2013 Glossary of Financial Terms

A quick reference guide to OTC derivative and commodity market terminology
About Sapient Global Markets
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How to use this reference guide
Entries are in alphabetical order. Within the guide, capitalised words and phrases denote a term that is defined in the relevant asset specific ISDA® Definitions, Supplements, Protocols or other official ISDA® publications.

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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 pre-defined schedule.

Accrued interest
The unpaid interest which is accumulated on a security, either from the date of issuance or the previous coupon Payment Date, to the present date. The accrued interest is paid at determined payment intervals throughout the life of the security.

Accumulator
A financial instrument in which the issuer sells underlying security at a pre-determined value. This is usually at a discounted rate from the spot value. The Buyers are obligated to buy these shares at the specified rate periodically until expiry or until the security reaches knock-out value.

Actively Managed
An investment strategy that will consistently take significant active bets vs. a benchmark. Active exposures include common factors, such as size, style or sectors. The active exposures can also come from security selection, where security weights differ from the benchmark weights.

Actively Managed ETF
An Exchange Traded Fund (ETF) that attempts to replicate the exposures of a designated actively managed portfolio. (See also Exchange Traded Fund).
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.

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
A measure of investment performance on a risk-adjusted basis. Alpha measures the excess of return over the level of risk borne.

Altiplano
A mountain range option where the Buyer receives a large fixed coupon if none of the underlying assets in the basket breaches a pre-determined barrier during a pre-determined 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)
Depository receipts which are listed on US markets. The original depository receipts were listed in the US and, hence, often even depository receipts listed in non-financial markets are referred to as ADRs.

American Option
An option that can be exercised at any time during the term of the option, up to and including its Expiration Date.

Amortising swap
An Interest Rate Swap with a decreasing Notional Amount as set in a pre-defined schedule.
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 pre-determined barrier, the higher the coupon payout received is by the buyer. If any of the assets drop below the pre-determined barrier, the option’s life ends.

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

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

Arbitrage
A strategy to take advantage of profitable opportunities in different markets arising from differential price anomalies.

Asia Securities Industry & Financial Markets Association (ASIFMA)
Association which aims to promote growth, development and transparency of the Asian financial system and to assist its integration into the global financial market.

Asian In
An Asian option whereby the strike price is the average level of an underlying instrument over a pre-determined period.
Asian option
An option where either the strike price or the settlement price is the average level of an underlying instrument over a pre-determined period. The averaging can be either a Geometric or Simple Average.

Asian Out
An Asian option whereby the settlement price is the average level of an underlying instrument over a pre-determined period.

Ask
The price at which a trader or market maker is willing to sell a contract.

Asset Backed Security (ABS)
A type of bond or note typically issued by a Special Purpose Vehicle (SPV) where the bond or note is backed by an underlying pool of assets. The principal and interest generated by the underlying pool of assets services the principal and interest obligations of the bonds or notes.

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)
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
1) A transaction whose price is the same as the prevailing market price of the relevant underlying at the time of trading.
2) An order to buy or sell a futures contract at whatever price is obtainable when the order reaches the trading facility, sometimes called a market order.
3) An option where the exercise price is equal or very close to the current market price of the underlying. This option has no intrinsic 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 in the underlying portfolio. For example, a tranche with an attachment point of 3% will reduce after a cumulative loss of 3% in the underlying portfolio has occurred.
**Auction Date**
The date on which a Credit Event Auction takes place.

**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 pre-defined date. Auto callable trades are often used to hedge equity linked notes.

**Automatic Exercise**
A commonly used election whereby an option or Swaption transaction is deemed to be exercised, provided that it is in-the-money on the Exercise Date, without the need to serve notice.

**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 pre-determined period. An average rate option is also known as an Asian option.

**Average strike option**
An option where 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-to-back transactions
Two (multiple if offsetting) transactions with identical economic details but in opposite directions so that risk position is flat. The entity with a back-to-back position will bear no other risk than the counterparty risk.

Backloading
The process of inputting existing OTC transactions into a trade repository or central counterparty.

Backwardation
A condition in which the futures price is less than the expected future spot price.

Bad Business Day
A day on which banks (and normally exchanges) are closed.

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

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.
Barrier option
A financial instrument which can be exercised where either the price of the underlying instrument has not reached or crossed a pre-determined level or the price of the underlying instrument has reached or crossed a pre-determined level. See also Knock in/out Event.

Base rate (UK)
The interest rate at which selected specified UK banks can borrow funds from the Bank of England.

Basel III
Global regulatory standards designed by the Basel Committee on Banking Supervision. The Basel accords provide a global regulatory framework to strengthen global capital and liquidity. Basel III focuses on stress testing a bank’s ability to withstand economic and financial stress, improve risk management and strengthen transparency and disclosures.

Basel Committee of Banking Supervision
A forum for the cooperation and coordination of bank-related supervisory matters.

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 peaking contracts that kick in during periods of peak demand.

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 (0.01%).
**Basis risk**
The risk of loss arising from a disproportionate change in the futures price in relation to the cash instrument price that the future is intended to hedge.

**Basis swap**
An Interest Rate Swap where the cash flows that are exchanged between each party are different types of Floating Rates or prices.

**Basket**
A bespoke, synthetic portfolio of underlying assets whose components have been agreed for a specific OTC (Over-the-Counter) derivative by the parties to the transaction.

**Basket option**
An option that may be exercised based on the weighted average performance of several underlying instruments.

**Bear market**
A market condition in which falling prices of securities cause widespread and self-sustaining pessimism and consequently create losses. An entry into a bear market is considered when there is a downturn of 20% or more in a multiple broad market indices over a minimum of a two-month period.

**Benchmark**
A standard against which a fund’s performance, exposures or risk is measured. Benchmarks tend to be indices but can be any collection of securities and weights. To be considered a legitimate benchmark, the collection has to be knowable in advance and transparent.

**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 purchase a contract to enter into a transaction.

**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, whether an auction will be held, establishes a backstop date, for Credit Events and Succession Events and whether a particular obligation of the defaulted Reference Entity is deliverable. 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 organises 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 lattice of all the possible paths up and down that the underlying price might take from start until expiry, assuming that, at each price change, the price either rises by a given amount (or proportion), or falls by a given amount (or proportion).

Biomass energy
Energy produced by the combustion of, or indirectly by the biogasification of, plants, vegetation or agricultural waste, such as rice husks.

Black-Scholes model
A complex mathematical model used to determine the price of European put or call options. The inputs to a Black-Scholes model include Strike Price, current price of the underlying, time to maturity, volatility and the level of interest rates.

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.

Blue chip stock
Stock in a highly respected publicly traded company, which is usually financially sound and a low-risk investment. As such, they tend to be less volatile and deliver solid growth to portfolios.
**Bond**
A certificate of debt, generally long-term, under the terms of which an issuer contracts to pay the holder a fixed principal amount on a stated future date (the Maturity Date) and usually a series of interest payments during its life.

**Bond Basis**
An interest calculation using 30 days in each month and 360 days in each year. Many Eurobonds use this as the basis on which interest is calculated. A Bond Basis could also involve a Day Count Fraction which counts the actual number of days in the relevant period and the actual number of days in the year (Actual/Actual). This is the method used by the US Treasury for interest calculations involving US Treasury notes and US Treasury bonds.

**Bonus issue**
An offer by an issuer to existing shareholders of free additional shares in proportion to their holdings. Companies may use this corporate action as an alternative to paying a cash dividend amount and is typically represented by securities, rights or warrants.

**Borrowed Money**
The term used in credit derivative swaps to describe debt obligations. Borrowed Money refers to any funds that have been borrowed by the Reference Entity.

**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 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 60°F to 61°F). It is used to compare the heat-producing value of different fuels.
**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 at least 99.5% pure and cast into bars or other non-coin forms.

**Business Day Convention**
The convention for adjusting any relevant dates which fall on a Bad Business Day (e.g., a holiday).

**Butterfly**
A trading strategy involving three option positions with three separate Strike Prices but the same Expiration Date. The combination is designed to create a potential gain greater than the potential loss, although both up-side and down-side are limited. The number of options in Leg one is double that of the positions taken in Legs one and three, with a Strike Price exactly intermediate between them. Butterfly structures can also be traded in the form of swaps.

**Buy-and-hold**
An investment strategy where there is no trading on a portfolio between the initial selection of the securities and the end of a certain time period. Instead, the strategy focuses solely on the long term and attempts to eliminate any interim trading that may be done foolishly during a particularly bear market. As markets generally trend upwards with time, a buy-and-hold strategy usually yields a good return. However, it can be risky during recessions.

**Buy-side**
Term used by Investment banks to refer to investment managers who buy and sell assets and/or enter into OTC (Over-the-Counter) derivative transactions with market-making firms (the “Sell-Side”).
**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.

**Call option**
A financial instrument which gives the holder (Buyer) the right, but not the obligation, to buy a specified underlying on or before a specified date or dates. Where Physical Settlement is specified the option writer (Seller) has the obligation to deliver the underlying, at the Strike Price, should the holder exercise the option. Where Cash Settlement is specified, the option writer compensates the Buyer for the difference between the underlying price at the time of exercise and the Strike Price. See also Put Option.
Callable Interest Rate Swap
A swap in which the Fixed Rate Payer has the right to terminate the swap after a certain time if rates fall. 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 some definitions of a callable swap, the fixed-rate receiver has the right to terminate the swap. Also known as a cancellable Interest Rate Swap.

Cap
An upper limit placed on the payoff of a trade, limiting the upside to the Buyer and thus the downside to the Seller.

Cap and trade
A policy within the European Union Emissions Trading Scheme (EU ETS) which limits the amount of emissions companies may release and allows the buying and selling of emission credits between participants of the scheme within the overall cap.

Capacity (Electricity)
The rated load carrying capability of electrical equipment such as generators or transmission lines. Capacity is typically expressed in megawatts.

Capitalisation issue
An offer by an issuer to existing shareholders of free additional shares in proportion to their holdings. Companies may use this corporate action as an alternative to paying a cash dividend amount and is typically represented by securities, rights or warrants. Also known as a bonus issue.

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. This also applies to the cost of storage. For example, when the cost to carry inventory (pay storage) is less than the expected appreciation in value of the asset for a given period of time, it is often called a Carry Market.

Carry trade
A trade or strategy where the aim is to generate ongoing positive cash flow.

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

Cash Collateralised Debt Obligation (CDO)
A structured credit derivative transaction where the underlying is typically a portfolio of bonds or loans sold to an SPV which then issues tranched securities offering differing risk-reward characteristics.

Cash Settlement
The discharge of an obligation by payment or receipt of a net cash amount (as opposed to delivery of the physical asset).

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 credits. See also iTraxx indices.

**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 settlement (credit derivatives)**
A process by which the DTCC will settle cash movements and fees on eligible credit derivative trades using Continuous Linked Settlement (CLS Bank). DTCC, via CLS, will net these payments to one net payment per currency per counterparty for a given value date.

**Certified Emission Reduction (CER)**
The technical term for the output of Clean Development Mechanism (CDM) projects, as defined by the Kyoto Protocol. A unit of greenhouse gas reductions that has been generated and certified under the provisions of Article 12 of the Kyoto Protocol, the CDM. Sometimes referred to as "Certified Emission Rights".

**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 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 whilst the charterer has the right to choose the ports of call.

Cheapest to deliver
The security which is delivered upon the Physical Settlement of a derivative trade at the lowest cost to the deliverer.

Chicago Mercantile Exchange (CME)
The world’s second-largest exchange for futures and options on futures and the largest in the US. Trading involves mostly futures on interest rates, currency, equities, stock indices and a small amount on agricultural products.

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 net of accrued interest.
Clearing
Post-trade activity where:
1) The Central Clearing Counterparty (CCP) becomes the counterparty for both the seller and the buyer in a trade. This helps to reduce the market risk for trading firms;
2) The CCP takes certain Risk Management steps like netting of trades to reduce total amount of cash flows; and
3) The CSD (Central Security Depository) validates and matches delivery instructions.

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 multilateral clearing organisation, centralised or central counterparty, clearing association, or derivatives clearing organisation (in USA).

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 an intermediary and clear client trades.

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.

Co-generation
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 (CHP).

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 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 dispute
The process by which a counterparty disputes a collateral call.
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 requirement
The amount of collateral that needs to be transferred to satisfy the counterparty’s requirements.

Collateral substitution
The process where one form of collateral is substituted for another.

Collateralised Debt Obligation (CDO)
A structure used to distribute risk to investors through tranching a portfolio of credits and issuing notes or swaps of different risk profiles to investors. The risk of the tranche is determined by an attachment point and a detachment point. Riskier tranches will earn the investor a higher Premium to reflect the higher risk. The CDO portfolio can be static or managed depending on the specific terms of the transaction. CDO notes will typically be issued to the investor by a Special Purpose Vehicle (SPV).

Collateralised Debt Obligation Squared (CDO²)
A CDO (Collateralised Debt Obligation) 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 loans. The securities are typically structured in a variety of tranches.

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 US, the term typically used for this process is co-generation.

**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 services the principal and interest obligations of the bonds or notes.

**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**
Raw materials such as oil, metals and crops that can be traded on local and international commodity exchanges. Commonly traded on a spot-basis or as futures contracts.

**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.

**Commodity derivative**
A derivative contract where the value of the contract is derived from an underlying commodity. Derivative instruments are most commonly cash settled but can sometimes be physically settled.
**Commodity futures**
An agreement to buy or sell a commodity at a specific date in the future, at a specific price and under standard market terms.

**Common stock**
Securities, also known as shares, representing equity ownership in a corporation, providing voting rights, and entitling the holder to a share of the company’s success through dividends and/or capital appreciation. Shareholders have only the residual claim after dues settlement of bond and preferred shareholders, in the event of liquidation of the company.

**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.

**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.

**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)
An interest rate derivative in which one leg periodically fixes against a certain maturity on the swap curve, for example the five-year fixed swap rate. The other leg is typically a vanilla floating leg based on LIBOR.

Consumer Financial Protection Bureau
A body which regulates services and financial products for the public in accordance with federal law. The bureau was created by the Dodd-Frank Act.

Contango
A condition in which prices for delivery of a commodity are higher in the succeeding delivery months than in the immediate delivery month. It is also used in the futures market to describe an upward sloping forward curve. The opposite of “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 Difference (CFD)
A cash-settled total return swap or forward, where the parties agree to exchange, on the maturity of the contract, the difference between the opening price and closing price of the underlying.

Convergence
The movement of the cash asset price towards the futures price as the Expiration Date of the futures contract approaches.

Convexity
The curvature in the bond price and yield relationship.
Copper records
A unilaterally submitted, non-legal representation of a trade submitted to the DTCC TIW. Copper records were introduced in July 2009 to meet the industry requirement to centrally record non-electronically confirmed transactions in a trade repository.

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
Any event that brings material change to a company and affects its stakeholders (common, preferred and bondholders) such as splits, dividends, mergers, acquisitions and spinoffs.

Correction
A usually negative temporary movement of at least 10% in a stock, bond, commodity or index, such as a price decline which interrupts an uptrend in a market or asset.

Correlation
A statistical measurement 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 (directly opposite) to +1 (same direction). The value of 0 signifies that the price movement/return is independent.
Correlation swap
A structure through which you are long a basket of underlyings and short on individual underlyings from that basket. The Buyer of this structure will be in-the-money if the basket components are negatively correlated.

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 purchase price of a security, including applicable fees and commissions, adjusted for such factors as corporate actions (e.g., stock splits and mergers), wash sales and dividend adjustments.

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. The seller must, in addition, procure and pay for the insurance. However, risk is transferred to the buyer once the goods are loaded onto the vessel.

Cost-of-carry
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. Financing and/or inventory costs can be considered carry costs.

Counterparty credit risk
In the context of trading of Over-the-Counter (OTC) derivatives, the risk that a counterparty will fail to meet its obligations due to a deterioration in the counterparty’s creditworthiness.
**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 written financial instrument which is matched by an opposing cash or stock position in the underlying asset or by an opposing financial instrument position of specific characteristics.

**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.

**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 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 enables the isolation and separate transfer of credit risk. See also Credit Default Swap (CDS).
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 pre-determined obligations.

Credit Event
An event linked to the deteriorating creditworthiness of an underlying Reference Entity in a credit derivative transaction. The occurrence of a Credit Event triggers 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)**
A structured note conferring on the holder an economically equivalent position to holding both a fixed income security and acting as the Seller of protection in an embedded credit default swap. The coupon payable on the CLN reflects the credit quality of both the issuer and the underlying Reference Entity (or Entities). 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 risk taken into account, and a portfolio valued with counterparty credit risk taken into account. This is roughly calculated as \(\text{Expected Positive Exposure} \times \text{Counterparty Default Probability} \times \text{Counterparty Loss-Given-Default}\).

**Cross Currency Interest Rate Swap**
An Interest Rate Swap where the two legs of the swap are in different currencies and the exchange rate for the final exchange of notional is agreed at the outset of the transaction.
Cross-margining
A counterparty-party protection programme instituted by financial clearing corporations whereby members receive margin relief from offsetting positions at other clearing houses. As part of this programme, joint clearing accounts that have access to margin and collateral at other clearing houses were established. This margin relief is only available to clearing members, market makers and locals.

Cross option
A financial instrument which pays out in a currency other than the local currency of the underlying asset. The two main types of cross financial instrument are quanto and composite financial instruments.

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.

Currency swap
An Over-the-Counter (OTC) 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/or interest payments.

CUSIP
A unique, nine character, alphanumerical 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.
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 OTC (Over-the-Counter) 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 its loading date range. 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.
**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 the risk of one’s own firm default taken into account, and a portfolio valued with this risk taken into account. This is roughly calculated as (Expected Negative Exposure)\*\{Own Default Probability\}\*\{Own Loss-Given-Default\}.

**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 IRS (Internal Revenue Service) 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.

**Definitions**
The market standard provisions by reference to which the terms of a derivative transaction are described. The definitions are published and maintained by 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), that 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.

Delisting
The process of removing the quotation of the price of a listed company’s share on the Exchange on which it trades, thereby preventing the purchase or sale of that stock through the Exchange. Delisting normally occurs if a company declares bankruptcy, following a merger, acquisition or other Succession Event, or if the company ceases to satisfy the listing rules of the relevant Exchange.

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.

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.

Delivery
The physical movement from Seller to Buyer of the underlying asset on which the derivative is based.

Delta
The ratio of change in the price of an option to the change in the price of the underlying stock.
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.

Demurrage
A financial penalty levied when a vessel fails to unload or load within the given time period or laytime, as set out in the relevant contract.

Depository receipt
A security that is traded on a local stock exchange representing shares issued by a company listed on a foreign stock exchange.

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.

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 Modernisation 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:

- Financial resource requirements for derivatives clearing organisations and "systemically important" derivatives clearing organisations (SiDCOs)
- The process for the mandatory clearing of swaps
- Core principles, procedures and definitions
- Governance, conflict of interest mitigation and risk management requirements

**Designated Contract Markets (DCM)**

A board of trade or exchange historically designated by the CFTC to trade futures, options, Commodity futures, Commodity Options. DCMs have been expanded to allow Swap activity as a result of Dodd-Frank.

**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, after which losses in the underlying portfolio no longer reduce the notional of a tranche.

**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 pays a pre-determined amount if the option is in-the-money and the payoff condition is satisfied. Also known as a “binary option” or “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.

Dirty price
The price of a bond inclusive of accrued interest.

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. If a bond with a par value of $1,000 is currently selling for $990 dollars (or 99% of par), it is selling at a discount.

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. Discrete TRS are confirmed under long form Confirmations (without an MCA), under bespoke/in-house MCAs or under the ISDA Equity Finance Swap Annex.
Discretionary Account
A brokerage account in which the broker can make decisions independently, without permission from the account’s owner. The main stipulation is that all actions must be made in accordance with the client’s stated investment goals and comply with the prudent man principle.

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.

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.

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
A method to delineate how capital is distributed to Limited Partners and General Partners in a private equity fund as underlying investments are sold and liquidated.
**Dividend**
A distribution of corporation profits after tax to shareholders. Dividends can be paid to stockholders in the form of Stock or Cash.

**Dividend swap**
A fixed-term contract between two parties where one party will pay a pre-determined fixed payment for each interval and the other party will pay the total dividends received as pay-out by a selected underlying. Like most swaps, the contract is usually arranged such that its value at signing is zero.

**DK**
Short for “don’t know”. A term used to describe the process by which one counterparty to an alleged transaction attests that the trade does not exist.

**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 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.

**Down variance**
A conditional variance swap which accrues realised volatility only when the previous day’s underlying price is below pre-specified levels.
**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 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**
A measure of the sensitivity of bond prices to interest rate changes. Duration is measured in units of time (years) and includes the effects of time to maturity, cash flows and the yield of the underlying asset.
Early Exercise
The exercise of an option contract before its Expiration Date.

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, 100% owned by the EFET. It was set up in 2004 by EFET to serve those actively involved in energy trading and is intended to deliver the benefits of electronic data exchange standardisation.

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

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 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)(iii) 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).

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/First loss tranche
The most junior tranche in a structured finance transaction. This tranche is usually kept by the originator (as an equity tranche) and covers the risk of first loss in a portfolio. Its size is a function of historical losses, so as to protect investors against the economic risk (estimated loss) of the transaction. Also, the riskiest tranche in a Collateralised Debt Obligation (CDO) where there is no subordination, as it is the first to face any losses.

Equity derivative
A contract whose value is derived from one or more equity linked underlyings, for example Shares, Depository Receipt, ETF, Index and Basket.
**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 where the underlying is an equity-linked instrument (for example Shares, Depository Receipt, ETF, Index, Basket). 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 derivative contract where payments are linked to the change in value of an equity-linked instrument (for example Shares, Depository Receipt, ETF, Index, Basket). The equity payer pays to the equity amount receiver any increase in the value of the underlying plus, if a total return swap, any dividends received. The equity amount receiver pays the equity amount payer any decrease in the value of the underlying plus funding costs.

**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) derivative 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®**
Euro Inter-Bank Offered Rate is the rate at which European interbank deposits are offered by prime banks to each other in the European Monetary Union.

**Eurobond**
An international bond that is denominated in a currency other than that of the country of the issuer.

**European Federation of Energy Traders (EFET)**
A group of more than 90 energy trading companies from 23 European countries dedicated to improving conditions for energy trading in Europe and providing an exchange for non-commercially sensitive information between organisations and members of the developing pan-European energy industry. EFET is complementary to existing industry trade organisations in Europe as it is solely dedicated to energy trading issues.

**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 Option**
An option that can only be exercised by the Buyer 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)
Emission credits issued by the European Union Emissions Trading Scheme (EU ETS) to the participating parties in its air pollution reduction programme.

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 more 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.
**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-ship**
A shipping 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.

**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 Traded Fund (ETF)
An investment fund that trades intra-day on an exchange. The fund can hold stocks, bonds or commodities. ETFs have a subscription/redemption feature where authorised participants can create or redeem ETFs using the constituents of the fund. This ensures close tracking to constituent securities.

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.

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.

Executing broker
The broker or dealer that finalises and processes an order on behalf of a client. 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.

Exercise
The process by which the holder of an option (the option Buyer) may take up the right to buy or sell the relevant underlying.

Exercise Day
A day on which the holder of an option (the option Buyer) may exercise the right to buy or sell the underlying.
**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.

**Exotic option**
A non-vanilla option.

**Expected Exposure (EE)**
The expected net value of a portfolio as a function of time after collateral [i.e., initial and variation margin applied with netting and haircut rules] has been taken into account. When a portfolio is simulated over thousands of paths, EE for a fixed time is calculated as \( \frac{\text{sum of Theoretical Values (TVs) on paths where } TV \rightarrow 0}{\text{total number of paths}} \).

**Expected Negative Exposure (ENE)**
The expected negative net value of a portfolio as a function of time after collateral [i.e., initial and variation margin applied with netting and haircut rules] has been taken into account. When a portfolio is simulated over thousands of paths, ENE for a fixed time is calculated as \( \frac{\text{sum of Theoretical Values (TVs) on paths where } TV \leftarrow 0}{\text{total number of paths}} \), 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 after collateral [i.e., initial and variation margin applied with netting and haircut rules] has been taken into account. When a portfolio is simulated over thousands of paths, EPE for a fixed time is calculated as \( \frac{\text{sum of Theoretical Values (TVs) on paths where } TV \rightarrow 0}{\text{total number of paths}} \), 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.
Expiration Date
The last date on which an option can be exercised. After this date the option is deemed to lapse or be abandoned.

Exposure Profile
A graphical representation of the variation of Expected Exposure for a portfolio over time.

Extendible swap
A financial instrument with an embedded option constructed on a similar principle to a double-up swap. An extendible swap allows the provider to extend the swap at the end of the agreed period for a further pre-determined period.

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

Extraordinary Event
An event that affects the underlying Shares or Index. Examples include a Merger Event, Tender Offer, Nationalisation or Index Modification. A term used in the 2011 ISDA Equity Derivatives Definitions.
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)
The US Congress created an Independent agency 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 at which eligible institutions can borrow from the Federal Reserve Bank, set with the intention of assuring market stability and reducing liquidity problems. The interest rate makes it harder or easier for banks to borrow and allows the Federal Reserve to control the supply of money.

Federal funds rate
The interest rate at which US private depository institutions lend cash balances (federal funds) to other similar institutions.

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.

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 to promote and develop policies to ending money laundering and terrorist financing.

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 Markup 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.

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 will be 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 financial stability by the implementation of 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.
**First loss basket**
A credit derivative transaction based on a basket of Reference Entities. Following a Credit Event in respect of one of the Reference Entities in the basket, a portion of the transaction terminates and settles as if it were a single name credit default swap.

**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 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.

**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.

**Fixed note**
A bond which pays a fixed rate of interest.

**Fixed Rate**
A rate which does not vary during the life of a transaction.

**Fixed Rate Payer**
Buyer of a vanilla derivative transaction.

**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 Rate**
Interest rate which is not fixed over the lifetime of an instrument. Such rates take any specific index or base rate as a reference to establish the interest rate. One of the most commonly used base rates as a benchmark for applying rate is LIBOR.

**Floating Rate Note (FRN)**
A bond which pays a variable rate of interest.

**Floating Rate Payer**
Seller of a vanilla derivative transaction.

**Floor**
A lower limit placed on the payoff of a trade, guaranteeing a minimum payoff to the Buyer.

**Flow trading**
Trading activity relating to the execution of customer orders by a market maker.

**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 US and a partner country which enables the partner country to collect the information required by FATCA from FFI and share the information with the US, 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)
The market in which foreign currencies are traded in Over-the-Counter (OTC) transactions by banks, governments and commercial corporations. The FX market is responsive to the movement of exchange rates.

Forward
A contract involving the sale by one party and the purchase by another party of a pre-defined amount of an underlying, at a pre-defined price and at pre-defined date in the future.

Forward price curve
A graph of the future value of a commodity or financial instrument over time.

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
A forward start option becomes active on the 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.

Free-On-Board (FOB)
A shipping contract where 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.
Full termination
The process whereby the entire transaction is terminated as opposed to simply partially terminating the transaction.

Fully transferable
An obligation that is fully transferable is freely tradable with no restrictions. For example, no consent of the borrower is required to transfer ownership of the asset.

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

Fund administrator
A firm providing accounting and administration services to buy-side clients.

Fund of funds
A managed investment fund where the pool of holdings are funds, usually managed by another investor rather than Over-the-Counter (OTC) or exchange-traded instruments. Fund of funds can reduce the impact of poor decisions by one fund manager.

Funded option
An exotic option where the holder pays interest over the life of the transaction instead of an upfront premium amount.

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.

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.

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).

Futures price valuation
A valuation method for equity index derivatives where the settlement price is sourced from the exercise price of a listed contract.
G20 Commitments (OTC derivatives)
A reference to the series of commitments that were constructed to improve 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
A term used to measure the rate of change of options delta with respect to the underlying asset. It is used for hedging the underlying assets.

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.

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. Also see AFME (European partner), ASIFMA (Asian partner) and SIFMA (US partner).

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 the Dodd-Frank Act, ODRF and other regulatory commitments.
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 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.

Gold record
The representation of a derivative contract with full legal status between two parties within the DTCC Trade Information Warehouse.
**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).

**Grantor**
The maker, writer or issuer of an option contract who takes on obligations to buy/sell the underlying in return for receipt of the Premium paid for the option.

**Greeks**
A measure of the sensitivity of an options price with respect to various parameters used to calculate options prices. Some of the popular Greeks used in options theory are 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.

**Guarantor**
A person or entity who guarantees to meet specified payment obligations of another party, if such other party defaults on the relevant obligation.
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.

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.

Hedge fund
An actively managed private pool of capital. Hedge funds are only available to accredited or qualified investors (i.e., high net worth individuals or institutions). Hedge funds are typically loosely regulated and usually employ leverage-based investment strategies.

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, U.S.A. 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 Watermark**
From a hedge fund perspective, the manager will only receive performance/incentive fees on that particular pool of invested money when its value is greater than its previous greatest value. Should the investment drop in value, then the manager must bring it back above the previous greatest value before they 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.

**Historical simulation**
A method of calculating Value-at-Risk (VaR) that uses historical data to assess the impact of market moves on a portfolio. A current portfolio is subjected to historically recorded market movements; this is used to generate a distribution of returns on the portfolio. This distribution can then be used to calculate the maximum loss with a given likelihood—that is, the VaR. Because historical simulation uses real data, it can capture unexpected events and correlations that would not necessarily be predicted by a theoretical model.

**Historical volatility**
1) The annualised standard deviation of percentage changes in futures prices over a specific period. An indication of past market volatility.
2) A measure of price fluctuation over time. It uses historical (daily, weekly, monthly, quarterly and yearly) price data to empirically measure the volatility of a market or instrument in the past.
**Holdings**

To own or owe a security or other asset. A long holding is when one owns something, whilst a short holding is when something is sold. Holdings consist of security ID and quantity. Also known as position.

**Hong Kong Monetary Association**

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 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 Calendar spread or Time spread.

**Hurdle Rate**

The established minimum (priority/preferred/break-even; generally 6-8%) return on investor’s investment must make prior to the application of performance/incentive fees.

**Hybrid Basket**

A Basket containing both stocks and indices or underlyings from a combination of asset classes (such as a foreign exchange rate or a commodity).

**Hybrid instruments**

Financial instruments that possess, in varying combinations, characteristics of forward contracts, futures contracts, options contracts, debt instruments, bank depository interest and other interests. Certain hybrid instruments are exempt from Commodity Futures Trading Commission (CFTC) regulation.
In-the-money
A position which has intrinsic value, for example a portfolio acquired at a rate which is more advantageous than current market rates.

Independent Amount/Initial Margin
An additional amount which is paid above the mark-to-market value of the trade or portfolio. The Independent Amount is required to offset the potential future exposure or credit risk between margin call calculation periods. Initial margin is the amount of collateral (in currency value) that must be posted up front to enter into a deal on day 1.

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 co-ordinating capacity allocation, overseeing the balancing of inputs and outputs, managing system emergencies and reserves, ensuring new facilities are built when needed and settlement of charges for use of the network. In some cases, ISOs are also responsible for managing power exchange activities.

Index
A synthetic portfolio of underlying assets calculated and published by a designated index sponsor and used to give an indication of market trends and to measure the performance of the specific market or sector to which the index relates.

Index arbitrage
The simultaneous purchase (sale) of stock index futures and the sale (purchase) of some or all of the component stocks that make up the particular stock index to profit from sufficiently large inter-market spreads between the futures contract and the index itself. See also Arbitrage.
**Index sponsor**
The company or organisation which calculates and publishes an index. Examples include Standard & Poor’s, Dow Jones and FTSE International.

**Inflation-linked derivatives**
Derivative contracts where the underlying is a price index or one of a series of government-issued, inflation-protected securities such as Treasury Inflation Protected Securities (TIPS) issued by the US Treasury.

**Inflation-indexed debt instrument**
Generally a debt instrument (such as a bond or note) on which the payments are adjusted for inflation and deflation. In a typical inflation-indexed instrument, the principal amount is adjusted monthly based on an inflation index such as the Consumer Price Index (CPI).

**Integrated hedge**
An integrated hedge involves managing more than one type of financial risk with a single derivative instrument. As an example, a derivative instrument which also involves 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.

**Intercontinental Exchange (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.

**Interest rate cap**
An option product where the holder (Buyer) is guaranteed a maximum borrowing cost over a specified term.
**Interest rate collar**
An option product where the holder (Buyer) is guaranteed a maximum and minimum borrowing cost over a specified term.

**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 product where the holder (Buyer) is guaranteed a minimum yield on a deposit over a specified term.

**Interest rate futures**
A futures contract for securities and deposits whose prices are determined by reference to interest rates.

**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)**
An exchange of a fixed rate of interest on a certain Notional Amount for a floating rate of interest on the same notional amount.

**Interest Rate Swaption**
An option to enter into a pre-determined 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.
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.

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 has acquired International Derivatives Clearing Group.

International Emissions Trading Association (IETA)
A nonprofit 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 of more than 155 international companies.

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 820 participants in 57 countries in the Over-the-Counter (OTC) derivatives industry.
**Interpolation (linear interpolation)**
A method of estimating an unknown price or yield of an underlying. This is achieved by using other related known values that are located above and below the unknown value.

**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.

**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 commodity 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.

**Inverse floater**
An Interest Rate Swap where the Floating Rate has a coupon which rises when the underlying Floating Rate falls. Thus, when the market Floating Rate falls, the payout increases.

**Investment Advisor**
A person that provides investing services to a client. Investment advisors provide either advice or management services in exchange for a fee or commissions. Some advisors are required to be registered with the Securities and Exchange Commission (SEC) (typically advisors with client assets exceeding defined thresholds), and are known as registered investment advisors (RIAs). A professional investment advisor is required to register annually with the SEC and it is a criminal offense to buy or sell his/her own securities to or from a client.
**ISDA® 2009 Collateral Dispute Resolution Procedure**
A standard industry set of procedures for dealing with disputed 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® 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.

Issue price
The percentage of the principal value at which the price of a new issue of securities is fixed. A security with an issue price above 100% will be issued at a premium; a security with issue price at 100% will be issued at par, and a security with an issue price below 100% will be issued at a discount.

Issuer
A government agency, corporation or investment organisation that is authorised to sell securities to investors in the form of bonds or stocks to raise the money to finance its operations.

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.
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)
A process which allows a developed country (under Annex B of the Kyoto Protocol) with an emission reduction commitment, to earn Emission Reduction Units (ERUs) by investing in an emission reduction project in another Annex B 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.

Junk Bond
A high yield bond carrying a high credit risk.
**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 in respect of the underlying. 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 in respect of the underlying. This will have the effect of reducing the option Premium. See also Barrier option.

**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.

LCH.Clearnet Ltd
A European-based Recognised Clearing House (RCH) that provides clearing services for major international exchanges and 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.

Legal Entity Identifier (LEI)/Unique Counterparty Identifier (UCI)
A 20-digit alphanumeric universal and unique code to identify counterparties involved in financial contracts, thereby creating consistent data trails. LEIs were created in response to a directive from the G20 to the Financial Stability Board.

Leverage
The magnification of gains and losses by only paying for part of the underlying value of the instrument or asset.

Leveraged loan CDS
A credit default swap where the underlying reference credit is a leveraged loan.

LIBOR
The London Interbank Offered Rate is the rate used when one bank borrows from another bank. It is the benchmark used to price many capital market and derivative transactions.
Liability Driven Investment (LDI)
A strategy that focuses on the pension fund assets of a pension fund in the context of the promises made to employees and pensioners (liabilities), as opposed to a strategy which focuses on the asset side of the pension fund balance sheet. A typical strategy includes hedging the fund’s exposure to changes in interest rates and inflation.

Lifecycle events
Post-trade events, such as portfolio compression, Credit Events, Succession Events, maturities, expiries, exercises payment calculations and settlement. “Event management” refers to the industry efforts to automate the processing of lifecycle events.

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.

Liquefied natural gas (LNG)
Compressed natural gas (mainly methane and ethane), which is reduced to a liquid form by cooling it to -258° Fahrenheit. The volume of LNG is 1/600th of its volume as gas vapour.

Liquefied petroleum gas (LPG)
A flammable mixture of hydrocarbon gases used as fuel in heating appliances and vehicles.
**Liquidity**
A market with a high level of trading activity.

**Liquidity risk**
The risk that a firm unwinding a portfolio of illiquid instruments may have to sell them at less than their fair value. An illiquid market may be defined as one characterised by wide bid/ask spreads, lack of transparency and large movements in price after any sizeable deal.

**Listed look-a-like**
A term used to denote the settlement price used to value an Over-the-Counter (OTC) equity derivative trade, which mirrors the official Settlement Price published for a listed derivative contract for that underlying asset traded on the Related Exchange quoted in the trade Confirmation.

**Load factor**
The ratio between average and peak usage for electricity or gas customers.

**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 Only Credit Default Swap (LCDS)**
A credit default swap where the underlying reference credit is a syndicated secured loan rather than any other asset class (for example bond, unsecured loan or asset backed security).
Loan Participation Note (LPN)
Similar to a bond with regard to paying regular interest to investors in return for an upfront capital investment. This is then repaid to an investor at par upon maturity of the LPN. This differs from a bond in that it incorporates an intermediary between the Issuer and Investor. The intermediary is typically a bank and is deemed the LPN issuer. The intermediary grants a loan to the actual issuer (the “LPN Issuer”) and issues the LPN to the market with the sole purpose of obtaining financing to provide the loan. The Intermediary places the capital repayments and interest payments in a separate account that is ring fenced against bankruptcy and guarantees that investors are entitled to these cash flows.

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:
1) Fixed: the strike price is fixed at purchase.
2) Floating: the strike price is fixed at maturity.

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.
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 re-establishment 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 price of the day for a particular futures contract.
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.

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-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 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 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.
Markets in Financial Instruments Directive (MiFID)
Regulatory framework which aims to provide uniform regulations across the European Economic Area (EEA) for the financial and investment services sector. The uniform regulations facilitate the freedom of movement for goods, services and capital across the member countries in exchange for adhering to the European Union laws and policies.

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 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 managing trade lifecycle events and covers all major asset classes including credit, interest rate, equity, FX and commodity derivatives.

Markit™
A provider of independent data with the goal to improve data transparency, create products for accurate portfolio valuations, and Over-the-Counter (OTC) derivatives trade processing to the global financial markets.

MarkitWire™
An electronic platform used for affirmation, confirmation and clearing connectivity. Markit Wire allows for Trade Date affirmation and legal confirmation and reduces the need for paper confirmations.

Mark-to-Market
The process of revaluing the book value or collateral value of a security on a regular basis to reflect the current market value.

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™ comprised of fifty equally weighted municipal Reference Entities.

**Merger Event**
The term used in an equity derivative when there is a transfer of ownership to another entity. Acceptance of an offer is sufficient to be considered a Merger Event as the actual completion of the merger may take months or years.

**Mezzanine tranche**
A tranche in the capital structure that is subordinated to the senior tranche, but is senior to the equity tranche.
Middleware
An electronic processing layer that provides matching, data enrichment, messaging and data exchange facilities between applications.

Minimum price fluctuation
Smallest increment of price movement possible in trading a given contract.

Minimum tick
Smallest increment/decrement of price movement possible in trading a given contract. Also called point or tick.

Minimum Transfer Amount
A de minimis transfer amount specified in a collateral agreement. It is designed to avoid the movement of insignificant collateral balances.

Modified Following Business Day Convention (Modified Following)
A type of Business Day Convention where payment days that fall on a Bad Business Day roll forwards 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 market
The market for short-term debt instruments.

Monoline insurers
Specialist insurers who provide financial guarantees over asset-backed, mortgage-backed and other structured securities.
Monte Carlo simulation
A method of pricing derivatives by simulating the evolution of the underlying variable (or variables) many times over. The average outcome of the simulation is 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, or it can be very 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.

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 pre-determined time period. There are five main types of mountain range option: Altiplano, Himalaya, Annapurna, Atlas and Everest.

Multi-coloured rainbow
An equity trading strategy which pays out the weighted performance of each of the constituents of a Basket. The weightings assigned to each Basket constituent are not known on inception but are assigned at valuation, usually based on the performance of each constituent.

Multi-series accounting
A method to calculate performance fees allocated to each of the multiple series of shares issued by a fund manager with a different net asset value (NAV) per share.
**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 exercise 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**
A professionally managed type of collective investment scheme that pools money from numerous investors and typically invests it in securities, such as stocks, bonds, short-term money market instruments, other mutual funds, other securities and/or commodities.

**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 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 measured in pence per therm.

Net present value
The difference between the initial investment amount and the sum of present values of all future cash flows arising from the investment. It is a measure of the profitability of an investment.

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 U.S. 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, unprecedented market transparency and significant operational efficiencies to the market.

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.
Nord Pool
The world’s largest and only multinational exchange for the trading of power contracts. The Nord Pool operates in Sweden, Norway, Finland, Denmark and Estonia.

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.

Nostro/Vostro reconciliation
The process performed to ensure that the expected cash movements of a transaction (or multiple transactions) are reconciled with the actual cash movements affected.

Note
A debt instrument with a maturity between one and ten years 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—the period for which no additional charges would be levied to keep the ship available.

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
NYSE Liffe is a recognised investment exchange in the UK, offering trading in derivatives including equities, bonds, interest rates, indices and commodities. NYSE Liffe also has an OTC equity options offering.
Off exchange
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 “Over the counter”.

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.

Omnibus account
An account in which money or securities for more than one beneficial owner are commingled by a custodian or a sub-custodian.

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 (Bermuda Option).
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.

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 if the index constituents or basket components are negatively correlated. Also known as correlation swaps.

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 striking price, volatility of the underlying and the time remaining to expiration.

Option pricing model
A mathematical model used to calculate the theoretical value of an option. The inputs to the model typically include the price of the underlying instrument, the option strike price, the time remaining until the Expiration Date, the volatility of the underlying instrument and the risk-free interest rate (i.e., the Treasury Bill interest rate). Examples of option pricing models include Black-Scholes and Cox-Ross-Rubinstein.
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 and/or Expiration Dates to reduce risk or 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 through the life of the transaction).

Option Type
Either a Call (the right to buy the underlying asset) or a Put (the right to sell the underlying asset).

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.

Ordinary Shares
Ordinary shares, also known as securities, representing equity ownership in a corporation, providing voting rights, and entitling the holder to a share of the company’s success through dividends and/or capital appreciation. Shareholders have only the residual claim after dues settlement of bond and preferred shareholders, in the event of liquidation of the company.
Organised Trading Facility (OTF)
Introduced by the European Commission as part of the MiFID review. An electronic trading venue intended to be similar in scope to a swap execution facility as created under the US Dodd-Frank Act. An OTF will be used to increase transparency in the trading of OTC derivatives.

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 OTC (Over-the-Counter) 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-currency option
A cash-settled option on an underlying asset whose local currency is a non-deliverable currency. The option payout is calculated in the local currency and then converted into another currency (typically US dollars) using the prevailing exchange rate.

Out-of-the-money
A position which has no intrinsic value, for example one acquired at a rate which is less advantageous than current market rates.

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 futures contract; an order that is not a spread order.

Overnight Index Swap (OIS)
An Interest Rate Swap in which a fixed rate leg is exchanged for cash flows based on a published overnight interest rate. The overnight rate is usually calculated by an independent third party. OIS provide a flexible hedging tool for banks and corporate treasurers.

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”.

Over-the-Counter (OTC) transaction
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”.
Pairwise correlation swap
A swap that uses the observed correlation between each component in a basket as a basis for the payoff calculation. See also Correlation swap, Dispersion trade.

Pari Passu
A term used to describe the equivalent subordination of two or more debt obligations.

Partial termination
A reduction in the Notional Amount of a derivative contract.

Path dependent option
A financial instrument whose valuation and payoff depends on the realised price path of the underlying asset, such as an Asian option or a lookback option.

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 writedowns. 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.

**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 upon which Physical Settlement occurs.

**Pip**
The smallest price unit of a commodity or currency. This is an acronym for Percentage Point.

**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.
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.

Pool factors
The current outstanding principal balance of a particular asset-backed bond divided by the original issued balance of such bonds expressed as a percentage.

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

Portfolio
A collection of open positions (securities or other assets) held by an 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 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 risk-based margining.
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 forwards 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 that calculates the maximum amount of exposure which can occur at a future point in time with a high degree of statistical confidence.
Power reverse dual currency transactions
A power reverse dual currency note or swap 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
Equity instruments issued by a company which share certain properties with bonds. Both common stock and preferred stock are equity securities which have dividends paid out of after-tax profit, but preferred stock has priority in the payment of dividends and in the instance of liquidation. Bonds and preferred stock are alike in being rated by the major credit rating companies, in issuing (in most instances) a regular fixed payment and in not conferring any voting rights on their holder.

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
The current value of a sum which is to be paid (or received) on a future date. It is calculated as the amount that would have to be invested today at a specified rate for a specified period to obtain a known amount at the end of the period. In effect, it is a method of compounding in reverse. Also called fair value.
**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 return equity swap**
Similar to a total return swap, except that dividends are not passed through to the Buyer.

**Primary dealer**
A designation given by the Federal Reserve System to commercial banks or brokers/dealers who meet specific criteria. Among the criteria are certain capital requirements and meaningful participation in the Treasury auctions.

**Primary Economic Terms (PET)**
Primary/core economic terms of an OTC derivative transaction.

**Prime broker**
A large bank or securities firm that provides a range of services such as securities lending, portfolio valuation and reporting, trade execution and cash management to hedge funds and other professionals in return for a fee. Hedge funds typically use prime brokers to gain access to a centralised securities clearing facility and to take advantage of the operational infrastructure of the provider firm.

**Proprietary (Prop) trading**
The strategy used by investment banks and other financial institutions to trade on the firm’s own account rather than using customer capital.
**Protection Buyer**
A party to a credit default swap that pays the protection Seller a Premium in return for the protection Seller agreeing 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 requirement whereby trustees and portfolio managers make prudent financial decisions and in doing so exercise intelligence and discretion.

**Put Option**
A contract that grants its purchaser the right, but not the obligation, to sell the underlying instrument at the specified strike price on or before the Expiration Date. Compare with Call Option.
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 but applies this to a Notional Amount in a domestic currency. Such products are common amongst speculators looking to gain exposure to foreign assets yet still protecting themselves from exchange rate fluctuations.

Quanto swap/Differential 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.

Rainbow Option
An option strategy which pays out based on the overall performance of its two or more underlying assets (known as “colours of the rainbow”). When the strategy is profitable from the performance of only one of the assets, a rainbow option is also known as a “best-of”.

Rally
An upwards movement of prices following a decline.

Range
The lowest and highest price of the stock recorded during a specific trading period.
**Range accrual**
A form of interest accrual in which the coupon rate is earned only on a day in which the rate from which the coupon is derived 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.

**Ratio spread**
A strategy, which applies to both puts and calls, that involves buying or selling options at one strike price in greater number than those bought or sold at another strike price.

**Realised correlation swap**
A swap that uses the observed correlation between each component in a basket as a basis for the payoff calculation. See also Correlation swap and Dispersion trade.

**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 investment exchange, which 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 which meet its requirements under the terms of the Financial Services and Markets Act 2000.
**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 on which the company’s shareholders must own the shares to be entitled to receive a dividend payment. Also called Date of Record.

**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.
Regulatory Assets Under Management
A newly defined metric by the SEC, in its Form PF, that refers to gross assets under management, without the subtraction of borrowings, short sales or other forms of leverage.

Repo Rate
In a repurchase agreement, the price paid to repurchase an asset, expressed as an annualised percentage rate.

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 fixed income transaction used for short-term financing involving the sale of an asset to another party with a simultaneous agreement to buy the asset back at a later date at a pre-agreed forward price. The counterparty selling the asset sees the transaction as a repo. The counterparty purchasing the asset sees the same trade as a reverse repo.

Residential Mortgage Backed Security (RMBS)
A type of security whereby the cash flows are derived from a pool of residential debt, such as mortgages, home equity loans and subprime 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.

Retail Investment Advisor (RIA)
An advisor or firm engaged in the investment advisory business and registered either with the Securities and Exchange Commission (SEC) or state securities authorities. An RIA typically offers advice and makes recommendations on securities.

Retracement
The reverse price movement within the prevailing upward market trend. Often termed as correction phase or rest period after which an upwards trend continues.

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
A measure of the sensitivity of the price of an option to interest rate changes.

Right-Way Risk
The risk of trade value appreciation due to the correlation between trade(s) facing a single counterparty, and that counterparty’s increased risk of default. For example, the purchase of a call option on underlying “A” from counterparty “A” itself.
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 capital
Funds at risk in a company or trading business. It is generally used to earn high returns on high-risk, high-reward investments or to write off losses due to misjudgments, uncertainties, unforeseen and adverse circumstances. In the context of venture capital, these funds are used for investing in promising startup companies.

Risk reversal
A strategy, such as an interest rate collar, whereby a party wishing to limit the potential downside of holding a long position in an underlying buys an out-of-the-money put and offsets the premium payable on the put with the sale of an out-of-the-money call. Alternatively, this can be a strategy whereby a party wishing to limit the potential downside of holding a short position in an underlying buys an out-of-the-money call and offsets the premium payable on the call with the sale of an out-of-the-money put.
Scalping
The practice of trading in and out of the market on very small price fluctuations. A person who engages in this practice is known as a scalper.

Scenario testing
A methodology that attempts to build plausible views of a small number of different possible futures 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).

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 where previously issued securities are bought and sold.
Section 1256 Contracts
Regulated futures contracts, foreign currency contracts, non-equity options, dealer equity options and dealer securities futures contracts that are sold at market value on the last day of the tax year. The gain is treated for tax purposes as 40% short-term gain and 60% long-term gain.

Section 988 Transaction
A transaction involving a capital loss or gain that occurs when a taxpayer acquires any debt instrument or enters into any forward contract, futures contract, option or similar financial instrument held in a foreign currency. The gains of such a transaction are treated as ordinary income.

Securities and Exchange Commission (SEC)
A federal agency in the United States which 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 1 November 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 process for creating an asset-backed security that entails the pooling of small and illiquid assets into financial instruments which can be sold to investors.
Security
A transferable instrument representing an ownership interest in a corporation (equity security or stock) or the debt of a corporation, municipality or sovereign. Other forms of debt, such as mortgages, can be converted into securities. Certain derivatives on securities (for example, options on equity securities) are also considered securities for the purposes of certain securities laws.

Security interest/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.

Seeding
The process of inputting existing outstanding OTC derivative transactions into a trade repository or Central Clearing Counterparties.

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.

Series (of options)
Options of the same type (meaning either puts or calls, but not both), which cover the same underlying futures contract or other underlying instrument, having the same strike price and Expiration Date.
Serving notice
A term used to refer to 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
The risk that arises when payments are not exchanged simultaneously. The simplest case is when a party makes a payment to its counterparty but will not be recompensed until sometime later; the risk is that the counterparty may default before making the counterpayment. 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 afflicted counterparties of Germany’s Bank Herstatt in 1974, which closed its doors between receipt and payment on foreign exchange contracts. As a result, settlement risk is sometimes called Herstatt risk.

**Sharpe ratio**
A ratio used to measure the risk-adjusted performance of an investment. It is the ratio of excess return of an investment to the standard deviation of the returns. Also known as Sharpe index or Sharpe measure.

**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.

**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 with the expectation that the asset will fall in value.

**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 Position
The process of selling a borrowed security, commodity or currency with the anticipation that the asset will decrease in value.

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 and then uses that price in the payout if it is more favourable than the price used to value the option on the Expiration Date.

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)
Businesses qualify as small or medium-sized enterprises if they satisfy various capacity metrics covering for example, maximum numbers of staff, turnover or size of balance sheet. In Europe, the defined ceiling for SMEs is max 250 employees, €50 m turnover or €43 m balance sheet total. The definition is used primarily to determine eligibility for state-sponsored business support.

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.
**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**
A Credit Event in which not all debt obligations have become due and payable immediately. In this situation, not all Deliverable Obligations will have the same value, resulting in a “cheapest to deliver” option.

**Sovereign**
A borrower that is a national government or a government agency. Sovereigns account for a large proportion of all emerging market Reference Entities, but are generally less common than corporates or financial institutions in the credit derivatives market.

**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 cost of production.
**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.

**Spin off**
A sale by the issuer of some of its assets or a division of its company. This is often completed via a rights issue where an offer is made to existing shareholders to buy shares in the newly independent 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 month**
The futures contract that matures and becomes deliverable during the present month. Also called current delivery month.

**Spot price/rate**
The price of a commodity, security or currency that is quoted for immediate payment and/or delivery.

**Spread (bid /offer)**
The difference between the bid and the offer rate. The bid/offer spread is a measure of liquidity and counterparty risk.
**Spread (credit)**
The price which indicates the credit worthiness of an underlying asset.

**Standard Settlement Instructions (SSIs)**
For derivative transactions, SSIs outline the bank account details of legal entities for specific currencies and/or products.

**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.

**Stock Borrow Loan (SBL)**
The lending of securities to facilitate short selling from one party to another.

**Stock consolidation**
A multiplication by the issuer of each of the company’s outstanding shares by a certain factor in order to increase the share price (for example a 1:2 stock consolidation doubles the share price and halves the number of shares). This corporate action can be used to deter small investors or to increase the attractiveness of shares that historically have had a very low share price. Also known as a reverse split.

**Stock Index**
An indicator used to measure and report value changes in a selected group of stocks. How a particular stock index tracks the market depends on its composition, namely its sampling of stocks, its weighting of individual stocks and the method of averaging used to establish an Index.
Stock Index futures/options
A financial contract based on the value of an underlying stock Index such as the FTSE 100 in the UK, the Dow Jones and the S&P 500 Index in the US and the Nikkei 225 and 300 in Japan. Delivery of the contract is fulfilled by the payment or receipt of cash against the exchange calculated delivery Settlement Price.

Stock market
A public entity where a company’s stock and derivatives are traded. For example, the UK’s FTSE 500.

Stock split
A division by the issuer of each of the company’s outstanding shares by a certain factor in order to reduce the share price (for example a 2:1 stock split halves the share price and doubles the number of shares). Often the intention of this corporate action is to attract new investors by making the shares more affordable.

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**
A combinational option trading strategy which involves holding a buy and call simultaneously at the same strike price and Expiration Dates.

**Strangle**
A strangle is an options trading strategy which involves a combination of an out-of-the-money call and out-of-the-money put option. As a strategy, a strangle is similar to a straddle. Strangles are cheaper than straddles because deep out-of-money options have lower premiums as compared to their counterparts (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.

**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 point 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.

Super senior
The most senior tranche of a Collateralised Debt Obligation (CDO). Super senior tranches are normally AAA-rated.

Swap
1) 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.
2) Under the Dodd-Frank Act, a swap has been interpreted as having broader definition to incorporate all OTC derivatives.

Swap Data Repository (SDR)
Terminology used within the Dodd-Frank Wall Street Reform and Consumer Protection Act (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 Execution Facility (SEF)
A term created by the Dodd-Frank Act to designate a facility, trading system or platform allowing multiple participants to execute OTC derivatives transactions with each other. Synonymous with Organised Trading Facility (OTF) in Europe.
SwapClear (LCH)
A division of LCH.Clearnet that clears 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. As of December 2011, SwapClear had 60 direct members and approximately USD 300 trillion notional worth of contracts open and being processed within the platform. This is believed to be half the total number of interest rate contracts in the market. The half not being cleared is between buy-side firms and dealers, or in products SwapClear does not yet accept for clearing.

Swaption
The option to enter into an agreement where the owner has the right—but no obligation—to enter into an underlying swap at a specified date. The agreement specifies whether the owner is a Fixed Rate receiver or a Fixed Rate Payer.

Swing (gas)
1) Variations in gas demand.
2) In gas purchase agreements, the swing factor is a measure of the flexibility to vary nominations.

Switch
The action of moving funds from one mutual fund into another. See also Swap.

Synthetic CDO (Collateralised Debt Obligation)
A CDO structure which has a non-physical asset portfolio, instead of deriving exposure to the underlying through credit default swaps. This structure is often issued as a single tranche deal. The risk profile of the tranche will be bespoke, reflecting investor requirements. Synthetic CDOs may be either funded (securitised) or unfunded, where the exposure is transferred to investors through derivative contracts.
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 financial markets. It is the risk of collapse of an entire financial market or financial system.

Systemically Important Financial Institutions (SIFIs)
Financial institutions that risk toppling the whole financial system should they fail. These institutions may be in such a position due to their size, interconnectedness or unique position.
T

Take or pay
Contracts that create 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 not traded on any market.

Tax Lot Relief Methodology
A method of computing the cost basis of an asset that is sold in a taxable transaction. The five major lot relief methods commonly utilised are FIFO (First-In-First-Out), LIFO (Last-in-First-Out), Dollar Value LIFO, Specific ID (a specific lot of securities or assets chosen for the cost basis) and Average Cost (the average cost basis of all securities purchased).

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.

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%—but less than 100%—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 time to maturity of an asset, liability, trade, transaction or portfolio.

**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.

**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.

**Therm**
The British unit of measurement for a quantity of gas in terms of energy, equivalent to 100,000 British thermal units or 105,506,000 joules.

**Theta**
The partial derivative factor in an option pricing equation measuring change in option value with respect to time whilst keeping other factors constant. It is a measure of sensitivity of the value of the option to the passage of time.

**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.

**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, whilst 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).

**Time charter**
Charter party agreement for the hiring of a vessel for a period of time, with the charterer deciding on the type and quantity of cargo, as well as the ports to be used for loading and discharging, with agreed constraints. In this type of agreement, loading and unloading costs are not usually included in the charter rate.

**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.

Tolling agreement
An agreement between a producer of raw materials with another counterparty that has the facilities for processing them. The owner of the raw materials may or may not have the rights on the output. Commonly used in refining, smelting and power contracts.

Total Return Swap (TRS)
A swap where one party (the total return payer) makes payments based on an increase in the value of the underlying and the other party (the total return receiver) makes a payment based on any decreases in the underlying. In addition, the total return payer pays any dividends and coupons received on the underlying to the total return receiver. The total return receiver pays the total amount payer the funding cost. In effect, the total return receiver is synthetically long the underlying asset and the total return payer is short the underlying asset.

Toxic assets
Refers to assets that have become difficult to trade and are seen as sure to lose value from their current market price.

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**

Trade pairing is 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.

**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—or limitation imposed on—trading by the relevant Exchange or Related Exchange.
Tranche
A term most frequently used in relation to portfolio and 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 (0-100%): 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 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 co-ordinating capacity allocation, overseeing the balancing of inputs and outputs, managing system emergencies and reserves, ensuring new facilities are built when needed and settlement of charges for the use of the network.
**Treasury bill**
A zero coupon US government debt instrument with an original maturity of one year or less, generally issued with 13, 26 or 52 week maturities. Treasury bills are sold at a discount from par with the interest earned being the difference between the face value received at maturity and the price paid.

**Treasury bond**
US Government-debt security with a coupon and original maturity of more than 10 years. Interest is paid semi-annually.

**Treasury note**
US Government-debt security with a coupon and original maturity of one to ten years.

**Trigger condition**
The payout of path-dependent options, such as barrier options and digital options, which depends on a named market variable satisfying a specific trigger condition. The most common condition is that the spot rate (or price) of the underlying must trade through a specified level before the option becomes active (or inactive), but many other types of condition are possible. See also Range binary.

**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.
Underlying
An asset, index, currency, rate, credit or other variable upon the basis of which the value and cash flows or deliverables under a derivative transaction are calculated.

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 that consists of a collection of separately managed accounts. Typically, the UMA will consist of several accounts each with its own asset class or strategy. The aggregation enables rebalancing and cash flow management efficiencies.

Unified Managed Household (UMH)
A type of Unified Managed Account (UMA) that allows any member of the immediate family the same investing access under the same account. This allows easier administration on behalf of the financial institution, as well as greater transparency for the investing family.

Unique Counterparty Identifier (UCI)
Code created by the 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 Swap Identifier (USI)/Unique Transaction Identifier (UTI)
A universal and unique code identifying a single transaction made in the OTC derivatives market.
Unrecognised trade
A transaction that cannot be identified by the alleged counterparty to the trade.

Up-variance
A conditional variance swap which accrues realised volatility only when the previous day’s underlying price is above a pre-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).

Valuation Agent
The party which values a derivative transaction or portfolio of derivatives transactions and demands a payment or delivery of collateral—usually the party making the collateral call.

Valuation Date
A date on which an asset is valued or a collateral call is made.

Valuation percentage
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.
Value-at-Risk (VaR)
A risk measure to calculate the maximum loss a financial instrument or portfolio is expected to suffer over a defined period with a specific confidence level. (e.g., a 95% confidence level on a 100-day VaR measure assumes that the maximum loss would not be exceeded on 95 days out of 100).

Vanilla (flow/market standard)
A derivative transaction which has a very basic structure, likely to be the most commonly traded in the relevant market.

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-covariance/Parametric Variance
A model to calculate Value at Risk. Measures risk associated with two related variables impacting each other.

Variation margin
The profits or losses on open positions that are calculated daily in the Mark-to-Market process and then paid/credited.

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.

Vega
An option risk parameter that measures the sensitivity of the option price to changes in the price volatility of the underlying.

Vertical spread
An option strategy relying on the difference in Premium between two options that share a common underlying and maturity but are struck at different prices.

Visualisation
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.

Volcker rule
A proposal by American economist Paul Volcker with the aim of restricting banks from engaging in certain kinds of high-risk speculative trading on their own accounts.
Warehouse receipt
A document certifying the existence and availability of a given quantity and quality of a commodity in storage in a licenced 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
The permission issued to purchase an underlying asset at a stipulated price (usually higher than current market value, but lower than future market value) within a long-term time period.

Wash Sales
The act of selling stock or securities at a loss and buying substantially identical stock or securities in a fully taxable trade, acquiring a contract or option to buy substantially identical stock or securities or acquiring substantially identical stock for your individual retirement account (IRA) or Roth IRA within 30 days before or after the sale.

Wedding cake
An option with a fixed payout based upon the fluctuations of an underlying Floating Rate, which is set within the parameters of pre-determined 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.

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 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.
**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 US.

**Wrong-Way Risk**
The risk of trade value deterioration due to the correlation between trade(s) facing a single counterparty, and that counterparty’s increased risk of default. For example, the purchase of a put option on underlying “A” from counterparty “A” itself.

**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.

**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.
Zeebrugge Hub Natural Gas Trading Terms and Conditions
A virtual or hypothetical 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 whilst the other counterparty makes a single lump sum payment upon the Maturity Date of the swap.
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<td>DFA</td>
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<td>FSB</td>
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<td>FTP</td>
<td>Failure to Pay</td>
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<td>Know Your Client</td>
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<td>LCDS</td>
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<td>LNG</td>
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About Sapient Global Markets

Sapient Global Markets, a division of Sapient® (NASDAQ: SAPE), is a leading provider of services to today’s evolving financial and commodity markets. We provide a full range of capabilities to help our clients grow and enhance their businesses, create robust and transparent infrastructure, manage operating costs, and foster innovation throughout their organizations. We offer services across Advisory, Analytics, Technology, and Process, as well as unique methodologies in program management, technology development, and process outsourcing. Sapient Global Markets operates in key financial and commodity centers worldwide, including Boston, Chicago, Houston, New York, Calgary, Toronto, London, Amsterdam, Düsseldorf, Geneva, Munich, Zurich, and Singapore, as well as in large technology development and operations outsourcing centers in Bangalore, Delhi, and Noida, India. For more information, visit www.sapientglobalmarkets.com.

How to use this reference guide

Entries are in alphabetical order. Within the guide, capitalised words and phrases denote a term that is defined in the relevant asset specific ISDA® Definitions, Supplements, Protocols or other official ISDA® publications.
2013 Glossary of Financial Terms

A Sapient Global Markets quick reference guide to OTC derivative and commodity market terminology