

THE HAND BOOK OF FIXED INCOME

DIFFERENT TYPES OF FIXED INCOME SECURITIES

SMEST

GOVERNMENT SECURITIES

A Government Security(G-Sec) is a tradeable instrument issued by the Central Government or the State Governments.

It acknowledges the Government's debt obligation.

G-Secs carry practically no risk of default, and hence called risk-free-gilt-edged instruments.

STATE DEVELOPMENT LOANS

State Governments raise loans from the market which are called SDLs. SDLs are dated securities issued through normal auction similar to the auctions conducted for dated securities issued by the Central Government. Interest is serviced at half-yearly intervals and the principal is repaid on the maturity date.

TREASURY BILLS

Treasury Bills or T-bills, which are money market instruments, are short term debt instruments issued by the Government of India and are presently issued in three tenors, namely 91 days, 182 days and 364 days. Treasury Bills are zero coupon securities and pay no interest. Instead, they are issued at a discount and redeemed at the face value at maturity.

CERTIFICATE OF DEPOSITS

A Certificate of Deposit (CD) is a short-term security with a fixed interest rate and maturity date issued by a Bank that seeks to raise funds from the secondary money market.

CORPORATE BONDS

Corporate Bonds are debt securities issued by private and public corporations. Companies issue corporate bonds to raise money for a variety of purposes. When one buys a corporate bond, one lends money to the “issuer”, the company that issued the bond. In exchange, the company promises to return the money, also known as principal.

TAX FREE BONDS

Tax-free bonds are issued by government enterprises. They offer a fixed interest rate and hence is a low-risk investment avenue. As the name suggests, its most attractive feature is its absolute tax exemption as per Section 10 of the Income Tax Act of India, 1961. NRIs can invest in NRI-eligible tax-free bonds.