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International Debt: *Frequently Asked Questions*

by Keith Cronin, JVB Senior Vice President of Sovereign Debt Trading

In the current environment of swirling financial markets, JVB strives to provide you with valuable financial tools and resources.

Our Sovereign Debt trading desk can execute trades in an array of foreign currencies in a variety of debt products.

What is International Debt?

The international debt market encompasses bonds issued by foreign countries, foreign agencies and foreign companies both in US Dollars and non-US Dollars.

Why should I consider international bonds?

In times of US Dollar uncertainty and low domestic interest rates, a foreign investment strategy can provide diversification and protection against a falling US Dollar.

What affects the value of a foreign currency?

There are many factors that can move a currency, such as the level of interest rates, the rate of inflation or the level of GDP. All macroeconomic variables, as well as geo-political factors and world events, can move a currency, which may influence the value of your investment.

How do they trade?

International debt trades much the same way US debt does; the mechanics of the bonds are the same. Most government bonds pay interest semi-annually. Most bonds settle in Euroclear, although some of them are DTC eligible. Settlement is usually T+3, although some governments can settle next day.

How liquid are these issues?

The sovereign debt market can be just as liquid as the US Treasury market, and most sovereign debt carries Aaa /AAA ratings (rated by Moody's, Fitch or S&P, or a combination of all three). The international corporate market's liquidity depends upon the issue, just like in the domestic corporate bond market.

What currencies can I buy?

We trade in bonds denominated in a variety of currencies, including Canadian Dollars, Euros, British Pounds, Swiss Francs, Norwegian Krone, South African Rand, Australian Dollar and New Zealand Dollar. We can also buy bonds denominated in South American currencies.

Do I have to own the currency before I buy the bond?

No. If you choose to buy, for example, a German Government Bond denominated in Euros and you are long US Dollars, we will perform the foreign exchange (F/X) transaction for you as well as purchasing the bond for you.

What is the minimum I can buy?

Usually the minimum is theoretically one bond, although some government bonds have a 50m face amount minimum. Lot sizes of 50m+ tend to be more competitively priced.

What are my risks?

All bonds carry risk. There is interest rate risk, credit risk and inflation risk. International bonds also carry foreign exchange risk. Therefore, if you are bullish on the Euro and buy, for example, a German Government Bond, its value will fluctuate as the Euro fluctuates. Most international investors invest in governments and higher grade corporate issues, thereby minimizing credit risk.

Are all international bonds denominated in foreign currencies?

No. Many governments issue international bonds which trade in US Dollars. Also, most international agencies, such as the European Investment Bank, also issue bonds in US Dollars. Many international companies also issue bonds in US Dollars (called EuroBonds).

Is it possible to trade cross currency?

Yes. For example, if you wanted to buy a bond denominated in Euros but settle it in GBP, we can do that; it doesn't have to be just against the USD.

I have heard a lot about Latin America recently. Can I buy emerging market debt also?

Yes, we also trade emerging market debt. We deal primarily in government bonds, but we can also buy corporate paper. Most of the emerging market bonds we trade are in US Dollars but we have the capacity to deal in local currencies also.

Are there any extra fees or charges involved in buying a foreign security?

Depending on your clearing firm, additional fees may apply; please speak to your JVB representative for details.

If I think a currency might appreciate against the US Dollar but want more information, what can I do?

Call us at JVB and we will provide a macroeconomic analysis for you on the currency you are interested in, to assist you with your decision.

I'd like to learn more about international investing. What can I do?

JVB provides several resources for investment education, including our weekly Economic Commentary conference call by JVB Chief Economist Bill Sullivan. During this call, Keith Cronin, JVB Senior VP of Sovereign Debt Trading, is available to address questions regarding international debt. Call your JVB representative for call-in instructions, or for answers to any other questions you may have about international debt.



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