Fixed income instruments
Information sheet

Financial instruments are all types of instruments that are intended to be traded on the securities market. They can be divided into complex and non-complex instruments. Before you trade in a financial instrument, we are required to ascertain whether you have sufficient knowledge and experience to understand the properties and risks involved in trading in financial instruments. Below is some information about the most important qualities and risks associated with a type of instrument in which you have shown an interest. If you do not have sufficient knowledge and experience, we recommend that you do not trade in this instrument.

Introduction
When you buy a fixed income instrument, you lend money to the entity that issued the fixed income instrument. This means you run the risk of the issuer being unable to repay the money you lent them. The return on investments in fixed income instruments is generally expressed as interest. The return is usually known in advance, provided that you retain the instrument until the due date.

A fixed income instrument can usually be sold during the investment term, but the return may then be lower than expected.

How fixed income instruments work
Fixed income instruments are a claim on the issuer. You are therefore exposed in regard to the issuer's credit rating, or credit risk. If the issuer's ability to pay is thought to decline, so does their credit rating.

There are various types of fixed income instruments. They vary depending on who the issuer is, any security pledged by the issuer for the loan, the issuer's credit rating, the time left until the repayment date, the form in which interest is paid out, and so on.

The value of a fixed income instrument is affected by the market interest rate and the issuer's credit rating, among other things.
- If the issuer's credit rating increases, the value of the fixed income instrument increases as well.
- If the issuer's credit rating decreases, the value of the fixed income instrument decreases as well.
- If the market interest rates go down, the value of the fixed income instrument increases.
- If the market interest rates go up, the value of the fixed income instrument decreases.

Types of fixed income instruments
Money market instruments

Money market instruments have an investment term of up to one year. They are issued at a discount, e.g. 98 per cent, and repaid on the due date at 100 per cent of the nominal amount. The difference between the issue price and the nominal amount repaid on the due date comprises the interest/return.

Issuer	Name
Governments	Treasury bills
Companies, banks, local authorities and county councils	Commercial papers

Bonds

At the time of issue, bonds have an investment term of more than one year. There are a number of different structures for paying a return to the holder.

Bonds with a fixed interest rate

The return is usually paid out on a yearly basis. Provided that you retain the bond until the final due date and the issuer doesn't default, you know what return you will get.

Floating Rate Note (FRN)

The coupon payments usually track a three-month reference rate, such as STIBOR (Stockholm Inter Bank Offered Rate). The coupon interest rate is usually set one quarter at a time at the start of each quarter.

Zero coupon bonds

These have a similar structure to money market instruments, i.e. they are sold at a discount, e.g. 92 per cent of the nominal amount. On the due date, the holder receives the nominal amount. The difference between the purchase price and the nominal amount repaid on the due date comprises the interest/return.

Indexed bonds

They hedge against inflation, i.e. the capital retains its purchasing power. Most commonly both the nominal amount and the coupon interest rate are calculated using the Consumer Price Index (CPI).

Issuer	Name
Governments	Government bonds
Mortgage institution	Mortgage bonds
Institutions that are authorised by the Swedish Financial Supervisory Authority to issue secured bonds, e.g. mortgage institutions	Secured bonds
Companies, banks, local authorities and county councils	Corporate bonds
Mortgage institutions and companies	Retail bonds
The Swedish State	Premium bonds
Supranational organisations, such as the IMF or the World Bank	SSA

For whom are fixed income instruments suitable?
The risk in various types of fixed income instruments may vary, depending among other things on the issuer's credit rating and the investment term. In general, however, fixed income instruments are regarded as lower risk than equities. A fixed income instrument issued by an issuer with a high credit rating can be a good option if you want to minimise the risk of your savings capital declining in value. Fixed income instruments are generally a suitable investment if you are looking for short-term savings.

Trading in fixed income instruments
Trading in fixed income instruments differs in many ways from trading in equities. The market is dominated by financial institution investors such as pension funds, insurance companies and banks. Alongside institutional trading, some trading also takes place on a smaller scale via SOX (part of the Stockholm Stock Exchange), which is primarily aimed at private individuals and other smaller investors. Private individuals usually buy money market instruments and bonds via money market and bond funds.

On the money and bond market, the rates for fixed income instruments are set continuously. The market interest rates are influenced by analyses and assessments produced by the Riksbanken and other major institutional market operators regarding factors such as inflation, the economic situation and interest rate changes both in Sweden and in other countries.

Most fixed income instruments have good liquidity, which means they are easy to buy and sell during the investment term. In order to trade in fixed income instruments, you must have a securities account (VP account), a service account or a deposit account. You can also trade in certain fixed income securities via an Investeringssparkonto (ISK).

Risk
In the context of investment, the term "risk" denotes the probability that the invested capital will decline in value. A higher risk often means a greater opportunity for a high return, but at the same time the risk of losing money increases. There is always a risk that you will lose all of your invested capital, or that you will be unable to sell a financial instrument that you own.
- The greater the risk, the greater the rate fluctuation you can expect.
- The lower the risk, the steadier the rate movement you can expect.

In a fixed income instrument, the risk is made up partly of the change in interest that may occur during the investment term, depending on interest rate changes, and partly on the issuer's credit risk.

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During the investment term, fixed income instruments are affected by various factors, such as changes in the issuer's credit rating, economic conditions and the actions of the national banks.

The credit risk reflects the issuer's ability to repay the loaned amount and accrued interest. It may change depending on market conditions and the issuer's repayment capacity.

Swedish fixed income instruments issued by the government, local authorities and mortgage financing companies are generally regarded as being relatively low risk. The risk for fixed income instruments issued by other companies and foreign issuers can vary substantially: for example, the risk may differ for different governments and companies.

If you invest in fixed income instruments that are listed in a foreign currency, you are also taking a currency risk. The investment may increase or decrease in value due to exchange rate fluctuations.

Costs

When you trade in fixed income instruments, you usually pay a commission fee, which is calculated as a percentage of the transaction size. Some operators charge a minimum commission fee. If you trade in foreign fixed income instruments, the commission is higher than when trading in Swedish fixed income instruments. A currency exchange fee is also payable for fixed income instruments that are traded in a currency other than Swedish kronor.

Things to remember:

- The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.
- In order to trade in these instruments, you must familiarise yourself with the terms and conditions that apply to trading in financial instruments. The contracts that apply depend on the instrument you are trading in.
- Certain instruments require you to be liable to make payments in future. It is important that you are prepared to comply with your undertaking.
- Check the information on the statement and other reporting relating to your holdings, and inform us immediately of any errors.
- Regularly monitor changes in the value of your holdings and positions.
- You are responsible for taking any action necessary to reduce the risk of losses.
- Always ask for supplementary marketing material or further information with more details about the financial instrument you are interested in.

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