Chapter 10 - Bonds

STEPS TO ISSUE A BOND

1. The corporations board of directors approves a bond issue, specifying the amount of bonds that will be issued, the maturity date, the interest rate, and any special bond characteristics (i.e. conversion features, call features, collateral attached).

2. The company prepares a prospectus, which gives information about the company and bond issue. This prospectus is filed with the Securities and Exchange Commission (SEC). The SEC reviews the prospectus to see that it provides investors with the information they will need to evaluate the bond issue. If the prospectus contains the appropriate information, the SEC approves the issue. (SEC approval doesnï¿½t mean that the bond is a good investment, only that the company has disclosed adequate information for a knowledgeable investor to determine whether it is a good investment).

3. An underwriter is contracted

4. The bonds are sold

But what happens if the interest rates have changed from those specified by the board of directors?