricted from pledging any of its assets as collateral for new debt unless equivalent security is simultaneously extended to existing bondholders. What is the name and type of this covenant?**

- a. A pari passu clause — an affirmative covenant
- b. A negative pledge clause — a negative covenant
- c. A cross-default clause — an affirmative covenant

**8. Highly restrictive bond covenants are sometimes contrary to bondholders' best interests. Why might this be the case?**

- a. They reduce the issuer's borrowing costs, leading to lower coupons for existing bondholders
- b. They transfer voting rights from bondholders to equity shareholders
- c. They can force a default that might otherwise have been avoided by preventing the issuer from raising new funds

**9. A corporate issuer breaches one of its bond covenants. Which of the following describes the recourse typically available to bondholders?**

- a. Conversion of the breached bond into equity shares of the issuer
- b. Accelerated debt payments and termination of the debt agreement, or a change in financial terms such as a higher interest rate
- c. Mandatory voting representation on the issuer's board of directors