2015 GLOSSARY OF FINANCIAL TERMS

A Sapient Global Markets quick reference guide to terms relevant to trading and risk management in the capital and commodity markets
ABOUT SAPIENT GLOBAL MARKETS

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ABOUT THE GLOSSARY

This comprehensive guide includes terms and acronyms commonly used in the capital and commodity markets. With this issue, we’ve expanded the scope to address the many different specialty areas within the industry. The terms, listed in alphabetical order, begin on page 1 and a list of industry acronyms begins on page 226. You can also access the Glossary online through the Sapient Global Markets website.

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ABANDONMENT
The process whereby the buyer will elect not to exercise the contract because it is out-of-the-money or otherwise not economically beneficial (e.g., with an option transaction, allowing the contract to expire or lapse unexercised or with a forward transaction, forgoing the purchase of an underlying asset).

ACCRETING SWAP
A swap with an increasing notional amount as depicted in a predefined schedule. An accreting swap is useful to companies that plan to borrow increasing amounts at floating rates and want to swap them for fixed-rate funds; accreting swaps are particularly popular in construction financing.

ACCRUED INTEREST
Interest earned on the notional amount of an investment between two payment dates. For example, the accrued interest on a bond would be the amount of interest owed to the buyer since the last coupon payment.

ACCUMULATED BENEFIT OBLIGATION (ABO)
An approximate measure of a pension liability assuming that the plan is terminated immediately. Therefore, it does not account for future salary increases.

ACCUMULATOR
A financial instrument in which the issuer sells underlying security at a predetermined value, usually at a discounted rate from the spot value. The buyer is obligated to purchase the securities at the specified rate periodically until expiry or until the security reaches a knock-out value.

ACTIVE INVESTMENT MANAGEMENT
The process of trying to generate above-benchmark returns. Portfolios managed by asset managers are generally assigned a benchmark appropriate for the mandate of the assets held. The portfolio manager can then make investment decisions that either keep the portfolio in line with benchmark holdings and exposure or take on positions
or trades that deviate from the benchmark weights. This deviation away from the benchmark is known as active investment management, i.e., when the portfolio manager makes active bets in an attempt to generate above-benchmark returns.

**ACTIVE RISK**
A risk taken by asset managers to generate a return higher than the benchmark against which it is compared. The more an active portfolio manager diverges from a stated benchmark, the higher the chances become that the returns of the fund could diverge from that benchmark as well.

**ACTIVELY MANAGED ETF**
Unlike a passive ETF which is meant to simply track an index, the manager or management team of an actively managed ETF picks particular stocks, takes on more risk and does not necessarily follow a single index. This allows opportunities for returns greater than with a passively managed ETF. Due to more manager involvement, the expense ratio on actively managed ETFs tends to be higher. However the fees tend to be lower than actively managed mutual funds.

**AFFIRMATION**
The process by which two counterparties verify that they agree upon the primary economics of a trade. The affirmation process may be done by telephone, voice recording, email or via an electronic verification platform.

**AFRAMAX**
A medium-sized oil tanker of approximately 80,000 to 120,000 deadweight tons, normally used to carry crude oil or dirty petroleum products. Aframaxes with coated cargo tanks are used to carry clean petroleum products in longer haul trade routes.

**AGENCY FOR THE COOPERATION OF ENERGY REGULATORS (ACER)**
The main regulatory body for energy market integration and harmonisation on a European level. It supports cooperation
among European energy regulators with the overall aim to establish a more transparent and competitive market environment and the ultimate goal to create a single European market environment for the European energy sector. Apart from increasing market transparency, its main responsibility is market monitoring and the prevention of abusive practices.

**AGENCY MBS TBA (TO BE ANNOUNCED)**
A forward based on mortgage backed securities in which the securities comprising that pool is not known until just before the settlement deadline. Only the characteristics, like coupon rate, maturity, agency and mortgage class, are known in advance.

**AGENCY’S REMIT INFORMATION SYSTEM (ARIS)**
A bespoke market monitoring solution developed specifically for ACER. This system receives data from Registered Reporting Mechanisms (RRMs) and other reporting entities to analyse and identify any market events that require further investigation of potential insider trading or market manipulation by a ‘market participant’. [See also “market participant”.

**ALBERTA SECURITIES COMMISSION (ASC)**
The regulatory body that administers and enforces securities laws and regulations in Alberta, Canada and regulates the TSX Venture exchange.

**ALLOCATION**
The process by which a block trade is executed by an asset manager and is then divided (allocated) to individual funds (or sub-funds) managed by that asset manager. Each individual trade requires confirmation.

**ALPHA**
The difference in performance of an investment relative to its benchmark.
ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (AIFMD)
A directive by the European Union (EU) to regulate EU fund managers who are managing alternative investments such as private equity and hedge funds. The goal of these regulations is to prevent another financial crisis.

ALTERNATIVE INVESTMENTS
Non-standard class of assets, such as hedge funds, commodities, timber, real estate or infrastructure, with risk/return profiles that diverge from holding traditional trading instruments such as bonds, cash or equity holdings. Typically bought by large institutional asset managers or accredited, high-net-worth individuals.

ALTIPLANO
A mountain range option where the buyer receives a large fixed coupon if none of the underlying assets in the basket breaches a predetermined barrier during a predetermined time period. If one of the underlying assets does breach the barrier, the buyer receives the payout of either a plain vanilla or Asian call on the basket.

AMERICAN DEPOSITORY RECEIPT (ADR)
A contract issued by a US custodian bank which represents shares of a foreign company traded on NYSE, AMEX or Nasdaq as well as OTC. It helps to avoid some of the obstacles of cross-border trading by handling all transactions, dividends and payments in USD.

AMERICAN OPTION
An option that can be exercised at any time during the term of the option, up to and including its expiration date.

AMERICAN PETROLEUM INSTITUTE (API) GRAVITY
A measure of weight for a petroleum liquid when compared to water. A measure of greater than 10 will indicate that the petroleum liquid will float on water. A measure of less than 10 indicates the petroleum liquid will sink in water.
AMORTISING SWAP
An interest rate swap with a decreasing notional amount as set in a predefined schedule.

ANALYSIS OF VARIANCE (ANOVA)
A group of statistical methods used to analyse the total variability of groups of data. Variances are broken down into components representing the different sources of variation.

ANCILLARY SERVICES
Services that are indirectly related to the physical movement of a commodity, such as inspection fees, port agent fees, spinning reserve in the power market, etc.

ANNAPURNA
A mountain range option in which the longer the underlying assets in the basket float above the predetermined barrier, the higher the coupon payout received by the buyer. If any of the assets drop below the predetermined barrier, the option’s life ends.

ANNUALISED RETURNS
Monthly or daily returns that have been scaled to represent an annual return. A limited measure, as it does not provide any indication of the level of volatility the portfolio may have experienced through the calendar year, and no information as to the path taken day-over-day or month-over-month towards attaining the final annual performance.

ANTI-MONEY LAUNDERING (AML)
A set of guidelines and initiatives used by financial institutions to prevent, detect and report the conversion of illegal sources of money to ethical sources and/or money laundering activities. See also “money laundering”.

API #2
A pricing index for steam coal reflecting physical trades for delivery to the Amsterdam-Rotterdam-Antwerp region.
A common reference index for over-the-counter (OTC) and exchange-traded forward contracts, futures, options and swaps.

**API #4**
A pricing index for physical steam coal traded Free-On-Board (FOB) Richards Bay. A common index for OTC and exchange-traded forward contracts, futures, options and swaps.

**ARBITRAGE**
An investment strategy in which the investor takes advantage of market inefficiencies in a riskless (or very low-risk) manner, frequently across markets in different geographies. This can be achieved by buying a security in a lower-priced market and selling the same security in a higher-priced market.

**ARBITRAGE PRICING THEORY (APT)**
An asset pricing model based on the idea that an asset’s returns can be predicted using the relationship between that same asset and many common risk factors. The APT model uses the asset’s expected return and risk premium of macro-economic factors, such as surprises in gross national product (GNP), shifts in the yield curve or surprises in inflation, etc., in modelling expected value of the portfolio.

**ARREARS SWAP (IN-ARREARS SWAP)**
An interest rate swap whose floating leg reference rate (e.g., 3-month LIBOR) is obtained at the end of an accrual period and whose cash flows are also paid out at the end of an accrual period. This is different from the behaviour of a vanilla interest rate swap, whose floating leg reference rate is obtained at the beginning of the accrual period, but payment does not occur until the end of the accrual period.

**ASIA SECURITIES INDUSTRY & FINANCIAL MARKETS ASSOCIATION (ASIFMA)**
Association which aims to promote the growth, development and transparency of the Asian capital market and to assist its integration into the global capital market.
**ASIAN IN**
An Asian option whereby the strike price is the average level of an underlying instrument over a predetermined period.

**ASIAN OPTION**
An option where either the strike price or the settlement price is the average level of an underlying instrument over a predetermined period. The averaging can be either a geometric or arithmetic average.

**ASIAN OUT**
An Asian option whereby the settlement price is the average level of an underlying instrument over a predetermined period.

**ASK**
The price at which a trader or market maker is willing to sell a contract. The ask price will always be larger than the bid price, to ensure there is a spread which is profitable.

**ASSET ALLOCATION**
An investment strategy where the investor attempts to achieve returns by investing in different asset classes and different countries. Asset allocation can be done either tactically or strategically.

**ASSET BACKED SECURITY (ABS)**
A structured security backed by a pool of assets such as credit card receivables, loans, lease and other non-real estate or non-mortgage-backed securities.

**ASSET INTEGRITY MANAGEMENT**
A defined program for physical assets under management to simultaneously maximise value and returns while reducing the risk of operation to employees, the community and the environment through active management and oversight of inspection, maintenance, operations and commercial activities related to the asset.
ASSET SWAP
A structure involving both the sale of an asset to a counterparty and an interest rate swap packaged as a single transaction. In the case of asset swaps with respect to bonds, the asset will usually be a fixed rate instrument where the investor is seeking a floating rate return. The investment bank will therefore package the fixed rate bond together with an interest rate swap, swapping the fixed return on the bond for a floating return, thereby providing the investor with a synthetic floating asset.

ASSIGNMENT
The process by which one counterparty (transferor) agrees to transfer to a third party (transferee) its obligations under an existing transaction with another counterparty (the remaining party). The transferor, transferee and remaining party all need to agree to the novation. See also “stepping in”, “stepping out” and “novation”.

ASSOCIATED GAS
Natural gas found in a crude oil reservoir, separate from, or in solution with, the oil.

ASSOCIATION FOR FINANCIAL MARKETS IN EUROPE (AFME)
An association formed in November 2009, consequent to the merger of the London Investment Banking Association and the European arm of the Securities Industries and Financial Markets Association. The AFME’s main objectives are: 1) To act as a bridge between financial markets, regulators and the public. 2) To increase transparency, harmonisation, public trust and stability of the financial markets.

AT THE MONEY
An option whose strike price is equal to the current market price of the underlying. This option has no intrinsic value, but it may have time value.
**ATLAS**
A mountain range option where the best and worst performing underlying assets are removed from the basket and the payout is calculated by reference to the performance of the remaining underlying assets in the basket.

**ATTACHMENT POINT**
The trigger point at which a tranche becomes exposed to losses-due-to-default in the underlying portfolio. For example, a 3-7% tranche has an attachment point of 3%. Until the accumulated losses-due-to-default of the underlying portfolio reach 3% of the total initial pool, the tranche will not be affected. However, any further loss (beyond 3%) will be deducted from the tranche’s notional, until losses reach the 7% detachment point.

**ATTRIBUTION**
The activity of decomposing return to different factors such as country, sector, interest rates or security selection.

**AUCTION DATE**
The date on which the US Government auctions newly issued treasury securities, including notes, bills and bonds, to investors and dealers. There is a public announcement prior to the auction, and competitive and non-competitive bids can be accepted up to thirty days in advance electronically and by mail.

**AUCTION-SETTLED TRANSACTION**
A credit derivative transaction which is cash settled with reference to the final price, as determined in the Credit Event Auction initiated by ISDA.

**AUTO CALLABLE**
An exotic option which terminates and pays an enhanced return if a defined barrier level is breached on a predefined date. Auto callable trades are often used to hedge equity linked notes.
AUTOMATIC EXERCISE
A commonly used election whereby an option or swaption is exercised without notice from the holder, provided that it is in-the-money on the exercise date by a certain threshold.

AUTOMATIC IDENTIFICATION SYSTEMS (AIS)
Provides ships’ position and movement information to coastal authorities and other ships automatically. It uses AIS base stations and GPS technology to aid and serve as transmission and receiving points using the very high frequency (VHF) radio channels.

AUTORITÉ DES MARCHÉS FINANCIERS (AMF)
The regulatory body that administers and enforces securities laws and regulations in Quebec Canada and regulates the Montreal Exchange.

AVERAGE RATE OPTION
An option where the settlement is based on the difference between the strike price and the average price of the underlying instrument over a predetermined period. An average rate option is also known as an Asian option.

AVERAGE STRIKE OPTION
An option where the strike price is calculated as an average of the underlying security’s spot price on a specific series of dates throughout the option tenure.
BACK-OFFICE SERVICES
A department in a financial firm which handles the settlement of transactions, clearing activities, record keeping and accounting.

BACK TESTING
Assessing a model portfolio or an investment thesis by applying historical data to determine how the portfolio would have performed had it been bought and held through the historical timeframe of market data conditions.

BACK-TO-BACK TRANSACTIONS
A pair of transactions (multiple if offsetting) with identical economic details but in opposite directions such that the risk position is flat. The entity with a back-to-back position will bear no other risk than the counterparty risk.

BACKHAUL
A transaction which agrees to deliver a commodity or cargo in the opposite direction of the transport route (or upstream of pipeline flow direction) to the point of receipt.

BACKLOADING
The process of inputting existing/historical transactions (OTC & ETD) into a trade repository or central counterparty.

BACKWARDATION
A market condition where the futures price for a specific underlyer is below the spot price for the same underlyer. This is the opposite of contango.

BAD BUSINESS DAY
A day on which banks (and normally exchanges) are closed.
BAD ORDERED
A rail car requiring maintenance to correct defects or safety violations.

BALANCING MECHANISM
A means of ensuring that supply and demand stay balanced in an electricity grid or natural gas pipeline network.

BALLAST
Weight added to a vessel to increase draft and maintain the vessel in a safe condition of stability when there is no cargo onboard. Water is usually used and on tankers this is pumped into dedicated ballast tanks usually positioned in compartments at the bottom of the vessel, or on the sides.

BALTIC EXCHANGE
The world’s only independent source of maritime market information for the trading and settlement of physical and derivative contracts. Originally operating a trading floor, the exchange’s members’ transactions are today done solely over the telephone. The exchange publishes seven daily indices and provides forward curves, dry cargo fixture list, daily news and settlement data.

BANKER’S ACCEPTANCE
A short-term credit instrument used in the international commodity markets. Issued by a non-financial firm, the payment of the acceptance is guaranteed by a bank.

BANKRUPTCY
A credit event applicable in the majority of credit default swaps where the reference entity is a corporate (bankruptcy does not apply to sovereign reference entities). Bankruptcy events include the reference entity being dissolved; becoming insolvent; making an arrangement for the benefit of its creditors; being wound up; seeking the appointment of an administrator, liquidator, conservator or other similar official; or having a judgment of insolvency made against it. See also “credit event”.
BAREBOAT CHARTER
An arrangement whereby a vessel is chartered for a period of time. Charterer is responsible for maintaining and operating the vessel as well as providing bunkers and crew.

BARGE
A flat-bottomed vessel that is built mainly for rivers, inland waters and canal transportation. Typically barges, particularly in the United States, are not self-propelled and need to be towed or pushed by towboats. Barges can range in size from less than 1,000 tons up to 25,000 tons.

BARRIER OPTION
An option whose final exercise depends upon the path taken by the price of an underlying instrument. For a knock-out barrier option, the option is cancelled if the underlying price crosses a predetermined barrier level. For a knock-in barrier option, the option becomes available-for-exercise if the underlying price crosses a predetermined barrier level. See also "knock in/out event".

BASE RATE (UK)
The interest rate set by the Bank of England for secured overnight lending.

BASE-LOAD CONTRACT
A contract that specifies the minimum amount of power demand that will be constant and rateable. Other contracts are used to supplement the baseload amount and are sometimes referred to as peak load contracts which kick in during periods of peak demand.

BASEL COMMITTEE OF BANKING SUPERVISION
A forum for the cooperation and coordination of bank-related supervisory matters.
BASEL III
Global regulatory standards designed by the Basel Committee on Banking Supervision. Also referred to as the Third Basel Accord, it provides a regulatory framework to strengthen global capital and liquidity. It focuses on stress testing a bank’s ability to withstand economic and financial stress, improve risk management and strengthen transparency and disclosures.

BASIS (GROSS)
The difference between the relevant cash instrument price and the futures price. Often used in the context of hedging the cash instrument.

BASIS POINT
A unit of measure. One basis point is one hundredth of a percentage point.

BASIS RISK
The risk of loss arising from the price sensitivity of a hedging financial instrument not exactly matching the price sensitivity of the instrument being hedged. Also known as Spread Risk.

BASIS SWAP
A type of interest rate swap where both legs reference different floating rates of interest. An example of a basis swap is a (USD 6M LIBOR) vs. (USD 3M LIBOR + Spread) swap.

BASKET
A bespoke, synthetic portfolio of underlying assets whose components have been agreed for a specific OTC derivative by the parties to the transaction.

BASKET OPTION
An option that may be exercised based on the weighted average performance of the instruments contained in the predetermined basket of reference assets. See also “basket”.
BEAR MARKET
A period of time over which security prices fall precipitously across a market or markets, often following a securities price bubble. Pundits usually use “down 20%” as a criterion for denoting a bear market.

BEAUFORT SCALE
The Beaufort scale is an empirical measure that relates wind speed to observed conditions at sea. The range of the scale is 1-9 with 9 signifying extreme conditions. It is an important indicator used to normalise the performance of vessels.

BENCHMARK
A marker of the performance of the market, either broad in range, such as the S&P 500 stock index, or sector-specific, such as the NYSE Energy Index. Many funds will either aim to follow a benchmark, such as a passive Exchange-Traded Fund (ETF), or beat a specific benchmark. Benchmarks have the advantage of transparency, in terms of both the price and the methodology used by the calculation agent to determine the price.

BERMUDA OPTION
An option that can be exercised on a number of specific dates during the term of the transaction.

BETA
A number describing the correlated volatility of an asset in relation to the volatility of the benchmark to which the asset is being compared. This benchmark is generally the overall financial market and is often estimated via the use of representative indices, such as the S&P 500. A beta of more than 1 indicates that the stock is more volatile than the market and a beta of less than 1 indicates that the stock is less volatile than the market.

BID PRICE
The price at which a trader or market maker is willing to buy a specific security. The bid price will always be less than the ask price to ensure there is a spread which is profitable.
BIG BANG PROTOCOL
An ISDA protocol (published April 8, 2009) which added auction settlement as the standard form of settlement for eligible credit default swap contracts, but explicitly excluded settlement following the occurrence of a restructuring credit event. The protocol also established the ISDA Determinations Committees (DCs) who make binding decisions on eligible credit default swaps (CDS) transactions as to whether a credit event has occurred, an auction will be held or a particular obligation of the defaulted reference entity is deliverable. DCs also establish a backstop date for credit events and succession events. Also known as the March 2009 Supplement. See also “ISDA Determinations Committees” and “small bang protocol”.

BILATERAL TRADE
Bilateral transactions privately negotiated between two parties as opposed to being transacted on organised exchanges.

BILL OF LADING (BOL)
A document issued by a carrier to a shipper acknowledging that specified goods are received on board as cargo for conveyance to a named place for delivery to the consignee. Often shortened to BL, BoL or B/L.

BINARY SETTLEMENT
A derivative payout following a credit event that is a fixed amount as opposed to par less the recovery amount. Also known as a digital settlement.

BINOMIAL PRICING MODEL
A method of valuing an option based on building a tree of possible paths up and down that the underlying price might take from start until expiry. It is assumed that, at each price change, the price either rises by a given amount (or proportion), or falls by a given amount (or proportion).
**BIODIESEL**
Vegetable or animal fat derived from diesel fuel consisting of long chain esters. With similar properties as petroleum diesel, it is usually mixed with petroleum diesel by adding 20% biodiesel to create a cleaner burning fuel.

**BIOMASS ENERGY**
Energy produced by the combustion of, or indirectly by the biogasification of, plants, vegetation or agricultural waste, such as rice husks. There are five basic categories of Biomass: virgin wood, energy crops, agricultural residues, food waste and industrial waste and co-products.

**BLACK START**
The process of restoring a power station to operation without relying on the external electric power transmission network.

**BLACK-SCHOLES MODEL**
An option pricing model which is typically used to determine the price of European put or call options. The closed form solution to the Black-Scholes model for European options has the following inputs: (i) the strike price of the option contract (ii) current price of the underlying (iii) time to maturity (iv) implied volatility (v) level of interest rates (vi) Call/Put.

**BLENDING**
Process of blending a higher grade crude oil with lower grade crude oil to increase the price of lower grade oil.

**BLOCK TRADE**
1) A single trade transacted by an asset manager, which may then be allocated to a number of different funds or portfolios managed by that asset manager. See also “allocation”.

2) An off-exchange trade that is privately negotiated with quantities at or exceeding exchange minimums. These trades are executed away from open outcry or electronic platforms to avoid price changes within the market at or exceeding exchange minimums.
BLOCKCHAIN
A sequential transaction database that is distributed across a peer-to-peer network to prevent double spending in an environment with no central issuing authority. It is the public ledger of decentralised digital currency Bitcoin.

BLUE CHIP STOCK
A stock from a well-known, large and financially stable company, which usually pays dividends.

BOND
A debt instrument whose underlying asset is a loan to a company, municipality or national government, over a set period of time, which pays interest on a regular basis in the form of a coupon. The US Government, for example, offers 90-day Treasury bills and 30-year government bonds. The interest rate on the bond is determined by two risk factors: the credit quality of the issuing entity and the duration of the cash flows.

BOND BASIS
The difference between the price of bond and the bond futures contract scaled by the conversion factor. The conversion factor is the approximate decimal price at which $1 par of the security would trade if it had a six percent yield-to-maturity. The conversion factors adjust the bond prices for delivery into the futures contract.

BOND CREDIT RATING
An alphanumeric score that reflects the probability of timely payment of principal and interest for a given debenture as provided by services providers such as Moody’s or S&P. Higher credit ratings represent a lower probability of default, and therefore a more attractive (less risky) investment to potential investors. Lowered credit rating, a function of poorer credit worthiness of the issuer of the debt, usually translates to a lower price of the bond and a more risky investment.
BONUS ISSUE
A corporate action where a company issues shares to existing shareholders — paid for by the company issuing the shares out of capital reserves. This is technically a capitalisation of reserves. The company, in effect, issues free shares paid for out of its accumulated profits (reserves).

BOOTSTRAPPING
A process that uses a general algorithm to construct curves from underlying market data. It is typically used in mathematical finance to describe the iterative process whereby discount factors for zero-coupon yield curves are obtained from the underlying rates-market instruments, such as deposits, Eurodollar futures and swaps. One must bootstrap the discount factors from the shortest tenor instruments before moving onto longer tenors.

BRENT, FORTIES, OSEBERG OR EKOFISK (BFOE)
An OTC forward market where buyers and sellers trade cargos of Brent, Forties, Oseberg or Ekofisk. May also be referred to as the 21-day BFOE market.

BRENT BLEND CRUDE OIL
Brent blend (also known as Brent Blend, London Brent and Brent petroleum) is a blend of crude oil from various fields in the East Shetland Basin between Scotland and Norway in the North Sea. It is used as a benchmark for the pricing of much of the world’s crude oil production.

BRITISH COLUMBIA SECURITIES COMMISSION (BCSC)
The regulatory body that administers and enforces securities laws and regulations in British Columbia, Canada and regulates the TSX Venture exchange.

BRITISH THERMAL UNIT (BTU)
A unit of energy defined by the amount of heat required to raise the temperature of 1lb of water by 1 Fahrenheit (technically from 60F to 61F). It is used to compare the heat-producing value of different fuels.
**BROKER**
Any individual or entity that facilitates transactions between a buyer and seller while receiving a commission upon trade execution. A broker may also act as the principal buyer or seller to a deal.

**BRONZE RECORDS**
DTCC-eligible trades which have been matched in the Deriv/SERV Trade Information Warehouse but are not legally binding because they are incomplete (non-standardised OTC trades).

**BULLION**
Precious metals, like gold or silver, that are subject to minimum purity (or fineness) requirements and cast into bars or other non-coin forms. For gold, the minimum acceptable fineness is 995.0 parts per thousand fine gold. For silver, the minimum acceptable fineness is 999.0 parts per thousand silver.

**BUNKERS**
A term which refers to the fuel used aboard a ship. Typically, the types of Bunkers used in ships are Heavy Sulphur Fuel Oil, Low Sulphur Fuel Oil, Marine Gas Oil, Marine Diesel Oil, etc.

**BUSINESS DAY CONVENTION**
The convention for adjusting any relevant dates which fall on a bad business day (e.g., a holiday).

**BUSINESS RISK**
The risk associated with unforeseen internal or external events which causes business to fail. It can be further divided into operational risk, financial risk, strategic risk and compliance risk.

**BUTTERFLY**
A trading strategy involving the purchase of four European call options in equal quantities. The strategy is designed to be in-the-money at maturity if the spot price is within a narrow range, with no downside loss (other than premium) if the spot price at maturity falls outside of this range on either side.
To construct the strategy, a call option is purchased (long) with strike \((X - n)\), another call option is purchased (long) with strike \((X + n)\), and two call options are sold (short) with strike \(X\), where \(X\) is the current spot price. The trade is direction-neutral, and the maximum profit is realised when the price of the underlying is \(X\) at maturity.

**BUY SIDE**
Firms which invest in assets and provide investment services for their clients. Buy-side entities include pension funds, hedge funds and mutual funds. The opposite would be the sell-side, which provides brokerage services to the buy side.

**BUY-AND-HOLD**
A long-term investment strategy where an investor buys stocks and holds them for a long period of time, regardless of fluctuations in the market.
CABLE
A colloquial term for the USD/GBP foreign exchange rate.

CALCULATION AGENT
The party designated as such in a derivative transaction. The calculation agent is tasked with the making of determinations and notifications relating to any adjustments, disruptions, valuations and settlements that occur throughout the life of the transaction. In most cases, the calculation agent will be one of the parties to the transaction. The calculation agent will usually be a professional market maker (e.g., an investment bank).

CALCULATION PERIOD
The number of days between payment dates or between the effective date and the first payment date. A calculation period is typically adjusted for payment dates that are bad business days but may also be unadjusted. Normally indicates the period for which financing costs/debt servicing are calculated/accrued.

CALENDAR SPREAD
An option trading strategy consisting of the simultaneous purchase and sale of two options of the same type and strike price but with different expiration dates. Also known as a horizontal spread or time spread.

CALIBRATION
A process by which the parameters of a complex financial model are adjusted so that the model’s valuations of benchmark financial instruments match the market-observed prices for those instruments, to an acceptable level of tolerance. The model can then be used to price more exotic financial instruments.
CALL OPTION
A contract that grants its purchaser the right, but not the obligation, to buy the underlying instrument at a specified strike price on (European option) or before (American option) the expiration date. Compare with Put Option.

CALLABLE INTEREST RATE SWAP
An interest-rate swap in which the fixed-rate payer has the right to terminate the swap after a certain time. Callable swaps are often executed in conjunction with callable debt issues, where an issuer is more concerned with the cost of debt than the maturity. In puttable swaps, the fixed-rate receiver has the right to terminate the swap. Callable and puttable swaps are also known as cancellable interest rate swaps.

CANADIAN SECURITY ADMINISTRATORS (CSA)
An association of Canadian provincial securities regulators.

CAP
An upper limit placed on the payoff of a trade, limiting the upside to the buyer and thus the downside to the seller. Within the context of an interest-rate cap instrument, the term “cap” refers to the effective call-option strike.

CAP AND TRADE
A policy within the European Union Emissions Trading Scheme (EU ETS) which limits the amount of emissions companies may release into the environment. The policy also allows the buying and selling of emission credits between participants of the scheme within an overall cap.

CAPACITY (ELECTRICITY)
The rated load carrying capability of electrical equipment such as generators or transmission lines. Capacity is typically expressed in megawatts.
CAPACITY (GAS)
The maximum amount of natural gas that can be produced,
transported, stored, distributed or utilised in a specified
amount of time.

CAPESIZE BULK CARRIER
A large vessel used to carry non-liquid bulk commodities,
with a carrying capacity of more than 80,000 deadweight
tons. These vessels commonly carry cargo such as iron ore,
coal or grain.

CAPITAL ADEQUACY RATIO (CAR)
A measure of amount of a bank’s core capital expressed
as a percentage of risk weighted assets. It is calculated
as follows:

\[
CAR = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk Weighted Assets}}
\]

CAPITAL ASSET PRICING MODEL (CAPM)
A model that determines the expected return for an asset.
The return is a function of its non-diversifiable risk (i.e.,
market risk) and the risk-free return. The theory is that one
should only be compensated for market risk as all other risk
can be diversified away.

CAPITAL REQUIREMENTS DIRECTIVE (CRD)
Deals with implementing Basel III rules for capital measures
and standards in banks within the European Union.

CAPITALISATION ISSUE
A corporate action where a company issues shares to
existing shareholders, paid for by the company issuing
the shares out of capital reserves. This is technically a
capitalisation of reserves. The company, in effect, issues free
shares paid for out of its accumulated profits (reserves). Also
known as a “bonus issue”.

\[
CAR = \frac{\text{Tier 1 Capital} + \text{Tier 2 Capital}}{\text{Risk Weighted Assets}}
\]
CARBON SEQUESTRATION
The capture and storage of carbon dioxide at the point of combustion to prevent it from reaching the atmosphere.

CARRY (NET FINANCING COST)
The difference between the cost of financing the purchase of an asset and the cash yield of the asset. Positive carry means that the yield earned is greater than the financing cost; negative carry means that the financing cost exceeds the yield earned.

CARRY TRADE
An investment strategy that involves borrowing funds at a low interest rate and then investing those funds in a higher yielding commodity/asset. The carry trade typically takes advantage of differences in interest rates in different countries. The risk to the trade is if the borrowed currency appreciates relative to the invested currency.

CASCADING
The conversion of a forward contract into a series of shorter-term contracts on maturity.

CASH FLOW
One of the most fundamental tenants of any investing thesis, the expected amounts and timing of the return or disbursement of cash of investment held. For bonds, represented by interest and principal payments, for stocks, dividend payments and real estate, the timing and amounts of principal and interest payments.

CASH SETTLEMENT
A settlement method in which the seller of the financial instrument does not deliver the actual underlier or commodity, but instead the associated profit or loss is transferred between the two counterparties. It is a common settlement method used when transacting futures and options contracts.
CDS INDEX TRANCHE
A synthetic collateralised debt obligation (CDO) based on a credit default swap index where each tranche (equity, mezzanine, senior and super senior) references a different segment of the loss distribution of the underlying credit default swap index.

CDX INDICES
A family of credit derivative indices where the underlying reference entities are a defined basket of North American and emerging markets credits. The indices are administered by the CDS Index Company and marketed by Markit Group Ltd., which issues a new series every six months. On the day of issue, the coupon for the whole index is fixed.

CENTRAL COUNTERPARTY (CCP)
A clearing organisation that interposes itself through novation or otherwise, between the two original parties to the transaction, becoming the seller to the buyer and the buyer to the seller. Once interposed, a CCP will use risk management techniques to insulate members from any losses should a default occur. Typical functions of a CCP include calculating margin amounts, such as variation margin and initial margin; paying and receiving coupons and fees on trades; receiving and processing post-trade events, such as assignments or terminations; and performing netting of portfolios through various methods.

CENTRAL COUNTERPARTY (CCP) LINK
Links between central counterparties (CCPs) that enable participants to clear positions in any linked CCP without needing to maintain multiple CCP memberships.

CENTRAL LIMIT ORDER BOOK (CLOB)
A trading model associated with firm, executable bids in a transparent order book. Trading is anonymous and participants can trade with anyone on the platform with firm pricing. This model is associated with listed and highly standardised over-the-counter (OTC) products where competitive pricing and deep liquidity allows for completely transparent bids and offers. Only the most liquid OTC
derivatives, such as long-dated IRS and Foreign Exchange transactions, are suitable for order book trading at present. Trade frequency for less liquid markets is too low to allow the continuous stream of prices that CLOB needs to function. For a common trading model which is associated more with less liquid markets see Request for Quote (RFQ).

**CENTRAL SECURITIES DEPOSITORY (CSD)**
A national or international organisation holding securities such as shares or bonds. The securities can either be certificated or uncertificated. Besides safekeeping, a central securities depository fulfils other services such as pledges, interest and dividend payments, principal processing, corporate actions, repo settlement, securities lending activities and matching.

**CENTRAL SETTLEMENT (CREDIT DERIVATIVES)**
A process by which the DTCC will settle cash movements and fees on eligible credit derivative trades using Continuous Net Settlement (CNS). The DTCC, via CNS, will net these payments to one net payment per currency per counterparty for a given value date.

**CENTRALISED EUROPEAN REGISTRY OF WHOLESALE ENERGY MARKET PARTICIPANTS (CEREMP)**
A database setup by ACER that supports a single registry of all market participants for REMIT reporting compliance. It is, however, possible for a National Regulatory Authority to choose to use its own registry, which will then sync up to CEREMP.

**CERTIFIED EMISSION REDUCTIONS (CERS)**
A type of emissions unit that is issued by the CDM (Clean Development Mechanism) Executive Board for emission reductions achieved by CDM projects under the Kyoto Protocol. It may be traded in emissions trading schemes.

**CHAPTER 11**
A form of US bankruptcy proceeding that involves the reorganisation of the business affairs, assets and debts of a bankrupt company. Otherwise known as bankruptcy...
protection, Chapter 11 is generally filed by corporations who may be able to restructure their business and emerge later as a going concern.

CHAPTER 15
A US bankruptcy proceeding catering to cross-border bankruptcies.

CHAPTER 7
A bankruptcy proceeding under US law where a company ceases trading. A trustee is appointed to liquidate the assets of the company in order to meet the claims of creditors.

CHARTER
A contract between a ship owner and charterer for the use of a vessel. Types of charters include voyage, or spot charter, time charter or bareboat charter. Other marine contract forms include the consecutive voyage charter (CVC) and the contract of affreightment (COA).

CHARTER PARTY
A contract under which the owner of a vessel (aircraft or ship) leases its vessel for a fixed period of time or a set number of voyages. The party that leases the vessel is called the charterer. Normally, the vessel owner retains rights of possession and control while the charterer has the right to choose the ports of call.

CHARTER PARTY AGREEMENT
A hire or lease contract between the ship-owner and the hirer or lessee (charterer). The charterer takes over the vessel for either a certain amount of time (a time charter) or for a certain point-to-point voyage (a voyage charter).

CHARTERER
A person or organisation that contracts to acquire a vessel, for a voyage or a period of time, to carry cargo.
CHEAPEST TO DELIVER
The security which is delivered upon the physical settlement of a derivative trade at the lowest cost to the deliverer. This is relevant only when a slightly different delivery is possible in the contract.

CHEAPEST-TO-CLEAR (CTC)
A pre-trade concept used in analyzing the cost of clearing. In addition to the costs of initial margin, safekeeping fees and transaction costs are considered as well.

CHICAGO MERCANTILE EXCHANGE (CME)
The world’s second-largest exchange for futures and options on futures and the largest in the United States. Products traded and cleared by the CME include interest rates futures and swaps, equities indices, real estate index futures, energy and environmental products, agricultural and weather products, metals, foreign exchange and over-the-counter (OTC) or privately negotiated trades.

CHOOSER OPTION
A European option which gives the buyer a fixed time frame to choose whether the option is a put or call.

CHUNNEL
A colloquial term for the EUR/GBP foreign exchange rate.

CITY GATE
The location or measuring station where a distributing gas utility receives or delivers gas to a pipeline or transmission system.

CLASSIFICATION SOCIETIES
Organisations, such as Lloyds Register (LR) and the American Bureau of Shipping (ABS), that establish and administer standards for the design, construction and operational maintenance of vessels. Vessels are normally required to be “in class” in order to meet flag state and underwriter requirements and to trade commercially.
**CLEAN DARK SPREAD**
Represents the net revenue a generator makes from selling power, having paid for the required coal and the necessary number of carbon allowances.

**CLEAN DEVELOPMENT MECHANISM (CDM)**
An agreement, defined in Article 12 of the Kyoto Protocol, to allow a country with an emission-reduction or emission-limitation commitment under the Kyoto Protocol (an Annex B Party) to implement an emission-reduction project in developing countries. Such projects can earn saleable certified emission reduction credits, each equivalent to one tonne of CO₂, which can be counted towards meeting Kyoto targets.

**CLEAN PRICE**
The price of a bond or swap excluding any accrued interest.

**CLEAN SPARK SPREAD**
Represents the net revenue a generator makes from selling power, having paid for the required gas and the necessary number of carbon allowances.

**CLEAN TANKERS**
Clean or product tankers carry refined hydrocarbon products, referred to as clean petroleum products (CPP).

**CLEARED SWAP**
Refers to any swap that is, directly or indirectly, submitted to and cleared by a derivatives clearing organisation registered with the commission.

**CLEARING**
Post-trade activity where: 1) Trade details from both buyer and seller are matched 2) The central clearing counterparty (CCP) becomes the counterparty for both the seller and the buyer in a trade, which helps to reduce the market risk for trading firms; and 3) The CCP takes certain risk management steps like netting of trades to reduce the total amount of cash flows.
CLEARING BROKER (CB)
An entity that acts as an intermediary on a cleared derivative contract and provides clients with access to a clearing house. This term is used in the same context in Europe as FCM in North America. The key difference though is that a clearing broker holds a principal relationship on a contract and acts as a legal counterparty on a cleared contract. In US parlance, FCMs act in an ‘agency’ capacity on a cleared contract.

CLEARING CONNECTIVITY STANDARD (CCS)
A free and public standardised data transfer format governed by ISDA to facilitate the reporting and clearing of OTC derivatives.

CLEARING HOUSE
A financial market infrastructure that provides clearing and settlement services and ensures delivery of payments for its members’ transactions. Also referred to as a multilateral clearing organisation, centralised or central counterparty, clearing association or derivatives clearing organisation [in the United States].

CLEARING MANDATE
A mandate by the Dodd-Frank Act that certain over-the-counter (OTC) transactions be cleared by a Derivatives Clearing Organisation (DCO).

CLEARING MEMBER
A member of a clearing organisation. Each clearing member must also be a member of the exchange. Not all members of the exchange, however, are members of the clearing organisation. All trades of a non-clearing member must be registered with, and eventually settled through a clearing member. In the case of OTC clearing, there are two types of clearing house memberships: direct and client cleared. Direct members must meet the CCP’s membership requirements (e.g., a minimum size of trade portfolio, a minimum amount of tier 1 capital and a minimum credit rating) to qualify as a member of the CCP. A client clearing member usually cannot meet the CCP’s membership requirements and needs to clear through a direct member.
A relationship must be negotiated in order for the direct member to act as a clearing broker or Futures Commission Merchant (FCM), interacting with the CCP on its behalf.

**CLIENT CLEARING**
Clearing for the client of a direct member of a clearing house that does not meet the eligibility rules to be a direct member. A client clearing member is able to clear trades via an intermediary who provides a client-clearing service. The intermediary stands between the clearing house and the client, handling all cash flows, including coupons, one-off fees and all margin calls from the clearing house to the client. Under the Dodd-Frank Act, clearing members must register as FCMs if they wish to act as intermediaries and clear client trades.

**CLIENT DUE DILIGENCE**
Measures to verify that the client is who they say they are according to money laundering regulations.

**CLIQUET**
A structured trade where the payoff can be likened to that of a series of consecutive forward-starting options, the strike price of each being the settlement price of the previous. The profit from each period (being the strike price differential) can either be paid after each period, held to maturity and then paid—or manipulated in a more exotic fashion at maturity. Also known as ratchet option or cliquet option.

**CLOSE-OUT NETTING**
The process following the occurrence of a termination event or an event of default by one or both counterparties under an ISDA master agreement, resulting in the designation or occurrence of an early termination date and the early termination of all affected transactions. The net exposure one party has to its counterparty in respect of the terminated transactions is determined to arrive at a net settlement amount owing from one party to the other.
CLOSEOUT RISK
The risk that closeout proceedings pose to either party, in a set of bilateral transactions and in the event of a default in one of the parties. Closeout risk can consist of a variety of factors, including market risk (e.g., the residual contract value, value of collateral), liquidity risk (e.g., the risk that bilateral contracts cannot be replaced during closeout) and correlation risk (e.g., depending on whether the residual contract is valued at replacement cost or risk-free cost, the correlation between exposure and undefaulted party can impact the contract value determined at closeout).

CLOSING PRICE (OR RANGE)
The price (or price range) recorded that takes place in the final moments of a day’s trade that are officially designated as the “close”.

CLOSING TRADE
A trade which is used either to partly offset an open position or to fully offset it and close it out.

COGENERATION
A term used to describe plants (power generation or certain refinery processes) in which waste heat is recycled to produce electricity or steam—or to heat material prior to processing. See also “combined heat and power”.

COLLAR
A financial instrument trading strategy involving the purchase of an out-of-the-money put option and the sale of an out-of-the-money call option on the long position for the underlying and at the same maturity. A collar allows for limited upside gains and limited downside losses.

COLLATERAL
An acceptable asset or cash posted to/by a counterparty used as a credit risk mitigation tool. Over-the-counter (OTC) derivative collateralisation arrangements are typically
documented using the English law or New York law Credit Support Annex (CSA) to the ISDA master agreement. These annexes detail the economic and operational characteristics of the collateral relationship.

**COLLATERAL ALLOCATION**
A process whereby available collateral in an institution is allocated to business units or concrete businesses. Due to collateral transfer pricing (cost of collateral), the process has a significant impact on profitability of a certain business.

**COLLATERAL CALL**
The process by which a demand for margin/collateral is issued to a counterparty following the calculation of the collateral requirement. Collateral requirements are usually calculated on a daily basis.

**COLLATERAL CRUNCH**
A situation where the supply of collateral is insufficient to cover collateral demand. Thus, collateral becomes expensive and a general shortage for market participants.

**COLLATERAL DISPUTE**
The process by which a counterparty disputes a collateral call. A dispute can occur due to discrepancies in calculated collateral requirement. This can be caused by different input variables or missing derivative trade positions. ISDA 2009 Dispute Resolution Procedure recommends disputes be resolved by a portfolio reconciliation.

**COLLATERAL IN TRANSIT (PENDING MOVE)**
Collateral that has been instructed to be transferred but has not yet settled. For the purposes of the margin call calculation, pending collateral moves are considered to have settled.

**COLLATERAL INSTRUCT**
A message, generally sent electronically in SWIFT format, to pledge or release collateral from a collateral account for fulfilling an agreed margin call.
**COLLATERAL LADDER**
Describes forecasted collateral movements of known trades. It is used to consider the settlement of securities/collateral or maturity of existing trades. In contrast, new trades and margin calls are originally not subject. At least the latest could be modeled and thus, regarded as a valuable extension.

**COLLATERAL MANAGEMENT SYSTEM (CMS)**
The software used to manage collateral obligations and bookings of received collateral. Thereby, the collateral management system has several functions such as valuations, reconciliation or dispute management. Both stand-alone or integrated solutions are available in the market.

**COLLATERAL MORTGAGE OBLIGATION (CMO)**
A financial product that receives the mortgage repayments and owns the mortgages it receives cash flows from (called a pool). Investors get cash based on the specific tranche[s] they had invested in. CMOs were first issued in 1983 by investment banks First Boston and Salomon Brothers for the Federal Home Loan Mortgage Corp (Freddie Mac).

**COLLATERAL OPTIMISATION**
The process of allocating the cheapest to deliver collateral across a party’s obligations to reduce funding and transaction costs, while also considering collateral desirability and maintaining liquidity.

**COLLATERAL POOL**
A technique of collateralisation that enables an institution to post collateral to a specific party without allocating it to a specific transaction. Usually, collateral pools are used for central banks and central counterparties (CCPs).

**COLLATERAL REQUIREMENT**
The amount of collateral that needs to be transferred to satisfy the counterparty’s requirements.
COLLATERAL ROUNDELING AMOUNT
Rounding applied to calculated margin amount in order to avoid posting odd amounts.

COLLATERAL SUBSTITUTION
The process whereby posted collateral is substituted by another collateral, most likely a security. This could be done within a certain asset class or by different asset classes.

COLLATERAL SWAP
A transaction whereby high-quality assets are lent to one party and in return the other party receives interest and low-quality assets to mitigate risk. Normally this transaction is made between banks and institutional investors, e.g., insurance or pension funds. The lender benefits from extra profits on his or her assets, whereas the borrower can cost-effectively fulfil his or her collateral obligation.

COLLATERAL TRACKING
The ability for a client to track where its collateral is located at any point in the margining process, particularly when its collateral management is outsourced to a collateral manager or custodian.

COLLATERAL TRADING
The act of accumulating all front-office activities with regard to collateral. With the move to the front office, collateral substitutions, repos or securities lending trades are performed in order to either optimise posted collateral or generate extra profits from collateral transformation. Thereby, collateral is regarded as a new and independent asset class.

COLLATERAL TRANSFER PRICE (CTP)
The price to transfer collateral from the asset holder (the provider) to the beneficiary. The beneficiaries or users of the collateral are generally internal to the firm and would be charged the CTP by the provider based on the time duration of the underlying trade. CTP is a key element to transform collateral management into a profit center for the asset
holder. The beneficiary would be able to allocate the CTP cost to the underlying trading activity, thereby maintaining accurate pricing of a deal.

**COLLATERAL TRANSFORMATION**

A service offered by financial institutions to their clients in which the quality of collateral maybe upgraded or downgraded. Usually, this is done by a collateral swap or by a repo. A collateral downgrade maybe offered to clients such as pension funds or life insurances in order to gain extra return on the hold portfolio.

**COLLATERAL VALUE**

The mark-to-market (MTM) of a posted collateral minus applied haircuts. The collateral value has to meet the specific margin call.

**COLLATERALISED DEBT OBLIGATION (CDO)**

A structured financial product that pools various cash flow generating assets (such as mortgages, bonds and loans) together and creates risk-based tranches that can be sold to investors. The risk of a tranche is determined by attachment and detachment points. Riskier tranches (junior tranches) earn higher premiums to compensate for higher risks. Senior tranches are less risky and offer lower coupons.

**COLLATERALISED DEBT OBLIGATION SQUARED (CDO²)**

A Collateralised Debt Obligation (CDO) structure where the underlying portfolio is made up of CDOs or tranches of CDOs.

**COLLATERALISED LOAN OBLIGATION (CLO)**

The securities issued by a special purpose vehicle (SPV) where the cash flows payable under such securities are generated from the receivables on a portfolio of business loans. The securities are typically structured in a variety of tranches and categorised by their risk profiles. CLOs allow financial institutions to reduce regulatory capital requirements by selling portions of their commercial loan portfolios to a different class of investors, reducing the risks associated with lending.
COMBINED CYCLE GAS TURBINE (CCGT)
An energy-efficient gas powered system where gas combustion drives a gas turbine. The exhaust gases pass through a boiler generating steam that drives a second turbine.

COMBINED HEAT AND POWER (CHP)
The production of two forms of energy, such as high-temperature heat and electricity, from the same process. For example, the steam produced from boiling water could be used for industrial heating. In the United States, the term typically used for this process is co-generation.

COMMERCIAL MANAGER
A person or company appointed by the owner or disponent owner, to keep the vessel employed by arranging charters and conducting the commercial, or voyage, operations.

COMMERCIAL MORTGAGE BACKED SECURITY (CMBS)
A type of bond or note issued by a special purpose vehicle (SPV), where the bond or note is backed by an underlying pool of commercial mortgages. The principal and interest generated by the underlying pool of assets effectively service the principal and interest obligations of the bonds or notes.

COMMERCIAL POOL
A group of similar size and type vessels, owned by different ship owners that are placed under one administrator or manager. Pools have a stronger negotiating position in freight markets and provide owners with scheduling and other operating efficiencies.

COMMITTEE ON PAYMENT AND SETTLEMENT SYSTEMS (CPSS)
A Bank for International Settlements (BIS) committee that contributes to strengthening the financial market infrastructure through promoting sound and efficient payment, clearing and settlement systems. It also serves as a forum for central banks to monitor and analyse.
developments in domestic payment, settlement and clearing systems, as well as in cross-border and multi-currency settlement schemes.

COMMODITIES
Products/goods, such as oil, metals and crops, which can be traded on local, international commodity exchanges or over the counter. They are commonly traded on a spot basis, futures or forward basis. The product/good is indifferent to who produces it, i.e., they’re indistinguishable from Farmer A and Farmer B (or Oil Company A or Oil Company B).

COMMODITY CHARGE
A charge paid by a shipper to an operator based on the total volume of commodity transported in a billing period.

COMMODITY DERIVATIVE
A contract deriving its value from a single commodity, or from a basket of assets comprised mainly of commodities. Derivative instruments are most commonly cash settled but can sometimes be physically settled.

COMMODITY EXCHANGE ACT
Initially passed in 1936, an act that is meant to regulate commodity futures trading in the United States. The act provides the structure and framework under which the Commodity Futures Trading Commission (CFTC) operates.

COMMODITY FUTURES
An agreement to buy or sell a commodity on an exchange on specific date, at a specific price and under standard market terms.

COMMODITY FUTURES TRADING COMMISSION (CFTC)
An independent agency of the central government set up to regulate the US commodity futures and options markets, recently given responsibility for driving and monitoring US derivatives reform under the Dodd-Frank Act.
COMMON REPORTING (COREP)
A standardised framework for reporting financial and capital information (capital adequacy, group solvency, securitisations, large exposures) by financial institutions in the European Union.

COMMON STOCK
Represents units of ownership of a public corporation. Owners of stocks (or shares of stock) are entitled to vote on the selection of directors and other important matters as well as to receive dividends when they are declared. In the event that a corporation is liquidated, the claims of bond holders, secured/unsecured creditors and preferred stock holders take precedence over the common stock holders.

COMPLIANT CULTURE
Culture across the organisation of knowing and understanding what it is expected in terms of compliance responsibility at an individual level.

COMPONENT VAR
For a portfolio of positions, the dollar-amount contribution to the overall VaR which is provided by that position. The sum of the component VaRs for each position gives the total portfolio VaR.

COMPOUND OPTION
An option which has another option as its underlying security. Primarily used in currency and fixed income markets, a compound option allows the buyer to hedge an uncertain risk whilst incurring a low premium cost.

COMPOUNDING
The process by which the value of an investment increases by adding the accumulated interest back on the principal amount. In effect, the investment is earning interest on interest as well as principal.
CONCENTRATION LIMIT
A requirement to diversify a collateral portfolio via a percentage threshold for a certain type of collateral that can make up a party’s margin account. For example, a party may determine that no more than 5% of the counterparty’s collateral portfolio be Greek debt.

CONDENSATE
A light oil, primarily a mixture of pentanes and higher-chained molecules, containing some dissolved hydrocarbon gases which remain liquid at normal temperature and pressure.

CONDITIONAL VAR (CVAR)
A weighted average of all the observations in the tail of a distribution that is defined by the VaR calculation. Also known as "Expected Shortfall". CVaR attempts to indicate the magnitude of the gains or losses in the tail of the distribution.

CONDITIONAL VARIANCE SWAP
A variance swap which accrues realised volatility only when the previous day’s underlying price falls within a pre-specified range. There are three main types of conditional variance swaps: up-variance, down-variance and corridor variance swaps.

CONFIRMATION
A written record of the contractual trading terms agreed between two counterparties setting out the economic terms of an individual over-the-counter (OTC) transaction.

CONSECUTIVE VOYAGE CHARTERS (CVC)
A contract in which the charterer hires a particular vessel for two or more voyages. Freight is determined based on the volumes of cargo carried and the voyages performed. As opposed to a time charter, any delays during the ballast voyage, such as weather delays, are for the owner’s account.

CONSENT EQUALS CONFIRMATION (C=C)
An automated, single-step process for novations of credit derivative transactions where the action of the consent by
the three parties to the novation on the novation consent platform results in the automatically generated legal confirmation in the Trade Information Warehouse (TIW).

**CONSTANT MATURITY SWAP (CMS)**
A type of interest rate derivative whereby the floating rate index on one (or both) legs is a swap rate from the swap curve. On the index reset dates, the swap rate is typically sourced from the ISDAFIX service. A CMS where both legs reference different swap rates on the same yield curve is known as a yield curve swap.

**CONSUMER FINANCIAL PROTECTION BUREAU**
A body which regulates services and financial products for the public in accordance with federal laws. The bureau was created by the Dodd-Frank Act.

**CONSUMER PROTECTION**
Laws that protect the interest of consumers by disclosing detailed information about products, preventing unfair trade practices and misrepresentation.

**CONTANGO**
A market condition where the futures price for a specific underlyer is above the spot price for the same underlyer. This is the opposite of normal backwardation.

**CONTINUOUS LINKED SETTLEMENT (CLS)**
A service offered by CLS Bank International that reduces settlement risk through a simultaneous, global, multi-currency settlement system.

**CONTRACT FOR DIFFERENT (CFD)**
An agreement between two parties such that at the end of the contract, the parties exchange the difference between the opening and closing prices of a specified financial instrument. It allows one to trade on the price movements.
without actually owning the underlying instrument specified in the contract. CFDs provide tax advantages and flexibility relative to other financial instruments.

**CONTRACT OF AFFREIGHTMENT (COA)**
An agreement between a ship owner and charterer providing for the transportation of a specific quantity of cargo over a specific time period. Commonly used in the chemical parcel trade, the charterer nominates cargos at the agreed intervals, and the ship owner nominates any vessel from his fleet to perform the voyage.

**CONVERGENCE**
The movement of the spot price and the futures price of an asset towards a common point as the expiration date of the futures contract approaches.

**CONVEXITY**
Denotes a non-linear relationship between two variables. Within a financial context, the term convexity can be used to describe a non-linear price/yield relationship for a fixed-income security. It can also be used for derivatives to describe a situation whereby the payoff of a derivative security is not linear with respect to price movements in the underlying asset.

**COOLING DEGREE DAYS**
The number of degrees per day that the daily average temperature is above 65 degrees Fahrenheit. The daily average temperature is the mean of the maximum and minimum temperature for a 24-hour period.

**COORDINATED UNIVERSAL TIME (UTC)**
A time standard used worldwide that can generally be interchanged with Greenwich Mean Time (GMT), but is based on atomic time and may require the addition or deletion of one full second to account for fluctuations in the speed of earth’s rotation.
COPPER RECORDS
A unilaterally submitted, non-legal representation of a trade submitted to the DTCC Trade Information Warehouse (TIW). Copper records were introduced to meet the industry requirement to centrally record non-electronically confirmed transactions in a trade repository for Credit Default Swap (CDS) contracts.

COPULA
A statistical tool describing how the distribution of single risks join together to form joint risk distribution. Copulas are used in the valuation of synthetic Collateralised Debt Obligation (CDO) tranches and other correlation-sensitive products.

CORPORATE
A term used in the credit derivative market to describe a borrower that is a limited company (or similar entity), but that is not a government, bank or insurer.

CORPORATE ACTION
Actions undertaken by a corporate entity that affect all stakeholders in the entity is defined as corporate action. The actions are usually approved by the board of directors. Certain actions require the approval of majority stakeholders in the company. Examples of corporate actions include dividends, splits and reverse splits.

CORRECTION
A reversal in the price trend when an asset’s value has overshot or undershot far from its intrinsic value. It usually refers to a retrenchment in the price of an instrument that partially reverses recent price increases.

CORRECTIVE CONTROL
A control that occurs after an event and restores the system or process back to the state prior to a harmful event. A corrective control mitigates consequences of events (e.g., fines and reputation) and may become action plans.
CORRELATION
A statistical measure of the extent to which the movements of two variables are related. In finance, it is normally used to describe the relationship between the price movements of two financial instruments. Correlations range from -1 (perfectly anticorrelated) to 1 (perfectly correlated). The value of 0 signifies that the price movement/return is independent.

CORRELATION SWAP
A forward contract whose value is based upon the average correlation between members of a basket of underlyings. The final payoff is proportional to the difference between the realised average correlation between basket members and a pre-agreed strike correlation.

CORRIDOR VARIANCE SWAP
A conditional variance swap which accrues realised volatility only when the previous day’s underlying price is between two pre-specified levels.

COST BASIS
The original price of an asset, such as stocks, bonds, mutual funds, property or equipment. Cost basis includes the purchase price and any associated purchase costs and is adjusted for stock splits, dividends and return of capital distributions. Cost basis is needed because tax is due based on the gain in value of an asset.

COST, INSURANCE AND FREIGHT (CIF)
A trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination and provide the buyer with the documents necessary to obtain the goods from the carrier. In addition, the seller must procure and pay for the insurance. However, risk is transferred to the buyer once the goods are loaded onto the vessel.

COUNCIL OF EUROPEAN ENERGY REGULATORS (CEER)
The Council of European Energy Regulators (CEER) is a “not-for-profit” organisation in which Europe’s national regulators of electricity and gas voluntarily cooperate to
protect consumer’ interests and to facilitate the creation of a single, competitive and sustainable internal market for gas and electricity in Europe.

**COUNTERPARTY CREDIT RISK**  
In the context of trading over-the-counter (OTC) derivatives, the risk that a counterparty will fail to meet its obligations due to a deterioration in its credit worthiness.

**COUNTRY OF RISK**  
The country exposure embedded in an investment. The exposure can be credit, market or revenue exposure.

**COUPON**  
The rate of interest paid on a security, expressed as a percentage of the principal value or as a floating rate based on a reference rate such as LIBOR. The interest is paid to the holder of the security by the issuer (the borrower). The coupon is generally paid annually, semi-annually or, in some cases, quarterly depending on the type of security.

**COVERED OPTION**  
A trading strategy whereby a written financial instrument is matched by an opposing cash or stock position in the underlying asset or by an opposing financial instrument position of specific characteristics. An example is when an investor has a short-term neutral view on the asset and for this reason, the investor holds the asset long and simultaneously has a short position via an option to generate income from the option premium.

**CRACK SPREAD**  
A calculation of the worth of a barrel of crude oil in terms of the value of its refined products, such as gasoline and heating oil. Crack spreads may be based on a variety of refinery models and also depend on the type of crude input. In the futures markets, a crack spread specifically refers to a spread trade that involves buying and selling contracts in crude oil and one or more of its derivative products simultaneously.
CRACKING
Process of breaking down heavy products like crude oil into lighter by products like liquefied petroleum gas (LPG) or gasoline. It splits larger molecules into smaller ones.

CREDIT CONTINGENT THRESHOLD
A threshold for collateralisation purposes that is contingent on the credit rating of a party. In the event that a party’s credit rating changes, the threshold either reduces or increases. Minimum transfer amounts can also be credit-rating contingent.

CREDIT DEFAULT SWAP (CDS)
The simplest credit derivative contract, designed to isolate credit risk and allow it to be transferred between parties. In a single name and index Credit Default Swap (CDS), the credit risk of a reference entity is transferred from protection buyer to protection seller. In return, the protection buyer pays the seller a fixed rate premium over the life of the CDS transaction or until a credit event occurs, in which case there is a compensatory payment made from the protection seller to the protection buyer.

CREDIT DERIVATIVE
An over-the-counter (OTC) financial derivative instrument that allows a lender or borrower to transfer the default risk of a loan to a third party. The lending party enters into an agreement (swap/option) with a counterparty (usually another lender), who agrees, for a fee, to cover any losses incurred in the event that the borrower defaults. If the borrower does not default, then the insuring counterparty pays nothing to the original lender and keeps the fee as a gain.

CREDIT DERIVATIVE CASH SETTLEMENT
Settlement of a credit derivative contract after the occurrence of a credit event, by means of a payment from protection seller to protection buyer. The payment is equal to the difference in the notional of the contract and the final price of an agreed reference obligation, as determined by cash settlement valuation mechanics or in a credit event auction.
CREDIT DERIVATIVE PHYSICAL SETTLEMENT
Settlement of a credit derivative contract after the occurrence of a credit event by the delivery of a deliverable obligation of the reference entity from protection buyer to protection seller. Under physical settlement, the seller also pays the buyer the face value of the deliverable obligations it receives. Physical settlement requests can now be submitted as part of the auction process for predetermined obligations.

CREDIT EVENT
An event linked to the deteriorating creditworthiness of an underlying reference entity in a credit derivative transaction. Depending on the exact nature of the contract, the occurrence of a credit event could trigger full or partial termination of the contract and a compensatory payment from protection seller to protection buyer, through either physical or cash settlement. The market standard credit events include bankruptcy, failure to pay and restructuring. However, some contracts also include obligation acceleration, obligation default and repudiation/moratorium. The ISDA Determinations Committee now publishes its decisions as to whether a credit event has occurred on a particular reference entity on eligible credit derivative transactions.

CREDIT EVENT AUCTION
An independently administered synthetic auction process on a set of defined deliverable obligations that sets a reference final price that can be used to facilitate cash settlement of all covered transactions following a credit event.

CREDIT EVENT NOTICE (CEN)
One of the notices required to be delivered to trigger a credit derivative transaction when a notifying party believes a credit event has occurred. A CEN must contain a description in reasonable detail of the facts relevant to the determination that a credit event has occurred. It should be noted that the delivery of the notice is a process to facilitate settlement and that delivery of the notice does not override fact or law. The CEN is typically coupled with a Notice of Publicly Available Information (NOPS).
CREDIT LINKED NOTE (CLN)
Equivalent to a funded credit derivative, a security that has an embedded credit default swap. It allows the issuer to transfer some of the credit risk to credit investors. The issuer is not obligated to repay the debt in the event of default. The coupon payable on the CLN reflects the credit quality of both the issuer and the underlying reference entity(s). CLNs mature below par if any of the underlying reference entities suffers a credit event during the life of the issuance.

CREDIT SUPPORT ANNEX (CSA)
An annex to the ISDA Master Agreement which contains the agreed collateral terms between the parties. There are English law and New York law versions. Relevant terms contained in CSAs include thresholds, independent amounts and minimum transfer amounts.

CREDIT VALUATION (OR VALUE) ADJUSTMENT (CVA)
The difference between a portfolio valued without counterparty credit risk and a portfolio valued with counterparty credit risk. The equation for this can be seen below:

\[
\text{Credit Valuation Adjustment (CVA)} = (\text{Expected Positive Exposure}) \times (\text{Counterparty Default Probability}) \times (\text{Counterparty Loss Given Default})
\]

CROSS CURRENCY INTEREST RATE SWAP
An interest rate swap where the two legs of the swap are denominated in different currencies.

CROSS OPTION
An option, typically equity or commodity, which pays out in a currency other than the local currency of the underlying asset. The two main types of cross options are quanto and composite (or “compo”).

CROSS-BORDER OR EXTRATERRITORIALITY
A term used when a trade between two counterparties crosses the borders of two regulatory jurisdictions. This could, for
example, be a trade between a European and US counterparty. In this case, the trade would apply to both the jurisdiction of the Commodity Futures Trading Commission (CFTC) and European Securities and Markets Authority (ESMA).

CROSS-MARGINING
In a European context, cross-margining refers to offsetting margin payments between cleared over-the-counter (OTC) and exchange-traded (ETD) products. An example is EUREX PRISMA where margin on a cleared OTC interest rate (IR) swap can be offset with a Eurex swap future. In the United States, cross-margining can only take place between ETD contracts. For example, netting the margin between Eurodollars and US treasury futures. The term “Portfolio Margining” is used in the United States when describing margin offsetting between OTC and ETD instruments.

CROWDFUNDING
A method of credit provision that connects borrowers with multiple lenders disintermediating traditional credit institutions, usually by attracting capital through the internet. Also called peer-to-peer lending (P2P).

CRUDE STABILISATION
The removal of light gases and hydrogen sulphide from oil. Stabilisation “sweetens” the sour crude through the removal of hydrogen sulphide and by reducing the vapour pressure, making the oil safer to ship in tankers.

CRUSH SPREAD
The differential between the value of soybean meal and soybean oil less the cost of the soybeans. This spread can constitute a trading strategy placed to manage risk between soybean, soybean oil and soybean meal future prices. By establishing long position in soybean and short position in soybean oil and soybean meal, the trader takes a directional position in profit margin of the soybean processor.
CRYPTOCURRENCY
A medium of exchange that is not issued by a central authority, but mined through users’ processing power and secured using cryptography.

CURB TRADING
Trading that takes place outside of official market hours. The practice is illegal as per the Commodity Exchange Act.

CURRENCY FUTURE
An exchange-traded contract which requires delivery by one party to another party of a specific amount of one currency at a specified future date, in return for a specific amount of a second currency. Also known as an FX future.

CURRENCY HEDGING
The activity of managing the risk from currency exposure. Hedge instruments include futures, forwards, swaps and options.

CURRENCY OVERLAY
A program dedicated to the management of existing currency risk in a portfolio; currency exposures are treated as a separate decision from the overall asset allocation. The objective of currency overlay programs is to limit losses and maximise gains that arise from currency risk.

CURRENCY SWAP
An agreement between two parties to exchange payments in one currency for payments in the equivalent value of another currency. Such payments will typically involve a principal amount and interest payments.

CUSIP
A unique, nine character, alphanumeric identification code, allocated by the Committee on Uniform Securities Identification Procedures to all registered bonds and stocks settling through the US/Canadian clearing systems.
**CUSTODIAN**
An agent, bank, trust company or other organisation which holds and safeguards an individual’s, mutual fund’s or investment company’s assets for them. In addition, custodians administer securities and financial instruments on their clients’ behalf.

**CUSTOM BENCHMARK**
Utilised when assessing investment returns for unique risk/return profiles for specific clients or “buy-side” investment managers. Unlike benchmarks linked entirely to a popular index such as the S&P 500, a custom benchmark is comprised of varying weights of published indices. They can also be constructed “bottom up” with varying weights on an individual constituent basis, such as 10 of the largest market cap oil companies or all government bonds issued by Japan with maturity between 25 and 30 years.

**CUSTOMER-FACING TRADE RATIO**
A ratio comparing the transactions involving a counterparty that is a customer of the trading desk to the transactions involving a counterparty that is not a customer of the trading desk. There are two types: trade count based and trade value based.

**CUSTOMER-FACING ACTIVITY MEASUREMENTS**
A set of three risk metrics mandated by the Volcker Rule, designed to characterise trading desk activities and distinguish customer transaction volumes as a fraction of overall business. The three risk measurements are: customer facing trade ratio, inventory aging and inventory turnover.

**CV01**
Dollar value price change of a security resulting from a one basis point move in the relevant credit spread. It is calculated by multiplying the dirty market value by the modified duration (for one basis point).
DARK POOLS
Private or alternative trading venues which operate in parallel to the mainstream exchange-traded market and allow participants to transact without publicly displaying quotes. Orders are anonymously matched and there is no obligation for either party to report executed transactions or the prices at which they are executed to a regulatory body. Price discovery in the mainstream markets can be distorted by such venues, as the transactions processed within them have effectively become over-the-counter (OTC) in nature.

DARK SPREAD
The price difference between the market price of electricity and the market price of the coal used to generate the electricity.

DATED BRENT
A term for a physical cargo of Brent blend crude that has received a specific date when it will be loaded onto a tanker. This occurs 15 working days ahead of loading (not including weekends and bank holidays).

DAY COUNT FRACTION
The number of days in the calculation period divided by the number of days in the year (as modified by the applicable business day convention). The day count fraction is then used to calculate payments due on a transaction.

DAY ORDER
An order that expires automatically at the end of each day’s trading session if it has not met its conditions for execution.

DAY TRADING
When a security or commodity underlying is bought and sold within the space of a single trading day.
DE MINIMIS THRESHOLD
The notional threshold of swap positions related to swap dealing activity above which requires an entity to register as a swap dealer with the Commodity Futures Trading Commission (CFTC). Generally defined as a gross notional amount greater than one billion dollars over the past year.

DEADFREIGHT
Charge payable on space booked on a ship but not utilised by the charterer or the shipper. It is imposed at full freight rates, less loading and handling charges.

DEADWEIGHT TONNAGE (DWT)
The measurement of a vessel’s carrying capacity. The cargo capacity of a vessel is equivalent to the deadweight tonnage minus the weight of any consumables on board, such as fuel, lube oil, drinking water, stores and crew.

DEALER POLL
The process of finding a reference price for an asset by obtaining quotes from multiple dealers. Additionally, polls can be conducted to establish the price of a defaulted bond or loan following a credit event.

DEBT VALUATION (OR VALUE) ADJUSTMENT (DVA)
The difference between a portfolio valued without own-credit risk and a portfolio valued with own-credit risk. The equation for this can be seen below:

\[
\text{Debt Valuation Adjustment (DVA)} = (\text{Expected Negative Exposure}) \times (\text{Own Defaul Probability}) \times (\text{Own Loss Given Default})
\]

DEBT-TO-CAPITAL RATIO
One of a number of “quick” financial ratios used to determine a company’s financial leverage. Calculated as the total debt (all long and short-term obligations) divided by total capital. Total capital includes all shareholder equity (common and preferred stock and any minority interests) plus all debt. The higher the ratio, the more levered the company.
DEEMED COMPLIANT FFIS
Entities which are excluded from the definition of Foreign Financial Institutions (FFIs). To obtain a deemed compliant status, FFIs have to apply for an FFI identification number (FFI-EIN) from the Internal Revenue Service (IRS) and get it certified every three years.

DEFAULT
The failure of a party to honour its obligations under a financial contract.

DEFAULT FUND (GUARANTEE FUND)
A fund formed by compulsory contributions from clearing members, held by the clearing house and used to deal with the consequences of a clearing member default. This fund is a risk mutualisation mechanism that is only used after the defaulter’s variation and initial margin and default fund contributions have been exhausted. See also “default waterfall”.

DEFINITIONS
The market standard provisions by reference to which the terms of a derivative transaction are described. The definitions are published and maintained by the International Swaps and Derivatives Association (ISDA).

DELAYED SETTLEMENT COMPENSATION
A component of pricing in the settlement of debt trades that do not close on a timely basis (T+7 for par and T+20 for distressed). It is intended to put parties in the approximate economic position on the settlement date that they would have been in if they had closed on a timely basis.

DELEGATED REPORTING
Refers to the delegation of a regulatory reporting obligation to the counterparty of a trade or a third party. In that case, the counterparty or a third party would report a transaction on behalf of the party that had delegated its reporting obligation to them.
DELISTING
The removal of a security from an exchange. The trading of the security on the exchange is discontinued after the delisting. However, the security can still change hands off the exchange. A security is usually delisted if it fails to meet certain norms required for it to be listed on the exchange or if the company sees value in the stock and delists it to prevent profits from being distributed to other stakeholders.

DELIVERABILITY
The rate, in a given period, at which gas can be supplied from a storage facility. In underground storage, the rate would depend upon a number of factors, including reservoir pressure, reservoir rock characteristics and pipeline capacity. The term is also used for the volume of gas that a field, pipeline, well, storage or distribution system can supply in a single 24-hour period.

DELIVERABLE OBLIGATION
Debt obligations of a reference entity that are eligible to be delivered upon physical settlement of a credit derivative contract after the occurrence of a credit event.

DELIVERED EX SHIP (DES)
Where goods are delivered ex ship, the passing of risk does not occur until the ship has arrived at the named port of destination and the goods made available for unloading to the buyer. The seller pays the same freight and insurance costs as he would under a cost, insurance, freight (CIF) arrangement. Unlike cost and freight (CFR) and CIF terms, the seller has agreed to bear not just cost, but also risk and title up to the arrival of the vessel at the named port. Costs for unloading the goods and any duties, taxes, etc. are for the buyer. A commonly used term in shipping bulk commodities, such as coal, grain and dry chemicals; and where the seller either owns or has chartered his own vessel.

DELIVERY
The physical movement from seller to buyer of the underlying asset on which the derivative is based.
**DELTA**
The rate of change in price of an option with respect to the change in price of the underlying instrument, with all other factors held constant. The equation below illustrates the mathematical formulation for delta, where \( V \) is the value of the option and \( S \) is the price of the underlying:

\[
\Delta = \frac{\partial V}{\partial S}
\]

**DELTA NEUTRAL**
A position that is designed to have an overall delta of zero, meaning that the portfolio’s value is relatively insensitive to movements in the price of the underlying asset.

**DEMAND CHARGE**
A charge paid by a shipper to an operator based on the reservation volume of commodity that may be transported in a billing period. The shipper does not have to ship any volume but has the obligation to pay for reserved capacity.

**DEMAND-SIDE MANAGEMENT (DSM)**
The planning, implementation and monitoring of utility activities designed to encourage consumers to modify patterns of electricity usage, including the timing and level of electricity demand. It refers only to energy and load-shape modifying activities that are undertaken in response to utility-administered programs. It does not refer to energy and load-shape changes arising from the normal operation of the marketplace or from government-mandated energy-efficiency standards. DSM covers the complete range of load-shape objectives, including strategic conservation and load management, as well as strategic load growth.

**DEMURRAGE**
Revenue paid to a ship owner by the charterer for port delays which are, for the account of the charterer, calculated in accordance with specific charter terms.
DEPOSITORY RECEIPT
A type of financial security that represents an interest in foreign stocks. Traded on a local stock exchange, depository receipts allow investors to trade on local exchanges and own foreign shares without executing the corresponding currency transaction. The depository receipts issued by US banks are known as American Depositary Receipts (ADRs). European banks issue European depository receipts, and other banks issue global depository receipts (GDRs). Both ADRs and GDRs are usually denominated in US dollars, but can also be denominated in Euros.

DEPOSITORY TRUST AND CLEARING CORPORATION (DTCC)
A holding company consisting of five clearing corporations and one depository, making it the world’s largest financial services corporation dealing in post-trade transactions. The DTCC provides clearance, settlement and information services for equities, corporate and municipal bonds, unit investment trusts, government and mortgage-backed securities, money market instruments and over-the-counter (OTC) derivatives. It also manages transactions between mutual funds and insurance carriers and their respective investors.

DEPOTBANK
Custodial bank services specific to Germany and German law. In German collateral management, a second layer of approval is required before assets move for initial margin, such that a Depotbank must affirm that the client does indeed have the collateral it is pledging.

DERIVATIVE
A financial contract that transfers risk from one party to the other. A derivative derives its value from the price or level of an underlying asset or measurement, such as a bond, loan, equity, currency, commodity, index, published interest rate or a combination of the above.

DERIVATIVES CLEARING ORGANISATION (DCO)
A clearing house that enables parties to a transaction to substitute, through novation or otherwise, the credit
of the clearing organisation for the credit of the parties. The term Derivatives Clearing Organisation was defined under the Commodity Futures Modernization Act of 2000 (CFMA). The DCO must register with the Commodity Futures Trading Commission (CFTC) before it can begin providing such services. The CFTC has issued several rule proposals related to DCOs, including: i) Financial resource requirements for derivatives clearing organisations and “systemically important” derivatives clearing organisations (SIDCOs) ii) Governance, conflict of interest mitigation and risk management requirements.

DESIGNATED CONTRACT MARKETS (DCM)
A board of trade or exchange historically designated/regulated by the Commodity Futures Trading Commission (CFTC) to trade futures, options, commodity futures and commodity options. DCMs have been expanded to allow swap activity as a result of the Dodd-Frank Act.

DESIGNATED MATURITY
The time period for which the floating rate in a derivative transaction is quoted. For example, six month USD LIBOR, five year CDS, etc.

DETACHMENT POINT
The trigger point above the attachment point, at which losses-due-to-default in the underlying portfolio completely wipe out the tranche. For example, a 3-7% tranche has a 7% detachment point. After the losses-due-to-default hit 7% of portfolio notional, the 3-7% tranche is completely written down.

DETECTIVE CONTROL
A control that is put in place just after an event. Detective controls monitor activities to identify instances where procedures have not been followed.

DETERMINING PARTY
The party (or parties) determining the close-out amount under the ISDA Master Agreement. This is generally
the non-defaulting party. The determining party must use commercially reasonable procedures to produce a commercially reasonable result.

**DIAGONAL SPREAD**
The purchase of both a long and a short position in two options of the same type (put or call) but with different strike prices and expiration dates.

**DIGITAL OPTION**
An option that has a predetermined payout if the option is in-the-money and the payoff condition is satisfied. Also referred to as a “binary option” or an “all-or-nothing option”.

**DIGITAL SETTLEMENT**
A derivative payout following a credit event that is a fixed amount, as opposed to par less the recovery amount. Also known as a “binary settlement”.

**DIRECT MARKET ACCESS (DMA)**
A term used in financial markets to describe electronic trading facilities that give investors wishing to trade in financial instruments a way to interact with the order book of an exchange.

**DIRTY PRICE**
The price of a bond or swap inclusive of accrued interest.

**DIRTY TANKERS**
Tankers that carry crude and/or dirty petroleum products (DPP).

**DISCOUNT**
The price of a bond that is lower than par. The discount equals the difference between the price paid for a security and the security’s par value.
**DISCOUNT BASIS**
Method of quoting the price of fixed-income securities. The price is expressed as an annualised discount from maturity value. It is also referred to as “discount yield”.

**DISCRETE TOTAL RETURN SWAP (DTRS)**
An equity total return swap on a single stock or a basket of stocks. DTRSs are confirmed under long-form confirmations (without a master confirmation agreement [MCA]), under bespoke/in-house MCAs or under the ISDA Equity Finance Swap Annex.

**DISCRETIONARY ACCOUNT**
A securities account where a client gives another person or firm the authority to buy and sell securities on his behalf without prior consultation. The client can set expansive guidelines for his investments when the account is opened. For example, the client can say that he or she wants to buy/sell only BBB or higher securities. Also known as “managed accounts”.

**DISPERSION TRADE**
A structure in which one party sells an option on an index and simultaneously buys individual options on each of the index constituents or vice versa. The buyer profits from dispersion trading if his index components are negatively correlated.

**DISPONENT OWNER**
A commercial control over a vessel without owning the ship such as a bareboat charterer.

**DISPUTE RESOLUTION**
The process of resolving a dispute that arises because trades, collateral requirements or contractual obligations have not been fulfilled by the obligor.

**DISRUPTED DAY**
Any scheduled trading day on which regular functioning is impacted due to a market disruption event or the relevant exchange or related exchange fails to open during its normal business hours.
DISRUPTIVE TRADING PRACTICE
An amendment of the Dodd-Frank Act that forbids any trading that:

1. Violates bids or offers
2. Exhibits disregard for the orderly execution of trades during the closing period of a trading day
3. Enters bids and offers with the purpose of cancelling prior to the execution of a transaction

DISTRIBUTED GENERATION
A system characterised by smaller, geographically dispersed and interconnected generators, rather than one central generator. It is used for the reduction in the loss of energy due to transmission.

DISTRIBUTION WATERFALL
The methodology by which a fund chooses to disburse capital amongst its investors. It also dictates the order and preference in which the funds are to be distributed amongst the participants as underlying investments are sold.

DIVERSIFICATION
The act or process of investing in different asset classes, countries, currencies or sectors to minimise idiosyncratic risk. Adding assets with less than perfectly correlated returns will reduce this idiosyncratic risk.

DIVIDEND
A payment made by a company, fund or institution that chooses to disburse profits/funds amongst its stakeholders. However, the amount of dividend may vary amongst the different stakeholders—not just in proportion to their stakes but also in reference to the category of their investments. Dividends are usually given as cash (cash dividend), but they can also take the form of stock (stock dividend).

DIVIDEND GROWTH
The percentage rate of change in a company’s reported dividends over a trailing period of time (1, 3 or 5 years). Dividend growth also refers to a style of investing that
selects stocks based on the prospects of higher payouts in the future. It implies a business with sustainable long-run profits and it is particularly appealing for income seeking investors such as retirees.

**DIVIDEND SWAP**
A fixed-term contract between two parties where one party will make an interest rate payment for each interval and the other party will pay the total dividends received as pay-out by a selected underlying asset.

**DIVIDEND YIELD**
Annual dividends divided by stock price. Some investors pursue an investment strategy based on dividend yields and the stability of those yields.

**DOCUMENT OF COMPLIANCE (DOC)**
A document that is issued to every company complying with the International Safety Management (ISM) code requirements. The issuing body is an organisation recognised by the administration or by the government of the country, typically a classification society such as ABS, DNV, etc.

**DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT (DODD-FRANK ACT)**
Law drafted in the wake of the 2008 financial crisis and designed primarily to promote the financial stability of the United States via improved regulation of the financial services industry and particularly over-the-counter (OTC) derivative products. The key aims of the legislation are to improve accountability and transparency in the financial system, to end the mindset that certain institutions are “too big to fail”, to protect the American taxpayer by ending bailouts and to protect consumers from abusive financial services practices.

**DOUBLE HULL**
A hull design in which a vessel has an inner and an outer skin separated by void spaces, usually two meters in width. In this design, the void spaces are normally used for the carriage of
water ballast when the vessel is not loaded. The cargo tanks are inboard of the void spaces thus having some measure of protection should the vessel’s hull be penetrated.

**DOWN VARIANCE SWAP**
A conditional variance swap which accrues realised volatility only when the previous day’s underlying price is below a prespecified level.

**DOWNSTREAM**
In the petroleum industry, the segment that deals with the conversion and handling of materials into usable products and the associated products’ marketing and distribution to the end customer.

**DRAFT**
The vertical distance that is between the ship’s waterline and the lowest section of its keel (bottom side of the ship). It determines the minimum depth of water that a ship can safely navigate and is also used to determine the weight of cargo onboard the ship.

**DRY DOCKING**
A term used for repairs or when a ship is taken to the service yard. During dry docking, the whole ship is brought to a dry land so that the submerged portions of the hull can be cleaned or inspected. To maintain tradeability of commercial vessels, dry docking is generally required every three to five years.

**DRY GAS**
Natural gas that primarily consists of methane. The United States defines dry gases as those that contain less than 0.1 gallon of condensables per 1,000 cubic feet of produced gas. Dry natural gas may also be referred to as consumer-grade natural gas.
**DSMATCH**
A service offering of MarkitSERV that automates matching and confirmation for a wide range of over-the-counter (OTC) derivatives products, including credit, equity and interest rate contracts.

**DTCC DERIV/SERV**
A provider of i) post-trade processing services through the Trade Information Warehouse (TIW) and Equity Cashflow Matching (ECM) and ii) trade repository services through Global Trade Repository (GTR) for over-the-counter (OTC) derivatives trades.

**DUBAI (DUBAI CRUDE OIL)**
A benchmark crude produced in Dubai, one of the United Arab Emirates. Dubai is commonly used as a reference price for the Asia-Pacific region.

**DURATION**
The sensitivity of bonds values to changes in interest rates that is represented by duration, measured in units of time (years), similar to maturity. There are different methods to calculate this sensitivity.

**DV01**
Dollar value price change of a security resulting from a one basis point move in the relevant market interest rate. It is calculated by multiplying the dirty market value by the modified duration (for one basis point).

**DYNAMIC POSITIONING (DP) VESSELS**
A computer-controlled system to automatically maintain a vessel’s position and heading by using its own propellers and thrusters. Position reference sensors, combined with wind sensors, motion sensors and gyrocompasses, provide information to the computer pertaining to the vessel’s position and the magnitude and direction of environmental forces affecting its position.
EARLY EXERCISE
For non-European options (i.e., American and Bermudan options), the exercise of an option contract before its expiration date.

EARNINGS PER SHARE
The portion of earnings allocated to each share of common stock. It is net income less taxes and preferred dividends divided by average shares outstanding. It is a measure of profitability and can give a view of the comparative earning power of companies. Steadily increasing EPS indicates improving earning power, but it can be susceptible to earnings manipulation.

EFETNET
A system established by the European Federation of Energy Traders (EFET) to automate trading and information exchange among EFET members.

EFETNET B.V.
An independent company that is 1% owned by the EFET. It was set up in 2004 by EFET as a cost sharing vehicle to serve energy trading firms and is intended to deliver the benefits of electronic data exchange standardisation. It provides solutions for meeting regulatory requirements around clearing, reporting, portfolio reconciliation and electronic confirmation matching.

EFFECTIVE DATE
The date on which obligations under a derivative transaction begin to accrue or take effect.

EFFICIENT FRONTIER
A mathematical concept developed by Harry Markowitz and modern portfolio theorists in the 1950s which
determines a portfolio’s most efficient balance between risk and reward. The efficient frontier is plotted as a curve on a graph, and takes into account the standard deviation of the return on all investments with some level of risk over a period of time. The most efficient make-up of a portfolio for the amount of risk will lie on the curve. The overarching take-away for portfolio managers and investors has been to diversify their portfolios.

**ELECTRONIC COMMUNICATION NETWORK (ECN)**
A financial term for a type of trading system that facilitates trading of financial products outside of stock exchanges. An ECN is generally an electronic system that widely disseminates orders entered by market makers to third parties and permits the orders to be executed in whole or in part. The primary products that are traded on ECNs are stocks and currencies.

**ELECTRONIFICATION**
The process by which derivative post-trade processes are automated. Electronification is often used specifically to refer to the process of making transactions electronically eligible for matching.

**ELIGIBLE COLLATERAL**
Collateral that fulfils given requirements in terms of quality and nature in order to be accepted by a central counterparty (CCP), central banks or market participants bilaterally. Eligibility can expire promptly due to a reduction in credit quality caused by a downgrade by rating agencies or just changed eligibility criteria by ECB or CCPs.

**ELIGIBLE CREDIT SUPPORT**
Collateral, including its proceeds, that is acceptable under Paragraph 11(b)(ii) of the ISDA Credit Support Annex to the ISDA Master Agreement, to satisfy credit support obligations.

**ELIGIBLE CURRENCY**
Currency that is acceptable under Paragraph 11(a)(ii) of the ISDA Credit Support Annex to the ISDA Master Agreement.
EMISSION REDUCTION UNIT (ERU)
A measure of carbon dioxide emissions. One ERU equates to one metric tonne of carbon dioxide and is the unit used to measure CO₂ emissions for participants of the Joint Implementation (JI) scheme within the Kyoto Protocol.

EMISSIONS TRADING
A market in the trading of polluting emissions allowances. The market has emerged from the binding commitments of the Kyoto Protocol and the European Union Emissions Trading Scheme (EU ETS).

ENCUMBERED RATIO
Part of encumbered reporting enjoined by the European Banking Authority (EBA). Financial institutions have to report the ratio of encumbered to unencumbered assets for both face and fair value separated per asset class. Thereby, current and potentially encumbrance is taken into account.

END USER EXCEPTION
A Dodd-Frank Act exception that absolves non-financial entity end users from the Dodd-Frank clearing mandate so that the entity may partake in hedging commercial risk.

ENERGY IDENTIFICATION CODE (EIC)
A 16 alphanumeric character code used to uniquely mark participants and other entities active within the European Internal Energy Market (IEM). The code was developed by, and is managed and maintained by, the European Network of Transmission System Operators for Electricity (ENTSO-E).

ENHANCED PRUDENTIAL STANDARDS (EPS)
The standards specified in the Regulation YY Enhanced Prudential Standards rules which were recently finalised by the Federal Reserve Board as required by section 165 of the Dodd-Frank Act. The standards include risk-based capital and leverage requirements, liquidity standards, requirements for overall risk management, stress test requirements and a debt-to-equity limit. The standards will be applied to companies that the Financial Stability Oversight
Council has determined pose a grave threat to financial stability including bank holding companies and foreign banking organisations.

**EQUALISATION ACCOUNTING METHODOLOGY**
The equitable allocation of incentive fees between each investor in a fund to ensure that the investment manager is paid the correct amount and that each investor is paying the correct amount and is neither subsidised by, nor subsidises, another investor. The key advantage of the methodology is producing one single net asset value (NAV) per share.

**EQUITY DERIVATIVE**
A contract whose value is at least partly derived from one or more underlying equity securities, the most common being futures and options. Other examples include Contract For Difference (CFD), Exchange Traded Funds (ETF), Equity Options, Equity Swaps and Real Estate Investment Fund (REIT).

**EQUITY INDEX SWAP**
An obligation between two parties to exchange cash flows based on the percentage change in one or more stock Indices for a specific period with previously agreed re-set dates. The swap is cash settled and based on notional principal amounts.

**EQUITY OPTION**
An option (call or put) where the underlying asset is an equity-linked instrument (i.e., share, depository receipts, ETFs, indices, baskets). Index and index basket options are always subject to cash settlement. Other equity-related options can be subject to cash settlement or physical settlement.

**EQUITY PICKUP**
The income that a firm earns on its investment in another company and reports on its income statement. The reported value is based on the firm’s share of the company assets.
**EQUITY SWAP**
A swap (derivative contract) in which a set of future cash flows are agreed to be exchanged between two counterparties at set dates in the future and at least one of the two legs is the cash flow from performance of equity instrument like a stock (usually called equity leg). (For example, the counterparties to an equity swap may agree to exchange the dividends from two stocks of roughly the same value). Alternatively, they may exchange the capital gains from a stock for an interest rate (floating leg) calculated over a nominal value. Equity swaps may take a variety of forms, but all exist in order to diversify the cash flows of the parties without requiring them to buy anything new.

**EQUITY/FIRST LOSS TRANCHE**
The most junior, and therefore the riskiest, tranche in a structured finance transaction, such as a collateralised debt obligation (CDO), collateralised loan obligation (CLO) or collateralised mortgage obligation (CMO). The equity tranche absorbs the initial losses-due-to-default in the underlying portfolio.

**ESCROW CONTRACT**
A contract with a third party, generally a custodian bank, to oversee financial assets and fulfil related financial obligations as necessary. This may include the transfer of collateral to cover exposure from derivative obligations and respond to margin calls. The third party/custodian bank may also issue escrow receipts which certify that the underlying security of an option writer is in fact in its possession.

**ETHANE (C2)**
An NGL hydrocarbon component of NGLs primarily used by petrochemical facilities. It is transported in gas form through pipelines. At a normal temperature, it is a dry, colourless and odourless gas.

**EU CAPITAL MARKETS UNION (CMU)**
An ambitious agenda set by the European Commission in July 2014 to pursue greater integration of capital markets in Europe and foster market-based financing. The agenda
is predicated on five components: deregulation to reduce barriers to cross-border investment; transparency to increase the flow of corporate information; wider adoption of country best practices; standardisation; and convergence of tax policies on financial instruments.

EUREX
A European central counterparty (CCP) that offers clearing services for the exchange-traded derivatives market, bond and repo markets. In the over-the-counter (OTC) derivatives space, Eurex launched a credit default swap offering in Q3 2009 and IRS clearing in Q4 2012. It is planning to launch an Equity Option service for OTC transactions. Eurex also offers clearing for the following exchanges: Frankfurt Stock Exchange, Irish Stock Exchange and European Energy Exchange. Eurex is the clearing division of the larger Deutsche Börse organisation, which runs the Frankfurt stock exchange.

EURIBOR
A daily reference rate based on the averaged interest rates at which Eurozone banks offer to lend unsecured funds to other banks in the Euro wholesale money market or interbank market. The contributors to Euribor (Euro Interbank Offered Rate) are the banks with the highest volume of business in the Eurozone money markets. There are different maturities, ranging from one week to one year.

EUROBOND
An international bond that is issued in a currency other than the currency of the country in which it is issued. Eurobonds are named after the currency they are denominated in. For example, Euroyen and Eurodollar bonds are issued in the Eurozone but denominated in Japanese yen and USD, respectively. Eurobonds offer the issuers access to different markets and regulatory environments and investors gain access to markets with a different currency exposure.

EUROPEAN BANKING AUTHORITY (EBA)
A European regulatory authority established on January 1, 2011 and headquartered in London, UK to succeed the Committee of European Banking Supervisors
(CEBS). Its activities include performing stress tests on European banks, identifying weaknesses in bank capital structures, mediating disagreements among supervisors and creating a European Single Rulebook for financial institutions in Europe.

**EUROPEAN FEDERATION OF ENERGY TRADERS (EFET)**
A group of 84 member companies from across Europe dedicated to improving the energy trading processes and development of an open and sustainable wholesale energy trading market in Europe. It is involved in the elaboration and education of energy regulations and the development of contract and data exchange standards.

**EUROPEAN FINANCIAL STABILITY FACILITY (EFSF)**
Registered company owned by the Euro Area member states. It has the mandate to safeguard the financial stability in Europe. EFSF can provide financial assistance to the Euro area member states by issuing bonds and debt instruments.

**EUROPEAN MARKET INFRASTRUCTURE REGULATION (EMIR)**
Regulation of the European Parliament and Council on over-the-counter (OTC) derivatives, central counterparties and trade repositories. The regulation introduces requirements for OTC derivatives transactions which meet the eligibility criteria to be cleared through central counterparties and all OTC derivatives transactions to be reported to trade repositories.

**EUROPEAN NETWORK OF TRANSMISSION SYSTEM OPERATORS FOR ELECTRICITY (ENTSO-E)**
An association, established and given legal mandates in 2009. It represents approximately 41 electricity transmission system operators (TSOs) from 34 countries across Europe. It works to facilitate cross-TSO initiatives and drive full integration with all EU energy sources.

**EUROPEAN NETWORK OF TRANSMISSION SYSTEM OPERATORS FOR GAS (ENTSO-G)**
An association, established and given legal mandates in
2009. It represents approximately 31 gas transmission system operators (TSOs) from 21 countries across Europe. It works to facilitate cross-TSO initiatives and drives full integration with all EU gas networks.

**EUROPEAN OPTION**
An option that can only be exercised by the holder on the expiration date.

**EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)**
European regulatory authority that replaced the Committee of European Securities Regulators (CESR) in January 2011. ESMA contributes to the European Union financial system’s integrity and stability and will draft the regulatory standards for clearing and trade repository reporting of over-the-counter (OTC) derivatives products as mandated by the European Commission in EMIR.

**EUROPEAN UNION ALLOWANCE (EUA)**
Climate credits (or carbon credits) used in the European Union Emissions Trading Scheme (EU ETS). EU allowances are issued by the EU member states into member state registry accounts. By April 3 of each year, operators of installations covered by the EU ETS must surrender an EU allowance for each ton of CO₂ emitted in the previous year.

**EUROPEAN UNION EMISSIONS TRADING SCHEME (EU ETS)**
Measures aimed at controlling and reducing emissions of carbon dioxide from member states, with additional potential to regulate a further five greenhouse gases. Established by an EU Council Directive in 2003, the measures set legally binding emission targets for governments to achieve with a view to increasing the use of renewable energy across the EU.

**EVENT DETERMINATION DATE (EDD)**
The date on which the credit event notice and notice of publicly available information are delivered by the notifying party in order to trigger the settlement of a credit derivative
transaction. The ISDA Determinations Committee now publishes its decisions as to the common EDD for credit events which they have determined to have occurred.

**EVENT OF DEFAULT**
A set of prescribed events in a trade agreement between two counterparties that trigger a demand of payment by the non-defaulting party by giving notice to the defaulting party. An event of default might be a breach of contract or a pattern of late payments.

**EVENT-DRIVEN ARBITRAGE**
Event-Driven investing is an investing strategy that seeks to exploit pricing inefficiencies that may occur before or after a corporate event, such as a bankruptcy, merger, acquisition or spinoff.

**EX-ANTE RISK**
The predicted risk of an investment or portfolio, typically before the start of the calculation period. In Latin “ex-ante” means “before the event”.

**EX-DIVIDEND DATE**
The date from which the price of a share is reduced by the upcoming unpaid dividend (henceforth called ex-dividend) announced by the share issuer. If a share is sold between this date and record date, seller instead of the buyer will be entitled for the dividend.

**EX-POST RISK**
The historical risk a portfolio has actually taken. This is in contrast to predicted risk.

**EX-SHIP**
A trading contract delivery provision whereby responsibility for any risks associated with the cargo resides with the shipper until the ship has arrived at the designated port and the cargo is available for delivery.
**EXCESS RETURN**
A portfolio's return less a risk-free rate.

**EXCHANGE**
A central marketplace with established rules and regulations where buyers and sellers meet to trade securities or futures and options contracts. Exchanges include designated contract markets and derivatives transaction swap execution facilities (SEFs).

**EXCHANGE BUSINESS DAY**
Any scheduled trading day on which each exchange and related exchange in respect of a trade are open for trading for their respective regular trading sessions. A term used in the 2011 ISDA Equity Derivatives Definitions.

**EXCHANGE CLEARED DERIVATIVES (ECD)**
Derivative products traded between two parties and transferred (or novated) to an exchange. The derivatives then become cleared centrally by the exchange.

**EXCHANGE DISRUPTION**
Any event (other than an early closure) that disrupts or impairs the ability of market participants to effect transactions in order to obtain market values for the share (or if an index transaction, 20% or more of the securities comprising the index), listed options or futures contracts on the underlying. A term used in the 2011 ISDA Equity Derivatives Definitions.

**EXCHANGE PIT**
An area on the trading floor of some exchanges where trading in a future or option contract is conducted. A trade pit is usually a feature of an open outcry exchange.

**EXCHANGE TRADED DERIVATIVES (ETD)**
Derivative products that are traded on listed exchanges, such as the Chicago Mercantile Exchange (CME) or IntercontinentalExchange (ICE). Unlike products traded
over the counter (OTC), contract terms are not negotiated individually between counterparties and investors basically choose from a portfolio of standardised products.

**EXCHANGE TRADED FUND (ETF)**
A fund that trades on an exchange like a stock. An ETF holds assets such as stocks, commodities or bonds. The advantage of ETFs relative to mutual is the fact they can be traded/ invested in intra-day; in contrast, mutual funds can only be traded at the close. Most ETFs are specific to a particular index (i.e., it consists of all the securities that the index comprises). It is a tradable item on the exchange like a stock or commodity. It tracks the index and generally provides returns similar to the index it represents.

**EXCHANGE TRADED OPTION**
A financial instrument traded and cleared on an organised securities or derivatives exchange. Such options are usually, but not always, standardised by strike, maturity and underlying.

**EXECUTING BROKER**
The broker or dealer that finalises and processes an order on behalf of a client/prime broker. Orders sent to executing brokers are assessed for appropriateness before execution. If the order is rejected, the customer is notified and the trade is not completed.

**EXECUTION ONLY (GIVE-UP AGREEMENT)**
1) Over-the-counter: A tri-party agreement that is signed by the executing broker, the clearing broker and the client. This agreement sets out the terms by which the clearing broker will accept business on behalf of the client. 2) Clearing: A tri-party agreement that is signed by the executing broker, the designated clearing member (DCM) and the client. This agreement sets out the terms by which the DCM will accept business on behalf of the client.
**EXERCISE**
The process by which the holder of an option (the option buyer) has the right, but not the obligation, to buy or sell the relevant underlying security at the predetermined strike price.

**EXERCISE DAY**
A day on which the holder of an option (the option buyer) has the right, but not the obligation, to buy or sell the relevant underlying security at the predetermined strike price.

**EXERCISE PRICE**
The price at which a holder of an option (the option buyer) has the right to buy (call) or sell (put) the underlying security.

**EXOTIC OPTION**
A non-standard, non-vanilla option. This is usually taken to mean an option which is not standard European or American.

**EXPECTED EXPOSURE (EE)**
The expected net value of a portfolio as a function of time. When a portfolio is simulated over thousands of paths, EE for a fixed time is calculated as: \( \frac{\text{sum of theoretical values (TVs) on paths where TV} > 0}{\text{total number of paths}} \).

**EXPECTED NEGATIVE EXPOSURE (ENE)**
The expected negative net value of a portfolio as a function of time. When a portfolio is simulated over thousands of paths, ENE for a fixed time is calculated as: \( \frac{\text{sum of theoretical values (TVs) on paths where TV} < 0}{\text{total number of paths}} \). ENE is much like expected exposure (EE) but restricted to paths of negative TV.

**EXPECTED POSITIVE EXPOSURE (EPE)**
The expected positive net value of a portfolio as a function of time. When a portfolio is simulated over thousands of paths, EPE for a fixed time is calculated as:
Sum of theoretical values (TVs) on paths where TV > 0/Total number of paths

EPE is much like expected exposure (EE) but restricted to paths of positive TV.

EXPECTED RECOVERY RATE (ERR)
The recovery rate expected by the market at the point of an entity going into insolvency proceedings. In efficient markets, defaulted bonds will theoretically trade at the ERR.

EXPECTED SHORTFALL
A weighted average of all the observations in the tail of a distribution that is defined by the VaR calculation. CVaR attempts to indicate the magnitude of the gains or losses in the tail of the distribution. Also referred to as conditional VaR.

EXPIRATION DATE
The last date on which an option can be exercised. After this date, the option is deemed to lapse or be abandoned.

EXPONENTIALLY WEIGHTED MOVING AVERAGE (EWMA)
A type of moving average whereby more recent observations in a time series are given a higher weighting than older observations. The weighting of older observations decreases exponentially with their age. Within risk-management, EWMA can be used to scale the returns of a historical time series when calculating measures, such as historical VaR, in order to give a higher weighting to more recent returns. This is implemented by applying the EWMA to the standard deviation of returns through the following recursive expression (where $\lambda$ is the decay constant, $u_n$ is the return of the historical market parameter between day n and day n-1, and $\sigma_n$ is the volatility between day n and day n-1):

$$\sigma_n^2 = \lambda \sigma_{n-1}^2 + (1-\lambda)u_{n-1}^2$$
EXPOSURE PROFILE
A graphical representation of the variation of expected exposure of a portfolio over time. Specifically, this representation contains a sequence of future credit exposure values set against predetermined timeframes until the furthest-to-maturity asset in the portfolio reaches maturity.

EXTENDABLE SWAP
An interest rate swap with an embedded option that allows the fixed-rate payer to extend the swap at the end of the agreed period for a further predetermined period.

EXTERNAL FRAUD
Risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.

EXTRACTION PLANT
Facilities that remove NGLs from raw or processed natural gas. Extraction plants can remove an NGL mix, but cannot split the NGL into its separate components. This requires fractionation towers and separate component storage facilities.

EXTRACTION PREMIUM
The price above the local market price for natural gas that the extraction plant pays to the producer or shipper to obtain the right to extract the NGLs from the natural gas.

EXTRAORDINARY DIVIDEND
Any dividends that are announced by the share issuer outside of their regular dividend schedule.

EXTRAORDINARY EVENT
An event or a series of events that have implications for various financial aspects of the markets like interest rates, liquidity, prices of assets, etc. It is usually one which is highly unforeseeable and unexpected by most people and is unlikely to occur.
EXTRINSIC VALUE
The difference of an asset or contract market value and its intrinsic value. It is used primarily in the context of options and is valued according to the impact of external factors on the asset.
FAILURE TO PAY (FTP)
A credit event that is triggered if a reference entity fails to make interest or principal payments due under the terms of one or more of its obligations. FTP is usually subject to a minimum payment requirement and a grace period. See also “credit event”.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)
An independent agency, created by the US Congress, to maintain stability in the market. It provides deposit insurance which guarantees the safety of the deposits in member banks.

FEDERAL DISCOUNT RATE
The interest rate charged to commercial banks and other depository institutions on loans they receive from their regional Federal Reserve Bank’s lending facility—the discount window.

FEDERAL ENERGY REGULATORY COMMISSION (FERC)
The independent federal agency that oversees and regulates the interstate transmission of electricity, natural gas and oil. The regulation of LNG terminal projects and hydropower projects also fall under the jurisdiction of the FERC.

FEDERAL FUNDS RATE
The interest rate used for overnight uncollateralised loans between US banks. The US Fed sets the federal funds target rate, and transactions in federal funds yield the Fed funds effective rate.

FEDERAL RESERVE SYSTEM
The central banking structure of the United States, created in 1913. The system is composed of a Board of Governors, the Federal Open Market Committee, 12 Federal Reserve Banks located in major US metropolitan areas and many private US
banks. The primary functions of the Federal Reserve System include addressing banking panics, serving as a central bank to the United States, overseeing the nation’s money supply and maximising employment while keeping prices stable.

**FILL**
To complete a customer’s order to buy or sell a security. This is a type of order or transaction that requires a transaction to be filled completely or be cancelled.

**FILL-OR-KILL ORDER (FOK)**
An order to buy or sell a stock that must be executed immediately in its entirety, otherwise, the entire order will be cancelled (i.e. no partial execution of the order is allowed).

**FINAL PRICE**
The price used to cash settle credit derivative transactions after a credit event. The final price is determined in a credit event auction or through a bilateral cash settlement valuation methodology.

**FINANCIAL ACTION TASK FORCE**
An inter-governmental body created with the purpose of promoting and developing policies to end money laundering and terrorist financing.

**FINANCIAL CONDUCT AUTHORITY (FCA)**
Regulator for the financial services industry in the UK. Rule-maker with investigation and enforcement powers to protect, promote and regulate a healthy and stable competition between financial services providers and consumers’ interests.

**FINANCIAL COUNTERPARTY (FC)**
An investment firm, credit institution, insurance/reinsurance undertaking, Undertakings for Collective Investments in Transferable Securities (UCITS), pension scheme and
alternative investment fund managed by an alternative investment manager, in each case where authorised or registered in accordance with the relevant EU directive.

FINANCIAL INFORMATION EXCHANGE (FIX)
An electronic communications protocol in financial services for the international real-time exchange of information related to securities transactions and markets.

FINANCIAL MARKETS INFRASTRUCTURE
A multilateral system among participating institutions, including the operator/regulator of the system, used for the purposes of execution, clearing, settling or recording payments, securities, derivatives or other financial transactions.

FINANCIAL PRODUCTS MARK-UP LANGUAGE (FPML)
A standardised, freely licensed language based on Extensible Markup Language (XML) which is used for business-to-business communication. FpML is a business information exchange standard for the dealing and processing of financial derivatives over the internet. The standard is managed by ISDA on behalf of a community of investment banks that make a market in over-the-counter (OTC) derivatives.

FINANCIAL REPORTING (FINREP)
A standardised framework for reporting balance sheets and income statements by financial institutions in the European Union as per international reporting standards (IFRS).

FINANCIAL SERVICES AUTHORITY (FSA)
An agency that regulates most financial services markets, exchanges and firms in the UK. It sets the standards that they must meet and can take action against firms if they fail to meet the required standards. The FSA was replaced by the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) in 2013.
**FINANCIAL STABILITY BOARD (FSB)**
A board of senior representatives of national financial authorities, international financial institutions, standard-setting bodies and committees of central bank experts that was established to enhance international financial stability by implementing regulatory policies.

**FINANCIAL STABILITY OVERSIGHT COUNCIL (FSOC)**
A council to promote market discipline which aims to identify and respond to threats to its stability. Created by the Dodd-Frank Act, the FSOC monitors the US financial system. The council reports to Congress and is comprised of ten voting and five non-voting members.

**FINANCIAL TRANSACTION TAX**
A European Commission proposal to impose a wide-ranging tax on capital markets. Transactions by sell-side and buy-side firms—including pension funds and insurance companies—would all be subject to the FTT. Finance industry associations argue that the FTT would “kill” some markets for certain types of assets because the tax would distort bid/ask spreads, forcing them to artificially widen.

**FIRM TRANSPORT**
Transport contract that guarantees a minimum amount of a commodity that a shipper will be allowed to move. In case of excess demand, all firm transport contracts get equal priority (allocation) and are served before any non-firm or conditional-firm contracts are served.

**FIRST NOTICE DAY**
The first day that holders of long positions may be informed that they have been assigned a delivery of a futures contract. First notice day may vary with each commodity and exchange.

**FIRST PURCHASER (NATURAL GAS)**
The person to whom the first title is transferred to from the wellhead. The first purchaser is typically responsible for royalty payments to the producer.
FIRST TO DEFAULT BASKET
A credit derivative transaction where the payoff is based on the first asset to default in a basket of underlying reference entities. Once a default occurs, the transaction terminates and is settled.

FIXED NOTE
A debt security that has a fixed interest payment, or coupon, as opposed to a floating interest payment.

FIXED RATE
A contractually determined interest rate (or “coupon”) that is fixed at the outset and does not vary over the life of the instrument.

FIXTURE
A completed negotiation that results in a charter party between an owner and a charterer.

FLARED NATURAL GAS
Gas in need of being disposed that is burned in flares at processing plants or production sites.

FLIP FLOP
An interest rate swap that allows the buyer to switch between receiving a fixed rate and a floating rate of interest on defined dates during the life of the transaction.

FLOATING PRODUCTION STORAGE OFFTAKE VESSEL (FPSO)
A vessel used to store oil or gas as it is produced from either an onshore or offshore oil field, with the capability for the oil or gas to be offloaded to other vessels for transportation to the ultimate destination. FPSOs have equipment onboard for processing the oil or gas.
FLOATING RATE
An interest rate whose value changes periodically over the life of an instrument. Floating rates usually reference a benchmark index, such as LIBOR, and they typically reset at the beginning of every floating leg payment period.

FLOATING RATE NOTE (FRN)
A bond which pays a variable rate of interest and can be used to hedge against return on fixed-income instruments when there is a rise in interest rates. The interest rate or coupon is often based on a variable component, such as an index or interest rate, plus an established percentage, such as LIBOR + 2 basis points, and can be updated on a variable schedule. FRNs are often issued by government agencies, and the US Treasury began issuing them in 2013. Also known as “variable rate notes”.

FLOATING STORAGE OFFTAKE VESSEL (FSO)
A vessel used to store oil or gas as it is produced from either an onshore or offshore oil field, with the capability for the oil or gas to be offloaded to other vessels for transportation to the ultimate destination.

FLOOR
A lower limit placed on the payoff of a trade, guaranteeing a minimum payoff to the buyer. Within the context of an interest-rate floor instrument, the term “floor” refers to the effective put-option strike.

FLOW TRADING
Trading where market makers use clients’ money to trade bonds, stocks and commodities. This type of trading can generate profits through the bid-offer spread, as the same market maker can be buyer and seller to the same security at the same time.

FOLLOWING BUSINESS DAY CONVENTION
A business day convention where payment days that fall on a bad business day roll forward to the next good business day, regardless of whether or not it falls in the next calendar month.
FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA) [US CODE & REGULATIONS]
An act which was signed into law in 2010 to prevent US persons from using foreign accounts and foreign entities to evade US tax. FATCA requires financial and non-financial institutes to withhold 30% of the payment unless it is eligible for exemption.

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA) [US-UK & US-DENMARK INTERGOVERNMENTAL AGREEMENTS]
An agreement between the United States and a partner country which enables the partner country to collect the information required by FATCA from FFI and share the information with the United States, thereby allowing FFIs in the partner country to not enter into FFI agreements with the IRS and eliminate FATCA withholding on payments to FFIs in these jurisdictions.

FOREIGN EXCHANGE MARKET (FOREX, FX)
A global distributed market for the trading of currencies. It provides the platform through which the money of one country is exchanged for that of another country and the rate of exchange between currencies is determined. The major players in the Forex Market are banks, commercial companies, central banks, investment management firms, hedge funds and retail forex brokers and investors. The foreign exchange market assists international trade and investment by enabling currency conversion. The foreign exchange market is unique in terms of its huge trading volume representing the largest asset class in the world leading to high liquidity. Also commonly known as the “currency market”.

FORWARD
An over-the-counter (OTC) contract involving the sale by one party and the purchase by another party of a predefined amount of an underlying, at a predefined price and a predefined future date.
FORWARD FREIGHT AGREEMENT (FFA)
Customised financial product used for hedging future freight rates for dry bulk carriers, tankers and containerships. The contract allows the owner to buy or sell the price of freight for a future date.

FORWARD PRICE CURVE
A data curve representing the price of a particular commodity or a financial instrument for delivery in a future month at a particular location.

FORWARD RATE AGREEMENT (FRA)
An over-the-counter (OTC) contract that requires one party to pay the difference between the agreed forward rate and the relevant rate of interest on the specified fixing date.
An FRA is similar to a futures contract and is used to hedge future interest rate exposure, but the tenor of the contract is bespoke to that specific contract. On a futures contract, the tenor is fixed by the exchange on which the futures contract is traded.

FORWARD START OPTION
An option contract that becomes active on a specified future date. However, the premium is paid in advance, and the time to expiration and the underlier are established at the time the forward start option is purchased.

FRAC SPREAD
The value of propane, butane and condensate less the value of natural gas used to extract the purity products.

FRACTIONATION
The process of separating an NGL (gas, solid, liquid, suspension or isotope) mix into its components.

FRACTIONATION PLANT
A facility that can separate an NGL mix into its components.
**FRACTIONATOR**
A facility that separates a mixed feed stream into its constituent products in order to realise higher value for the material. The primary design used in commodities industry is distillation. For example, Y-Grade is fractionated to yield its purity components: ethane, propane, butane, etc.

**FREE CASH FLOW (FCF)**
A measure of how effectively a company generates cash from operations as opposed to accounting net income. It is the operating cash flow less capital expenditures. FCF is calculated as: EBIT(1-Tax Rate) + Depreciation & Amortization - Change in Net Working Capital - Capital Expenditure.

**FREE-ON-BOARD (FOB)**
A trading contract in which the buyer designates the ship onto which the seller must deliver the goods. All cost and risk transfers to the buyer once the goods cross the ship’s rail.

**FREIGHT HEDGING**
Hedging involves taking a position in a financial market instrument, which is linked in value to the actual market risk that one wishes to manage, in this case—freight rates.

**FRONT OFFICE**
A department in a financial firm which communicates directly with its clients, usually in the context of sales and trading in the financial markets.

**FRONT RUNNING**
The unethical and expressly prohibited (by the SEC) practice of trading on nonpublic information arising from advance knowledge of impending customer orders that would influence the price of a financial instrument.

**FUEL EFFICIENCY METRICS**
Metrics used to measure the operational performance of a vessel. Typically vessels in the same class (example VLCCs)
are compared for fuel consumption, shaft power, mileage, etc. Some important metrics are grams/KWh, Miles/Ton and BTU/Ton-mile.

**FULL REQUIREMENTS**
A type of energy service commitment to supply all of a wholesale customer’s energy requirements. Also called a Full Plant Requirements Contract, it includes load following energy, capacity, transmission and ancillary services.

**FULL TERMINATION**
The process whereby the entire transaction is terminated as opposed to simply partially terminating the transaction.

**FULLY TRANSFERABLE**
A fully transferable obligation that can be freely traded without any restriction on the type of investors who can hold the obligation and without any approval from the issuer of the obligation.

**FUND**
A collection of invested securities. Usually shorthand for mutual fund or hedge fund.

**FUND ADMINISTRATOR**
An independent third party that protects the interests of investors. Their most important responsibility is the calculation of the Net Asset Value (NAV).

**FUND OF FUNDS**
A managed investment fund where the holdings consist of other funds.

**FUNDED OPTION**
An exotic option where the holder pays interest over the life of the transaction instead of an upfront premium.
FUNDED STATUS
A measure of how well a pension plan’s current portfolio of assets meets its projected future benefit obligations. If the value of the pension’s portfolio is less than the projected benefits, the funded status will be negative. If the value of the pension’s portfolio is greater than the projected benefits, the funded status will be positive. The funded status should appear in the pension’s financial statements.

FUNDING VALUATION (OR VALUE) ADJUSTMENT (FVA)
The difference between a portfolio valued without the cost of hedging one’s own positive exposure to the portfolio (taking one’s own funding costs into account), and a portfolio valued with this cost taken into account.

FUTURES
An exchange-traded agreement to take or make delivery of an asset at a specific time in the future for a specific price agreed today. Contracts are standardised in order to facilitate trading on a futures exchange.

FUTURES AND OPTIONS ASSOCIATION (FOA)
A trade association dedicated to promoting the smooth functioning of exchange-traded derivative contracts through the publication of standardised documentation and guidelines. It was re-branded as the Futures Industry Association (FIA) in March 2014.

FUTURES COMMISSION MERCHANT (FCM)
An organisation that solicits or accepts orders for the purchase or sale of any financial instrument for future delivery. FCMs can solicit business directly, but most act as exchange liaisons for introducing brokers. An FCM can be either a clearing member of an exchange (a clearing FCM) or a non-clearing member of an exchange (a non-clearing FCM). This term is mainly used in North America. See also “clearing broker” for European context.
FUTURISATION
A term used to describe an apparent shift from trading some highly liquid derivatives or swaps over the counter (OTC) to exchanges. To achieve this shift, exchanges have started offering swap futures which mimic more liquid OTC swaps. This trend was initiated and accelerated due to the ever-increasing regulation of the swaps market under Dodd-Frank and the associated costs.
G20 COMMITMENTS (OTC DERIVATIVES)
A reference to the series of commitments that were constructed to improve over-the-counter (OTC) derivatives market transparency during the G20 Pittsburgh Summit in 2009. The group made the commitment to improve the OTC derivatives markets by implementing compulsory trading on exchange or electronic platforms, clearing, reporting to a trade repository and changes to capital requirements.

GAMMA
The rate of change in the delta of an option with respect to the change in price of the underlying instrument, keeping all other factors constant. The equation below illustrates the mathematical formulation for gamma, where \( V \) is the value of the option, \( S \) is the price of the underlying and \( \Delta \) is the option delta:

\[
\Gamma = \frac{\partial \Delta}{\partial S} = \frac{\partial^2 V}{\partial S^2}
\]

GAP OPTION
A form of binary option with a strike price greater than the payoff strike. The difference between the strike and payoff strike is called the “gap”. Also known as a “pay-later option”.

GARMAN-KOHLHAGEN MODEL
A variation of the Black-Scholes option pricing model, used to price European FX options. Additional terms include the risk-free rate of the foreign currency and the risk-free rate of the domestic currency.

GAS FIELD
A field that contains only natural gas—no oil.
**GASOIL**
A widely traded oil product used primarily for heating or as a refinery feedstock. It is the underlying in a key International Petroleum Exchange futures contract. In its broader definition, it covers the oil products used for diesel automotive fuel and jet fuel.

**GC POOLING**
A marketplace at EUREX Repo for secured money market transactions. Collateral is grouped in different baskets allowing market participants to trade on their desired collateral level.

**GENERALISED AUTOREGRESSIVE CONDITIONAL HETEROSKEDASTICITY (GARCH)**
Models that are used to model a time series that exhibits time varying volatility. Heteroskedasticity is the term used to explain when the volatility of a variable is not same across different time periods.

According to the GARCH model, the volatility can be expressed as follows (where \(u_n\) is the return of the historical market parameter between day \(n\) and day \(n-1\), \(\sigma_n\) is the volatility between day \(n\) and day \(n-1\), and \(\omega\), \(\alpha_i\) and \(\beta_i\) are constants):

\[
\sigma_n^2 = \omega + \sum_{i=1}^{p} \alpha_i u_{n-i}^2 + \sum_{j=1}^{q} \beta_j \sigma_{n-j}^2
\]

**GEOMETRIC MEAN**
A more nuanced version for calculating average returns. The geometric mean takes into account the effects of compounding thereby more accurately accounting for the timing of changes in portfolio value than arithmetic return. The geometric mean is calculated by multiplying \(n\) returns raised to the power of \(1/n\).
GLOBAL FINANCIAL MARKETS ASSOCIATION
An association established to unite the interests of financial institutions across the globe due to the increasing global focus of regulations. See also “AFME” (European partner), “ASIFMA” (Asian partner) and “SIFMA” (US partner).

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)
A voluntary set of standards aimed at full disclosure and fair representation of investment performance results. The GIPS were created and administered by the CFA Institute.

GLOBAL TRADE REPOSITORY (GTR)
The DTCC’s cross-asset solution that will provide the industry with a central point for aggregating and reporting all relevant credits, equities, rates, commodities and FX derivative trades under various global regulations (the Dodd-Frank Act, ODRF and other regulatory commitments). It allows regulators to have a transparent view on a financial institution’s submission of its trading portfolio.

GLOBALCOAL
A global marketplace facilitator for trading coal and a provider of related services. globalCOAL is primarily involved in the following: 1) Publishes SCoTA: A standard coal-trading agreement which combines standard T&Cs relevant to global coal transactions. 2) Online trading platform: A web platform for the online execution of coal trades with access to worldwide market participants, real-time market data and automatic trade matching and confirmation services. 3) Bespoke brokerage service: A brokerage service to help market players place and source non-standardised physical coal cargoes. 4) Price data: Publishes a coal market report with real-time coal market bids and offers. Also provides historical coal price indices. In recent years, globalCOAL worked with ICE Futures Europe to develop standard coal futures contracts.
GOLD FIXING (GOLD FIX)
The setting of the gold price at 10:30 AM (first fixing) and 3:00 PM (second fixing) in London by five representatives of the London Gold Market.

GOLD NO-CALC
A gold record in the DTCC Trade Information Warehouse where the payment amount cannot be calculated. The calculation cannot occur either because the product type is generally excluded from the process or because a counterparty to the trade has deselected the trade from the payment calculation process.

GOOD-TIL-CANCELED ORDER (GTC)
An order to buy or sell a stock that lasts until the order is completed or cancelled.

GRACE PERIOD
The period in which a party potentially in default is permitted to make good a failure or breach. If the specified grace period elapses and the failure or breach still continues, an event of default will have occurred. In credit derivatives, the grace period is the period after which a potential failure to pay becomes an actual failure to pay and, hence, a credit event.

GRACE PERIOD EXTENSION APPLICABLE
When a grace period extension is applicable, protection is deemed to be valid under a credit derivative contract if a potential failure to pay occurs before the scheduled termination date, but the actual failure to pay occurs afterwards (i.e., after the grace period has expired).

GREEKS
A term used to describe a group of common sensitivity measurements within finance, particularly with respect to options. These sensitivity measurements are calculated based on option price sensitivity to various underlying factors, such as asset price, implied volatility and time. Popular Greeks include Delta, Gamma, Theta, Rho and Vega.
GRID
A power or gas transmission system.

GROSS
A derivative or asset position expressed without netting of bought and sold trades.

GROSS OF FEE PERFORMANCE
The performance of an investment portfolio before the investment management, administrative fees and carried interests are deducted.

GUARANTOR
A person or entity that assumes responsibility for another’s debt or performance under a contract, if the other person/party fails to pay or perform. In case of a default, the guarantor must compensate the lender or client and usually acquires an immediate right of action against the principal for payments made under the guarantee.
HAIRCUT
The percentage by which the market value of the collateral will be reduced to allow for price volatility and instrument liquidity in respect of the relevant collateral between collateral calls. Also known as a “valuation percentage”.

HANDYSIZE PRODUCT CARRIER
A product carrier of approximately 25,000 to 45,000 deadweight tons. This type of vessel generally operates on shorter trade routes carrying refined products.

HARDWIRING
The process of incorporating a commitment to utilising an auction-based cash settlement methodology for all future credit events into ISDA credit derivative documentation. Hardwiring is achieved by the publication by ISDA in April 2009 of a “Big Bang” protocol and an auction supplement to the 2003 ISDA Credit Derivatives Definitions. See also “big bang protocol” and “small bang protocol”.

HEAT RATE
A measure of power station efficiency. The heat rate is the ratio of energy content in fuel consumed (e.g., gas, oil, coal) to energy content of electricity produced by that fuel. Hence, the lower the heat rate, the higher the conversion efficiency.

HEATING DEGREE DAYS
The number of degrees per day that the daily average temperature is below 65 degree Fahrenheit. The daily average temperature is the mean of the maximum and minimum temperatures for a 24-hour period.

HEDGE FUND
An investment vehicle that is targeted to maximise returns and eliminate risk. Funded by investors, and managed by a hedge fund manager, the investments made may be of
any type as defined by the hedge fund strategy. It is a partnership limited to high net worth investors and trades in much broader investments beyond typical stocks, bonds or derivatives of a mutual fund.

**HEDGING**
A trading strategy which is designed to reduce or mitigate risk. A second transaction is entered into to offset the risk of the first. A hedge is used to reduce any substantial losses/gains suffered by an individual or an organisation.

**HENRY HUB**
A natural gas distribution location in Erath, Louisiana in the United States. It is an important location from a natural gas distribution and pricing perspective because nine interstate and four intrastate natural gas pipelines interconnect here. Henry Hub is the settlement point for NYMEX futures contracts, as well as futures contracts on exchanges such as ICE.

**HIGH**
The highest trading price of the period for a particular security.

**HIGH CONSEQUENCE AREA (HCA)**
A Pipeline and Hazardous Materials Safety Administration (PHMSA) term connoting a specific location where any release from a pipeline will have material adverse impacts. The identification of the HCA is based on population density and area, drinking water sources and unusually sensitive environments.

**HIGH WATERMARK**
A designation for a fund that denotes the highest Net Asset Value (NAV) obtained by that fund and for which a performance fee was paid. Should the investment drop in value, the manager must then bring it back above the previous greatest value before he or she can receive performance fees again.
**HIMALAYA**
A mountain range option where the payout is based on the average performance of the best-performing component in the basket on each calculation date. The number of components in the basket reduces over the life of the option as the best performer on each calculation date is removed for future calculations, so that on the last calculation date there is only one underlying asset in the basket.

**HIRE RATE**
The rate paid by the charterer to the ship owner to charter a vessel.

**HISTORICAL SIMULATION**
Randomly selecting historical returns or events as a prediction of the future.

**HISTORICAL VOLATILITY**
The annualised standard deviation of daily price returns for an underlying security. Lognormal historical volatility is the annualised standard deviation of the natural log of daily price returns for an underlying security.

**HO-LEE MODEL**
A normal, one-factor, short-rate model used to price interest rate (IR) derivatives. The Ho-Lee model can be used to price some exotic IR derivatives.

**HOLDINGS**
The individual stocks, bonds or derivative securities that a portfolio manager has purchased for a portfolio/account. Each holding has a market value, which is the price of the security multiplied by the quantity within that account. Also known as “positions.”

**HONG KONG MONETARY ASSOCIATION (HKMA)**
An association established on 1 April 1993 after the merger of the Exchange Fund with the Office of the Commissioner of Banking. HKMA’s objectives are to maintain monetary and banking stability.
HORIZONTAL DRILLING
Drilling process in which the well is turned horizontal at specific depth in order to increase the drain area of a single drilling pad, access reservoirs that cannot be reached by vertical drilling or increase the length of the “pay zone” within the rock formation.

HORIZONTAL SPREAD
See Calendar Spread.

HULL-WHITE MODEL
A normal, one or two-factor short-rate model used to price interest rate (IR) derivatives. The main difference between the Hull-White model and the Ho-Lee model is the inclusion of a mean-reversion term for the short rate. The Hull-White model is generally regarded to take more market information into account than the Ho-Lee model, so it is used to price a broader range of exotic IR derivatives.

HURDLE RATE
The initial investment return that must be achieved by a hedge fund manager before receiving a part of the return. Until the fund earns this return, the return is credited to the investors. Once met, the hedge fund manager shares in the earnings and is compensated for the performance.

HYBRID BASKET
A basket containing underlyings from a combination of different asset classes (e.g., a basket containing equities and foreign exchange rates, or equities and commodities).

HYBRID INSTRUMENTS
Financial securities that possess the characteristics of different asset classes (i.e., hybrid characteristics). A classic example of a hybrid instrument is a convertible bond, which possesses the characteristics of both fixed-income debt and equity. This is a bond that can be converted into a specified number of shares of common stock.
HYDRAULIC FRACTURING
Hydraulic fracturing refers to the procedure of creating fractures in rocks and rock formations by injecting a mixture of sand and water into the cracks to force underground to open further. The larger fissures allow more oil and gas to flow out of the formation and into the well bore, from where it can be extracted. Hydraulic fracturing has resulted in many oil and gas wells attaining a state of economic viability, due to the level of extraction that can be reached.

HYDROCARBON
A catch-all word for any oil, natural gas, and natural gas liquids associated material containing only hydrogen and carbon.
IMPLIED VOLATILITY
The volatility that must be fed into the Black-Scholes formula in order to return a theoretical value equal to the market price for European put and call options. It can be roughly described as the estimated future volatility of the underlying, until maturity, implied by the price of the option. In some markets, options prices are quoted in terms of their implied volatilities rather than their prices.

IN-THE-MONEY
An option position where the option holder benefits from the difference between the strike price and the current market price of the underlying. A call option is in-the-money if the current market price is higher than the strike. A put option is in-the-money if the current market price is lower than the strike.

INCOTERMS
International rules that are accepted by governments, legal authorities and practitioners worldwide for the interpretation of the most commonly used terms in international trade.

INCREMENTAL IM
The portion of initial margin a client has to post when adding a new trade to its portfolio. The concept of incremental IM takes portfolio effects into account and might lead to lower initial margin requirements than for the stand-alone trade.

INCREMENTAL VAR
The amount by which the total portfolio VaR changes due to the addition of a new position (or the removal of an existing position). The Incremental VaR for a position is calculated as the total portfolio VaR including the position minus the total portfolio VaR excluding the position.
INDEPENDENT SYSTEM OPERATOR (ISO)
An organisation responsible for ensuring the efficient use and reliable operation of a supply network and, in some cases, power generation facilities. Individual ISOs may cover whole countries or regions. ISO responsibilities vary by jurisdiction, but may include coordinating capacity allocation, overseeing the balancing of inputs and outputs, managing system emergencies and reserves, ensuring new facilities are built when needed and settling charges for use of the network. In some cases, ISOs are also responsible for managing power exchange activities.

INDEX
A collection of weighted securities used to indicate market performance. An index sets a basis for comparing returns against different markets such as large cap equity (S&P 500 Index) or bonds (Barclays Aggregate Capital Bond Index, JP Morgan Emerging Bonds Index).

INDEX ARBITRAGE
The simultaneous purchase (or sale) of an index derivative and the sale (or purchase) of some or all of the component securities that make up the particular index to profit from sufficiently large inter-market spreads between the component securities and the index itself. See also “arbitrage”.

INDEX SPONSOR
The investment bank or other entity that creates and administers an index.

INFLATION-INDEXED DEBT INSTRUMENT
Investment products designed as a means to protect potential investors from the risk of changes in inflation, by linking cash flows (principal & interest) to the associated consumer price index (CPI). While protecting against inflationary movements, the bond still provides investment exposure to movements in credit (issuer) quality or changes in interest rates. Treasury Inflation-Protected Securities (TIPS), issued by the FED and tied to the US CPI index, are well-known examples of this investment vehicle.
INFLATION-LINKED DERIVATIVES
Derivatives contracts whose underlyings are inflation indexes (e.g., USCPI) or inflation-linked securities such as Treasury Inflation Protected Securities (TIPS) issued by the US Treasury.

INFORMATION RATIO
A risk-adjusted return statistic that divides the average alpha by the tracking risk. IR is calculated by dividing the mean difference between the return of the investment portfolio (or security) and benchmark by the standard deviation of the difference between the return on investment and the benchmark.

INITIAL MARGIN (IM)
The amount of collateral (in currency value) that must be posted up front to enter into a deal on day one. The IM is designed to protect against a combination of market risk and counterparty default risk. Specifically, it is designed to protect the clearing house from mark-to-market (MTM) changes in the value of a counterparty’s portfolio, in the event that the counterparty defaults and cannot post Variation Margin as the daily MTM changes.

INITIAL MARGIN REQUIREMENT
The amount of collateral required up front in order to open a position.

INTEGRATED HEDGE
A hedge involving managing more than one type of financial risk with a single derivative instrument. An example is a derivative instrument with different functional currency legs as a basis to split the fair value of the derivative hedging instrument into multiple components. This makes the trade provide a fair value hedge as well as a cash flow hedge.

INTERACTION EFFECT
One of the three effects in the Brinson methodology. It scales the selection effect by the allocation effect.
INTERCONTINENTAL EXCHANGE CLEAR EUROPE (ICE CLEAR EUROPE)
ICE’s London-based clearing house which provides clearing services for a wide range of exchange-traded and futures contracts. ICE Clear Europe offers clearing services for over-the-counter (OTC) energy products and credit default swaps. ICE also offers OTC FX clearing.

INTERDISTRICT SETTLEMENT ACCOUNTS
A clearing account for fund transfers between the 12 regional Federal Reserve banks located in the 12 American Federal Reserve Districts. The US equivalent of Target2 (the real-time gross settlement system of the European Monetary Union).

INTEREST RATE CAP
An option (derivative) in which the buyer receives payments at the end of each period where the interest rate exceeds the agreed strike price.

INTEREST RATE COLLAR
An option product where the holder (buyer) is guaranteed a maximum and minimum borrowing cost over a specified term. Simultaneous purchase of an interest rate cap and sale of an interest rate floor on the same index for the same maturity and notional principal amount.

INTEREST RATE DERIVATIVE
A derivative product that involves the exchange of cash flows calculated on a notional amount and determined by reference to specified interest rates.

INTEREST RATE FLOOR
An option (derivative) or floorlet on a specified reference rate. The buyer of the floor receives money if, on the maturity of any of the floorlets, the reference rate is below the agreed strike price of the floor.
INTEREST RATE FUTURES
A futures contract for securities and deposits whose prices are determined by reference to interest rates.

INTEREST RATE PARITY
The economic principle that helps establish forward FX rates for currency pairs, based upon the interest rate differential between the two currencies. According to no-arbitrage principles, an investor shouldn’t be able to make a risk-free profit by converting an amount of cash into a foreign currency today and then investing in the foreign interest rate for a period of time. Today’s FX forward rates would be set to eliminate this risk-free opportunity.

INTEREST RATE STRADDLE
An interest rate transaction where the buyer pays a premium to the seller to buy a cap and a floor with identical details including the cap and floor rates. At set intervals, the buyer receives from the seller the difference between the pre-agreed rate and the current floating rate. The buyer of a straddle believes that the market is very volatile and is unsure as to the direction in which the rates will move.

INTEREST RATE SWAP (IRS)
A financial derivative in which each counterparty agrees to the exchange of a fixed/floating rate cash flow on a certain notional amount. This rate is typically multiplied by an accrual factor calculated with a day count fraction. In case both legs have the same currency, the notional amount is not exchanged; instead, it is used to define the cash flow to be exchanged. When the legs have different currencies, the notional amount is exchanged at the start and end of the swap term.

INTEREST RATE SWAPTION
An option to enter into a predetermined interest rate swap where the holder of the option has the right, but not the obligation, to enter into an interest rate swap on a specified future date and at a specified future rate and term. Typically, interest rate swaptions can be European, American or Bermudan in style.
**INTERGOVERNMENTAL AGREEMENT (IGA)**
An agreement between the US and certain other countries that determines how Foreign Account Tax Compliance Act (FATCA) liabilities and reporting may be managed through those countries’ tax authority instead of reporting directly to the US IRS. There are two types of IGAs: Model 1 which covers most of the 40+ IGA agreements signed to date and involves a reciprocity of tax information exchange and Model 2 (notably Japan and Switzerland) which retains some of the FATCA requirements usually due to local client confidentiality rules.

**INTERMEDIATE HOLDING COMPANY (IHC)**
A type of company that needs to be established by foreign banking organisations to meet certain thresholds as per the Federal Reserve Board’s final Enhanced Prudential Standards (EPS) rules.

**INTERMEDIATION**
A process whereby a third party facilitates an over-the-counter (OTC) derivative transaction between other counterparties who would not otherwise trade with each other. The intermediating party is usually of very high credit quality.

**INTERMODAL**
Refers to a product movement using multiple modes of transport (vessel, pipeline, rail or truck) in way that is usually seamless to the shipper.

**INTERNAL FRAUD**
Risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or the company policy, excluding diversity/discrimination events, which involves at least one internal party.

**INTERNAL RATE OF RETURN (IRR)**
The interest rate at which the sum of the positive cash flows (returns on investment) equals the initial investment. When the IRR is used to discount cash flows, this results
in a net present value of zero. IRR is a common measure of profitability of capital projects and is used in discounted cash flow models in financial analysis.

INTERNATIONAL DERIVATIVES CLEARING GROUP (IDCG)
A central clearing house which clears and settles interest rate swaps and other fixed income derivatives contracts. LCH.Clearnet Group Limited acquired International Derivatives Clearing Group in August 2012.

INTERNATIONAL EMISSIONS TRADING ASSOCIATION (IETA)
A non-profit trade association involved in all stages of the carbon business cycle. It promotes a trading framework for managing industrial carbon emissions and provides standardised documentation for emissions trading. The IETA membership comprises more than 15 international companies as of June 2013.

INTERNATIONAL FLAG VESSEL
A common reference term indicating a vessel that is registered under a flag other than that of the United States.

INTERNATIONAL MARITIME ORGANISATION (IMO)
An agency of the United Nations that is responsible for the development and administration of international maritime safety and pollution treaties, including conventions such as MARPOL 73/78.

INTERNATIONAL ORGANISATION OF SECURITIES COMMISSIONS (IOSCO)
A global body consisting of the main financial regulators for securities. IOSCO supports international cooperation to promote cross-border standards to its members.

INTERNATIONAL SECURITIES IDENTIFICATION NUMBER (ISIN)
A twelve digit alpha-numeric code assigned to securities under the system developed by the International
Organisation for Standardisation to create one unique identifying number for all debt securities, equity securities and derivatives.

INTERNATIONAL SWAPS AND DERIVATIVES ASSOCIATION (ISDA)
The global trade association which represents more than 82 participants in 57 countries in the over-the-counter (OTC) derivatives industry. ISDA looks to provide governance and standardisation globally across all OTC derivatives asset classes.

INTERPOLATION
A method of solving for an unknown point on a curve by assuming that the path between adjacent points (or “pillars”) on the curve follow a functional relationship (e.g., a straight line). One can therefore solve for the unknown point by using the known points on either side of it. The most common types of interpolation are linear interpolation and cubic spline interpolation.

INTERRUPTIBLE SERVICE
Gas or electricity sold on the understanding that the supplier retains the right to interrupt supply for a specified number of days or hours during times of peak demand or in the event of system emergencies. In exchange for granting the right to be interrupted, buyers pay lower prices.

INTERWEAVEMENT ELIGIBILITY
A collateral eligibility check which ensures that a parent company does not offer shares of its child company as collateral or vice versa.

INTRAGROUP EXEMPTION
Exemptions provided by European Market Infrastructure Regulation (EMIR) for intra-group transactions from the clearing and margining rules. These exemptions are subject to prior notification to, or authorisation by, the competent authorities.
**INTRAGROUP TRANSACTION**

Counterparties (CPs) that are classified by EMIR to be part of same group satisfying the conditions:

a) Both CPs are established in the EU or, if one is established in a third country, the commission has declared the third country equivalent.

b) Both CPs are subject to appropriate centralised risk evaluation, measurement and control procedures.

c) Both CPs are included in the same accounting consolidation on a full basis.

d) If one CP is financial, it must be subject to the appropriate prudential requirement. Any transaction between such entities is considered to be an intragroup transaction.

**INTRINSIC VALUE**

1) The true value of an asset based on all the tangible and intangible factors that affect the price of the asset. It may or may not be equal to the current market value of the asset.

2) The difference between the market value of the underlying asset of an option and the strike price given that the option is in-the-money. The intrinsic value is zero if the option is out-of-money.

**INVENTORY AGING**

A measure of the trading desk’s aggregated assets and liabilities and the amount of time that those assets and liabilities have been held. It measures the age profile of the trading desk’s asset and liabilities.

**INVENTORY TURNOVER**

A ratio that measures the turnover of a trading desk’s inventory. The numerator of the ratio is the absolute value of all transactions over the reporting period. The denominator of the ratio is the value of the trading desk’s inventory at the beginning of the reporting period.

**INVERSE FLOATER**

An interest rate derivative whose floating leg coupon rises when a specified underlying floating index falls, and vice versa.
INVESTMENT ADVISOR
A firm or an individual who provides advice, investment options and recommendations to an investor. The advisor may be compensated via a fee or a percentage of earnings commission. Large advisors (with assets under management > 5MM) register with the SEC, while smaller firms fall under state regulations. Investment advisors inherently work for the best interests of their clients.

INVESTMENT HOLDING COMPANY
A company that does not produce goods or services itself, but instead owns the outstanding stock of other companies called subsidiaries. Investment holding companies allow for the benefits of diversification while keeping subsidiaries legally separate, thus reducing risk for investors.

ISDA 2009 COLLATERAL DISPUTE RESOLUTION PROCEDURE
A standard industry set of procedures for dealing with disputed over-the-counter (OTC) derivative collateral calls, published by the ISDA Collateral Committee in 2009.

ISDA DETERMINATIONS COMMITTEES (ISDA DCS)
Regional committees established by ISDA for the purposes of making determinations on credit derivative transactions that have incorporated, or are deemed to incorporate, the Big Bang Protocol or Small Bang Protocol. The ISDA DC will mainly determine whether a Succession Event has occurred and identify the Successor entity/entities, whether a Credit Event has occurred, if an auction is to be held and whether a particular obligation of the defaulted Reference Entity is deliverable.

ISDA MASTER AGREEMENT
A market standard agreement, published by ISDA, to facilitate the trading of over-the-counter (OTC) derivatives between two parties. There are two commonly used versions of the ISDA Master Agreement, the 1992 and 2002 versions. Each is supplemented by a schedule which contains bespoke credit, legal and operational terms negotiated between the parties. The ISDA Master Agreement, including the schedule and the
individual transactions executed pursuant to the terms of the ISDA Master Agreement (as evidenced by trade confirmations), are deemed to form part of the same indivisible contract (referred to as the single agreement concept).

ISDA PHYSICAL SETTLEMENT MATRIX
Parties to a physically settled credit default swap may incorporate the terms contained in a matrix published by ISDA which sets out the standard market terms for different transaction types (by reference to the reference entity type).

ISDA PRODUCT TAXONOMY
A system to classify over-the-counter (OTC) derivatives by the International Swaps and Derivatives Association (ISDA). For this purpose, derivative contracts are categorised into predefined categories based on asset class (equities, FX, etc.), product type (option, swap, etc.) and other factors depending on asset class and product type. The ISDA taxonomy can only be applied to OTC derivatives and does not cover exchange-traded products.

ISDA UNIFORM SETTLEMENT AGREEMENT (USA)
An agreement published by ISDA following a credit event that allows adhering parties to agree that a credit event notice and a notice of publicly available information are deemed to have been delivered in a correct and timely fashion on the notice date without requiring the actual delivery of such notices. The decision to sign up to the USA is separate and independent of the decision to sign up to any associated protocol.

ISOBUTANE (IC4)
A hydrocarbon component of NGLs primarily used in the petrochemical industry, gasoline or as an oil additive. Sometimes referred to as a field butane.

ISSUE PRICE
The price of a security at the time of original issue. This price is determined by the investment banking syndicate.
ISSUER
The government, corporation or investment entity that markets and sells securities for the purpose of raising capital or financing operations. The issuer is the name on the stock, bond, note or derivative.

ITRAXX INDICES
A family of credit derivative indices, where the underlying reference entities are a defined basket of European credits. The indices are highly liquid and traded using ISDA standard documentation to standard maturities. They are used by both buy-side and sell-side institutions for creating credit exposure as well as hedging. The underlying reference entities within each index are reassessed every six months, following dealer liquidity polls.
JAPANESE FINANCIAL SERVICES AGENCY (JFSA)
An agency responsible for the oversight of the financial markets in Japan. This includes banking, exchanges and securities. It is the direct overseer of the Securities and Exchange Surveillance Commission and the Certified Public Accountants and Auditing Oversight Board.

JENSEN’S ALPHA
A measure used to determine a portfolio’s performance relative to its predicted performance based upon beta.

The formula for Jensen’s Alpha is:

Jensen’s Alpha = Total Portfolio Return – Risk-Free Rate – [Portfolio Beta × (Market Return – Risk-Free Rate)]

JET KEROSENE
A medium-light distillate commonly used as fuel for jet engines and as a heating fuel. Often referred to as just jet or kerosene depending on the primary use.

JOINT IMPLEMENTATION (JI)
One of three flexibility mechanisms set out in the Kyoto Protocol to help countries with binding greenhouse gas emissions targets meet their obligations. JI is described in Article 6 of the Kyoto Protocol. JI is a process which allows a developed country with an emission reduction commitment to earn emission reduction units (ERUs) by investing in an emission reduction project in another country. This affords Kyoto members a flexible and cost-effective means of achieving their emission reduction targets. The host country will also benefit from outside investment and technology transfer.

JONES ACT
A reference to the US Merchant Marine Act of 1920 intended to safeguard the American Merchant Marine from foreign competition. Among other things, it requires that all goods
transported between US ports be carried on US Flag ships. It also requires US Flag ships be constructed in the United States and crewed by US citizens.

**JUMP-TO-DEFAULT RISK**
With respect to credit risk, the risk that a default will occur immediately, as opposed to the credit quality deteriorating gradually over time.

**JUNK BOND**
A bond that is a high-yield or below investment grade bond (below an S&P rating of BBB), reflecting a perceived higher risk of default by the issuer.
KDPW
A central infrastructure institution based in Poland. KDPW offers services in clearing and settlement and collateral management. It is also a European Securities and Markets Authority (ESMA)-approved trade repository and a local operating unit for the assignment of provisional Legal Entity Identifiers (LEIs) to members of the financial industry.

KEEP WHOLE CONTRACT
A contract that allows a producer of wet natural gas to receive dry natural gas with the same BTU value as the sold wet gas from a processor. Alternately, the producer can receive a combination of dry gas and cash value representing cost of residual dry natural gas with the same BTU.

KEY CONTROL INDICATOR
A metric that provides information on the effectiveness of a control in meeting its objectives (e.g., fraudulent payments being made or loss prevention).

KEY PERFORMANCE INDICATOR (KPI)
A metric that measures the performance or achievement of targets of a business entity. If selected appropriately, KPIs can provide a means of identifying emerging risk trends, current exposure levels and events that may have materialised in the past and may occur in the future.

KEY RATE DURATION (KRD)
The measure of an asset’s or portfolio’s price sensitivity (i.e., percentage change in value) to independent shifts of selected spot rates. KRDs are computed by decreasing and increasing each individual spot rate by a defined number of basis points (e.g., ±50bps or ±100bps) and re-computing the asset’s (or liability’s) price given that shift, holding all other spot rates along the term structure constant. The average percentage change in the asset’s value resulting from a given pair of ± key rate shifts is its Key Rate Duration for that point on the curve.
The sum of these “partial” durations is the asset’s overall effective duration. Thus, KRDs “deconstruct” a security’s overall interest rate sensitivity into its component parts.

**KEY RISK INDICATOR (KRI)**
A metric used to monitor the level of a given operational risk exposure over time. If selected appropriately, KRIs can provide a means for identifying emerging risk trends, current exposure levels and events that may have materialised in the past and may occur in the future.

**KNOCK-IN EVENT**
An addition of a knock-in event to an option will result in the option not being active unless a certain price (the knock-in price) is reached on the underlying asset. This will have the effect of reducing the option premium. See also “barrier option”.

**KNOCK-OUT EVENT**
An addition of a knock-out event to an option will result in the option being terminated if a certain price (knock-out price) is reached on the underlying asset. This will have the effect of reducing the option premium. See also “barrier option”.

**KNOW YOUR CUSTOMER/CLIENT (KYC)**
A set of due diligence activities that financial institutions are required to complete before doing business with an entity. These regulations help to identify if the entity is involved in financial fraud or other illegal activities. KYC is a constant process of updating data, activities and information in order to gain a better understanding of the customer.

**KYC DOCUMENTATION**
The documentation required to be produced by a trading counterparty to ensure that Know Your Client (KYC) or Anti-Money Laundering (AML) requirements are adequately fulfilled. In order to comply with relevant legal and regulatory requirements, a firm will typically have to obtain and review the counterparty’s constitutional documents,
evidence of due incorporation and good standing, financial statements, details of significant shareholders and proof of identity of the directors.

**KYOTO PROTOCOL**
An international agreement committing signatories to greenhouse gas reduction targets under the United Nations Framework Convention on Climate Change.
LADDER OPTION
An option that locks in gains once the underlying asset reaches certain price levels, even if the underlying falls below these levels before the option expires.

LANDING CERTIFICATE
Certificate issued by consular officials of some importing countries at the point or place of export when the subject goods are exported under bond.

LARGE TRADER
An entity with positions at or above specific thresholds set by the SEC. Any entity satisfying these conditions must identify themselves as a large trader with the SEC.

LAYCAN (LAYDAYS + CANCELLING DAY)
The date range during which a vessel is required to arrive at the first loading port of its voyage in order to lift or load the cargo. The laydays range is negotiated as part of the charter party and can be a period ranging from 1 to 21 days depending on the circumstances. A typical lay day for a tanker spot voyage would be 2-3 days.

LAYTIME
The total amount of time allowed for loading and discharging a cargo. It may be expressed as a certain number of days or number of tons of cargo loaded/unloaded per day, including load and discharge days.

LCH.CLEARNET LTD
A European-based Recognised Clearing House (RCH) that provides clearing services for major international exchanges and over-the-counter (OTC) markets. LCH.Clearnet clears a broad range of asset classes, including commodities, securities, exchange traded derivatives, credit default...
swaps, energy contracts, freight derivatives, interest rate swaps, foreign exchange and Euro and Sterling denominated bonds and repos. LCH.Clearnet surfaced as a result of merger of commodity clearing firms LCH (London Clearing House) and Clearnet in 2003.

LEGAL ENTITY IDENTIFIER (LEI)
A 20 digit alphanumeric universal and unique code to identify counterparties and any legal entity or structure involved in a financial transaction, thereby creating consistent data trails. LEIs were created in response to a directive from the G-20 to the Financial Stability Board. EMIR requires all entities to have an LEI code. See also “unique counterparty identifier (UPI)”.

LEGAL RISK
The risk of financial loss arising from regulatory action, unfavorable legal proceedings, disputes against the company, and failure to correctly document, enforce or adhere to contractual arrangements.

LEGALLY SEGREGATED AND OPERATIONALLY SEGREGATED (LSOS)
An account structure that enables client positions and securities to be booked separately at the clearing house. Some clearing houses included this account structure as part of their offering at the time the Dodd-Frank Clearing mandate went into force. In the European/EMIR parlance, these accounts are synonymous with the Individually Segregated Accounts (ISAs) that ESMA mandates under EMIR Article 39.

LEGALLY SEGREGATED OPERATIONALLY COMMINGLED (LSOC)
The only type of segregation that is allowed under the Dodd-Frank regulation. Under this type of segregation, the client’s collateral can be stored in a single account (operationally commingled) but record keeping distinguishes between different clients (legally segregated). Thus, the client’s collateral is segregated from the Futures Commission Merchant’s propriety and a trade-off between costs and risk is found.
LETTER OF CREDIT
A bank’s guarantee on behalf of its client that payment will be made to the counterparty. This becomes a line of credit from the bank to its client, and the client frequently needs to submit collateral to cover the exposure.

LEVERAGE
The use of borrowed capital to increase exposure. Leverage magnifies gains but also losses.

LIABILITY DRIVEN INVESTMENT (LDI)
An investment strategy used by defined benefit planes where the objective is to meet future liabilities. These strategies allocate assets to meet projected inflation-adjusted liabilities.

LIBOR MARKET MODEL (LMM)
A multi-factor, lognormal, stochastic interest rate (IR) model which assumes that every LIBOR forward rate is a separate random variable governed by its own stochastic process. The LMM is generally regarded as the most powerful IR model, capable of taking highly granular levels of market information into account, and it is used to price the most complex IR derivatives. Also known as the BGM model.

LIFECYCLE EVENTS
Post-trade events, such as portfolio compression, credit events, succession events, maturities, expiries, exercises payment calculations and settlement. Event management refers to industry efforts to automate the processing of lifecycle events.

LIGHTERING
Ship-to-ship transfer of cargo between larger vessels such as VLCCs or Suezmaxes to smaller vessels known as service vessels. Lightering enables larger vessels to load or discharge cargo in locations where port restrictions prevent their entry.
**LIMIT (UP OR DOWN)**
The maximum price advance or decline permitted during one trading session, as fixed by the rules of an exchange.

**LIMIT MOVE**
A price that has advanced or declined the permissible limit during one trading session, as fixed by the rules of a contract market.

**LIMIT ORDER**
An order to buy or sell at a specified price or better.

**LINE FILL/LINE PACK**
The amount of hydrocarbon required to fill (if liquids) or pack (if natural gas) a pipeline segment to its maximum operating volume/pressure.

**LINE HAUL**
Refers to the transportation of commodities across long distances—usually between two cities, terminals, or ports, particularly by rail.

**LIQUEFACTION**
The process of transforming natural gas from a gaseous state to a liquid state. The liquefaction process involves the removal of certain components such as dust, acid gases, helium, water before it is stored and loaded onto tankers for transport.

**LIQUEFIED NATURAL GAS (LNG)**
Compressed natural gas (mainly methane), which is reduced to a liquid form by cooling it to -260 degrees Fahrenheit. The volume of LNG is 1/6th of its volume as gas vapour.

**LIQUEFIED PETROLEUM GAS (LPG)**
A flammable mixture of hydrocarbon gases used as fuel in heating appliances and vehicles.
LIQUID ALTERNATIVE (LIQUID ALT)
An alternative investment that is offered through a collective vehicle, such as an ETF, mutual fund or closed-end fund. It provides enhanced liquidity compared to a traditional alternative, such as a direct hedge fund or private equity investment.

LIQUIDATION MARGIN
The value that securities would hold at present if they had to be liquidated.

LIQUIDITY
The ability to purchase or sell an asset quickly and easily at a price close to fair market value.

LIQUIDITY COVERAGE RATIO (LCR)
A ratio developed to ensure that banks have an adequate inventory of unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash at little to no loss in private markets, to meet its liquidity needs for a 30-calendar-day liquidity stress scenario.

The LCR is defined as follows:

\[ LCR = \frac{\text{Total Value of HQLA}}{\text{Total Net 30-Day Cash Outflows}} \]

LIQUIDITY RISK
The risk that a firm unwinding a portfolio of illiquid instruments may need to sell at less than fair value. An illiquid market may be defined as one containing wide bid-ask spreads, a lack of transparency and large movements in price after a sizeable deal has been traded.

LIQUIDITY SWAP
See “Collateral Swap”.
LNG CARRIER
A vessel designed to carry Liquefied Natural Gas (LNG). LNG is natural gas that has turned into a liquid after being cooled to -163 degrees centigrade. This process reduces its volume to 1/600 of its volume in gaseous form.

LNG SYSTEM OPERATOR (LSO)
A company that operates and manages LNG facilities that in general terms provides storage and regassification and feeds into the natural gas pipeline networks.

LNG TRAIN
A liquefied natural gas plant’s production area where liquefaction and purification occurs. Each LNG plant consists of one or more trains to compress natural gas into LNG.

LOAD FACTOR
The ratio between average and peak usage for electricity or gas customers.

LOAD FOLLOWING
A utility’s practice of adding additional generation to available energy supplies to increase the response time to varying load demand. The utility keeps generating facilities informed of load requirements to insure that generators are producing neither too little nor too much energy to supply to utility’s customers.

LOAD SERVING ENTITY
Entities that provide electric service to end users and wholesale customers and include the competitive retailers that sell electricity at retail in the competitive market.

LOAD SHAPE
A graphical representation of electrical energy requirements of a region over a period of time. The plot of electrical energy demand against time is called load shape due to its distinctive shape. It provides useful information for demand-side planning and the management of electricity.
LOAN CREDIT DEFAULT SWAP (LCDS)
A credit default swap whose underlying reference entity is a syndicated secured loan (i.e., a leveraged loan).

LOAN PARTICIPATION NOTE (LPN)
A fixed income security that gives an investor the right to a portion of the principal and interest payments from a loan or a pool of loans. LPNs usually have a short term maturity. This structure enables banks to make loans, collect fees but keep the credit risk off their balance sheets.

LOG-NORMAL DISTRIBUTION
A continuous probability distribution. For a log-normal distribution, the logarithm of random variable x is normally distributed. Log-normal distributions are widely used in mathematical finance to describe the movement of random variables, such as stock prices, in options pricing models such as Black Scholes. Implied volatilities for European options are typically quoted as log-normal volatilities.

LONDON INTERBANK OFFERED RATE (LIBOR)
The average interest rate estimated by leading banks in London that they would charge when borrowing from other banks. The LIBOR is derived from a filtered average of the world’s most creditworthy banks’ interbank deposit rates for larger loans with maturities between overnight and one full year.

LONG FORM
A confirmation that deems a master agreement to be in place between parties and incorporates the terms of a master agreement by reference. Since the inception of Master Confirmation Agreements (MCAs), this term has also been used to refer to the MCA, which incorporates a set of ISDA market definitions.

LONG RANGE PRODUCT CARRIER (LR1)
A product tanker with the maximum dimensions for passing through the Panama Canal, of approximately 50,000 dwt to 80,000 dwt. These tankers are also commonly referred to as panamaxs and carry clean or dirty petroleum products.
LONGEVITY SWAP
A swap meant to offset the risk primarily to pension funds of a population living longer than expected. A pension fund would pay a fixed amount up to a certain year, whereafter a counterparty, usually an insurance company, will pay out expected benefits based on survivorship.

LOOK-A-LIKE OPTION
An over-the-counter (OTC) option that is cash settled based on settlement price of an exchange-traded contract with the same underlying asset and expiration date.

LOOK-A-LIKE SWAP
An over-the-counter (OTC) swap that is cash settled based on the settlement price of a similar exchange-traded futures contract on a specified trading day.

LOOKBACK OPTION
An option that minimises the uncertainties related to the timing of market entry. There are two types of lookback options: fixed and floating. The fixed option strike is determined at purchase, and the floating option strike is determined at maturity.

LOSS
A measure for determining termination payments following an event of default or termination event under the 1992 ISDA Master Agreement. Loss is defined as the total losses and costs (or gain) incurred by the non-defaulting party (or affected party) with respect to terminated transactions, including costs of funding and the reestablishment of any hedge or related trading position. Loss is determined by the non-defaulting party (for an event of default) or non-affected party (for a termination event) acting reasonably and in good faith. The terminating party must be able to show in reasonable detail how the loss was calculated.

LOSS GIVEN DEFAULT (LGD)
The percentage of a creditor’s claim that is not recovered following an event of default. LGD is equal to one minus the recovery rate.
LOW
The lowest trading price of the day for a particular security.
M SQUARED (M2)
A risk adjusted return measure where excess returns are adjusted by the risk of the portfolio relative to the risk of the benchmark.

\[ M^2 = S \times \sigma_B + R_F \]

where:
S is the Sharpe Ratio for a portfolio
Sigma(B) is the standard deviation of the benchmark excess returns
R(F) is the average risk free return over the time period

The advantage of this measure relative to the Sharpe Ratio is the fact that it is quoted in terms of return so investors will have a sense of magnitude.

MACAULAY DURATION
The weighted average time to payment of cash (in years) for a security. Each cash flow present value is weighted by its timing (in years) and summed. This sum is then divided by the security’s value.

\[ MacD = \frac{\sum_{i=1}^{n} t_i PV_i}{V} = \frac{\sum_{i=1}^{n} t_i PV_i}{V} \]

Where:
t = timing of cash flow
n = periods
PV = present value of cash flow
V = value of security

MADE AVAILABLE TO TRADE
A status bestowed on a product by a swap execution facility (SEF) or designated contract market (DCM). Once declared and approved by the Commodity Futures Trading Commission (CFTC), the product must be traded on a SEF or DCM, when applicable.
**MAINTENANCE MARGIN REQUIREMENT**
The minimum amount of collateral required in order to maintain an open position on a security.

**MAJOR SWAP PARTICIPANT**
Individuals and entities that are subject to certain reporting and reconciliation requirements under the Commodity Futures Trading Commission (CFTC), among other things. The CFTC defines a “major swap participant” as an entity who is not a swap dealer and who satisfies any one of the following conditions:

1. A person that maintains a substantial position in any of the major swap categories, excluding certain hedging positions.
2. A person whose outstanding swaps create “substantial counterparty exposure that could have serious adverse effects on the financial stability of the United States banking system or financial markets”.
3. Any financial entity that is “highly leveraged relative to the amount of capital such entity holds and that is not subject to capital requirements established by an appropriate Federal banking agency” and that maintains a substantial position in any of the major swap categories.

**MAJOR SWAP PARTICIPANT (MSP)**
Anyone or any organisation that maintains a large position in swaps, has substantial counterparty exposure that could impact the stability of financial markets or is highly leveraged and not subject to capital requirements imposed by a federal agency. MSPs are required to register with the Commodity Futures Trading Commission (CFTC).

**MANIFEST TRAIN**
A configuration of cars delivering mixed cargos to multiple destinations (distinct from a unit train, which delivers one type of cargo to one destination).

**MANITOBA SECURITIES COMMISSION (MSC)**
The regulatory body that administers and enforces securities laws and regulations in Manitoba, Canada.
MARGIN
The sum of money or value of securities required to be transferred and maintained, in order to provide protection to the recipient of margin against default by a counterparty to a trade.

MARGIN OPTIMISATION
Margin optimisation describes a set of activities in order to minimise margin requirements with a specific CCP. Usually, this can be achieved by using cross-margining options, shifting exposures to other CCPs or a close-out of a trade and its corresponding hedge.

MARGIN PERIOD OF RISK (MPOR)
The time elapsed between the last exchange of collateral with a defaulting counterparty and that counterparty being closed out. The resultant market risk is re-hedged during this elapsed time.

MARGIN SHARING CONTRACT
A contract type in which the total margin captured from both NGL and natural gas is shared on a proportional basis between the gas processor and the producer.

MARK-TO-MARKET
The process of revaluing the book value or collateral value of a security on a regular basis (generally at end of day) to reflect the current market value.

MARKET ABUSE
A situation that occurs when financial investors are misguided or disadvantaged by certain actions, such as insider trading, improper disclosure, manipulating transactions, disseminating incorrect information and the misuse of information.

MARKET ABUSE DIRECTIVE (MAD)
An EU-wide directive that is applicable to any financial instrument (as defined in Section C of Annex I of Directive 2014/65/EU) traded on a regulated market. The intention
is to reduce market abuse, improve confidence in the integrity of the integrated European market and facilitate greater cross-border cooperation.

**MARKET ABUSE REGULATION (MAR)**
A legislative act, applicable to any financial instrument (as defined in Section C of Annex I of Directive 2014/65/EU), designed to prevent instances of insider dealing, inside information disclosure and market manipulation that will expand upon the scope of the Market Abuse Directive (MAD). The intention is to increase investor protection and confidence in financial markets within the EU.

**MARKET CAPITALISATION**
The number of a company’s issued shares multiplied by its share price. Market capitalisation is a common metric used to determine a company’s value.

**MARKET COUNTERPARTY**
An entity dealing as an agent or principal with a broker and involved in the same nature of investment business as the broker.

**MARKET IDENTIFIER CODE (MIC)**
A unique four alpha character code used to identify exchanges, trading platforms, and regulated or non-regulated markets. The code, defined by ISO 10383, is intended to facilitate straight-through-processing of trades.

**MARKET MAKER**
A dealer who is prepared to create a two-way market by quoting simultaneous bid and offer prices. Market makers are licensed by exchanges and are charged lower than the normal dealing fees for their services to that market, however accept an obligation to quote.

**MARKET ORDER**
An order to buy or sell a futures contract or option at the prevailing market price when the order reaches the floor of the exchange.
MARKET PARTICIPANT (MP)
An entity that engages in the trading of wholesale energy products either via an exchange or over the counter. From an ACER perspective, a market participant is any firm, including transmission system operators, suppliers, traders, producers, brokers and large users who trade wholesale energy products.

MARKET QUOTATION
A measure for determining termination payments following an event of default or termination event under the 1992 ISDA Master Agreement. Quotations for the replacement value of the terminated transactions are requested from four leading dealers in the relevant market (reference market makers) and the arithmetic mean of the quotations obtained will be used, disregarding the highest and lowest quotation.

MARKET-IF-TOUCHED (MIT) ORDER
An order that becomes a market order when a particular price is reached. A sell MIT order is placed above the market; a buy MIT order is placed below the market. Also referred to as a board order. Compare to a “stop order”.

MARKET-NOT-HELD ORDER
An order traded as market order except that execution may be delayed at the broker’s discretion in an attempt to get a better price. It is also known as a discretion order.

MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MiFID)
A set of directives aimed at increasing cross-border investments, consumer protection and competition amongst European Union countries.

MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MiFID II)
Revisions to MiFID passed by the European Parliament in October 2012. The major revisions include an extension of regulation to organised trading facilities (OTFs) and new trading rules regulating high-frequency trading.
MARKETS IN FINANCIAL INSTRUMENTS REGULATION (MIFIR)
A new regulation to be adopted across the EU post the European Commission’s review of the MiFID framework. This proposal was released in October 2011 and aims to create a safer and more transparent financial system.

MARKIT
A provider of independent data with the goal of improving data transparency, creating products for accurate portfolio valuations and performing over-the-counter (OTC) derivatives trade processing to the global financial markets.

MARKIT REFERENCE ENTITY DATABASE (MARKIT RED)
A market standard database which provides critical data used to document and confirm credit derivative transactions. Markit RED legally verifies the relationship between reference entities and reference obligations which are traded in the credit default swap market, also known as pairs. The most liquid reference obligations are flagged as the market standard RED “preferred” and are widely used for electronic trading, matching and clearing. Markit RED has been further developed to support the growth in trading Loans Credit Default Swaps Market (LCDS) by providing transparent reference data. Markit RED verifies the reference entities, credit agreements and loan facilities used as reference obligations in the LCDS market.

MARKITSERV
A joint venture between the DTCC and Markit which provides affirmation, confirmation, novation consent, clearing and portfolio reconciliation tools for over-the-counter (OTC) derivative transactions. MarkitSERV automates workflow from the point of trade execution through to managing trade lifecycle events and covers all major asset classes including credit, interest rate, equity, FX and commodity derivatives.

MARKITWIRE
An electronic platform used for affirmation, confirmation and clearing connectivity. MarkitWire allows for trade date affirmation and legal confirmation and reduces the need for paper confirmations.
MARPOL
International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto. This convention includes regulations intended to prevent and minimise pollution from ships by accident or by routine operations.

MASTER CONFIRMATION AGREEMENT (MCA)
An agreement between two counterparties which sets out the terms and conditions that will apply between them in relation to a particular type of derivative transaction. The MCA is supplemented by a transaction supplement which records the economic terms specific to each individual transaction. MCAs are predominantly used in respect of equity and credit derivatives transactions and a variety of MCA templates are published and maintained by ISDA.

MASTER-FEEDER STRUCTURE
A structure commonly used by hedge funds to pool in and offshore investors into one central vehicle called the master fund, with separate investment vehicles or feeders created for each investor group.

MATERIAL ADVERSE CHANGE
Any negative event affecting a party that is deemed to be material. Such events can either be specifically defined or left undefined in the contract.

MATURITY DATE
The date upon which a debt security or an over-the-counter (OTC) derivative transaction expires. See also “scheduled termination date”.

MAXIMUM DAILY QUANTITY (MDQ)
The upper limit for the amount of gas a buyer may take in a single 24-hour period.

MCDX
A credit derivative index administered by Markit composed of fifty equally weighted municipal reference entities.
**MEDIUM RANGE (MR) PRODUCT CARRIER**
A product carrier in the 40,000 dwt to 52,000 dwt size range with internally coated tanks that make it easier to clean when switching between different cargos.

**MEMO PLEDGE**
A custodian’s promise of encumbrance of a particular piece of collateral within its client’s portfolio for the purpose of a margin call without actually moving the collateral.

**METHANE**
The primary hydrocarbon in natural gas. It is the shortest and lightest hydrocarbon. It is an odorless, colorless, flammable gas and is chemically represented as CH4.

**MEZZANINE TRANCHE**
A tranche in the capital structure that is subordinated to the senior tranche, but is senior to the equity tranche.

**MIDDLE OFFICE SERVICES**
A department in a financial firm which handles pricing and valuation of securities and derivatives, risk management, profit and loss calculation, as well as collateral management.

**MIDDLEWARE**
An electronic processing layer that provides matching, data enrichment, messaging and data exchange facilities between applications.

**MIDSTREAM**
A segment in the oil and gas value chain between the upstream and downstream, involved in the handling, upgrading, storage, transportation and trading of hydrocarbons.

**MINIMUM PRICE FLUCTUATION**
Smallest increment of price movement possible in trading a given contract. Also called a point or tick.
MINIMUM TRADING FUNCTIONALITY
A minimum functionality that all swap execution facilities (SEFs) are required to offer. Generally, SEFs are required to provide functionality that allows traders to execute trades through an order book.

MINIMUM TRANSFER AMOUNT
A de minimis transfer amount specified in a collateral agreement. It is designed to avoid the movement of insignificant collateral balances.

MIXED SWAP
A product that contains characteristics of both swaps and security-based swaps. An example would be an interest rate swap that includes dependencies derived from the price of a commodity.

\[
MVE = \sum_{i=1}^{n} F_i (1 + R)^i
\]
where \( F \) = the sum of the cash flows during the period
\( MVE \) = market value at the end of the period, including accrued income
\( F_0 \) = market value at the start of the period
\( MVE = \frac{CD - D_i}{CD} \)
\( CD \) = total number of days in the period
\( D_i \) = number of days since the beginning of the period in which the cash flow occurred

MODEL RISK
A form of operational risk. Model risk is the risk of loss arising from a financial model being incorrectly or inappropriately applied to a security, resulting in an incorrect price or risk metric. Examples of model risk include:

1. The risk that an inappropriate financial model is used to price a complex derivative.
2. The risk that a financial model is incorrectly calibrated.

MODERN PORTFOLIO THEORY
A theory developed and mathematically proved by Harry Markowitz proposing how rational investors may maximise
their rewards for a particular level of risk. It is a theory which emphasises the reduction of risk through portfolio diversification and the link between higher rewards and higher risk exposure.

**MODIFIED BAI**

One of the performance measurement standards developed by the Bank Administration Institute (BAI). The calculation applies a discount factor to each cashflow (the discount factors uses one interest rate). The initial market value is considered an inflow and the ending value an outflow. The advantage of this methodology is that only two market values are needed. Also known as Linked IRR.

**MODIFIED DIETZ METHOD**

A way to calculate the return of an investment portfolio using time-weighted cash flows. Unlike the Dietz Method which assumes cash flows occur in the middle of the time period, the Modified Dietz Method does not assume all cash flows occur in the middle of the month. It produces very similar results to the Modified BAI method, and can be calculated more easily and quickly than the Modified BAI which uses iterative Internal Rate of Return calculation. Also known as the time weighted rate of return.

**MODIFIED DURATION**

The approximate percentage change in a bond’s dirty price (which includes accrued interest) for a defined change in yield. Modified duration is the first derivative of market value with respect to yield as shown below.

\[
MacD = \frac{\sum_{i=1}^{n} t_i PV_i}{V} = \frac{n}{\sum_{i=1}^{n} t_i PV_i}
\]

Where:

- \( V \) = security value
- \( y \) = yield to maturity

Option-adjusted Modified Duration

Below is another calculation for modified duration for securities with non-linear payoffs.
\[ \text{ModD} = \frac{V - V_i}{2 \times V_o \times \Delta y} \]

where:
- \( V \) = security value
- “+” denotes a negative change in yield and “-” a positive change in yield
- \( y \) = yield to maturity

**MODIFIED FOLLOWING BUSINESS DAY CONVENTION (MODIFIED FOLLOWING)**

A type of business day convention where payment days that fall on a bad business day roll forward to the next good business day unless that day falls in the next calendar month, in which case the payment day will roll backwards to the preceding good business day.

**MONETARY AUTHORITY OF SINGAPORE (MAS)**

The central bank of Singapore. MAS is Singapore’s supervisor and regulator of the financial service sector.

**MONEY LAUNDERING**

The process by which the proceeds of crime are transformed into seemingly legitimate money or other assets. Money laundering usually has three distinct stages:

1. **Placement** – criminally derived assets are introduced to the financial system
2. **Layering** – assets are “washed” and its ownership and source is disguised
3. **Integration** – the “laundered” assets are re-introduced into the legitimate economy

**MONEY MARKET**

Fixed income securities with maturities ranging from one day to one year. These securities include government bills, commercial paper, floating rate notes, CDs, repurchase agreements and discount instruments.
**MONEY-WEIGHTED RATE OF RETURN (MWRR)**
A method of calculating performance where an internal rate of return is calculated that equates fund redemptions and terminal values with all subscriptions as well as the initial investment. The other methodology is time weighting.

**MONOLINE INSURERS**
Specialist insurers who provide financial guarantees over asset-backed, mortgage-backed and other structured securities.

**MONTE CARLO METHOD**
The process of using a non-parametric technique to solve a problem. For example, spreading grains of rice over an irregular shape contained within a unit square and then calculating the proportion of grains in the shape relative to the unit square to approximate the area of the shape.

**MONTE CARLO SIMULATION**
A method of pricing derivatives by simulating the evolution of the underlying variable (or variables) many times over. This method provides a range of possible outcomes and the probabilities that they will occur for any choice of action. The average outcome of the simulation gives an approximation of the derivative’s value. Monte Carlo is useful in the valuation of complex derivatives for which exact analytical solutions have not been found; otherwise, it can be highly computationally intensive. Monte Carlo simulation can also be applied to a portfolio of instruments, rather than a single instrument, to estimate the value-at-risk (VaR) of that portfolio.

**MOOR**
Any permanent structure to which a vessel may be secured. Examples include quays, wharfs, jetties, piers, anchor buoys and mooring buoys. A ship is secured to a mooring to forestall free movement of the ship on the water.
MORAL HAZARD
An economic term describing a situation in which a party gets involved in a risky event knowing that it is protected by another party against the risk, and the other party will incur the cost if the risky event occurs.

MORATORIUM
A period of time where a specific activity is suspended until a change in circumstances permits removal of the suspension. For example, a borrower can declare a moratorium and delay the payments of principle and/or interest on a loan.

MOUNTAIN RANGE OPTION
A style of exotic option which bases the value of the option on the performance of several underlying assets over a predetermined time period. There are five main types of mountain range option: Altiplano, Himalaya, Annapurna, Atlas and Everest.

MULTI-SERIES ACCOUNTING
An accounting procedure used when a fund manager issues multiple series of shares for the fund, which are not necessarily priced at the same Net Asset Value (NAV).

MULTILATERAL TRADING FACILITY (MTF)
A trading venue authorised by MiFID with fewer rules than a regulated market (i.e., exchange) and no listing requirements. An MTF has been described as “exchange lite”. MTFs are required to follow a set of defined operating rules. They are also required to maintain pre-trade and post-trade transparency—the public dissemination of real-time quotes and trades.

MULTIPLE EXERCISE
A term relating to American-style options where the buyer has the right to execute the trade in tranches by exercising an agreed number of options on each of the exercise dates. If multiple exercise applies, the confirmation will state the minimum, maximum and multiple integral numbers of options that may be exercised on any given day.
MUTUAL FUND
An investment fund that pools assets from investors and is professionally managed. These funds are regulated by the Securities and Exchange Commission (SEC).

MUTUAL TERMINATION CLAUSE
A bilaterally agreed clause that allows both counterparties to a transaction to terminate the trade early under certain defined circumstances. For example, a credit rating downgrade of one counterparty below a certain threshold.
NAPHTHA
A refined petroleum product with specific gravity of about 0.7. Paraffinic naphtha is used as a feedstock for the petrochemicals industry, such as for ethylene manufacture or aromatics production. Heavier naphthenic naphtha is used as a refinery feedstock for reforming as a gasoline blend stock.

NATIONAL ALLOCATION PLAN (NAP)
Part of the legal framework of the European Union Emissions Trading Scheme (EU ETS) that determines the distribution of CO₂ allowances allotted to countries committed to the Kyoto Protocol or the EU ETS. The European Union oversees the NAP process and determines if it meets all the criteria of the Emission Trading Directive.

NATIONAL BALANCING POINT (NBP)
A virtual location where natural gas is traded in the United Kingdom. An exchange system (ICE, IntercontinentalExchange) facilitates the trades at the NBP via an anonymous publication of offers or requests for gas. It is a major driver in determining the price of domestic consumer gas prices and is priced in pence per therm.

NATURAL GAS
A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in underground porous geological formations. The primary component of natural gas is methane.

NATURAL GAS LIQUIDS (NGLS)
Hydrocarbons found in natural gas. Under pressure they exist in a liquid state. At normal atmospheric pressures, they exist in a gaseous state. The liquids are comprised of ethane, propane, butane and condensate.
NATURAL GAS PROCESSING
The process of separating various hydrocarbons and fluids from pure natural gas to produce a pipeline quality natural gas. The quality of natural gas is sometimes referred to as “dry gas”.

NET ASSET VALUE (NAV)
This is a measure of a fund’s price per share and is calculated by subtracting the fund’s liabilities from its total assets and dividing by the total number of issued shares.

NET OF FEES PERFORMANCE
According to the Global Investment Performance Standards (GIPS), gross returns reduced by investment management fees, such as performance fees and carried interest. Gross returns have already deducted direct and indirect trading expenses, such as brokerage commissions and bid/ask spreads.

NET PRESENT VALUE
For an over-the-counter (OTC) derivative, the discounted net sum of all future cash flows on the derivative based on today’s values for the underlying market variables.

NET STABLE FUNDING RATIO (NSFR)
A ratio designed to ensure that banks have a sufficient source of stable funding to mitigate the risk of future funding stresses. NSFR limits the over-reliance on short-term wholesale funding, encourages better assessment of funding risk on all items (both on and off-balance sheet) and promotes funding stability.

NSFR is defined as follows:

\[
NSFR = \frac{\text{Available Stable Funding}}{\text{Required Stable Funding}}
\]

Available Stable Funding is the portion of capital & liabilities that are expected to be “reliable” over the time horizon for the NSFR, which extends to 1y.
Required Stable Funding is an amount determined by criteria which include the liquidity and maturity of assets held, and off-balance sheet exposures.

**NETBACK**
A summary of all the costs associated with bringing one unit of oil to the marketplace, and all of the revenues from the sale of all the products generated from that same unit. The netback is calculated by taking all of the revenues from the oil, less all costs associated with getting the oil to a market. These costs can include, but are not limited to, importing, transportation, production and refining costs and royalty fees.

**NETTING**
The settlement of obligations between two parties through an offsetting process guided by various contractual provisions.

**NETWORK CODE**
The legal framework for players in the gas industry which provides the rules for fair competition and governs processes like network planning and allocation of network capacity.

**NEW YORK PORTFOLIO CLEARING (NYPC)**
A joint venture between The Depository Trust & Clearing Corporation (DTCC) and NYSE Euronext that will allow for “one-pot” margining of interest rate futures positions cleared by NYPC with US Treasury and agency securities and repurchase agreements cleared by DTCC’s Fixed Income Clearing Corporation (FICC). NYPC is a Commodity Futures Trading Commission (CFTC)-registered derivatives clearing organisation (DCO). NYPC will be the first derivatives clearing solution to bring together fixed income securities and listed interest rate futures in a single margin calculation, delivering increased capital efficiency, market transparency and operational efficiencies to the market.

**NEWS ANALYTICS**
The storage and analysis of the news arrival process in order to extract insights for trading or investment. It involves machine learning and natural language
processing to transform unstructured textual data into quantitative signals. It is prevalent in systematic and algorithmic trading.

**NFC+ AND NFC- ENTITIES**
All counterparties to a derivatives contract other than financial counterparties, trade repositories and central counterparties. Examples include manufacturers and airline/shipping companies. NFCs that trade above clearing thresholds set by European Securities and Markets Authority (ESMA) are referred to in the market as “NFC+” entities. NFC+ is subject to the clearing obligation of the European Market Infrastructure Regulation (EMIR) and must clear all of its derivatives transactions through a central counterparty clearing house, even if it only passes the threshold for one class. Non-financial counterparties to which the clearing obligation does not apply are NFC- entities.

**NOMINAL SPREAD**
The difference in yield-to-maturity (YTM) for a credit security relative to a comparable Treasury security. The credit YTM is calculated using one prepayment assumption.

**NOMINATION**
The means by which a shipper notifies the pipeline owner of details of the transportation of hydrocarbon (e.g., quantity, receipt and delivery location and time period).

**NON-DELIVERABLE CURRENCY**
A foreign currency which cannot be settled by certain market participants due to local market restrictions.

**NON-DELIVERABLE FORWARD (NDF)**
An over-the-counter (OTC) settled short-term currency forward on a lightly traded currency or non-deliverable currency. The settlement amount is the net rate of the contract rate against the spot rate on an agreed notional amount.
NON-DISCRETIONARY ACCOUNT
An account which does not allow its broker, advisor or bank to buy or sell securities without permission from its holder. In other words, all transactions must be approved by the client account holder.

NORD POOL
The world’s largest and only multinational exchange for the trading of power contracts. The Nord Pool primarily services the players at the wholesale market for electricity in Sweden, Norway, Finland, Denmark, Estonia and Lithuania.

NORMAL BUTANE (NC4)
An NGL hydrocarbon component of NGLs primarily used in petrochemical industry, gasoline or as an oil additive.

NORMAL DISTRIBUTION
A continuous Gaussian probability distribution. Normal distributions are used in mathematical finance to describe random fluctuations in asset prices for models that assume such prices are normally distributed. Also known as the bell curve.

The mathematical form for a normal distribution is given by the equation below, where \( f(x) \) is the function for the normal distribution (also represented as \( N(\mu, \sigma^2) \)) for variable \( x \), \( \sigma \) is the standard deviation of the distribution and \( \mu \) is the mean of the distribution.

\[
f(x) = N(\mu, \sigma^2) = \frac{1}{\sigma \sqrt{2\pi}} e^{-\frac{(x-\mu)^2}{2\sigma^2}}
\]

NOSTRO/VOSTRO SETTLEMENT BREAK
A mismatch of cash flows caused when the amount of cash expected by one party differs from the actual amount paid by the other party.

NOTE
A debt instrument which mandates the issuer to make periodic payments of interest to the investor and return the principal amount at maturity.
NOTICE OF PHYSICAL SETTLEMENT (NOPS)
An irrevocable confirmation that the buyer of protection will physically settle a credit default swap contract. An NOPS must be delivered within 30 calendar days of the event determination date (EDD) and must contain a detailed description of the intended deliverable obligation. The buyer may change the intended deliverable obligation, up to and including the physical settlement date by the issuance of another NOPS. However, the settlement period is calculated from the day on which the first NOPS was delivered.

NOTICE OF PUBLICLY AVAILABLE INFORMATION (PAI)
The second notice required to be delivered to trigger a credit derivative transaction when a notifying party believes a credit event has occurred. A PAI cites the publicly available information that reasonably confirms a credit event has occurred. It is market convention to cite two sources of publicly available information from internationally recognised news sources.

NOTICE OF READINESS (NOR)
A written notice presented to a person as defined in the charter informing the arrival of the ship to be loaded/unloaded. It determines the start of laytime, or the period of time that is allowed to the charterer for loading and/or discharging the ship.

NOTIONAL AMOUNT
The nominal amount on a trade upon which the returns of an investment is calculated. Usually, the notional amount is not transferred and is only an indicative value.

NOVATION
The process by which one counterparty (transferor) agrees to transfer to a third party (transferee) its obligations under an existing transaction with another counterparty (the remaining party). The transferor, transferee and remaining party all need to agree to the novation. See also "stepping in/out".
**NOVATION CONSENT**
The process by which the transferor in a proposed novation notifies and obtains the consent of the remaining party.

**NOVATION PROTOCOL**
A document published by ISDA that defines the market standard procedures for novating interest rate and credit derivative transactions. The protocol demands that the transferor (the stepping-out party) seeks the consent of the remaining party that it is seeking to transfer by novation one or several trades to a new party (the transferee). A transfer by novation requires the consent of the transferor, the transferee and the remaining party. See also “consent equals confirmation”.

**NTH TO DEFAULT BASKETS**
A credit derivative transaction based on a bespoke basket of reference entities, which terminates and settles completely (as per a market standard credit default swap) only when the defined reference entity (first, second or “nth” name) suffers a credit event. Pricing depends on the correlation between the names in the basket and the number of defaults that have to occur before settlement.

**NYSE LIFFE**
A recognised investment exchange in the UK, offering trading in derivatives including equities, bonds, interest rates, indices and commodities. NYSE Liffe also has an over-the-counter (OTC) equity options offering.
ODORISATION (NATURAL GAS)
The process of adding an odorous substance (i.e., oderant) to natural gas, which is naturally odourless and flammable, so that it is easily detectable by people.

OIL COMPANIES INTERNATIONAL MARINE FORUM (OCIMF)
A voluntary association of 75+ oil companies and marine terminals. OCIMF was formed at a meeting in London on 8th April 1970. It was initially the oil industry’s response to increasing public awareness of marine pollution, particularly by oil, after the “Torrey Canyon” incident. Subsequently, OCIMF has been responsible for the publication of guidelines for marine activities for both the upstream and downstream oil industries. It also actively represents its members at the International Maritime Organisation (IMO) and interacts with other industry bodies to promote safety and pollution prevention in the marine environment.

OFFER/ASK PRICE
The price at which a trader or market maker is willing to sell a contract.

OFFSHORE
Business conducted outside of the remit and controls of domestic legislative or regulatory authorities.

OFFSHORE SUPPLY VESSELS
These are cargo vessels that regularly transport goods, supplies or equipment in support of exploration or production of offshore mineral or energy resources. Offshore supply vessels are also used for a variety of support activities, including anchor handling, personnel transport, diving operations, seismic testing, etc.
OFFSHORE VESSEL INSPECTION DATABASE (OVID)
A voluntary system of inspection for ships/units engaged in the offshore industry. OVID has been developed at the request of OCIMF members to provide an objective inspection tool that allows oil company, marine assurance and project teams to undertake assurance/due diligence activities on vessels engaged in upstream shipping activities.

OIL POLLUTION ACT (OPA 90)
Legislation that requires companies to have a “plan to prevent spills that may occur” and have a “detailed containment and clean-up plan” for oil spills. Enacted following the Exxon Valdez pollution incident in 1989, it also called for the phase-out of single hull tank ships in the United States by 2015.

OMNIBUS ACCOUNT
A central trading account that represents multiple sleeves or subaccounts to the street. Trades made on behalf of the account are then distributed amongst the sleeves as holdings. An omnibus account is the public-facing account for other internal subaccounts.

ONTARIO SECURITIES COMMISSION (OSC)
The regulatory body that administers and enforces securities laws and regulations in Ontario Canada and regulates the Toronto Stock Exchange.

OPEN TRADE EQUITY
The unrealised gain or loss on an open position.

OPERATIONAL RISK
The risk of loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events.

OPTION
The right, but not the obligation, to buy (call) or sell (put) a financial instrument at an agreed upon price whether
during a certain period of time (American), on a specific date (European), or on a number of specific dates in the exercise period (Bermudan option).

**OPTION ADJUSTED SPREAD (OAS)**
The constant parallel spread that must be added to the treasury spot curve in order for the discounted cash flows on the bond to match the market price of the bond, taking the option premium of the callable/puttable bond into account. An option model (with volatilities as an input) determines the future cash flows. These future cashflow are discounted back using the spot rates plus the OAS spread to equate to the market price of the note/bond.

**OPTION BUYER**
The party who buys an option, pays a premium and, in return, is granted the right, but not the obligation, to buy or sell the relevant underlying security.

**OPTION DISPERSION**
A structure in which one party sells an option on an index or basket of underlying assets and simultaneously buys individual options on each of the index constituents or basket components. The buyer of this structure will be in-the-money only if the index constituents or basket components are negatively correlated. An option dispersion is similar to a correlation swap.

**OPTION GRANTOR**
The person who originates an option contract by promising to perform a certain obligation in return for receipt of the premium of the option from the option buyer. Also known as “option writer” or “option seller”.

**OPTION PREMIUM**
The amount collected by an option seller from the buyer in return for assuming the obligation. The option premium depends on the strike price, volatility of the underlying and the time remaining to expiration.
OPTION SELLER
The person who originates an option contract by promising to perform a certain obligation in return for receipt of the premium of the option from the option buyer. Also known as “option writer” or “option grantor”.

OPTION SPREAD
A combination of long and short positions on the same underlying but with different strike prices or expiration dates to hedge risk or reduce transaction costs.

OPTION STYLE
Refers to the exercise parameters of the option. There are three main styles: European (exercise available on the expiration date only), American (exercise available on any business day throughout the life of the transaction) and Bermudan (exercise available on specific dates throughout the life of the transaction).

OPTION WRITER
The person who originates an option contract by promising to perform a certain obligation in return for receipt of the premium of the option from the option buyer. Also known as “option grantor” or “option seller”.

OPTIONS CLEARING CORPORATION (OCC)
A clearinghouse for equity derivatives and central counterparties (CCPs) operating under the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

ORDINARY SHARES
Shares that represent equity ownership in a corporation, provide voting rights and entitle the holder to a share of the company’s success through dividends and/or capital appreciation. In the event of liquidation of the company, shareholders have only a residual claim after settlement of bond and preferred shareholders.
ORGANISED MARKET PLACE (OMP)
A multilateral system that brings together or facilitates the bringing together of multiple third parties procuring and selling energy. An exchange is a good example of an OMP. For clarity on who ACER defines as an OMP, visit the ACER website for a full listing.

ORGANISED TRADING FACILITY (OTF)
An electronic trading venue expected to be similar in scope to a swap execution facility as created under the Dodd-Frank Act. Introduced by the European Commission as part of the MiFID review, an OTF will be used to increase transparency in the trading of over-the-counter (OTC) derivatives.

ORGANISATION OF THE PETROLEUM EXPORTING COUNTRIES (OPEC)
An international organisation headquartered in Vienna, Austria formed in 1960 to coordinate and stabilise oil markets. In 2014, OPEC comprised twelve members: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.

OTC DERIVATIVES REGULATORS’ FORUM (ODRF)
An international forum consisting of central banks, bank regulators, market regulators and other governmental authorities relevant to the over-the-counter (OTC) derivatives market formed to address questions, issues and objectives related to Central Counterparties (CCPs) and trade repositories.

OTC DERIVATIVES SUPERVISORS GROUP (ODSG)
A group of cross-jurisdictional over-the-counter (OTC) derivatives supervisors who encourage a consistent supervisory approach to address issues in the OTC derivatives market, set industry commitments and work with market participants to drive market improvements.

OUT-OF-THE-MONEY
An option position where the option holder is negatively affected by the difference between the strike price and the current market price of the underlying. A call option is out-
of-the-money if the current market price is lower than the strike. A put option is out-of-the-money if the current market price is higher than the strike.

**OUTPERFORMANCE**
A strategy whereby each party pays to the other party the performance of a different asset, resulting in a net payout of the outperformance of one asset relative to the other.

**OUTRIGHT**
An order to buy or sell only one specific type of contract, [two parties agree to buy or sell a given amount of currency at a predetermined rate at some point in the future]; an order that is not a spread order.

**OVER-THE-COUNTER (OTC)**
Financial contracts or other instruments between two counterparties where the terms of such transaction are freely negotiated, as distinct from an exchange-traded transaction where the size, tenor and other terms are prescribed by the rules of the relevant exchange. Also referred to as “off-exchange”.

**OVERAGE**
The amount of cargo carried by the vessel over and above the minimum quantity stated in the charter party.

**OVERNIGHT INDEX SWAP (OIS)**
A swap in which a fixed rate of interest is exchanged for cash flows based on a daily-compounded overnight interest rate (e.g., the Fed funds rate in the United States). OIS provides a flexible hedging tool for banks and corporate treasurers.
PANAMAX
A medium-sized product carrier of approximately 50,000 to 80,000 deadweight tons, most commonly carrying dirty petroleum products.

PARI PASSU
A condition where securities, asset classes, creditors or obligations are managed equally or have the same rights. For example, two creditors are considered pari passu if they have an equivalent claim on assets during a bankruptcy.

PARTIAL TERMINATION
A reduction in the notional amount of a derivative contract.

PASSIVE INVESTMENT MANAGEMENT
An investment strategy where investments mimic a predetermined benchmark. The benefits include low management fees, taxes and trading costs.

PATH DEPENDENT OPTION
A financial instrument whose valuation and payoff depends on the realised price path of the underlying asset. Examples of path dependent options include Asian options or lookback options.

PAY AS YOU GO SWAP (PAUG)
A credit default swap transaction on an underlying asset backed security (ABS) or residential mortgage backed security (RMBS) transaction. The protection seller compensates the protection buyer over the life of the transaction for any cash flow deficiencies, for example interest shortfalls, principal shortfalls or write-downs.
PAUG is cash flow-driven as opposed to single event-driven as in corporate credit derivatives. Calculations and determinations are made based on the servicer report.

**PAYMENT DATE**
The date on which a dividend, interest or other cash flow is scheduled.

**PAYREC**
A payment matching and netting service provided by Deriv/SERV for over-the-counter (OTC) derivative transaction payments that cannot be settled through Deriv/SERV’s Trade Information Warehouse.

**PEAKLOAD CONTRACT**
A contract for delivery of power at a constant rate over a specified time period, for example 1/2 hour, 1 hour, 4 hours, 6 hours or 12 hours. Peakload contracts are used for periods of higher demand above baseload.

**PERCENT OF LIQUIDS CONTRACT**
A contract whereby the processor receives an agreed upon percentage of the sale proceeds of processed Natural Gas (NGL) only.

**PERCENT OF PROCEEDS CONTRACT**
A contract whereby the processor receives an agreed upon percentage of the sale proceeds of processed natural gas and NGL.

**PHYSICAL ELECTRICITY INDEX (PHELIX)**
A reference price for power in Germany and other parts of central Europe. Phelix is the hourly weighted average daily and monthly spot prices of base load and peak load power traded on the European Energy Exchange (EEX), German and Austrian market areas.
PHYSICAL SETTLEMENT
The meeting of a settlement obligation under a derivative contract through the receipt or delivery of the actual underlying instead of through cash settlement.

PHYSICAL SETTLEMENT DATE
The date or time frame upon which physical settlement occurs.

PILOTING
Navigating a vessel in restricted waters, normally using visual bearings and other references to navigational aids, such as buoys and lighthouses, shore characteristics and the seabed.

PIP
The minimum price fluctuation typically allowed for a financial instrument or security. Pip is an acronym for percentage in point, and is synonymous with a tick. It is usually 1/100 of 1% of the nominal value of a security.

PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION (PHMSA)
An agency that establishes national policy, sets and enforces standards and conducts research into hazards associated with pipeline transport.

PIPELINE INSPECTION GAUGE (PIG)
A device used to perform maintenance (cleaning and scraping) and electronic inspection (wall thickness and cracks) inside a pipeline, without stopping the flow of its contents.

PLATTS
A provider of energy, shipping and metals data specialising in news, market alerts, price reports, newsletter, market reports, maps and geospatials. It is the foremost source of benchmark price reports/assessments in the physical energy markets.
PLEDGE
A type of collateral agreement in which the collateral provider creates a security interest in favour of the collateral receiver. The security interest allows the receiver to take legal possession of the collateral assets only in the event of the default of the collateral provider. Outside of a default, the legal ownership of the collateral assets remains with the provider, whilst the assets are physically held by the receiver.

POOL FACTORS
The proportion of the balance of a mortgage-backed security which has yet to be returned to the investor. The pool factor serves as an indicator of how much of the original loans covered by the security have yet to be repaid. The factor is displayed as a proportion of 1, attached to the MBS’s price.

PORT CHARGES
The charges associated with using ports and related facilities. Charges include mooring/unmooring, agents, transportation, helicopter, launch, canal dues, tugs, etc.

PORT STATE CONTROL
Supplements the flag state where the regulations are enforced by the nations where the ship makes port calls. This information is used by charterers to assess third party marine risk.

PORTABILITY
The ability to transfer cleared positions from one clearing member to another.

PORTFOLIO
A collection of securities or assets held for one investor. In contrast, a fund is a collection held for more than one investor.

PORTFOLIO COMPRESSION
A process of reducing the size of a derivative portfolio, in terms of the total number of trades and the outstanding notional amount, whilst maintaining the overall risk.
characteristics of the portfolio. Also sometimes referred to as “tear-ups”. Providers of trade compression services include TriOptima (TriReduce) and Markit/Creditex.

**PORTFOLIO IMMUNISATION**
A duration-matching strategy that attempts to manage the portfolio so that changes in interest rates affect both price and reinvestment at the same magnitude, keeping the portfolio terminal value constant. This strategy tries to protect the expected yield of a portfolio by acquiring securities with a duration equal to the length of the investor’s planned holding period.

**PORTFOLIO MARGINING**
The method of maintaining a margin balance in which holdings across the portfolio are netted to determine the required margin. In this way, a position that is positive can offset a losing position.

**PORTFOLIO RECONCILIATION**
A process of mutual trade comparison which occurs in the event of a collateral dispute over the mark-to-market value of a collateralised portfolio. The process highlights any difference in the number and/or the mark-to-market value of trades that then need to be investigated and resolved.

**PORTFOLIO SWAP**
A total return swap that is covered under a portfolio swap agreement between two parties. This arrangement enables high-volume trading without requiring the legal execution of individual over-the-counter (OTC) trade confirmations, as opposed to trading discrete total return swaps which do require the execution of individual legal confirmations.

**POSITION**
To own or owe a security or other asset. A long position is when one owns something, whilst a short position is when something is sold. Positions consist of security ID and quantity.
POSTPONEMENT
A term defined in the 2011 ISDA Equity Derivative Definitions to describe one method of adjusting averaging dates, should an averaging date be subject to a market disruption event. If elected, a disrupted averaging date is rolled forward to the next good business day, regardless of whether such date is also an averaging date, subject to a cap of eight good business days. Under this provision, the same date can be used for multiple observations.

POTENTIAL FUTURE EXPOSURE (PFE)
A measurement of counterparty credit exposure calculating the maximum amount of exposure occurring at a future point in time with a high degree of statistical confidence.

POWER REVERSE DUAL CURRENCY TRANSACTIONS
A note or swap that is a leveraged structured product made up of a series of currency options exposing counterparties to variations in interest rate differentials between countries.

PRECEDING BUSINESS DAY CONVENTION
A type of business day convention where payment days that fall on a bad business day roll back to the preceding good business day.

PREFERRED STOCK
A type of stock with a more senior claim than common stock on dividend payout, and in case of liquidation. Preferred stock has ownership but is usually not granted voting rights. Common stock dividends are paid out from the remainder of earnings after preferred stock dividends are awarded.

PREMIUM
1) The price of an option, paid by the purchaser to the option grantor, for the right to buy or sell the underlying at the specified strike price. 2) The additional payment allowed by exchange regulation for delivery of higher-than-required standards or grades of a commodity against a futures contract. 3) The dollar amount by which a security trades above its principal value. See also “issue price”.
PRESENT VALUE
For an over-the-counter (OTC) derivative, the discounted individual-leg sum of all future cash flows on the derivative based on today’s values for the underlying market variables.

PREVENTATIVE CONTROL
A control that may prevent a possible event (e.g., fraud, error, non-compliance) from occurring.

PRICE ALIGNMENT INTEREST
The interest received or paid (usually at an overnight rate) on collateral pledged as variation margin.

PRICE LIMIT ORDER
A customer order that specifies the price at which a trade can be executed.

PRICE REPORTING AGENCY (PRA)
Agency monitoring real time global production of commodity and producing price assessments reflective of real value of the resource.

PRICE RETURN EQUITY SWAP
Similar to a total return swap, except that the price return swap doesn’t contain dividend payments. See also “total return swap (TRS)”.

PRICE-TO-BOOK RATIO
The ratio between a stock’s market price and its book value per share. It is calculated by dividing the current closing price of the stock by the latest quarter’s book value per share. This is a metric used by analysts and portfolio managers for stock selection. The lower the P/B ratio, the more perceived value.

PRICE-TO-EARNINGS RATIO
The ratio between a stock’s market price and its earning per share. It is calculated by dividing the current stock price by
its earning per share (EPS). P/E is usually calculated using EPS from the last four quarters. This is one of the metrics used by analysts and portfolio managers for stock selection. The lower the P/E ratio, the greater the perceived value.

**PRIMARY DEALER**
A bank or broker/dealer who is able to deal directly with the United States Treasury. The primary dealers buy most of the government issued bonds and resell them, creating a secondary market. In the United States, the majority are primary dealers, including Deutsche Bank Securities, Citigroup Global Markets, Goldman Sachs, etc.

**PRIMARY ECONOMIC TERMS (PET)**
Primary/core economic terms of an over-the-counter (OTC) derivative transaction.

**PRIME BROKER**
A broker which acts as settlement agent and provides services such as custody services, securities lending, financing for leveraged trade executions, reporting, etc. Mostly, hedge funds use the services of a prime broker. Most of the large brokers, such as Goldman Sachs, Morgan Stanley, J. P. Morgan, provide prime brokerage services.

**PRINCIPAL COMPONENT ANALYSIS (PCA)**
A technique to reduce a large set of variables to a smaller set of uncorrelated variables that does not materially change the information provided by the larger set. The variables present in the smaller set are called the principal components. Data can be easily analyzed and interpreted using the reduced variable set as it requires fewer parameters to be estimated.

**PROCESSED NATURAL GAS**
Natural gas wherein the water and other impurities have been removed.

**PROCESSING MODE: REJECTION OR CONDITIONING**
Operation of a processing plant to produce pipeline quality natural gas. There are two modes: Rejection (recover all
possible liquids for maximum economic uplift based on the positive frac spread) and Conditioning (to reduce the output of NGL, or its components, to save on operating costs during unfavorable economic times when the frac spread is negative).

**PROCESSING PLANT**
A facility that separates heavier (liquefiable) hydrocarbons from methane and removes impurities such as sulfur and other inerts, resulting in products usable in domestic and industrial applications.

**PRODUCT CARRIER**
General term that applies to any tanker used to transport refined oil products, such as gasoline, jet fuel or heating oil.

**PRODUCT CASH FLOWS (PCF)**
Typically includes fees, coupons, interest and other cash flows stemming from collateralised derivatives. In some cases, PCFs are netted with the margin call.

**PROJECTED BENEFIT OBLIGATION (PBO)**
An estimate of the present value of the employee pension liability for a corporation. Factors included in the calculation are futures salaries, number of employees and a discount rate.

**PROPANE (C₃)**
A by-product of natural gas processing and petroleum refining, it is commonly used as a fuel for engines, oxy-gas torches, portable stoves and residential central heating. It is transported in truck, rail, ship or pipeline.

**PROPRIETARY (PROP) TRADING**
When a financial institution uses its own capital for trading, rather than using customer capital. When a financial institution purchases or sells securities on a client’s behalf, the resulting transactions are considered to be agency transactions.
PROTECTION BUYER
A party to a credit default swap that pays a premium to the protection seller, who in turn agrees to compensate the (protection) buyer in the event that the reference entity suffers a credit event.

PROTECTION SELLER
A party to a credit default swap that assumes the credit risk of a reference entity in return for receipt of premium.

PRUDENT MAN (PERSON) PRINCIPLE
A standard that requires that a fiduciary entrusted with the funds may invest such funds only in securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase.

PRUDENTIAL REGULATION AUTHORITY (PRA)
Part of the Bank of England, responsible for the regulation and supervision of financial firms promoting safety and soundness in the UK’s financial system.

PUT OPTION
A contract that grants its purchaser the right, but not the obligation, to sell the underlying instrument at a specified strike price on [European option] or before [American option] the expiration date. Compare with “call option”.

PUT-CALL PARITY
The relationship between European call and put options on the same underlying asset, for the same strike and expiry. The value of a portfolio containing a long call option and a short put option is equal to the value of a forward contract for the same strike and expiry.
QUAD-PARTY SEGREGATION
A type of segregation where collateral is held by a fourth party, such as a custodian rather than by the clearing broker or the central counterparty (CCP).

QUALIFIED INTERMEDIARY
An entity identified under the US Internal Revenue Code to act as a go-between for income reporting and tax withholding.

QUANTO
A product where the underlying is denominated in one foreign currency but settled at a fixed rate in another currency. It uses a floating rate of a non-domestic interest rate and applies this to a notional amount in a domestic currency. Such products are common amongst speculators looking to gain exposure to foreign assets yet looking to protect themselves from exchange rate fluctuations.

QUANTO SWAP
An interest rate swap where one of the floating rates is a non-domestic interest rate, but it is applied to a notional amount denominated in the domestic currency. Also known as a differential swap.
R SQUARED ($R^2$)
A statistical measure representing the percentage change in a fund that is explainable by the movements in a benchmark index. The larger the value of $R^2$, the greater the probability that observed outcomes are explained by a particular model.

The mathematical form for $R^2$ is given by the equation below, where $SS_{res}$ is the sum of squares of residuals, and $SS_{tot}$ is the total sum of squares:

$$R^2 = 1 - \frac{SS_{res}}{SS_{tot}}$$

RAINBOW OPTION
An option strategy which pays out based on the performance of two or more underlying assets (also known as colours of the rainbow). There are four types of rainbow option: best of, worst of, maximum of and minimum of.

RALLY
An upward movement of security prices.

RANGE
The difference between high and low prices of a security over a given period of time.

RANGE ACCRUAL
A type of derivative product (also referred as range accrual note) in which a coupon is earned only on days when the reference rate (e.g., USD 3m LIBOR) falls within a specified range.

RANGE BINARY
A range binary pays out if a specified spot rate trades within a given range over a specified period of time,
in exchange for payment of a premium. The lower the volatility of the spot rate, the more likely the buyer is to profit. See also “trigger condition”.

RATCHET OPTION
See “Cliquet”.

RATIO SPREAD
An option strategy in which a long position in a certain number of options is offset by a short position in a certain number of other options on the same underlying.

RAW NATURAL GAS
Natural gas directly from the wellhead that has not been processed.

RE-LETTING (A SHIP)
The act of sub-chartering a cargo to other charterers or ship-owners.

RECOGNISED CLEARING HOUSE (RCH)
A clearing house, which has been recognised by the Financial Services Authority (FSA) and allowed to operate in the UK. Recognition is granted by the FSA to those clearing houses which meet its requirements under the terms of the Financial Services and Markets Act 2000.

RECOGNISED INVESTMENT EXCHANGE (RIE)
An exchange authorised by the Securities and Investments Board (UK) to act as a marketplace for buying and selling financial instruments under the terms of the Financial Services Act.

RECOGNISED OVERSEAS CLEARING HOUSE (ROCH)
A clearing house which does not have a head office or registered office in the UK, but has the necessary recognition from the Financial Services Authority to enable it to provide clearing and settlement services in the UK.
RECOGNISED OVERSEAS INVESTMENT EXCHANGE (ROIE)
An investment exchange, which does not have a head office or registered office in the UK, but has been recognised by the Financial Services Authority and allowed to operate in the UK. Recognition is granted by the FSA to those investment exchanges that meet its requirements under the terms of the Financial Services and Markets Act 2000.

RECORD DATE
The date established by an issuer of a security for the purpose of determining the holders entitled to receive a dividend or distribution.

RECOVERY
1) Attempt to recover partial or full payment of investments in non-performing loans or bad debts. Also called “bad debt recovery”. 2) A period of rise in securities prices after a period of decline. Also called “rally”.

RECOVERY RATE
The amount of a creditor’s claim, expressed as a percentage, that is actually recovered through liquidation of the assets of a company following bankruptcy.

RECOVERY SWAP
A credit derivative where the payoff is based on the difference between a pre-set fixed recovery rate and the recovery rate which is observed at the time of the credit event.

REDEMPTION
The repurchase of a security (such as a bond, preferred stock or mutual fund) by the issuing company from the holder of that security, at par or at a premium price, at maturity or before if it is cancelled by the company.

REDEMPTION DATE
The date on which a security (bond or loan stock) matures and the issuer redeems the security by paying the investor the principal and any interests.
**REDEMPTION PRICE**
The price at which a security (bond or preferred stock) can be redeemed by the issuer.

**REFERENCE ENTITY**
The underlying corporate or sovereign in respect of which credit protection is being offered by the seller of protection to the buyer of protection under a credit derivative.

**REFERENCE OBLIGATION**
A debt obligation of a reference entity that is typically representative of the overall credit quality of the reference entity. The reference obligation determines the minimum seniority of an eligible deliverable obligation under a credit derivative. A deliverable obligation must not be subordinated to the reference obligation. It should be noted that there is no requirement to deliver the reference obligation in settlement of a credit derivative.

**REFINING**
The process by which hydrocarbons (such as crude oil and natural gas) are processed into usable products such as naphtha, gasoline, heating oil and gasoil.

**REGASIFICATION**
The process of transforming LNG back to natural gas in a gaseous state.

**REGIS-TR**
A European Securities and Markets Authority (ESMA)-approved central trade repository based in Luxembourg. It is a joint venture between Spanish Iberclear and German Clearstream (which belongs to Deutsche Boerse).

**REGISTERED ENTITY**
Includes multiple types of entities that orchestrate trading in derivatives markets and are registered with the Commodity Futures Trading Commission (CFTC). Examples include
designated contract markets (e.g., CME), derivatives clearing organisation (e.g., EUREX Clearing), swap execution facilities (e.g., Bloomberg SEF) and swap data repositories (e.g., DTCC).

REGISTERED INVESTMENT ADVISOR (RIA)
A person or firm regulated by the Securities and Exchange Commission (SEC) or a state’s security agency that provides investing advice or counsel to an investor. RIAs receive compensation for giving advice on investing in securities.

REGRESSION
A statistical measure used to determine the strength of the relationship between a dependent and independent variables. Two main types of regression, linear and multiple, attempt to explain this strength through either a single or multiple variables.

Mathematical forms of regression are given by the equations below.

Linear Regression:

\[ y = a + bx + u \]

Multiple Regression:

\[ y = a + b_1x_1 + b_2x_2 + b_3x_3 + \ldots + b_nx_n + u \]

For linear regression, \( y \) is the dependent variable, \( x \) is the independent variable, \( a \) is the \( y \)-intercept, \( b \) is the coefficient of \( x \) and \( u \) is the regression residual.

For multiple regression, \( x_n \) is an independent variable, \( b_n \) is the coefficient for the independent variable \( x_n \), and \( y, a \) and \( u \) have the same definitions as for linear regression.

REGULATION ON WHOLESALE ENERGY MARKET INTEGRITY AND TRANSPARENCY (REMIT)
Regulation that applies aspects of various financial industry mandates to wholesale energy products and related derivatives. Cornerstones of the regulation are the prohibition of insider trading, prohibition of market abuse, publication of insider information, reporting of transactions, reporting of
fundamental data and the registration of market participants. In essence, there are two main reporting obligations. One is the reporting of transparency data, i.e. planned power production and outages. The other is the reporting of transactions on the financial markets that are related to gas or power, which covers spot transactions, capacity contracts and derivatives relating to these contracts.

REGULATION SYSTEMS COMPLIANCE AND INTEGRITY (SCI)
A regulation adopted by the SEC in November 2014 to strengthen the technology infrastructure of securities markets. Regulation SCI imposes uniform requirements on key market participants with the aim of preventing systems issues and improving the resilience of the market when problems occur.

REGULATORY ASSETS UNDER MANAGEMENT
The market value of the assets that an investment company manages on behalf of investors. Also known as assets under management (AUM).

REGULATORY RISK
The risk that government laws and regulations directly or indirectly affecting a company’s operations will change, with potential severe adverse effects on the company’s continued profitability or sustainability.

REHYPOTHECATION
The ability of a broker, bank or custodian to use its clients’ collateral postings for its own trading purposes, generally with a margin of compensation.

RENEWABLE ENERGY DIRECTIVE (RENEWABLES DIRECTIVE)
A directive that sets mandates for the use of renewable energy in the European Union. Published on 23rd April 2009, the directive officially titled as 2009/28/EC, includes
a mandatory target for European Member States that 10% of energy in land transport should be from renewable sources by 2020.

**RENEWABLE IDENTIFICATION NUMBERS (RINS)**
Numbers used to track renewable transportation fuels. The RIN system allows the US Environmental Protection Agency (EPA) to monitor compliance with the Renewable Fuel Standard (RFS), a federal program that requires transportation fuels sold in the United States to contain minimum volumes of renewable fuels.

**REPO RATE**
The implicit interest rate in a repurchase agreement (repo) that is based on time and the difference between the repurchase price and the original sale price.

**REPUDIATION/MORATORIUM**
A credit event applicable to sovereign and some Asian reference entities which occurs when there is both a statement by an authorised government officer that repudiates or rejects the validity of one or more of their debt obligations, followed by a failure to pay or restructuring of one or more of such obligations.

**REPURCHASE AGREEMENT (REPO)**
A contract that combines a sale of securities with the obligation to buy back the securities at a higher price at later date. Repos are used for funding purposes by dealers as they are receiving cash in the transaction. The purchase and sale prices are set to reflect an interest rate for a short-term collateralised loan.

**REQUEST FOR QUOTE (RFQ)**
An inquiry for contract, side and amount directed to one or more dealers, auction-style. Historically, this trading protocol has been associated with over-the-counter (OTC) derivatives and lower levels of transparency, but since October 2013 market participants have been using the RFQ protocol for trading on SEFs (see swap execution facilities).
These platforms require that each request receives at least three responses with the objective of increased transparency. Many industry participants believe that the RFQ model is the only trading protocol suitable for traditional OTC products which are more bespoke in nature and highly structured. They argue that a standardised Central Limit Order Book (CLOB) model which is associated with listed derivatives would not work because there would not be enough liquidity or standardisation in either execution or the associated infrastructure. According to ISDA, a regulatory requirement which forces the industry to trade products on a model which is not suitable may render them worthless and shrink the market.

**RESIDENTIAL MORTGAGE BACKED SECURITY (RMBS)**
A structured security backed by a pool of residential mortgages.

**RESTING ORDER**
A limit order to buy at a price below or to sell at a price above the prevailing market that is being held by a floor broker. Such orders may either be day orders or open orders.

**RESTRUCTURING**
A credit event that occurs when a reference entity restructures the terms of some or all of its debt obligations in agreement with its creditors resulting in the deterioration in the creditworthiness of the reference entity. Common restructuring events include debt for equity swaps, extensions to the maturity date or reductions in principal or interest payable. See also “credit event”.

**RETRACEMENT**
A reversal in the trend of a security’s price. Technicians use Fibonacci numbers to calculate retracement levels for trading decisions.

**RETURN ON EQUITY**
Net earnings divided by shareholders’ equity. This measure may be interpreted as a company’s ability (or efficiency) to generate earnings using shareholder capital.
REVERSE FLOATER
An interest rate swap where the floating rate has a coupon which rises when the underlying floating rate falls. When the market floating rate falls, the payout increases. Reverse floaters offer guaranteed principal and are an option for investors looking to benefit from falling interest rates.

RHO
The rate of change in the price of an option with respect to the change in the risk-free interest rate, keeping all other factors constant.

The equation below illustrates the mathematical formulation for rho, where \( V \) is the value of the option and \( r \) is the risk-free interest rate:

\[
\rho = \frac{\partial V}{\partial r}
\]

RIGHT-WAY RISK
A phenomenon whereby the present value of a swap (or portfolio of swaps) traded with a counterparty is correlated with the increasing creditworthiness of the counterparty.

RISK AND CONTROL FRAMEWORK
A formal structure:

- containing a coherent set of principles and practices
- providing an end-to-end view of business practices
- influencing, directing, managing, preventing loss or maximising return, and enabling informed business decisions

It improves organisational performance and governance through an up-to-date understanding of risk, a clear articulation of risk appetite, effective internal control and a robust monitoring and measurement of risk and the mitigating effect of controls.
RISK APPETITE
The level of risk that an organisation is prepared to accept before action is deemed necessary to reduce it.

RISK CAPITAL
Funds that are used for high-risk, high-reward investments. It is the money one can afford to lose in return for potential high returns.

RISK CONTROL SELF-ASSESSMENT (RCSA)
A framework used to analyse the firm’s operational risk profile. An RCSA provides a means to identify control gaps that threaten the achievement of defined business or process objectives and monitoring what management is actually doing to close these gaps.

RISK REVERSAL
A trading strategy whereby a party buys an out-of-the-money put option and offsets the put premium by selling an out-of-the-money call option. Alternatively, a party can buy an out-of-the-money call option and offset the call premium by selling an out-of-the-money put option.

RISK-ADJUSTED RETURN
A return calculation that is adjusted by a risk (or volatility) measure.

RISK-BASED MARGINING
A method for setting margin requirements that evaluates positions as a group or portfolio and takes into account the potential for losses on some positions to be offset by gains on others. The margin requirement for a portfolio is typically set equal to an estimate of the largest possible decline in the net value of the portfolio that could occur under assumed changes in market conditions. Sometimes referred to as “portfolio margining”.

RISK-WEIGHTED ASSETS (RWA)
The sum of a bank’s assets and off-balance sheet exposures weighted by their corresponding risk. The weights depend on each asset’s probability of default and potential losses and can be calculated using internal ratings formulas. The measurement was set by The Bank of International Settlements and is used in defining Basel capital adequacy ratios. According to Basel III, a bank must hold at least 7% of its Risk-Weighted Assets in high-quality capital. During market stress, risk ratings can increase, putting pressure on banks to raise capital in order to maintain the same level of capital adequacy.

ROYALTY PAYMENT
Monies paid to the owner of mineral rights.
SALES GROWTH
The annual compounded revenue growth of a firm. Sales growth can either be forecasted or historical.

SCALPING
A trading strategy of holding a position for a very short period of time in attempt to capture small profits with minimal losses. Traders using this strategy are called scalpers.

SCENARIO ANALYSIS
The assessment and management of rare events that give rise to a severe risk exposure to the firm.

SCENARIO TESTING
A methodology that attempts to build plausible views of a small number of different possible futures scenarios for an organisation operating in conditions of high uncertainty.

SCHEDULED TERMINATION DATE
The scheduled maturity date of a credit derivative contract. A credit event has to occur on or before the scheduled termination date for protection to be valid. The termination date is the date on which the credit derivative contract settles (which may be earlier if a credit event occurs).

SCRAPPING
The demolition of a vessel that occurs at the end of its useful economic life.

SCRITTURA
A web-delivered technology platform that provides management and straight-through processing for over-the-counter (OTC) trade confirmations. Scrittura is owned by Autonomy and automates the full post-trade
lifecycle of trade documentation and communication. DocGenerator and DocManager are parts of the Scrittura software platform. DocGenerator consists of web-enabled document production that creates trade-related documents and supports the management of financial, legal and operational risk. DocManager provides structured, single-source storage for all trade-related documentation, including support for automatic indexing, version control and flexible search criteria.

SECONDARY MARKET
A market in which an investor purchases a security or asset from another investor rather than the issuer.

SECTION 1256 CONTRACTS
The contracts that are listed in Section 1256 of the US tax code—futures, forwards and options. These contracts are always treated as if they are sold at fair market value on the last business day of the tax year. Any capital gains and losses from the foregoing accounting treatment are treated as 60% long term and 40% short term.

SECTION 988 TRANSACTION
A section in the US tax code referring to the tax treatment of foreign exchange gains and losses associated with Section 988 instruments. Section 988 instruments include debt instruments, accruals as well as derivatives such as forwards, futures and options. FX gains and losses under this section are treated as ordinary in nature (and more specifically interest income or expense).

SECURITIES AND EXCHANGE COMMISSION (SEC)
A federal agency in the United States that is the principal regulator of the US securities industry and the lead enforcer of federal securities laws.

SECURITIES AND EXCHANGE SURVEILLANCE COMMISSION (SESC)
A Japanese organisation established to ensure fair and legal transactions in both the securities and financial markets. The commission is under the authority of the Financial
Services Agency. Unlike the US SEC, the SESC does not have the authority to punish any violations of the law and regulations.

SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION
An association formed on November 1, 2006 after the merger of the Bond Market Association and the Securities Industry Association. This association represents all securities firms, banks and asset management companies in the US and Hong Kong.

SEcuritisation
The act of pooling assets such as mortgages, debt and receivables into a separate entity. Securities (or tranches) supported by the cashflows from these assets are then issued to investors. Securitisation allows an issuer to customise cash flows and credit (through different collateralisation levels) to meet the needs of different investors.

SECURITY
A fungible, negotiable financial instrument that represents financial value and proof of ownership of investments like stock, bonds etc.

SECURITY-BASED LENDING (SBL)
A type of transaction where the lender receives pre-agreed securities in order to mitigate risk. The borrower has to pay lower interest rates as he or she posts collateral. The higher risk of security-based over cash collateral is covered by haircuts from market value.

SEEDING
The process of inputting existing outstanding over-the-counter (OTC) derivative transactions into a trade repository or central clearing counterparty.
SEGREGATED BALLAST TANK
Tanks which are completely separated from the cargo oil system and are dedicated to the carriage of ballast (water). Cargo oil and ballast must be segregated to prevent pollution.

SEGREGATION
The act or process of separating the assets of different clients, as well as that of the custodian or financial institution holding the assets. Segregated assets may be operationally comingled or may be kept separated. They are ring fenced in the event that the custodian or financial institution enters into bankruptcy proceedings.

SELF-REGULATORY ORGANISATIONS
A non-government entity with the ability to implement and enforce regulations and standards. Examples include stock exchanges and the Financial Industry Regulatory Authority.

SENSITIVITY ANALYSIS
A risk management technique where a set of business scenarios is created and applied to a model to determine how changes in variables will affect the outcome.

SERIES (OF OPTIONS)
Options of the same type (meaning either puts or calls, but not both), which cover the same underlying asset, having the same strike price and maturity month.

SERVING NOTICE
The process of informing a counterparty that the party serving notice will terminate transactions under an ISDA Master Agreement as a result of an event of default or termination event. An early termination date occurring no later than twenty days from the effective date of notice must be stipulated in the notice.

SETTLEMENT
The process whereby obligations arising under a transaction are discharged through payment and/or delivery.
SETTLEMENT METHOD ELECTION
A process whereby the electing party (determined at the time of trade) has the choice of specifying cash settlement or physical settlement at expiry, rather than specifying at time of trade which settlement method will be used. If no choice is made, there will be a default method specified in the confirmation. The choice must be made prior to a specified date.

SETTLEMENT PRE-MATCHING
A process of matching payments via phone or electronic platform, such as Deriv/SERV, in which counterparties can bilaterally match payments in advance of their settlement date.

SETTLEMENT PRICE
The price at which an option contract is valued to determine whether or not the option is in-the-money.

SETTLEMENT RISK
A risk that arises when payments are not exchanged simultaneously. A simple case would be a party making a payment to its counterparty but not being recompensed until sometime later. There is a risk that the counterparty may default before making the counter payment. Settlement risk is most pronounced in the foreign exchange markets, where payments in different currencies take place during normal business hours in their respective countries and can therefore be made up to 18 hours apart and where the volume of payments makes it impossible to monitor receipts except on a delayed basis. This type of risk affected counterparties of Germany’s Bank Herstatt in 1974, which closed its doors between receipt and payment of foreign exchange contracts. Settlement risk is thus sometimes referred as Herstatt risk.

SHARES OUTSTANDING
Shares issued by a company and owned by investors. These shares are traded by the general public. In contrast, Treasury shares are owned by the company and do not trade.
**SHARPE RATIO**
A measure of a portfolio’s risk-adjusted performance, i.e., a measure of a portfolio’s excess return relative to the total variability of the portfolio. It is calculated by subtracting the risk free rate from the portfolio’s return to calculate excess return then dividing by the standard deviation of the portfolio absolute returns.

**SHIP REGISTRATION**
The process by which a ship is documented by the country chosen by the ship owner. Once registered, the ship will fly the flag of the chosen country, or Flag State, with all the benefits and protections afforded by that country.

**SHIPPER**
Any entity that contracts with the transporter to convey gas through the gas pipeline network. Shippers need to be registered with the local regulatory body.

**SHIPPING AGENT**
The designated person or agency held responsible for handling shipments and cargo and the general interests of its customers, at ports and harbours worldwide, on behalf of ship owners, managers and charterers. In some parts of the world, these agents are referred to as port agents or cargo brokers. There are several categories of shipping agents, such as port agents, liner agents and own agencies, each rendering specific services depending on the shipping company they represent.

**SHIPPING POOLS**
A number of vessels that are grouped together to improve commercial performance and reduce administrative cost. Their earnings are pooled and distributed to the vessel owners according to a prearranged agreement.

**SHIPS MANIFEST**
A written instrument that contains the shipments list comprising the cargo of the vessel.
SHOCK ABSORBER
A temporary restriction in the trading of stock index futures which becomes effective following a significant intra-day decrease in stock index futures prices. Shock absorbers are designed to provide an adjustment period to digest new market information and do not permit trading below a specified price level.

SHORT
The sale of a borrowed security, commodity or currency. This action is employed with the expectation that the security value will fall and can be repurchased at a lower price.

SHORT FORM (TRANSACTION SUPPLEMENT)
The transaction supplement is entered into with respect to each trade under a Master Confirmation Agreement (MCA), supplementing the MCA and incorporating by reference the terms of the MCA. The MCA and transaction supplement together constitute the confirmation of a transaction. The MCA and transaction supplement structure remove the need for non-economic terms to be defined on a transaction-by-transaction basis.

SHORT-RATE MODEL
A family of stochastic interest rate models where the random variable that characterises the evolution of future interest rates is the instantaneous spot rate, or “short rate”. Short-rate models include the Ho-Lee model and the Hull-White model.

SHOUT OPTION
An option where the buyer has the ability to lock in a price for the underlying asset traded on a business day during the life of the option. The buyer then uses that price in the payout if it is more favourable than the price used to value the option on the expiration date.

SIMULATION
A fictitious representation of reality. For example, using random numbers to represent coin flips. In finance, simulation refers to a process used to calculate the expected
payoff of a security; typically an exotic option for which no “closed-form” solution exists to calculate the price. Random paths of the underlying price (e.g., stock price, commodity price) are generated by calculating the effects of random variables generated by simulation. These random variables are generated according to a defined probability distribution, typically a lognormal (or normal) distribution. The expected performance of the security is calculated by averaging the performance of the simulated paths (the number of paths generated usually number in the thousands).

**SINGLE HULL VESSEL**
A vessel does that does not have a protective void space between the cargo tanks and the ship’s hull.

**SINGLE SUPERVISORY MECHANISM (SSM)**
The mechanism by which the European Central Bank (ECB) is given powers to monitor the financial stability of banks in participating countries and the implementation of the Single Rulebook from November 2014 as part of the EU Banking Union.

**SLEEVE**
An agreement whereby an entity acts as an intermediary between an energy company and its trading counterparties. As the intermediary, the credit sleeve provider will guarantee the energy company’s performance pursuant to all trades between the company and its counterparties. The energy company will pledge collateral and pay a fee for these guarantees.

**SMALL AND MEDIUM-SIZED ENTERPRISES (SME)**
Companies whose number of employees falls below certain limits. Different countries have different criteria to define an SME. Some of the factors include: number of employees, turnover, etc.

**SMALL BANG PROTOCOL**
An ISDA protocol, published on 14 July 2009, which extended the auction hardwiring provisions (implemented by the Big Bang Protocol on 8 April 2009) to restructuring
credit events. Also known as the July 2009 Supplement. The CDS Small Bang entails contract changes related to restructuring, alongside separate convention changes to the European corporate CDS.

SMART BETA
An investment strategy that recalibrates portfolios based on technical or fundamental factors, such as value or momentum. It uses a dynamic weighting mechanism that follows rules-based rebalancing at periodic intervals.

SNOWBALLS
Structured interest rate derivative transactions where, for an initial term, the coupon is specified. Thereafter, each coupon is defined in terms of the previous coupon. There is a guaranteed high initial coupon, but coupon payments thereafter are determined by the speed with which the floating rate rises or falls. Snowballs are typically callable.

SNOWBLADES
A derivative (similar to a snowball) in that it has the similar high coupon for the initial term of the swap and, thereafter, each coupon is defined in terms of the previous coupon. Snowblades have a target redemption amount, such that when the coupons paid meet an agreed target total, the note will redeem.

SOFT CREDIT EVENT
Generally applied to a credit event such as restructuring, in which not all debt obligations have become due and payable immediately. The mechanics of the auction held following a soft credit event generally differ from hard credit events such as bankruptcy or insolvency. In case of soft credit event, auctions would be held separately for obligations of differing maturities. Typically, settlements on the back of a soft credit event result in the Cheapest to Deliver option.
SORTINO RATIO
A variation of the Sharpe ratio which considers only the standard deviation of negative returns as opposed to both positive and negative returns as in the Sharpe ratio. This ratio is one of several downside risk measures.

SOVEREIGN DEBT
Debt issued by a national government.

SOVEREIGN RISK
A form of credit risk in which the borrower is the government of a sovereign nation.

SPARK SPREAD
The difference between the market price of electricity and the market price of the fuel (gas) used to generate it, adjusted for generation efficiency/heat rate. The spark spread can be expressed per megawatt hour (for example £/MWh) or other applicable energy units. A clean spark spread takes account of the CO² emissions cost. When the fuel is coal, the spread is often referred to as a “dark spread”. The spark spread does not consider the cost of production. It helps utility companies determine their profits; if it is negative, the utility company loses money, and if it is positive, the utility company makes money.

SPECIAL PURPOSE VEHICLE (SPV)
A corporate entity used for a wide variety of purposes including the securitisation of loans, bonds or receivables in order to help spread the credit and interest rate risk of an underlying portfolio over a number of investors. SPVs are typically ring-fenced, bankruptcy remote, highly rated and offshore vehicles.

SPECIFIC RISK
The portion of a security’s market risk that is unique to that security.
SPECTRAL RISK MEASURE
A weighted average of the quantiles of a loss distribution, where weights are calculated based on the user’s risk aversion and generally larger losses are generally associated with larger weights. If a user is more risk averse, then that user should face a higher risk, as given by the value of this risk measure.

SPIN OFF
A type of divestiture where an independent company is created through the sale of new shares of a division (or company) of an existing parent company.

SPINNING RESERVES
Back-up energy production capacity that can be made available to a transmission system at very short notice and can operate continuously for a minimum time once it is brought online. This ancillary service is used by an independent system operator (ISO) to maintain system balance and integrity in cases of sudden increases in demand/supply for power.

SPOT CHARTER
When an owner provides a fully crewed ship and is responsible for all costs related to the movement of the cargo.

SPOT MONTH
The futures contract that matures and becomes deliverable during the present month. Also called current delivery month, is the nearest month in which a currently traded futures contract is due for delivery.

SPOT PRICE/RATE
The price of a commodity, security or currency that is quoted for immediate payment or delivery.

SPREAD (BID/OFFER)
The difference between the bid and the offer rate. The bid/offer spread can be considered a measure of liquidity.
SPREAD (CREDIT)
The price (or spread) which reflects the creditworthiness of an underlying asset. Credit spread indicates the additional yield an investor can earn from a security with higher credit risk compared to a security with lower credit risk.

SPREAD DURATION
An estimate of price sensitivity of a specific security to a given basis-point movement (in either direction) in its spread relative to Treasuries. Spread duration can also measure the value effect of changes in spreads of on-the-run Treasuries to selected Treasuries.

SPREAD RISK
See “basis risk”.

STABILISER
An additive used to maintain desirable chemical and physical properties of gasoline, allowing storage for longer periods. It is also a section of a gas processing facility which reduces the amount of dissolved gases in natural gas liquid (NGL) to produce a less volatile liquid.

STANDARD DEVIATION
A statistical measure typically used to give an estimate of the uncertainty of future returns. The larger this value, the larger the risk or uncertainty associated with a security or portfolio of securities.

The mathematical form for the standard deviation is given by the equation below, where x is the value of a variable, x-bar is the mean value of the variables in the sample, and n is the number of variables in the sample:

$$\sigma = \sqrt{\frac{\sum(x - \bar{x})^2}{n - 1}}$$
STANDARD INDUSTRY MARGIN MODEL (SIMM)
A model for calculating initial margin that is based on a single, risk-sensitive metric. Such a model is developed by ISDA for various instruments and asset classes in order to provide a standardised risk measure in non-centrally cleared over-the-counter (OTC) derivative markets.

STANDARD NORMAL DISTRIBUTION
A normal distribution with a mean of 0 and a standard deviation of 1. See “normal distribution” for further information.

The mathematical form for a standard normal distribution is given by the equation below, where \( f(x) \) is the functional for the standard normal distribution for variable \( x \).

\[
f(x) = \frac{1}{\sqrt{2\pi}} e^{-\frac{x^2}{2}}
\]

STANDARD SETTLEMENT INSTRUCTIONS (SSIS)
Instructions that generally specify account details for transfers of assets (cash, securities, etc.). For derivative transactions, SSIs outline the bank account details of legal entities for specific currencies and/or products.

STATIC SPREAD
The spread on a credit security when added to spot rates creates discount rates that can be used to discount static cash flows. These discounted cash flows equal the non-Treasury security price. This calculation uses defined cash flows [in contrast option-adjusted spreads use expected cash flows]. Also known as the Zero-volatility spread or just the Z-spread.

STEPPING IN
The process in a novation when a third party [the transferee] replaces one of the original parties [the transferor] to a transaction maintaining identical terms to the original transaction. See also “novation”.
**STEPPING OUT**
The process in a novation where one of the original parties (the transferor) exits a transaction and a third party (the transferee) steps in upon the identical terms and assumes the rights and obligations of the party that is stepping out. See also “novation”.

**STOCHASTIC ALPHA BETA RHO (SABR)**
A stochastic volatility model which is widely used to provide the functional form for the variation of implied volatility vs. option strike (i.e., the volatility skew).

**STOCK BORROW/LOAN (SBL)**
The lending of securities to a party or the borrowing from a party. Securities borrow/loan requires the borrower to put up collateral, whether cash, security or a letter of credit. When a security is loaned, the title and the ownership is also transferred to the borrower. It is used mainly to facilitate short sales. The borrower can make delivery on their short sales and the lender will receive a lending fee (thereby increasing the yield on the portfolio).

**STOCK CONSOLIDATION**
The act of combining existing shares into a smaller amount of shares which reduces the number of shares outstanding and increases the price per share proportionally. This is the reverse action of a stock split.

**STOCK INDEX**
An index based on a weighting of share prices of representative stocks. Indices are used to measure and describe the returns of different sectors of the stock market.

**STOCK INDEX FUTURES/OPTIONS**
A futures contract on a stock index. It is an agreement to buy or sell a standardised value of a stock index on a specified future date at a specified price. Stock Index Options is an agreement that gives the holder the right, but not the obligation, to buy or sell a stock index (i.e., S&P 500) at a specified price on a specified future date.
STOCK MARKET
A broad term to describe the issuance and trading of equity securities on exchanges or over the counter (OTC).

STOCK SPLIT
A corporate action where the company increases the number of shares outstanding. The stock price is inversely adjusted for the increase in the number of shares such that market capitalisation of the company remains same.

STOP LIMIT ORDER
An order placed that combines the features of stop order and limit order. A limit order is entered after the specified stop price has been reached and is executed at limit price or better.

STOP ORDER
An order placed with a broker to buy or sell a particular underlying at the market price, if and when the price reaches a specified level. Also referred as “stop-loss order”, this type of order limits the investor’s loss against the adverse market moves.

STORAGE CERTIFICATE
A document that verifies the volume of a commodity in a storage facility.

STRADDLE
An option trading strategy which involves holding a call and put simultaneously at the same strike price and expiration dates, making the strategy direction-neutral. The holder profits when the underlying asset moves more than the premium of both the option contracts.

STRANGLE
An option trading strategy which involves holding a combination of an out-of-the-money call and out-of-the-money put option on the same underlying asset with the same maturity date. The strategy is direction-neutral and the trader profits from volatile price movements of the
underlying asset. Strangles are cheaper than straddles since out-of-the-money options have lower premiums as compared to near-the-money or at-the-money options.

**STRATEGIC PETROLEUM RESERVE (SPR)**
A crude oil storage supply kept by the government of a particular country or by private industries to be used during an emergency energy crisis. The US SPR is the largest emergency supply in the world.

**STRESS TESTING**
A risk management technique where different factor levels are applied to a portfolio to understand possible effects (i.e., market value changes). It is similar to scenario analysis and could be considered extreme scenario analysis.

**STRIKE PRICE**
The price at which an underlying of an option contract may be bought or sold. Also called “exercise price”.

**STRIKE PRICE DIFFERENTIAL**
The difference between the settlement price and the strike price at the time of option exercise.

**SUBPRIME**
The term used for lending to borrowers at a rate higher than the prime interest rate, reflecting their higher risk of default. Subprime borrowers typically have low credit scores due to prior bankruptcy, missed loan payments, home repossession and similar occurrences.

**SUCCESSION EVENT**
Used in the 2003 ISDA credit derivatives definitions, an event, such as a merger, demerger, amalgamation or transfer, that changes the legal structure of a reference entity under a credit derivative transaction which may result in the original reference entity specified in the credit derivatives transaction being replaced by one/several new reference entities under
the successor provisions. The ISDA Credit Derivatives Determination Committees now determine whether a succession event has occurred.

**SUEZMAX**
A tanker that is able to transport approximately one million barrels of crude oil and weighs approximately 120,000 to 200,000 deadweight tons.

**SUPER SENIOR**
The most senior tranche of a Collateralised Debt Obligation (CDO). The super senior is the last tranche to absorb portfolio losses-due-to-default, after all the other tranches in the CDO capital structure have been completely written down.

**SUPRAMAX**
Bulk carriers that are generally between 50,000 and 60,000 DWT (Dead Weight Tonnage) and used primarily for carrying dry cargo such as iron ore, coal, cement, finished steel, fertiliser and grains.

**SWAP**
A derivative where two counterparties exchange streams of cash flows. These streams are known as the legs of the swap and are calculated by reference to a notional amount. Under the Dodd-Frank Act, a swap has been interpreted as having broader definition to incorporate all over-the-counter (OTC) derivatives.

**SWAP DATA REPOSITORY (SDR)**
Terminology used within the Dodd-Frank Act to designate a trade repository. Swap data repositories (SDRs) provide a central facility for swap data reporting and recordkeeping. Under the Dodd-Frank Act, all swaps, whether cleared or uncleared, are required to be reported to registered SDRs.

**SWAP DEALER (SD)**
Individuals and entities that are subject to certain reporting and reconciliation requirements under the Commodity Futures Trading Commission (CFTC), among other things.
The CFTC defines a “swap dealer” as any person or entity who holds itself out as a dealer in swaps, makes a market in swaps, regularly enters into swaps with counterparties as an ordinary course of business for its own account or engages in activity causing itself to be commonly known in the trade as a dealer or market maker in swaps.

**SWAP EXECUTION FACILITY (SEF)**

A term created by the Dodd-Frank Act to designate a facility, trading system or platform allowing multiple participants to execute over-the-counter (OTC) derivatives transactions with each other. Synonymous with Organised Trading Facility (OTF) in Europe.

**SWAPCLEAR (LCH)**

A division of LCH.Clearnet that clears over-the-counter (OTC) interest rate swaps and forward rate agreements. SwapClear began business in 1999 and has steadily grown in both volume of business and number of direct clearing members.

**SWAPTION**

The option to enter into a swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. The agreement specifies whether the buyer of the swaption is a fixed-rate receiver or a fixed-rate payer.

**SWING (GAS)**

In gas purchase agreements, the swing factor is a measure of the flexibility to vary nominations.

**SYSTEM PRICE**

The benchmark official price for electricity or gas sold within an integrated grid/transmission system for a specific delivery point and time.
SYSTEMATIC INTERNALISER
An investment firm, traditionally called a market maker, who could match buy and sell orders from clients in-house, provided that they conform to certain criteria. Instead of sending orders to a central exchange, such as the London Stock Exchange, banks can match them with other orders on its own book. Examples of such firms include Credit Suisse and UBS. SIs are able to compete directly with stock exchanges and automated dealing systems, but they have to make such dealings transparent. They have to show a price before a trade is made. After a trade is made, they have to give information about the transaction, just like conventional trading exchanges.

SYSTEMATIC RISK
Market risk due to price fluctuations which cannot be eliminated by diversification.

SYSTEMIC RISK
The risk that the default by one market participant will cause a cascading failure and will have repercussions on other participants due to the interlocking nature of global financial markets. It is a risk inherent to the collapse of an entire financial market or financial system.

SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTIONS (SIFIS)
Financial institutions that risk triggering a global financial crisis should they fail. These institutions may be in such a position due to factors such as size, interconnectedness or unique position in the market.
TAKE OR PAY
A contract that requires the buyer either to purchase and take delivery of certain quantities of gas, or to pay for the gas regardless of whether it takes delivery. This is the obligation to pay for a specified amount of gas, whether or not this amount of gas is taken.

TAPIS
A Malaysian crude oil often used as a pricing benchmark in Asia and Australia. It is not traded on any exchange. Tapis crude is lighter and sweeter than Brent or WTI and hence is usually traded at a higher price than both of them.

TARGET OPERATING MODEL
A future state operating model that a company will employ in an effort to reduce costs, deal with strategic reorientation, handle acquisitions and local transformation.

TARGET2
The centralised payment system operated by Euro Area central banks that was set up in November 2007 to succeed Target1. Target stands for Trans-European Automated Real-time Gross Settlement Express Transfer System and it is the operational tool through which National Central Banks (NCBs) of Euro area member states provide payment and settlement services for intra-Euro area transactions. These transactions give rise to obligations which are aggregated and netted out at each business day leaving each NCB with a net Target2 balance against the ECB. A positive Target2 balance represents net claims against the ECB, while a negative balance represents net liabilities. Divergences in balances represent the decentralised distribution of central bank liquidity within the Euro system.
**TARGET2-SECURITIES (T2S)**
A European securities settlement infrastructure which decreases cost of cross-border settlement and increases competition amongst post-trade service providers. T2S allows delivery-versus-payment on a real-time basis with the opportunity for net settlements and auto-collateralisation. This helps participants to optimise their collateral and liquidity. The platform is run by the national central banks and ECB is coordinating the entire project and further developments.

**TARIFF**
A document detailing rates, routes, schedules and other terms and conditions under which a commodity will be transported.

**TAX LOT RELIEF METHODOLOGY**
Methods used to calculate the cost basis of a transaction for tax purposes when a portion of a position is closed out. Some examples are Last in, First out (LIFO), First in, First out (FIFO), Average Cost and Specific Lots.

**TEAR-UPS**
A process of reducing the size of a derivative portfolio in terms of the total number of trades and the outstanding notional amount, whilst maintaining the overall risk characteristics of the portfolio. Providers of trade compression services include TriOptima (TriReduce) and Markit/Creditex. See also “portfolio compression”.

**TECHNICAL MANAGEMENT**
A ship-owning function related to asset management, including maintenance and repair, certification, procurement and crewing. This function can be performed by the owning company or by a third-party technical manager, at the owner’s discretion.

**TECHNICAL MANAGER**
The company designated by the ship owner for day-to-day asset management of the vessel including maintaining, storing, crewing, etc.
TEMPLATE
A standard reference source for a master agreement or confirmation, which may either be published by an industry body or agreed between two counterparties.

TENDER OFFER
A term used in the 2011 ISDA Equity Derivatives Definitions essentially meaning the transfer of ownership of greater than 10% of shares of a company to another individual/entity. As with merger events, the offer alone is sufficient to trigger the fallbacks for this event.

TENOR
The amount of time remaining for repayment of loan or contract, until expiration. Usually refers to swaps or non-standardised contracts like bank loans.

TERM SHEET
A document produced prior to execution indicating the financial terms and conditions of a specific transaction. The term sheet does not constitute a confirmation or a binding commitment to trade.

TERMINAL
A facility that can accept and store natural gas, oil, NGLs and refined and purity products. A terminal is usually equipped for export or further transmission onto a transmission network, including pipeline, truck, rail or ship.

TERMINATION EVENT
A set of prescribed events under the ISDA Master Agreement, the occurrence of any of which will allow the terminating party (or parties) to close out the transactions affected by the relevant termination event. Termination events differ from events of default in that they generally relate to a change in circumstances resulting in one party (or both) being unwilling or unable to continue to honour its obligations. An event of default relates to a breach of obligations.
TERRORIST FINANCING
The processing of funds to sponsor, support or facilitate terrorist activity. Funds may originate from legitimate sources such as donations and profits from businesses, states or individuals, as well as from illegitimate sources such as smuggling, fraud, kidnapping and extortion.

THERM
The British unit of measurement of energy (Symbol:Thm), used to measure natural gas. 1 therm is equivalent to 100,000 BTUs or 105,500 kilo joules. It is approximately equal to the energy generated by burning 100 cubic feet of natural gas.

THERMAL COAL
Also known as Steam Coal—mainly used in power generation and once used for fuel for steam locomotives. Sitting between Anthracite and Bituminous coal, it is ground into a powder and fired into a boiler to produce heat for steam-driven turbines.

THETA
The rate of change in price of an option with respect to time-to-maturity, keeping all other factors constant.

The equation below illustrates the mathematical formulation for theta, where V is the value of the option and τ is the time to maturity:

$$\theta = -\frac{\partial V}{\partial \tau}$$

THIRD-PARTY LOGISTICS (3PL)
This describes companies that provide logistics-related services such as transportation and terminaling for customers through the entire supply chain.
THIRD-PARTY ACCESS (TPA)
Open and non-discriminatory access to the networks by those who do not own the physical gas, crude or electricity transmission network infrastructure. TPA is fundamental in facilitating greater competition and making energy markets work effectively. Also called common carriage, it is a legally enforceable right to access the facilities as per the agreement.

THRESHOLD
The amount of uncollateralised exposure a party is prepared to accept against its counterparty before calling for collateral. A threshold is an amount of exemption that is not posted and is designed to cover smaller price fluctuations. This amount can be agreed as an absolute value or as a percentage of the portfolio value.

THUNDERHEAD NOW
A technology platform used for over-the-counter (OTC) trade confirmations and term sheet generation. Thunderhead NOW provides the straight-through-processing support required for automating back-office document generation, such as OTC trade confirmations, while also providing real-time exception handling of documents required for the front office and operations areas. Thunderhead NOW also provides integrated support for industry standards, such as FpML and the DTCC Deriv/SERV electronic matching process.

TICK
The minimum price movement of a financial contract, expressed in fractions of a point.

TIE OUT
The process where bronze records are matched in the DTCC Trade Information Warehouse. These matched trades are not legally binding and are known as bronze records (as opposed to gold records which are legally binding).
TIER 1 CAPITAL
A designation used to measure the bank’s financial strength by regulatory agencies. Tier 1 consists of core capital such as common equity and disclosed reserves.

TIER 2 CAPITAL
A designation used to measure the bank’s financial strength by regulatory agencies. Tier 2 capital is supplementary capital such as undisclosed reserves, revaluation reserves, subordinated debt and hybrid (debt/equity) capital instruments.

TIGHT OIL
Also known as shale oil or light tight oil (LTO), tight oil is petroleum that consists of light crude oil contained in petroleum-bearing formations of low permeability, often shale or tight sandstone. Economic production from tight oil formations requires the same hydraulic fracturing and often uses the same horizontal well technology used in the production of shale gas.

TIME CHARTER
A contract in which the charterer pays a fixed daily or monthly rate for a fixed period of time for use of the vessel. The charterer typically has the use of the vessel for worldwide trading. The charterer pays all voyage expenses such as fuel, canal tolls and port charges. The ship owner pays all vessel expenses such as technical management costs, insurance and crewing.

TIME CHARTER EQUIVALENT (TCE)
The daily return to a ship owner after voyage expenses such as port and fuel expenses are paid. TCS serves as an industry standard for measuring and managing fleet revenue and benchmarking results between various trades and among competitors.

TIME LIMIT ORDER
A customer order that designates the time during which it can be executed, after which it is cancelled.
TIME VALUE
The amount by which the premium of an option exceeds its intrinsic value. Where an option has no intrinsic value, the premium consists entirely of time value.

TIME-WEIGHTED RATE OF RETURN (TWRR)
The time-weighted formula is the geometric mean of sub-period holding returns that are linked together or compounded over time. The sub periods are defined by the timing of cashflow (i.e., each sub period will begin on the day of a cash flow).

TIMER OPTION
An option which is priced using a fixed volatility and has a random maturity. A timer option is exercised when the cumulative volatility of the underlying asset reaches a predetermined threshold. Since the buyer is not exposed to the possibility of implied volatility overestimating realised volatility, a timer option has a low premium.

TOLLING AGREEMENT
An agreement between a producer of raw materials and another party (toller) that has facilities to process the raw materials into finished products. The toller may charge a fee (toll) for processing activities and the producer may retain the ownership of finished products. In other cases, the raw materials are sold to the toller and the producer does not retain ownership of products. Commonly used in refining, smelting and power contracts.

TON-MILE
A measure equivalent to a number of tons of cargo moved a number of miles. For instance, a vessel carrying 30,000 tons over a distance of 1,000 miles would be equivalent to 30,000,000 ton-miles. This term is used to describe and forecast shipping activity.
TOTAL RETURN
The rate of return over a given evaluation period, specifically including interest, capital gains, dividends and realised distributions. This return is in contrast to active returns that are total returns less benchmark returns.

TOTAL RETURN SWAP (TRS)
A swap whose payoff consists of three separate components:

1. The price return on an underlying asset. If the asset increases in value, then Party A pays Party B the magnitude difference between original and final asset prices. If the asset decreases in value, then Party B pays Party A the magnitude difference between original and final asset prices.

2. Dividends. If any dividends are paid on the asset, then Party A pays a cash amount to Party B equivalent to the dividend value.

3. A funding cost, usually LIBOR or some fixed rate, paid periodically by Party B to Party A.

TOWAGE
A charge for tugboats used to assist the vessel in docking or undocking, or for escorting the vessel during transit within the port limits, as required by law in some ports.

TOXIC ASSET
A low-quality asset that can generate significant losses if an investor attempts to sell it in a very illiquid market.

TRACKING ERROR
The standard deviation of active returns over a time period. Tracking error can be either predicted or actual. Also known as Tracking Risk.

TRADE DATE
The date on which the terms of a derivative or spot market transaction are agreed.
TRADE INFORMATION WAREHOUSE (TIW)
The centralised and secure global infrastructure for over-the-counter (OTC) derivatives. The TIW is a comprehensive trade database containing the legal record for all contracts eligible for electronic confirmation. The TIW also automates and standardises post-trade processes, such as payments, notional adjustments and lifecycle event processing. It is the market’s first and only centralised global repository for trade reporting and post-trade processing of OTC credit derivatives contracts.

TRADE PAIRING
A requirement of the Dodd-Frank Act and the OTC Derivatives Regulators’ Forum (ODRF) directed at paper trades which requires these trades to be paired prior to reporting by matching up the sides of a trade from both counterparties with a unique identifier (UI).

TRADE REFERENCE IDENTIFIER (TRI)
A unique identifier assigned to each confirmed contract between counterparties in the Trade Information Warehouse which provides a link to enable automated settlement and trade lifecycle event processing. Each TRI reference consists of the date of confirmation followed by a unique serial number.

TRADE REPOSITORY (TR)
A trade repository is an entity that centrally collects and maintains the records of over-the-counter (OTC) derivatives. These electronic platforms, acting as authoritative registries of key information regarding open OTC derivatives trades, provide an effective tool for mitigating the inherent opacity of OTC derivatives markets.

TRADEVAULT
A Commodity Futures Trading Commission (CFTC) and European Securities and Markets Authority (ESMA)-approved trade repository owned by the IntercontinentalExchange (ICE). It leverages other services run by ICE, such as synergies with its trading and confirmation platforms.
TRADING AROUND ASSETS
Using asset information incorporated into trading decisions to make incremental gains from monetising the embedded options within the assets.

TRADING DISRUPTION
An event that occurs when there is a suspension of trading by the relevant exchange or related exchange.

TRANCHE
A term most frequently used in relation to structured credit derivatives, tranches are categorised by their risk in relation to the probability of being impacted by a default in the underlying portfolio of credits. The risk is defined by an attachment and detachment point to the capital structure. For example, an equity tranche (0-3% attachment/detachment); mezzanine (3-7%); senior (7-12%). Riskier tranches will command higher premiums (returns) for the protection of the seller than like-for-like tranches that are senior in the capital structure. Tranches in funded products may be rated, according to the probability of the portfolio suffering one or more defaults. Accordingly, investors can use the product to meet their bespoke risk/return requirements.

TRANSACTION SUPPLEMENT
The short confirmation that evidences a transaction under a master confirmation agreement (MCA)—commonly referred to as a “short form”.

TRANSFER OF TITLE
An agreement whereby the collateral provider grants full title over the collateral assets transferred to the collateral taker. The collateral taker has full legal ownership of the assets and can use them without restriction.

TRANSMISSION CONGESTION
The condition under which the transactions that market participants wish to implement exceed the constraints on the transmission grid. Congestion usually requires the system
operator to adjust the output of generators, decreasing it in one area to relieve the constraint and increasing it in another to continue to meet customer demand.

**TRANSMISSION SYSTEM OPERATOR (TSO)**
An organisation responsible for ensuring the efficient use and reliable operation of a supply network such as power generation facilities. Individual TSOs may cover whole countries or regions. The responsibilities may vary by jurisdiction and include coordinating capacity allocation, overseeing the balancing of inputs and outputs, managing system emergencies and reserves, ensuring new facilities are built when needed and the settlement of charges for use of the network.

**TREASURY BILL**
A short-term debt obligation backed by the US government, with a maturity of less than one year.

**TREASURY BOND**
Debt issued by the US government, with a maturity of more than 10 years.

**TREASURY NOTE**
Debt issued by the US government, with a maturity between 1 and 10 years.

**TREYNOR RATIO**
A risk-adjusted measure of return based on beta. Also known as the reward-to-volatility ratio. Note that this is similar to the Sharpe ratio, with the difference being that it uses beta instead of standard deviation: (Average Return of the Portfolio - Average Return of the Risk-Free Rate)/Beta of the Portfolio.

**TRIGGER CONDITION**
The condition that must be satisfied in order for a path dependent option, such as a barrier option, to become effective and pay the option holder if it expires in-the-money. In the case of barrier options, this is the condition that the
underlying asset must hit or cross some predetermined price threshold in order for the option to become effective. See also “barrier option” and “range binary”.

**TRIM**
Trim indicates the difference between the forward and after draughts of a ship; when a ship is said to “trim by stern”, the after end of the ship is deeper and when “trim by head”, the ship is deeper in the forward end.

**TRIOPTIMA**
Third-party vendor providing post-trade services to the derivatives market in an effort to reduce costs and operational risks for its subscribers. Services include triReduce, which terminates economically redundant trade inventory in a tear-up process and triResolve, which reconciles the terms of bilateral derivative trade portfolios between counterparties.

**TRUSTED SOURCE**
An entity whose submissions to the Global Trade Repository (GTR) are deemed to be the official record of the position. Examples include asset service providers (ASPs), such as the DTCC Trade Information Warehouse and derivatives clearing organisations (DCOs).
UNDERGROUND STORAGE
The temporary storage of natural gas in underground geological structures (depleted reservoirs or salt dome caverns) or storage tanks for use during periods of high demand.

UNDERLYING
Any market variable whose value is explicitly referenced by a derivatives contract in order to determine the contract’s value and cash flows. Underlyings are typically tradable securities, such as equity prices and commodity prices, but underlyings can also be benchmarks that are not directly tradable, such as equity indexes and interbank fixing rates.

UNDISPUTED AMOUNT
In a given agreement, the amount that is not in dispute between the parties involved in the contract. This may be settled prior to the resolution of the amount in dispute.

UNIFIED MANAGED ACCOUNT (UMA)
An investment account managed by an investment advisor or multiple advisors, without the need to have separate accounts for each strategy and allocation in the portfolio.

UNIFIED MANAGED HOUSEHOLD (UMH)
An extension of a Unified Managed Account (UMA) that allows immediate family members to participate in a holistic portfolio.

UNIQUE COUNTERPARTY IDENTIFIER (UCI)
Codes created by the Commodity Futures Trading Commission (CFTC) specific to entities participating in a swap transaction. These codes are part of the information required to be reported to a swap data repository (SDR).
UNIQUE PRODUCT IDENTIFIER (UPI)
Refers to a standardisation scheme to classify derivative products. These can be an International Securities Identification Number (ISIN), the International Swaps and Derivatives Association (ISDA) taxonomy code, an Alternative Instrument Identifier (AII) code or a Classification of Financial Instruments (CFI) code—or a combination.

UNIQUE SWAP IDENTIFIER (USI)/UNIQUE TRANSACTION IDENTIFIER (UTI)
A universal and unique code identifying a single transaction made in the over-the-counter (OTC) derivatives market.

UNIT TRAIN
A unit consisting of multiple individual trains carrying a single commodity.

UNRECOGNISED TRADE
A transaction that cannot be identified by the alleged counterparty to the trade.

UP-VARIANCE SWAP
A conditional variance swap that accrues realised volatility only when the previous day’s underlying price is above a specified level.

UPSTREAM
All activities related to the exploration and production of crude oil and natural gas.

URALS
A brand of oil which is used as a standard for benchmarking and pricing Russian crude oil mixtures. It is traded as Russian Export Blend Crude Oil (REBCO) on the New York Mercantile Exchange (NYMEX).
URGENT MARKET MESSAGE (UMM)
A notification that is published, so as to become public information, and contains information related to physical asset capacity changes that do not match with forecasted future availabilities.

US PERSON
Defined by the Commodity Futures Trading Commission (CFTC), to aid in the cross-border application of Title VII of the Dodd-Frank Act, as any natural person who is a resident of the United States and any estate of a decedent who was a resident of the United States at the time of death.
The party which values a derivative transaction or portfolio of derivatives transactions. The valuation agent can be either one of the parties to the transaction or an independent third party. Also known as the “calculation agent”.

A date on which an asset is valued or a collateral call is made.

The percentage by which the market value of the collateral will be reduced to allow for price volatility and instrument liquidity in respect of the relevant collateral between collateral calls. Also known as a “haircut”.

A risk measure used to calculate the maximum loss that a financial instrument, or portfolio, is expected to suffer over a defined period with a specific confidence level. For example, a 95% 10-day VaR of million means that, with 95% confidence (i.e., 95 times out of 100), the portfolio will not lose more than million over a 10-day period, assuming that the portfolio composition remains the same.

A derivative transaction which has a very basic structure, likely to be the most commonly traded in the relevant market.

Option that gives the holder the right but not the obligation, to buy or sell an underlying asset at a predetermined price, within a given time frame.
VANNA
The rate of change in the Vega of an option with respect to a change in the spot price of the underlying instrument, keeping all other factors constant.

The equation below illustrates the mathematical formulation for Vanna, where $v$ is the Vega of the option and $S$ is the underlying spot price:

$$V_{anna} = \frac{\partial v}{\partial S}$$

VARIANCE
A measure of volatility or risk which determines the risk in purchasing a specific security. Variance is the square of the standard deviation.

VARIANCE OPTION
An option that uses the variance of an underlying’s price movement over a period as the basis for determining whether or not the option will be exercised.

VARIANCE SWAP
A forward that uses the variance (being the volatility squared) of an underlying’s price movement over a period as the basis for the payoff calculation.

VARIANCE SWAP DISPERSION
A structure in which one party sells a variance swap on an index and simultaneously buys individual variance swaps on each of the index constituents. The buyer of this structure will be in-the-money if the index components are negatively correlated.

VARIANCE-COVARIANCE/PARAMETRIC VARIANCE
An analytical method of measuring value at risk (VaR) which assumes a lognormal (or normal) distribution of returns for risk factors affecting the price of a security. If there is more than one risk factor, then the relationship between the risk factor variables is given in the variance/covariance matrix.
**VARIATION MARGIN**
The profits or losses on open positions that are calculated daily in the mark-to-market process and then paid/credited. Variation margin is demanded by clearing houses from members whose positions have moved adversely. This is to offset the clearing houses’ exposures to risky positions held by their members. The amount of daily Variation margin called/credited by the clearing house is typically equal to the difference in daily MTM of the portfolio held.

**VEGA**
The rate of change in the price of a derivative with respect to the change in volatility for the underlying instrument, keeping all other factors constant. The equation below illustrates the mathematical formulation for vega, where $V$ is the value of the option and $\sigma$ is the volatility:

$$v = \frac{\partial V}{\partial \sigma}$$

**VERTICAL SPREAD**
A trading strategy where one option is purchased and another option is sold on the same underlying asset. The options have the same maturity but different strike prices. The strategy relies upon the difference in premium between the two options in order to make money.

**VERY LARGE CRUDE CARRIER (VLCC)**
Typically used on long-haul routes, an oil tanker of approximately 200,000 to 320,000 deadweight tons. Modern VLCCs can generally transport two million barrels or more of crude oil.

**VESSEL CLASS**
Classification of ships on the basis of dead weight tonnage:

- **COASTER** - UP TO 24999 DWT
- **HANDY** - 25000 TO 39999 DWT
- **MR** - 40000 TO 64999 DWT
- **PANAMAX** - 65000 TO 79999 DWT
AFRAMAX - 80000 TO 124999 DWT
SUEZMAX - 125000 TO 199999 DWT
VLCC - 200000 TO 349999 DWT
ULCC - 350000 DWT AND ABOVE

VEssel tracking
A collection of equipment that enables identification and monitoring of ships’ positions, movements and other details in order to monitor and direct vessel traffic in ports and other areas with heavy traffic.

VEsted benefit obligation (VBO)
The present value of vested pension plan benefits, i.e., funds which belong to the fund’s beneficiaries, as opposed to unvested benefits. This is therefore one measure of a pension fund’s liability.

Vetting
The practice of screening and selecting vessels for service in order to minimise risk exposure.

Virtual trading point (VTP)
A virtual location in a market area at which gas can be traded after injection and before offtake. It is not a physical entry/exit point, but facilitates the transfer of capacity titles between balancing groups, without booked capacities.

Visualization
A design and development technique used to provide capital and commodity market participants with a holistic view of the business through intuitive visual representations of enterprise data and information. It allows for abstraction from the oceans of fine-grained detailed data, to more coarse-grained indicative data aligned to key business knowledge, insights and activity.

Volatility
A measure of price variation of a financial instrument over a period of time. It captures risk associated with the price
fluctuation of underlying assets. It is usually calculated as the annualised standard deviation of either daily price returns, or the natural log of daily price returns, on an asset.

**VOLATILITY CUBE**
A 4-dimensional representation of the variation of implied volatility for a European interest rate swaption with respect to (i) strike, (ii) time to maturity of the swaption and (iii) tenor of the underlying interest rate swap.

**VOLATILITY SKEW**
A term used to describe the variation of implied volatility with respect to the strike of an option, for a fixed maturity. A volatility skew refers to the shape where the implied volatility curves upwards on the left-hand-side of the at-the-money strike, but continues to slope downwards on the right-hand-side of the at-the-money strike. Skews are typical of long-term equity options.

**VOLATILITY SMILE**
A term used to describe the variation of implied volatility with respect to the strike of an option, for a fixed maturity. A volatility smile refers to the shape where the implied volatility curves upwards on either side of the at-the-money strike. Smiles are typical of short-term equity options and FX options.

**VOLATILITY SURFACE**
A 3-dimensional graphical representation of the variation of implied volatility for a European option with respect to (i) strike and (ii) time to maturity. Implied volatility is typically assigned to the z-axis, while strike and time-to-maturity are assigned to the x and y-axes respectively. Volatility surfaces are applicable to equity, commodity and FX options, as well as interest rate caps and floors.
**VOLCKER RULE**
A proposal by American economist Paul Volcker with the aim of restricting banks from:

- Engaging in short-term proprietary trading of securities and derivatives for their own account.
- Acquiring or retaining an ownership interest in, or sponsoring a covered fund.

Covered funds generally include hedge funds, private equity funds, commodity pools, seeding vehicles and certain securitisation structures.

**VOLGA**
The rate of change in the Vega of an option with respect to a change in volatility for the underlying instrument, keeping all other factors constant. This is also known as the Vomma.

The equation below illustrates the mathematical formulation for Volga (Vomma), where $v$ is the Vega of the option and $\sigma$ is the volatility:

$$Volga = \frac{\partial v}{\partial \sigma}$$

**VOMMA**
See Volga.

**VOYAGE CHARTER (VC)**
A contract under which a charterer pays for the movement of a specific cargo between two or more specified ports. Payment terms are usually based on Worldscale rates, terms and conditions. The ship owner pays all voyage expenses, as well as all vessel expenses. The charterer is liable for demurrage, if incurred. Also called a “spot charter”.

**VOYAGE DATA RECORDERS (VDR)**
A data recording system designed for all vessels required to comply with the International Maritime Association’s (IMO) International Convention SOLAS Requirements in order to collect data from various sensors on board the vessel. Similar to the ‘black box’ on an aircraft.
VOYAGE EXPENSES
Expenses related to the execution of a voyage, typically including fuel, port charges, canal tolls, cargo handling fees, if any, and brokerage fees. These are paid for by the ship owner, unless the vessel is on time charter, in which case they are paid by the time charterer. Voyage expenses are subtracted from shipping revenues to calculate time charter equivalent (TCE) revenue for voyage charters.
WAREHOUSE RECEIPT
A document certifying the existence and availability of a given quantity and quality of a commodity in storage in a licensed warehouse. It is recognised and used for delivery purposes in both cash and futures transactions. Since it is most often used for futures that have precious metals as an underlying commodity, it is also called a “vault receipt”.

WARRANTS
A derivative contract similar to a call option that gives the right, but not the obligation, to purchase shares from the issuer at a given price.

WASH SALES
A transaction where a position is sold at a loss, and then a “substantially identical” position is repurchased sooner than 30 days hence. The purpose of wash sales is to realise a capital loss. The losses generated by these transactions are disallowed by the US tax code.

WEDDING CAKE
An option with a fixed payout based upon the fluctuations of an underlying floating rate, which is set within the parameters of predetermined barriers. The highest coupon is paid if the applicable rate remains within the inner range, whilst the coupon becomes gradually less if it moves outwards.

WEIGHTED AVERAGE RETURN
Investment returns that are weighted, such as time-weighted or money-weighted. The returns of the portfolio will be weighted by the appropriate factor before they are averaged.

WEST TEXAS INTERMEDIATE (WTI)
A grade of crude oil produced in the Permian Basin region of the United States. It also represents a benchmark crude price for US-produced crudes and is the basis for the NYMEX
oil futures contract. The NYMEX crude settlement point is in Cushing, Oklahoma, which has become a large storage point for WTI crude as well as other commonly traded crudes that are priced relative to WTI crude.

**WET GAS**
Natural gas that contains additional proportions of hydrocarbons, such as ethane, propane or butane that can be separated as natural gas liquids (NGLs). The United States classifies wet gases as those that contain more than 0.1 gallon of condensables per 1,000 cubic feet of gas.

**WHARFAGE**
A charge assessed by a shipping terminal or port when goods are moved through the location. Wharfage charges are extremely uncommon in the tanker trade.

**WHAT-IF**
The application of stress testing or scenario analysis to a portfolio after making changes to the composition of that portfolio. A what-if analysis measures how different versions of a portfolio will perform in different scenario or stress events. One can also determine changes in predicted risk for different variations of a portfolio in a what-if analysis.

**WITHHOLDABLE PAYMENT**
A designation by FATCA that refers to dividends, royalties, rents, licensing fees, profits, interest, salaries, wage gains, annuities and gross proceeds where the source of payment is within the United States.

**WORLDSCALE (WS)**
A list of calculated rates for specific voyage itineraries for a standard vessel, using defined voyage cost assumptions such as vessel speed, fuel consumption and port costs. Actual market rates for voyage charters are usually quoted in terms of a percentage of Worldscale.
WRONG-WAY RISK
A phenomenon whereby the present value of a swap (or portfolio of swaps) traded with a counterparty is adversely correlated with the decreasing creditworthiness of the counterparty.
XVA
An umbrella term that groups together the Credit Valuation Adjustment (CVA), Debt Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA). These three are the most popular of several such pricing adjustments that have become common since the financial crisis.
**YIELD**
The rate of return on an investment, normally expressed as an annual percentage rate.

**YIELD CURVE**
The graphical representation of the term structure of interest rates vs. time in a particular market.

**YIELD CURVE RISK**
The risk of loss due to adverse shifts in the position or shape of the yield curve.

**YIELD CURVE SWAP**
A swap in which two interest rate streams are exchanged, reflecting different points on the yield curve. See also “constant maturity swap (CMS)”.

**YIELD TO MATURITY**
The amount of interest on an annual compound basis, which a bond would pay if held until redemption or the maturity date. Also, the interest rate that, if used to discount all cash flows, would compute the current price. See also “yield”.
Z-SPREAD
The constant parallel spread (of a fixed income security) over the Treasury yield curve that produces discount factors so that the sum of the discounted cash flows of the security matches the traded price of the security.

ZEEBRUGGE HUB NATURAL GAS TRADING TERMS AND CONDITIONS
A physical location where natural gas is traded in the Belgian transmission grid. Parties who operate on the hub are required to adhere to the Zeebrugge Breakbulk Terminal (ZBT) terms and conditions which are designed to facilitate the smooth operation of the physical natural gas market.

ZERO COUPON SWAP
A swap where one counterparty pays a floating rate (for example, three month LIBOR) throughout the life of the swap, while the other counterparty makes a single lump sum payment upon the maturity date of the swap.
<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABO</td>
<td>Accumulated Benefit Obligation</td>
</tr>
<tr>
<td>ABS</td>
<td>Asset Backed Security</td>
</tr>
<tr>
<td>ACER</td>
<td>Agency for the Cooperation of Energy Regulators</td>
</tr>
<tr>
<td>ADR</td>
<td>American Depository Receipt</td>
</tr>
<tr>
<td>AIFMD</td>
<td>Alternative Investment Fund Managers Directive</td>
</tr>
<tr>
<td>AIS</td>
<td>Automatic Identification Systems</td>
</tr>
<tr>
<td>AFME</td>
<td>Association for Financial Markets in Europe</td>
</tr>
<tr>
<td>AMF</td>
<td>Autorité des Marchés Financiers</td>
</tr>
<tr>
<td>AML</td>
<td>Anti-Money Laundering</td>
</tr>
<tr>
<td>API</td>
<td>American Petroleum Institute</td>
</tr>
<tr>
<td>APT</td>
<td>Arbitrage Pricing Theory</td>
</tr>
<tr>
<td>ARIS</td>
<td>Agency’s REMIT Information System</td>
</tr>
<tr>
<td>ASC</td>
<td>Alberta Securities Commission</td>
</tr>
<tr>
<td>ASIFMA</td>
<td>Asia Securities Industry &amp; Financial Markets Association</td>
</tr>
<tr>
<td>ASP</td>
<td>Asset Service Provider</td>
</tr>
<tr>
<td>BAI</td>
<td>Bank Administration Institute</td>
</tr>
<tr>
<td>BCSC</td>
<td>British Columbia Securities Commission</td>
</tr>
<tr>
<td>BoL</td>
<td>Bill of Lading</td>
</tr>
<tr>
<td>BFO</td>
<td>Brent, Forties, Osberg or Ekofisk</td>
</tr>
<tr>
<td>BTU</td>
<td>British Thermal Unit</td>
</tr>
<tr>
<td>C=C</td>
<td>Consent Equals Confirmation</td>
</tr>
<tr>
<td>CAPM</td>
<td>Capital Asset Pricing Mode</td>
</tr>
<tr>
<td>CAR</td>
<td>Capital Adequacy Ratio</td>
</tr>
<tr>
<td>CB</td>
<td>Clearing Broker</td>
</tr>
<tr>
<td>CCGT</td>
<td>Combined Cycle Gas Turbine</td>
</tr>
<tr>
<td>CCP</td>
<td>Central Clearing Counterparty</td>
</tr>
<tr>
<td>CCS</td>
<td>Clearing Connectivity Standard</td>
</tr>
<tr>
<td>CDM</td>
<td>Clean Development Mechanism</td>
</tr>
<tr>
<td>CDO</td>
<td>Collateralised Debt Obligation</td>
</tr>
<tr>
<td>CDO^2</td>
<td>Collateralised Debt Obligation Squared</td>
</tr>
<tr>
<td>CDS</td>
<td>Credit Default Swap</td>
</tr>
</tbody>
</table>
ACRONYMS

CEN Credit Event Notice
CER Certified Emission Reduction
CEER Council of European Energy Regulators
CEREMP Centralised European Registry of Wholesale Energy Market Participants
CFD Contract for Difference
CFTC Commodity Futures Trading Commission
CHP Combined Heat and Power
CIF Cost, Insurance and Freight
CLN Credit Linked Note
CLO Collateralised Loan Obligation
CLOB Central Limit Order Book
CLS Continuous Linked Settlement
CMBS Commercial Mortgage Backed Security
CME Chicago Mercantile Exchange
CMO Collateral Management System
CMS Constant Maturity Swap
CMU EU Capital Markets Union
COA Contract of Affreightment
COREP Common Reporting
CPSS Committee on Payment and Settlement Systems
CRD Capital Requirements Directive
CSA Credit Support Annex and Canadian Security Administrators
CSD Central Securities Depository
CTC Cheapest-to-Clear
CTP Collateral Transfer Price
CVA Credit Valuation Adjustment
CVaR Conditional VaR
CVC Consecutive Voyage Charters
DCM Designated Clearing Member
DCO Derivatives Clearing Organisation
DES Delivered Ex Ships
DFA Dodd-Frank Wall Street Reform and Consumer
DK Don’t Know
DMA Direct Market Access
DOC Document of Compliance
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCO</td>
<td>Derivative Clearing Organisation</td>
</tr>
<tr>
<td>DP</td>
<td>Dynamic Positioning</td>
</tr>
<tr>
<td>DSM</td>
<td>Demand-Side Management</td>
</tr>
<tr>
<td>DTCC</td>
<td>Depository Trust and Clearing Corporation</td>
</tr>
<tr>
<td>DTRS</td>
<td>Discrete Total Return Swap</td>
</tr>
<tr>
<td>DVA</td>
<td>Debt Valuation (or Value) Adjustment</td>
</tr>
<tr>
<td>DWT</td>
<td>Deadweight Tonnage</td>
</tr>
<tr>
<td>EBA</td>
<td>European Banking Authority</td>
</tr>
<tr>
<td>ECD</td>
<td>Exchange Cleared Derivatives</td>
</tr>
<tr>
<td>ECN</td>
<td>Electronic Communication Network</td>
</tr>
<tr>
<td>EDD</td>
<td>Event Determination Date</td>
</tr>
<tr>
<td>EE</td>
<td>Expected Exposure</td>
</tr>
<tr>
<td>EEX</td>
<td>European Energy Exchange</td>
</tr>
<tr>
<td>EFET</td>
<td>European Federation of Energy Traders</td>
</tr>
<tr>
<td>EFSF</td>
<td>European Financial Stability Facility</td>
</tr>
<tr>
<td>EIC</td>
<td>Energy Identification Code</td>
</tr>
<tr>
<td>EMIR</td>
<td>European Market Infrastructure Regulation</td>
</tr>
<tr>
<td>ENE</td>
<td>Expected Negative Exposure</td>
</tr>
<tr>
<td>ENTSO-E</td>
<td>European Network of Transmission System Operators for Electricity</td>
</tr>
<tr>
<td>ENTSOG</td>
<td>European Network of Transmission System Operators for Gas</td>
</tr>
<tr>
<td>EPE</td>
<td>Expected Positive Exposure</td>
</tr>
<tr>
<td>EPS</td>
<td>Enhanced Prudential Standards</td>
</tr>
<tr>
<td>ERR</td>
<td>Expected Recovery Rate</td>
</tr>
<tr>
<td>ERU</td>
<td>Emission Reduction Unit</td>
</tr>
<tr>
<td>ESMA</td>
<td>European Securities and Markets Authority</td>
</tr>
<tr>
<td>ETD</td>
<td>Exchange Traded Derivatives</td>
</tr>
<tr>
<td>ETF</td>
<td>Exchange Traded Fund</td>
</tr>
<tr>
<td>EU ETS</td>
<td>European Union Emissions Trading Scheme</td>
</tr>
<tr>
<td>EUA</td>
<td>European Union Allowance</td>
</tr>
<tr>
<td>EWMA</td>
<td>Exponentially Weighted Moving Average</td>
</tr>
<tr>
<td>FATCA</td>
<td>Foreign Account Tax Compliance Act</td>
</tr>
<tr>
<td>FC</td>
<td>Financial Counterparty</td>
</tr>
<tr>
<td>FCA</td>
<td>Financial Conduct Authority</td>
</tr>
<tr>
<td>FCF</td>
<td>Free Cash Flow</td>
</tr>
<tr>
<td>FCM</td>
<td>Futures Commission Merchant</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td>ACRONYMS</td>
<td>Full Form</td>
</tr>
<tr>
<td>-----------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>FERC</td>
<td>Federal Energy Regulatory Commission</td>
</tr>
<tr>
<td>FFA</td>
<td>Forward Freight Agreement</td>
</tr>
<tr>
<td>FINREP</td>
<td>Financial Reporting</td>
</tr>
<tr>
<td>FIX</td>
<td>Financial Information Exchange</td>
</tr>
<tr>
<td>F0</td>
<td>Front Office</td>
</tr>
<tr>
<td>FOA</td>
<td>Futures and Options Association</td>
</tr>
<tr>
<td>FOB</td>
<td>Free-On-Board</td>
</tr>
<tr>
<td>FOK</td>
<td>Fill-or-Kill</td>
</tr>
<tr>
<td>Forex</td>
<td>Foreign Exchange</td>
</tr>
<tr>
<td>FpML</td>
<td>Financial Products Mark-up Language</td>
</tr>
<tr>
<td>FPSO</td>
<td>Floating Production Storage Offloading Vessel</td>
</tr>
<tr>
<td>FRA</td>
<td>Forward Rate Agreement</td>
</tr>
<tr>
<td>FRN</td>
<td>Floating Rate Note</td>
</tr>
<tr>
<td>FSA</td>
<td>Financial Services Authority</td>
</tr>
<tr>
<td>FSB</td>
<td>Financial Stability Board</td>
</tr>
<tr>
<td>FSO</td>
<td>Floating Storage Offloading Vessel</td>
</tr>
<tr>
<td>FSOC</td>
<td>Financial Stability Oversight Council</td>
</tr>
<tr>
<td>FTP</td>
<td>Failure to Pay</td>
</tr>
<tr>
<td>FTT</td>
<td>Financial Transaction Tax</td>
</tr>
<tr>
<td>FVA</td>
<td>Funding Valuation Adjustment</td>
</tr>
<tr>
<td>FX</td>
<td>Foreign Exchange</td>
</tr>
<tr>
<td>GIPS</td>
<td>Global Investment Performance Standards</td>
</tr>
<tr>
<td>GTC</td>
<td>Good-Til-Cancelled</td>
</tr>
<tr>
<td>GTR</td>
<td>Global Trade Repository</td>
</tr>
<tr>
<td>HCA</td>
<td>High Consequence Area</td>
</tr>
<tr>
<td>HKMA</td>
<td>Hong Kong Monetary Association</td>
</tr>
<tr>
<td>ICE</td>
<td>Clear Inter Continental Exchange (Europe)</td>
</tr>
<tr>
<td>ICG</td>
<td>Isobutane</td>
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<tr>
<td>ICE</td>
<td>Trust Inter Continental Exchange Trust</td>
</tr>
<tr>
<td>IDCG</td>
<td>International Derivatives Clearing Group</td>
</tr>
<tr>
<td>IETA</td>
<td>International Emissions Trading Association</td>
</tr>
<tr>
<td>IGA</td>
<td>Intergovernmental Agreement</td>
</tr>
<tr>
<td>IHC</td>
<td>Intermediate Holding Company</td>
</tr>
<tr>
<td>IM</td>
<td>Initial Margin</td>
</tr>
<tr>
<td>IMO</td>
<td>International Maritime Organisation</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
</tr>
<tr>
<td>IRS</td>
<td>Interest Rate Swap</td>
</tr>
<tr>
<td>ISDA</td>
<td>International Swaps and Derivatives Association</td>
</tr>
<tr>
<td>ISDA DCs</td>
<td>ISDA® Determinations Committees</td>
</tr>
<tr>
<td>ISDA USA</td>
<td>ISDA® Uniform Settlement Agreement</td>
</tr>
<tr>
<td>ISIN</td>
<td>International Securities Identification Number</td>
</tr>
<tr>
<td>ISO</td>
<td>Independent System Operator</td>
</tr>
<tr>
<td>JFSA</td>
<td>Japanese Financial Services Agency</td>
</tr>
<tr>
<td>JI</td>
<td>Joint Implementation</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>KRD</td>
<td>Key Rate Duration</td>
</tr>
<tr>
<td>KRI</td>
<td>Key Risk Indicator</td>
</tr>
<tr>
<td>KYC</td>
<td>Know Your Client</td>
</tr>
<tr>
<td>LCDS</td>
<td>Loan Only Credit Default Swap</td>
</tr>
<tr>
<td>LCR</td>
<td>Liquidity Coverage Ratio</td>
</tr>
<tr>
<td>LDI</td>
<td>Liability Driven Investment</td>
</tr>
<tr>
<td>LEI</td>
<td>Legal Entity Identifier</td>
</tr>
<tr>
<td>LGD</td>
<td>Loss Given Default</td>
</tr>
<tr>
<td>LIBOR</td>
<td>London Interbank Offered Rate</td>
</tr>
<tr>
<td>LMM</td>
<td>LIBOR Market Model</td>
</tr>
<tr>
<td>LNG</td>
<td>Liquefied Natural Gas</td>
</tr>
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<td>LPG</td>
<td>Liquefied Petroleum Gas</td>
</tr>
<tr>
<td>LPN</td>
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</tr>
<tr>
<td>LR1</td>
<td>Long Range Product Carrier</td>
</tr>
<tr>
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<td>Load Serving Entity</td>
</tr>
<tr>
<td>LSO</td>
<td>LNG System Operator</td>
</tr>
<tr>
<td>LSOC</td>
<td>Legally Segregated Operationally Commingled</td>
</tr>
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<td>LSOS</td>
<td>Legally Segregated and Operationally Segregated</td>
</tr>
<tr>
<td>LTO</td>
<td>Light Tight Oil</td>
</tr>
<tr>
<td>M²</td>
<td>M Squared</td>
</tr>
<tr>
<td>MAD</td>
<td>Market Abuse Directive</td>
</tr>
<tr>
<td>MAR</td>
<td>Market Abuse Regulation</td>
</tr>
<tr>
<td>MAS</td>
<td>Monetary Authority of Singapore</td>
</tr>
<tr>
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<td>Master Confirmation Agreement</td>
</tr>
<tr>
<td>MDQ</td>
<td>Maximum Daily Quantity</td>
</tr>
<tr>
<td>MIC</td>
<td>Market Identifier Code</td>
</tr>
<tr>
<td>MiFID</td>
<td>Markets in Financial Instruments Directive</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-------------</td>
</tr>
<tr>
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<td>Markets in Financial Instruments Directive II</td>
</tr>
<tr>
<td>MiFIR</td>
<td>Markets in Financial Instruments Regulation</td>
</tr>
<tr>
<td>MIT</td>
<td>Market-if-Touched Order</td>
</tr>
<tr>
<td>MP</td>
<td>Market Participant</td>
</tr>
<tr>
<td>MPOR</td>
<td>Margin Period of Risk</td>
</tr>
<tr>
<td>MSC</td>
<td>Manitoba Securities Commission</td>
</tr>
<tr>
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<td>Major Swap Participant</td>
</tr>
<tr>
<td>MTF</td>
<td>Multilateral Trading Facility</td>
</tr>
<tr>
<td>MWRR</td>
<td>Money-weighted Rate of Return</td>
</tr>
<tr>
<td>NAP</td>
<td>National Allocation Plan</td>
</tr>
<tr>
<td>NAV</td>
<td>Net Asset Value</td>
</tr>
<tr>
<td>NBP</td>
<td>National Balancing Point</td>
</tr>
<tr>
<td>NC4</td>
<td>Normal Butane</td>
</tr>
<tr>
<td>NDF</td>
<td>Non-Deliverable Forward</td>
</tr>
<tr>
<td>NGL</td>
<td>Natural Gas Liquid</td>
</tr>
<tr>
<td>NOPS</td>
<td>Notice of Physical Settlement</td>
</tr>
<tr>
<td>NOR</td>
<td>Notice of Readiness</td>
</tr>
<tr>
<td>NSFR</td>
<td>Net Stable Funding Ratio</td>
</tr>
<tr>
<td>NYPC</td>
<td>New York Portfolio Clearing</td>
</tr>
<tr>
<td>OAS</td>
<td>Option Adjusted Spread</td>
</tr>
<tr>
<td>OCC</td>
<td>Options Clearing Corporation</td>
</tr>
<tr>
<td>OCIMF</td>
<td>Oil Companies International Marine Forum</td>
</tr>
<tr>
<td>ODRF</td>
<td>OTC Derivatives Regulators’ Forum</td>
</tr>
<tr>
<td>ODSG</td>
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