Glossary of terms in Treasury Management

Treasury Meaning

Treasury generally refers to the funds and revenue at the disposal of the bank and day-to-day management of the same. The treasury acts as the custodian of cash and other liquid assets the art of managing, within the acceptable level of risk, the consolidated fund of the bank optimally and profitably is called Treasury Management. It is the window through which banks raise funds or place funds for its operations.

1. **AAA** is a term or a grade that is used to rate a particular bond. It is the highest rated bond that gives maximum returns at the time of maturity. Usually the grade AAA is given to the best debt obligation or a security, by a credit rating agency.

2. **ABO**
ABO is an abbreviation for the term 'Accumulated Benefit Obligation'. It is basically the measure of the liability of the pension plan of an organization and is calculated when the pension plan is to be terminated.

3. **Absolute Advantage:**
Country 'A' has an absolute advantage over country 'B' if the output per unit of input of A is higher than that of B.

4. **Absorption**
Absorption is a term related to real estate, banking and finance fields. The word 'absorption' means the process of renting a real estate property that is newly built or is recently renovated.

5. **Absorption Time**
The term 'absorption time' is used to define the time period that is required to complete the process of absorption.

6. **Abstract of title**
The 'abstract of title' is a written report that defines, records and identifies the history and ownerships of a particular asset, usually a real estate.

7. **Acceleration**
Acceleration is the process, where the lender demands a full and final payment of the debt or loan, before the allotted time period for repayment. A clause in the document of the debt usually empowers the lender to accelerate the time period.

8. **Acceleration Clause**
A clause in the debt document that empowers the lender to accelerate the payment, (i.e. or that is) the lender can demand the full amount of loan before the date of maturity.

9. Accelerated Depreciation
A method of depreciation of fixed assets, where the early deductions are greater in monetary terms and later ones are smaller.

10. Accelerator Principle:
Accelerator Principle of a company is the growth in ouput of the company that would induce a continuation in net investment.

11. Acceptance
Acceptance which is also known as the banker's acceptance is a signed instrument of acknowledgment that indicates the approval and acceptance of all terms and conditions of any agreement on behalf of the banker. It is a very wide term that is used in context with financial agreements and contracts.

12. Accepting House
An accepting house is a banking or finance organization that specializes in the service of acceptance and guarantee of bills of exchange. This organization specializes in two prominent functions, that is facilitating the different negotiable instruments and merchant banking.

13. Accepting Party
The party (either an individual or a group of individuals or organizations) that accept the terms and conditions of a proposed agreement or contract put forth by another party.

14. ACH
ACH is the abbreviation of the banking term automated clearing house. The automated clearing house operates on a national level and helps banks and financial institutions in the clearance of balances and negotiable instruments that are used at personalized as well as mercantile modes of transactions.

15. Abandonment option
The valuable operational choice available to the owner of a project or of a business, to abandon all or part of it.

16. Absolute purchasing power parity
A form of purchasing power parity theory which states that under a fully floating exchange rate regime the ratio between domestic and foreign price levels should be equal to the equilibrium foreign exchange rate between the domestic and foreign currencies.

17. Accept giros
Credit transfer-Giros usually supplied and completed by the beneficiary with all the relevant details and sent to the payor along with an invoice. The payor then signs the giro (in other words accepts it) and forwards it to the bank. The bank debits the payor's account and puts the giro into the clearing system.

18. Accommodation Maker
A person who signs the note of application and renders his credit history during the process of application of a loan is called accommodation maker. The accommodation maker usually receives no direct financial benefit from the loan. The term is also used in the concept of 'accommodation bills', when two or more people help each other by rendering liquidity of a negotiable instrument.

19. Average effective maturity
A calculation of the maturity of a bond taking account of any potential early redemption.

20. Average life
The weighted average maturity of a loan, bond or security - after taking into account amortisation provisions.

21. Average maturity
The amount of time needed for all securities held in a portfolio to reach maturity, weighted by the amount of assets invested in each security.

22. Average nominal maturity
As opposed to average effective maturity, average nominal maturity does not take account of a potential early call, adjustable coupons, mortgage prepayments and puts.

23. Average total cost
Total cost divided by output.

24. Average weighted maturity
A calculation of the weighted average of the maturities of fixed income instruments held in a portfolio. Average weighted maturity is correlated to the risk profile of the portfolio, for example, longer Average Weighted Maturity implies greater price volatility. Also known as Weighted Average Maturity.

25. Account
An account is a record of all financial transactions that are related to an asset, individual, transaction or any organization. It is a major term in the field of accountancy and is conventionally denoted by the A/c. It can also be defined as a transaction between a buyer and a seller about payments and dues which develop creditor-debtor relations.

26. Account Aggregation
An online facility that is made available by some banks or financial organizations, in which all the transactions related to the bank account, credit facilities, debts and investments can be handled and operated with the help ofa single interface or account. Account aggregation is a form of Internet banking, provided for ease of transaction.

27. Account Balance
The total amount of money in a particular bank account, along with the debit and credit amounts, the net amount is also termed as the account balance.

28. Account Reconciliation
Account reconciliation is a process with the help of which the account balance can be easily verified. Account reconciliation is usually done at the end of a week, month, financial year or at the end of any financial period. It is usually done with the help of receipts, ATM notes, bank statements etc.

29. Account Statement
A financial record that indicates the transaction and its effect on an account (usually bank account), in terms of debit and credit. Sometimes, an account statement also carries some precise details, like the date of transaction, code of transaction, mode of transaction, sales, purchases, etc.

30. Account Value

An account value is the total value of any account, applicable when a person has many accounts and transactions in the same bank or financial institution. The account value is a total value that is expressed in monetary terms.

31. Account Analysis

The term ‘account analysis’ is used in basically two contexts. First, it is used to define the study and conclusion of a single account. Second, it is also a procedure, where the profitability of a single demand account or many demand accounts is projected and analyzed.

32. Account Control Agreement

An account control agreement is an agreement that perfects the interests of the creditor in a securities account.

33. Account Debtor

An account debtor is a person or an organization that is in debt and is obliged to pay either on an account or chattel paper or contract right. Account debtors are, sometimes, simply referred to as debtors.

34. Acknowledge

Indicates the acceptance of a document, agreement, proposal or a negotiable instrument by authenticating it with the help of a seal or a signature. Acknowledgment signifies that the terms and conditions of the contract have been accepted and the agreement authenticated.

35. Account Reconciliation Services

Account reconciliation services are basically services that specialize in the compilation of reconciliation documents and statements. Reconciliation services cater to the demands of individuals and huge organizations that have a large number of transactions taking place every day.

36. Acceptance

A bill of exchange which has been 'accepted' by a high quality credit - usually a bank - effectively guaranteeing payment and thereby enhancing the credit quality of the bill.

37. Acceptance credit

A money-market term for a bill of exchange drawn by a customer on its bank, which is accepted and then discounted by the bank, the proceeds being paid to the customer.

38. Account

A balance held with a financial institution to facilitate transactions, such as a bank account or securities account

39. Account analysis

A statement, essentially an invoice for services, which a financial institution provides to its commercial customers specifying services provided, volumes of transactions processed and charges assessed. The statement is used by the customer for cash management and other purposes.

40. Account positioning

Cash management. The task of establishing, usually on a daily basis, the expected end-of-day closing cash position. Also known as cash positioning.

41. Accounting

The practice and theory of preparing accounts for an organisation, whether for internal or for external use

42. Accounting bases

The methods developed for applying fundamental accounting concepts to individual transactions and financial items.

43. Accounting concepts

A small number of fundamental concepts which underlie the completion of periodic financial accounts of businesses under generally accepted accounting practice.
The concepts include going concern, accruals, consistency, prudence and disaggregation.

44. Accounting exposure

Risk management.
1.The potential impact on an entity's accounts of a particular policy or transaction.

2.Potential secondary adverse effects resulting from accounting exposure

45. Accounting group

A group is deemed to exist for accounting purposes in circumstances where a parent undertaking controls one or more subsidiary or associate undertakings.

46. Accounting period

A period upon which UK corporation tax is assessed and charged on profits arising in the period. This period cannot exceed 12 months.Also known as the 'period of account'.

47. Accounting reference date

(ARD). The date to which a reporting entity's financial accounts are made up

48. Accounting return on investment

Measure of profitability based on accounting profits divided by the book value of invested capital.
This measure may be calculated in a number of different ways, for example:
[Average annual accounting profit over the project life] ÷ [Average book value of investment in the project]

49. Accreting

A term meaning that the principal amount is increasing over time, for example as a result of the scheduled drawdown of a loan in tranches. This would also apply to a deposit where any interest is effectively re-invested.

50. Accreting swap

A type of interest rate swap. An accreting swap is one where the notional principal amount is growing over time.Used - for example - to hedge a loan being drawn down in instalments.

51. Accrual rate
Pensions. The rate at which benefits build up for each year of service in a defined benefit pension scheme.

52. Accruals concept
The principle that revenues, profits and the associated costs incurred while earning them should be included in the same period's profit or loss account or income statement.Also known as Matching.

53. Accrued benefit obligation
(ABO). The present value of pension benefits owed to employees under a pension scheme's benefit formula without any projected salary increases and discounted at a nominal rate of interest.

54. ACH credit transaction
An automated clearing house (ACH) transaction that involves the transfer of funds from an originator's account to a receiver's account.

55. ACH debit transaction
An automated clearing house (ACH) transaction that moves funds from the receiver's account to the originator's account.

56. ACH operator
An automated clearing house (ACH) association or Federal Reserve Bank that processes and distributes ACH transactions received from an originating financial institution.

57. Acid test
Also known as Quick ratio. The term originates from the use of nitric acid to test the authenticity of gold.

58. Acquisition accounting
Financial reporting.-Acquisition accounting is the generally accepted method of financial accounting for subsidiaries. Acquisition accounting regards the combination of the holding company and the subsidiary as being the acquisition by one company of another. The difference between the fair value of the consideration given and the fair values of the entity acquired is accounted for as goodwill.Also known as full consolidation.

59. Actuary
An individual qualified - amongst other skills - to advise on certain financial matters in connection with pension schemes, for example the valuation of assets and liabilities, including key assumptions such as mortality.

60. Aggregate demand
Total demand for goods and services in the economy. Aggregate demand is defined as: Budget deficit + Investment + Consumption expenditure + Balance of trade surplus

61. Aggregation

One of the key stages in the preparation of consolidated group accounts. Aggregation is the adding up of the individual assets, liabilities and trading of each of the entities in the group

62. AGM

Annual General Meeting

63. Accounts Payable

Accounts payable is a list of liabilities of an organization or an individual that are due but not paid to creditors. Account payable, many a times, also appears as a current liability in the balance sheet. One must note that loans and liabilities to the bank which have not maturated, are not a part of account payable.

64. Accretion

Accretion, is a process, where increments and periodic increases are made in the book value or the balance sheet value of an asset. In the field of banking and finance, accretion is the process where the price of a bond that has been bought at a discount is changed to the par value of the bond. It is also defined as a change in the price of a bond that has been bought at a discount to the par value of the bond.

65. Accretion Bond

An accretion bond is basically a bond that has been purchased at a discount and whose book value is incremented to the par value or the face value.

66. Accrual Basis

Accrual is the process of accumulation of interest or money. Accrual basis, which is also known as accrual convention, is the method by which, investors, economists and businessmen count the number of days in a month or a year(s). Of the most common examples of accrual basis is the 30/360 convention, wherein the accrual basis is calculated by assuming that every month has 30 days. Accrual basis is often used as the common parameter for the calculation of interests and returns.

67. Accrual Bond

An accrual bond is also known as range bond. An accrual bond is a bond that has a tendency to pay the investors, an above the market rate. Sometimes, an accrual rate is also defined as a security that does not have a period payment for the rate of interest. The interest is accrued and then added later on at the time of maturity.

68. Accrued Interest

Accrued Interest is the interest, accumulated on an investment but is not yet paid. Often, accrued interest is also termed as interest receivable. Some banking books prefer to call it as the interest that is earned, but not yet paid.

69. Active Market

This is a term used by stock exchange which specifies the particular stock or share which deals in frequent and regular transactions. It helps the buyers to obtain reasonably large amounts at any time.

70. Actual/actual bond:

A day count basis convention where the numerator is the actual number of days between two dates. The denominator is the actual number of days in the coupon period times the coupon frequency resulting in values ranging from 362 to 368 for semiannual bonds

71. Actual/360 bond:

A day count basis convention where the numerator is the actual number of days between two dates. The denominator is 360.

72. Actual/365:

A day count basis convention where the numerator is the actual number of days between two dates. The denominator is 365.

73. Actual/365L bond:

A day count basis convention that is used for some GBP floating rate notes. The numerator is the actual number of days between two dates. If the next coupon payment date falls within a leap year, the denominator is 366. If not, use 365.

74. Actual Delay Days

Actual delay days are also simply known as 'delay days'. The actual delay days are the actual days of the lag times. The lag time is the time period that starts after the expiry of the last date of repayment.

75. Accumulator

Accumulator is also known as capital appreciation bond. The accumulator is a type of security that is related to capital and is issued on face value, but the interest is not paid to the investor on the basis of the time period. Instead, the total amount of accrued interest is paid along with the face value upon the maturity of the security.

76. Accumulated Depreciation

Accumulated depreciation is the total all the periodic reductions from the book value of fixed assets. It is also termed as an allowance for depreciation.

77. Adjustable Rate Mortgage (ARM)

Adjustable rate mortgage or ARM is basically a type of loan, where the rate of interest is calculated on the basis ofthe previously selected index rate. Due to this, the rate of interest that is charged differs periodically, usually in every month. Hence, the rate of interest and the total interest remain variable throughout the term/time period

78. Adjusted Trading

Adjusted trading is a mercantile understanding between an investor and the broker or dealer. In this understanding, the investor overpays the broker) for a recently purchased security. As a return favor, the broker overpays the investor for the security or the investment that he wants to get rid of.

79. Administered Price

The administrative body e.g., the government a marketing board or a trading group determines this price. The competitive market force are not entitled to determine this price. The government fixes a price in accordance with demand supply portion in the market.

80. Administered Rates

Administered rates are the rates of interest which can be changed contractually by lender. In some cases, these ratescan also be changed by the depositor and also the payee. The laws and provisions that monitor the concept of administered rates differ in each jurisdiction

81. Ad-valorem Tax

Ad-valorem tax is a kind of indirect tax in which goods are taxed by their values. In the case of ad-volorem tax, the tax amount is calculated as the proportion of the price of the goods. Value added Tax (VAT) is an ad-volorem Tax.

82. Advanced Countries

Advanced countries are countries which are industrially advanced, having high national and per capita income and ensure high rate of capital formation. These countries possess highly developed infrastructure and apply most updated and advanced technical know-how in their productive activities. A strong and well organised financial structure is found in these advanced countries.

83. Advisor

A party that provides legal or accounting services to a company.

84. Aggregate Demand:

It is the total of all the demand in a country. It can also be expressed as
Total Exports of a country – Total imports of the country.

85. Aggregate Supply:

Total value of good and services produced in an economy + {Imports-Exports}

86. Amalgamation

It means ‘merger’. As and when necessity arises two or more companies are merged into a large organisation. This merger takes place in order to effect economies, reduce competition and capture market. The old firms completely lose their identity when the merger takes place.

87. American Depository Receipt (ADR)

American depository receipts, also known as ADRs, are depository receipts which are equal to a specific number of shares of a corporate stock that has been issued in a foreign country.

88. American option

An option which may be exercised at any time prior to expiration. See also European option

89. Amortization of Loans
One should not confuse between ‘amortization’ as an accounting concept and amortization of loans. Amortization of loans is nothing but the process of liquidation of loans or securities with the help of periodic reductions. The principal amount of the loan is amortized periodically by the method of payments in installments. The techniques that are used for the amortization of a loan differs from case to case.

90. Amortization Period
Amortization period is the time period that is considered from the inception of the credit, investment or negotiable instrument and ends upon the maturity or expiry of the instrument. The amortization period is basically considered in order to calculate the rate of interest, time line of installments and also the appropriate amount of all the installments. The term ‘amortization period’ is also used in the field of accountancy; however, in a different context.

91. Amortizing Swap
Amortizing swap is a swap in the rate of interest that has a declining notional principal.

92. Analytical VAR
An analytical VAR is also known as the correlation VAR. An analytical VAR is basically the measurement of a financial instrument, portfolio of the financial instruments or an entity’s exposure to the reductions in its value resulting from changes in the prevailing interest rates.

93. Annual Percentage Rate (APR)
The annual percentage rate is calculated by dividing the total financing costs associated with a loan divided by the principal amount of the loan.

94. Annual Percentage Yield (APY)
The annual percentage yield or APY is basically a very accurate and calculated measure of yield that is paid on a bank deposit account.

95. Annuities
Annuities are contracts that guarantee income or return, in exchange of a huge sum of money that is deposited, either at the same time or is paid with the help of periodic payments. Some of the common types of annuities include the deferred, fixed, immediate or variable variants.

96. Anticipated Income Doctrine of Liquidity
The anticipated income doctrine of liquidity is basically an explanation of bank liquidity development in which the net cash flow of the borrowers is considered as the source of loan repayment instead of usual subsequent new borrowings.

97. Appraisal
An appraisal is basically a statement, document or an estimated rise or drastic climb in the price of a particular real estate. The term ‘appraisal’ is also used in connection to raising the book value of a real estate.

98. Appreciation

Appreciation means an increase in the value of something e.g., stock of raw materials or manufactured goods. It also includes an increase in the traded value of a currency. It is the antonym of Depreciation. When the prices rise due to inflation, appreciation may occur. It causes scarcity or increase in earning power.

99. Arbitrage
Arbitrage is the simultaneous purchase and sale of two identical commodities or instruments. This simultaneous sale and purchase is done in order to take advantage of the price variations in two different markets.

100. Arbitrage Free
Arbitrage free is a type of financial model that generates market structures that exclude scenarios generated by the arbitrage transactions and dealings.

101. Arbitrageur
An arbitrageur is an independent and individual broker who deals in arbitrage.

102. Arbitration

Where there is an industrial dispute, the Arbitration comes to the force. The judgement is given by the Arbitrator. Both the parties have to accept and honour the Arbitration. Arbitration is the settlement of labour disputes that takes place between employer and the employees.

103. As-extracted Collateral
As extracted collateral are extracted or non-extracted minerals created by a debtor having an interest in minerals, and are subject to security interest, either before or after extraction. In short, mined or non-mined minerals can also be used as collaterals.

104. Asian Option
An option whose payoff depends on the average price of the underlying asset over a certain period of time as opposed to at maturity. Also known as an average option.

105. Ask
The price at which the currency or instrument is offered.

106. Asset:
Any item of monetary value like bank accounts, real estate property, stocks,..etc

107. Asset Backed Security (ABS)
A security that is backed with the help of some kind of valuable assets, is known as an asset backed security. Sometimes, ABS is also referred to as the monthly rate of repayment of a secured loan.

108. Asset Sensitive
Asset sensitive is a sort of a position, wherein an increase in the rate of interest will help the investor and the decline in the rate will not be helpful at all.

109. Asset and Liability Management

Asset and liability management is the coordinated management of all the financial risks inherent in the business conducted by financial institutions. In real practice, asset and liability management aims at minimization of loss and maximization of profit.

110. Assignee

Assignee is an individual or an organization or party to whom an assignment is made and commitment taken.

111. Assignment

In the field of banking and finance, an assignment is the transfer of any contractual agreement between two or more parties. The party that assigns the contract is the assignor and the party who receives the assignment is the assignee.

112. Assumable

Assumable is a very different type of mortgage loan application, where the new buyers of a real estate that has already been pledged as collateral, assumes the liability of a loan and also the ownership of the real estate.

113. Asymmetric Behavior

Asymmetric behavior is the unbalanced behavior displayed by the financial instruments. It is said to be observed when the rates and value of instruments change in different proportions, in comparison to the market rates.

114. Attorney's Certificate of Title

The attorney's certificate of title, is also known as the title option. This certificate is basically prepared by the attorney, in order to state the ownership and the lien priority of an asset, particularly a real estate.

115. Attrition Analysis

Attrition analysis is basically carried out for the purpose of reformation of the assets and liabilities in a balance sheet.

116. Auction

When a commodity is sold by auction, the bids are made by the buyers. Whose ever makes the highest bid, gets the commodity which is being sold. The buyers make the bid taking into consideration the quality and quantity of the commodity.

117. Autarchy

If a country is self-sufficient, it does not require the imports for the country. Autarchy is an indicator of self-sufficiency. It means that the country itself can satisfy the needs of its population without making imports from other countries.

118. Automation

Automation means the use of machinery & technology to replace the labour's work. Automation increases the demand of skilled workers. Unskilled and semiskilled workers are reduced as a result of automation.

119. Audited Statements

Audited statements are supposed to be the most reliable statements. The audited statements are basically financial statements whose reliability and second effect (according to the double entry system) have been verified, crosschecked and confirmed. The word ‘audited’ (audit), signifies the process of verification.

120. Authenticated Security Agreement

The agreement of security between debtor and banker is known as the authenticated security agreement and is accepted by the borrower The acceptance process is done, online and then the agreement is down loaded and printed.

121. Automated Teller Machines

Automated teller machines are basically used to conduct transactions with the bank, electronically. The automated teller machine is an excellent example of integration of computers and electronics into the field of banking.

122. Automatic Stay

The automatic stay is an injunction that automatically becomes effective, after any person or organization files for bankruptcy. The automatic stay basically precludes the creditors
from taking the debtor or the property of the debtor.\

123. ALCO:

This means Asset Liability Committee. It is the formal senior management committee that normally meets weekly in order to discuss treasury and balance sheet issues. This will include *market risk* exposures, changes to limit structures, risk methodologies, new business objectives and the regulatory environment. The purpose is to ensure a widespread collective decision making process rather than leaving Treasury policy to be made by one individual.

124. ABA (American Bankers Association)

National trade and professional association serving the entire banking community, from small community banks to large bank holding companies.

125. Acquirer

Any bank, financial institution, and public or private company that maintains a Seller's credit card processing relationship and receives all transactions from the Seller to be distributed to the credit card issuing banks.

126. Algorithmic Trading:

Algorithms are formulae or complex mathematical models that are used by some traders in financial markets. Algorithmic trading is used to dissipate large orders into the market in order to minimise any price fluctuation that it may cause. Algorithmic trading may also refer to the electronic execution of trading strategies without human intervention. These strategies follow rules that override what the trader may think is a good trade. Sometimes this is referred to as "black box" trading.

127. Asian option:

Normally options use the price of the underlying to determine whether on expiry the option is in or out of the money. Instead of using the underlying price, Asian options use an average of the underlying price that is calculated during the option's life. Asian options generally have lower premium costs because the *volatility* of an average is lower.

128. Asset:

An asset is something you own, in financial markets an investment is an asset.

129. Asset swap:

When a fixed coupon *bond* is *hedged* using an *interest rate swap*. The combined position of the bond and the swap is called an asset swap. An asset swap provides the investor with a variable rate investment.

130. Auction Rate Security, (ARM):

A long term bond, (10 to 30 years), that offers a short term interest rate, (monthly). The investor can sell the bond back to the issuer on each interest rate refixing. They are issued in the Municipal market in the US and carry a monoline insurance that gives them a AAA rating.

131. Alpha:

A term used in fund management. It refers to the return a portfolio manager makes over and above the return he would have got from a portfolio invested in an index representing the market. It is therefore a measure of how much value the fund manager is adding by active stock selection.

132. Balanced Budget

When the total revenue of the government exactly equals the total expenditure incurred by the government, the budget becomes a balanced budget. But it is a conservative view point. In present days, the welfare government has to regulate a number of economic and social activities which increase the expenditure burden on the government and results in deficit budget

133. Balance of Payment

Balance of payment of a country is a systematic record of all economic transactions completed between its residents and the residents of remaining world during a year. In other words, the balance of payment shows the relationship between the one country's total payment to all other countries and its total receipts from them. Balance of payment is a comprehensive term which includes both visible and invisible items. Balance of payment not only include visible export and imports but also invisible trade like shipping, banking, insurance, tourism, royalty, payments of interest on foreign debts.

134. Balance of Trade

Balance of trade refers to the total value of a country's export commodities and total value of imports commodities. Thus balance of trade includes only visible trade i.e., movement of goods (exports and imports of goods). Balance of trade is a part of Balance of payment statement.

135. Balance Sheet

Balance sheet is a statement showing the assets and liabilities of a business at a certain date. Balance sheet helps in estimating the real financial situation of a firm.

136. Basis point:

This is regarded as the smallest change in interest rates. 1 basis point is equal to 0.01%.

137. Basis point value:

This is a measure of interest rate risk. It shows you how much money you make or lose on a trading position if interest rates change by 0.01%. (Normally it is assumed that interest rates move in a parallel fashion in the calculation of this risk measure).

138. Basis risk:

When dealers *hedge* risk the process is often less than perfect. This leads to fluctuations in their profit and loss. The risk associated with this change in value is sometimes referred to by dealers as basis risk.

139. Basis swap:

A type of swap where one floating rate payment is exchanged for another floating rate payment. For example Libor in USD is exchanged for Libor in GBP. This is an example of a *cross currency basis swap*. An example of a single currency basis swap would be where 6 month Libor is exchanged for 3 month Libor.

140. Bearer bond:

A bond issued in certificated form. There is no registration of the holder's name. The person in possession has title. It should therefore be in safekeeping. Coupons are detached and presented for payment. This form of security is relatively rare.

141. Bermudan option:

An option that can be exercised on one of several different dates before the expiry date.

142. BAI (Bank Administration Institute)

Professional institute devoted to improving the competitive position of financial services companies through education and research.

143. Balance

The balance is the actual amount of money that is left in the account. Sometimes, the term balance also refers to amount of the debt that is owed.

144. Balance Transfer

A balance transfer is the repayment of a credit debt with the help of another source of credit. In some cases, balance transfer also refers to transfer of funds from one account to another.

145. Bid/Offer Spread:

The difference between the price at which a dealer is prepared to buy and sell a financial instrument. Here is an example, if a share is quoted 100-101, a dealer buys low, (at 100) and sells high, (101). The dealing spread is 1. This is the profit the dealer makes if a customer crosses the bid/offer spread. It is one of the ways dealers make money.

146. Banking book:

This is the portfolio where assets that are purchased for the purpose of long term investment are held. It is normally accounted for on an *accrual* basis

147. Bank

Bank is a financial institution. It accepts funds on current and deposit accounts. It also lends money. The bank pays the cheques drawn by customers against current and deposits accounts. The bank is a trader that deals in money and credit.

148. Bank Account

A bank account is an account held by a person with a bank, with the help of which the account holder can deposit, safeguard his money, earn interest and also make check payments.

149. Bank credit (RBI)

It includes loans, cash credit and overdrafts, and inland bills and foreign bills purchased and discounted. Bills exclude those rediscounted with RBI and IDBI. Bank credit to commercial sector includes credit to commercial sector by RBI and commercial banks. RBI's credit includes advances to and investments in shares and debentures of financial institutions, and land mortgage banks.Net Bank Credit to government includes total net credit to Central and State governments by RBI and commercial banks. Credit to government by commercial banks indicates investments by banks in government securities

150. BankDraft

Banker's draft is a negotiable claim drawn upon a bank. Drafts are as good as cash. The drafts cannot be returned and unpaid. Draft is issued when a customer shows his unwillingness to accept cheque in payment for his services or mercantile goods. Bank Draft is safer than a cheque.

151. Bank Debt

A bank debt is basically any debt that is owed to a bank, by any kind of consumer, organization or corporation. The debt may be anything from a bank loan to a credit card debt or an overdraft that has been used.

152. Bank Rate

Bank Rate is the rate of discount at which the central bank of the country discounts first class bills. It is the rate of interest at which the central bank lends money to the lower banking institutions. Bank rate is a direct quantitative method of credit control in the economy.

153. Bankruptcy

A bankruptcy refers to economic insolvency, wherein the person's assets are liquidated, to pay off all liabilities with the help of a court of law.

154. Barter System

Trade which doesnt involve the exchange of money

155. Base rate

A rate used by banks to calculate the interest rate to borrowers. Premium borrowers pay a small amount over the base rate. 2) The spot rate from which grid points are added or subtracted to produce the forward rate.

156. Bid

The price at which the currency or instrument is bought.Bills A discounted negotiable instrument that is tradable. Generally for terms less than nine months. Bank Bills are issued by banks, Commercial bills are issued by companies, Treasury bills are issued by governments, Trade bills are issued between companies as part of a sales process to sell goods. Black-Scholes modelAn option pricing formula initially derived by Fisher Black and Myron Scholes for securities options and later refined by Black for options on futures. It is widely used in the currency markets.

157. Bilateralism

It implies an agreement between two countries to extend to each other specific privileges in their international trade which are not extended to others.

158. Billing Cycle

A billing cycle is a time period that covers the credit statement.

159. Billing Statement

A billing statement is a summary of all transactions, payments, purchases, finance charges and fees, that take place through a credit account during a billing cycle.

160. Birth Rate

Birth Rate (or Crude Birth Rate) is number of the births per thousand of the population during a period, usually a year. Only live births are included in the calculation of birth rate.

161. Blue Chip

It is concerned with such equity shares whose purchase is extremely safe. It is a safe investment. It does not involve any risk.

162. Blue Collar Jobs

These Jobs are concerned with factory. Persons who are unskilled and depend upon manual jobs that require physical strain on human muscle are said to be engaged in Blue Collar Jobs. In the age of machinery, such Jobs are on the decline these days.

163. Black Money

It is unaccounted money which is concealed from tax authorities. All illegal economic activities are dealt with this black Money. Hawala market has deep roots with this black money. Black money creates parallel economy. It puts an adverse pressure on equitable distribution of wealth and income in the economy.

164. Bond

A bond is a certificate that represents an interest bearing debt, where the issuer is required to pay a sum of money periodically till the maturity, and then receive back the accumulated amount.

165. Book

The summary of currency positions held by a dealer, desk, or room. A total of the assets and liabilities. If the average maturity of the book is less than that of the assets, the bank is said to be running a short and open book.

166. Borrower

A borrower is the party that uses any kind of credit facility and thus, becomes obliged to repay the principal amount and interest on the borrowed amount.

167. Bounced Cheque

A bounced check is nothing but an ordinary bank cheque that any bank can refuse to encash or pay because of the fact that there are no sufficient finances in the bank account of the originator or drawer of the check

168. Brain-Drain

It means the drift of intellectuals of a country to another country. Scientists, doctors and technology experts generally go to other prominent countries of the world to better their lot and earn huge sums of money. This Brain-Drain deprives a country of its genius and capabilities.

169. Back pricing

The determination of the price for a transaction, to which a mutual commitment has already been made.

170. Back test

Back testing is a form of scenario analysis in which historical data are input into a financial forecasting model.The idea is to identify - according to the model being used for the back testing - what the future outcomes would be if the selected historical scenarios were to recur in the future

171. Back value date
Compensation practice of banks in some jurisdictions where debits to a customer's statement of account will reflect a date prior to the actual outflow of funds

172. Back-to-back loan
A mechanism under which two parties lend each other matching sums on matching terms in different currencies or on a different interest rate basis, with the objective of obtaining a cost advantage or of hedging currency or interest rate risk.

173. Backwardation
In futures or options trading, an unusual market condition in which longer-term contracts carry a lower price than near-term contracts.The usual relationship -known as contango - is that longer-term contracts carry a higher price than near-term contracts.

174. Bad debt expense
An item in the income statement of a reporting entity, reflecting the total amount of losses from irrecoverable trade receivables during the accounting period under review.

175. Bad debt provision
An item in the balance sheet of a reporting entity, reflecting the estimated amount of total trade receivables which are expected to be irrecoverable.

176. Badges of trade
Elements of a transaction or of a series of transactions which identify whether or not trading is taking place for tax purposes.

177. Balance and transaction activity
Information on current ledger and collected balances, one and two-day float, debit and credit detail, and adjustment items.

178. Balance netting
Also known as Single legal account pooling.

179. Balance of cost pension scheme
A pension scheme where the beneficiary makes a defined contribution (usually a percentage of pensionable salary) and the main sponsor pays the remainder of the (unknown) cost of providing the benefits.

180. Balance of payments
A financial statement prepared for a country summarising the flow of goods, services and funds, inwards and outwards, between the residents of that country and the residents of the rest of the world during a particular period.

181. Balance of trade
The level of a country's exports minus imports. A trade surplus is where exports exceed imports. A trade deficit is where imports exceed exports

182. Balance sheet

One of the primary statements of a reporting entity's financial accounts. Also known as the Statement of financial position. The balance sheet lists the assets, liabilities and shareholders' funds at the balance sheet date. Under the 'double entry' accounting convention, assets are Debits (DR) and liabilities and shareholders' funds are Credits (CR).

183. Balance sheet exposure

Exposure which arises from the process of translating balance sheet items denominated in foreign currency into the group accounts denominated in the parent's currency.This is a form of foreign exchange Translation exposure.

184. Basis risk

Basis risk usually means the risk of an unfavourable change in the relationship between the price of a derivative and the market value of an underlying asset or liability being hedged.

185. Bearer instrument

A valuable document, which does not bear the name of its legal owner and may be redeemed by whoever is in possession of it. Bearer instruments are not registered to the holder, and can therefore be transferred by delivery.Also known as a bearer security.

186. Behavioural economics

Economic analysis which takes explicit account of the social, emotional and psychological drivers of economic activity, including behaviours deemed to be 'irrational' under more traditional economic theories.

187. Benchmark

A standard set by the market (such as stock market index) or by an institutional investor (such as an internally developed benchmark) against which the performances of a fund or portfolio can be managed and tracked.

188. Bid-offer spread

The difference between the prices at which market makers (such as banks and other foreign currency dealers) are willing to buy and sell currencies or other traded assets

189. Bilateral netting

An arrangement between two parties to net their bilateral obligations. The obligations covered by the arrangement may arise from financial contracts, transfers or both.

190. Bilateral repo

Bilateral repurchase agreement

191. Bilateral repurchase agreement

A repurchase agreement (repo) between two parties. The corporate investor in a bilateral repo is responsible for administrative processes including confirmation and settlement of the trade and the daily collateral management. This arrangement differs from a tri-party repo, under which an agent acts as an intermediary between the two principal parties and deals with related administrative processes.

192. Bill of exchange

Bills of exchange are widely used to finance trade and, when discounted with a financial institution, to obtain credit.The formal legal definition of a bill of exchange is an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain sum in money to order or to bearer.Expressing this in less formal language, it is a written order from one party (the drawer) to another (the drawee) to pay a specified sum on demand or on a specified date to the drawer or to a third party specified by the drawer.

193. Binomial

Binomial probability distributions assume that at any one time there are only two possible outcomes. For example a fixed percentage size jump up or jump down in the market price of an asset. A binomial tree or binomial lattice can then be built up from a series of binomial outcomes, to model asset prices or othervariables over longer periods

194. Binomial option pricing model

(BOPM). An option pricing model which assumes a binomial tree of possible underlying asset market prices.

195. Black Scholes option pricing model

(BSOPM). The Black Scholes option pricing model is an example of a risk-neutral valuation model. It models the value of European-style options on non-dividend paying assets, based on the underlying price, the strike price, the underlying volatility, the time to expiry and the risk-free rate of return.

196. Black swan

An apparently unusual event of very high impact, particularly one which - before it happened - was believed in error to be highly improbable or even impossible.

197. Blank endorsement

Endorsement of a negotiable instrument without naming the person to whom it would be paid.Also known as Endorsement in blank.

198. Blocked currency

A currency that is not freely convertible to other currencies due to exchange controls.

199. Bond

A marketable longer-term debt instrument usually administered by a trustee. Bonds typically require the issuer to repay the amount borrowed plus interest over a designated period of time. The current market yield on the bond is both the market rate of return to the debt investor and the pre-tax market cost to the issuer of debt capital. Issuers of bonds include a wide range of corporate and public sector entities, including central governments.

200. Bond equivalent yield

A conventional basis of short term yield quotation, which counts Actual days per 365 day conventional year A conventional basis of short term yield quotation, which counts Actual days per 365 day conventional year

201. Bond futures

Bond futures are an example of long term interest rate futures. They are derivative contracts whose price is related to the market price of a specified reference bond.

202. Bonus issue

A distribution of free shares to shareholders based on existing shareholdings.Also known as Capitalisation issue.

203. Book reserve

Any provision in a company's financial accounts.A provision in a company’s accounts for a future pension benefit liability for which no funds have been set aside.

204. Book value

he value as recorded in a company’s books, in other words its accounts including its published balance sheet. Historically the book value of an asset was normally its original cost less any depreciation or other write-down in value. This is distinct from market value, the fair market price which the asset might be expected to raise if offered for sale. More recently, accounting practice has been moving toward a system of book valuation which is aligned more closely with market values.

205. Bootstrap

To calculate zero coupon yields from given par yields for the same maturities of funds.

206. Bootstrap effect

The short-run increase in earnings per share which occurs in a share for share exchange when a company trading on a higher price to earnings ratio acquires a company trading on a lower price to earnings ratio.

207. Bought deal

A new issue procedure for securities whereby one or more lead managers commit to underwrite an entire offering of securities on agreed terms, rather than offering to place the issue on a best efforts basis.

208. Break even point

The number of units of production at which contribution is equal to total fixed cost, in other words this is the level of production at which a producer will neither earn a profit nor make a loss.

209. Break-up value

Also known as liquidation value

210. Bridge financing

A type of loan, usually at fluctuating interest rates, that takes the form of renewable overdrafts or discounting facilities. It is used as a continuing source of funds until the borrower obtains medium or long-term financing to replace it.

211. Broker

A market intermediary who brings together buyer and seller for a commission paid by the initiator of the transaction or by both sides. The broker does not take market positions itself.

212. Bull spread

A composite speculative deal in two options, which results in a profit/loss profile similar to a conventional call option, except that the upside potential is capped in return for a reduction in the net premium payable.

213. Business review

A narrative report, which may also contain numerical tables and other analysis, required in an Annual report (or similar financial report).

214. Business risk

In the capital asset pricing model (CAPM) this term is used to mean the ungeared beta of the business. Because it is ungeared it represents the overall risk (beta) of the business with its element of financial risk removed. Risk in this CAPM context is defined narrowly to mean the correlation between movements in the company's share returns and the returns to the overall market.

215. Buyer credit

A form of export finance under which the Export Credit Guarantee

216. Bretton-Woods:

It is a monetary system that existed from the year 1946-1973. In this monetary system the value of dollar was calculated using gold reserves and every other country held it's currency at an exchange rate with US dollars.

217. Bridge Financing

Also know as gap financing, bridge financing is a loan where the time and cash flow between a short term loan and a long term loan is filled up. Bridge financing begins at the end of the time period of the first loan and ends with the start of the time period of the second loan, thereby bridging the gap between two loans. It is also known as gap financing.

218. Bridge Loan

The bridge loan also known as a swing loan, is basically a real estate loan or a home loan, where the current residence/real estate is pledged by the borrower as a collateral in order to purchase a new residence.

219. Broker

An agent who executes orders to buy and sell currencies and related instruments either for a commission or on a spread. Brokers are agents working on commission and not on principals or agents acting on their own account. In the foreign exchange market brokers tend to act as intermediaries between banks bringing buyers and sellers together for a commission paid by the initiator or by both parties. There are four or five major global brokers operating through subsidiaries affiliates and partners in many countries.

220. Budget

It is a document containing a preliminary approved plan of public revenue and public expenditure. It is a statement of the estimated receipt and expenses during a fixed period, it is a comparative table giving the accounts of the receipts to be realized and of the expenses to be incurred.

221. Budget-Deficit

Budget may take a shape of deficit when the public revenue falls short to public expenditure. Budget deficit is the difference between the estimated public expenditure and public revenue. The government meets this deficit by way of printing new currency or by borrowing.

222. Bull

Bull is that type of speculator who gains with the rise in prices of shares and stocks. He buys share or commodities in anticipation of rising prices and sells them later at a profit.

223. Bull-Market

It is a market where the speculators buy shares or commodities in anticipation of rising prices. This market enables the speculators to resale such shares and make a profit.

224. Buoyancy

When the government fails to check inflation, it raises income tax and the corporate tax. Such a tax is called Buoyancy. It concerns with the revenue from taxation in the period of inflation.

225. Business Cycle

Business cycle (also known as trade cycle) are species of fluctuations in the economic activity of organised communities. It is composed of period of good trade characterised by rising prices and low unemployment, alternating with period of bad trade characterised by falling prices and high unemployment. Every trade cycle have five different subphases–depression, recovery, full employment, prosperity (boom) and recession.

226. Call

An option that gives the holder the right to buy the underlying instrument at a specified price during a fixed period. 2) A period of trading. 3) The right of a bond issuer to prepay debt and demand the surrender of its bonds.

227. Call money

Overnight funds lent by banks form issued by a commercial bank as evidence of a deposit with that bank which states the maturity value, maturity date, and interest rate payable call option An option granting the right to buy the underlying futures contract. Opposite of a put option.

228. Call Money Market:

It is the market in which the Dealers and brokers locate and borrow money to satisfy their investment needs.

229. Call Option

A financial (derivative) instrument giving the right but no obligation to the holder to buy a security (or currency) at a predetermined price (or exchange rate) from the option seller. The option holder (buyer) pays the option seller a premium for this privilege. If the option can be exercised at any time before its maturity, it is called an American option. European options, in contrast, can be exercised only on maturity.
Call and put options in cross-currencies (i.e., USD/JPY, Euro/USD, GBP/USD, etc.) are allowed to bought and sold by banks in India on a fully hedged basis. The option seller should be a bank abroad. USD/INR options are on the anvil.
In the context of bonds, a call option gives the issuer the right to redeem the bonds before maturity. This will happen if interest rates have fallen since the issue was made. A put option enables investors to redeem the bond before maturity and will happen if interest rates rise after the issue.

230. Cap

A cap is a limit that regulates the increase or decrease in the rate of interest and installments of an adjustable rate mortgage.

231. Capital

The term 'capital' means the total net worth of any business establishment, organization or corporation or the total amount invested for financial returns.

232. Capital Adequacy

The minimum unencumbered, undiluted capital, consisting of paid-up equity, free reserves and long-term subordinated debt that a bank must maintain as a percentage of its risk assets. Currently 9%.

233. Capital Budgeting

Capital budgeting represents the process of preparing budget for a period of a year or even for several years allocating capital outlays for the various investment projects. In other words, it is the process of budgeting capital expenditure by means of an annual or longer period capital budget.

234. Capital Fund

Comprises ***Tier I*** and ***Tier II*** capital of the Bank.

235. Capital Gains Tax:

Tax paid for the profit made through the sale of an asset.

236. Call linked Products

Corporates can participate both as lenders and borrowers, it can be issued for a maximum period of 89 days, pricing is linked to a benchmark like MIBOR., Flexible call or put option could be exercised.

237. Capital-labour Ratio

Latest models of machinery and equipment raise the labour efficiency and the output is maximized. Capitallabour ratio is the amount of capital against the given labours that a firm employs. Capital-labour ratio is the ratio of capital to labour.

238. Capital Improvement

Capital improvement is the addition in the property of an organization that adds to it's additional value.

239. Capital Market

Capital market is the market which gives medium term and long term loans. It is different from money market which deals only in short term loans.

240. Capitalism

Capitalism is an economic system in which all means of production are owned by private individuals Selfprofit motive is the guiding feature for all the economic activates under capitalism. Under pure capitalism system economic conditions are regulated solely by free market forces. This system is based on 'Laissez-faire system' i.e., no state intervention. Sovereignty of consumer prevails in this system. Consumer behaves like a king under capitalism.

241. Cardholder Agreement

The cardholder's agreement is a written statement that depicts all the terms and conditions of a credit card agreement. The cardholders agreement constitutes many elements, such as rate of service charges, billing dispute remedies and communications with the credit card companies or service providers.

242. Cash

Bills and coins, checks and other negotiable instruments that are acceptable at banks and are considered to be liquid assets are collectively known as cash.

243. Cash Advance Fee

Cash advance fee is basically charged when a person uses a credit card to obtain cash. In most cases, it is charged as a percentage to the cash advance.

244. Cash Flow

The cash flow is often defined as the liquid balance of cash as well as the bank balance that is available with an organization or a corporation. In some cases, the cash flow is also defined as the net amount of cash that is generated by the net income that has been generated by an organization or corporation in a particular time period.

245. Cash Management Bill

It is a Government Security through which Government of India (GOI) raises money in order to meet its temporary cash shortages. It is issued for a maturity of less than 91 days. It is a new type of government debt paper. RBI acts as a money manager and issues these Cash Management Bills on behalf of GoI. (GoI had, along with RBI, issued guidelines in August 2009 for the Cash Management Bills, but, has started using the new instrument since May this 2011 when the first auction was conducted by RBI on behalf of GOI.) The US Treasury also issues Cash Management Bills for maturities of less than six months.

246. Cash Market

The market in a financial instrument like bonds, equities, foreign exchange.

247. CMR

The 'call money rate' is the interest rate in the call money market, where money is lent (by one bank to another, typically) for short durations, ranging from 'overnight' to 14 days.

248. Cash Reserve

The cash reserve is the total amount of cash that is present in the bank account and can also be withdrawn immediately.

249. Cash Reserve Ratio (CRR)

CRR is the percentage of ***Net Demand and Time Liabilities*** *(NDTL)* that scheduled commercial banks must maintain with the RBI as cash.

250. Cashier's Check

The cashier's check is drawn by a bank on it's own name to may payments other organizations, banks, corporations or even individuals.

251. Central Bank

A central bank is the governing authority of all the other banks in a country like RBI in India

252. Centrally planned economy:

An economic system where the production & pricing of goods and services are determined by the goverment

253. Census

Census gives us estimates of population. Census is of great economic importance for the country. It tells us the rate at which the total population is increasing among different age groups. In India census is done after every 10 years. The latest census in India has been done in 2001.

254. Certificate of Deposit

The certificate of deposit is a certificate of savings deposit that promises the depositor the sum back along with appropriate interest.

255. Cheque

Cheque is an order in writing issued by the drawer to a bank. If the customer has sufficient amount in his account, the cheque is paid by the bank. Cheques are used in place of cash money.

256. Classical Economics:

The theory emphasizes the fact that free market can regulate themselves. This theory was framed by Adam Smith, David Ricardo, Thomas Malthus and John Stuart Mill

257. Clearing

Clearing of a check is basically a function that is executed at the clearing house, when all amount of the check is subtracted from the payer's account and then added to the payee's account.

258. Clearing Bank

Clearing bank is one which settles the debits and credits of the commercial banks. Even of the cash balances are lesser, clearing bank facilitates banking operation of the commercial bank.

259. Clearing House

The clearing house is a place where the representatives of the different banks meet for confirming and clearing all the checks and balances with each other. The clearing house, in most countries across the world, is managed by the central bank.

260. Clean Price/Dirty Price

The price of a debt instrument excluding interest for the period elapsed since the last coupon was paid is called the clean price. Market prices are clean prices. Dirty price includes interest from the last coupon date to the settlement date.

261. Closing

Closing of an account is the final stage of any transaction where both the parties receive almost equal consideration from each other. The term 'closing' from ledger books where the two accounts are 'closed down' i.e. both debit and credit sides become equal.

262. Closed Economy

Closed economy refers to the economy having no foreign trade (i.e., export and import). Such economies depend exclusively on their own internal domestic resources and have no dependence on outside world.

263. CHAPS (Clearing House Automated Payment System)

A U.K.-based payment system for high-value, same-day settlement of transactions

264. Check Conversion

The conversion of a check to an electronic debit or image of the check. This check image serves as the official record.

265. Chargeback

When a credit card transaction is disputed (either at the request of the Cardholder or by a card Issuer), the dispute is handled through a chargeback. A chargeback will cause the amount of the original sale and a chargeback fee to be deducted from the checking or savings account you provided.

266. Co-borrower

The co-borrower is a person who signs a promissory note as a guarantee that the loan would be repaid. Thus the co-borrower plays the role of a guarantor and is equally responsible for the loan.

267. Coinage

Art and practice of making coins is called coinage. The metal is melted and moulded to shape into a coin. The coinage is a medium of exchange (money).

268. CMYC

Constant Maturity Yield Curve is a curve which relates the yield on a security to its time to maturity. The usual practice worldwide is to provide yields of traded bonds for finely defined residual maturity brackets. The monthly CMYs given here provide information on (Indian government) bond yields for several chosen residual maturities, like 3 & 6 months, 1/2/5/10/12/15 years. Say, the market determined YTMs for all traded Gilts with 340 to 380 days left to mature would give the CMY for the 1 year maturity bracket. The monthly CMYs are estimated from marketwide data, i.e., from all trades for the month reported on the RBI NDS platform.

269. CBLO (Collateralized Borrowing and Lending Obligation)

It is a money market instrument as approved by RBI and developed by CCIL (Clearing Corporation of India Limited) for the benefit of the entities who have either been phased out from inter bank call money market or have been given restricted participation in terms of ceiling on call borrowing and lending transactions and who do not have access to the call money market. It is a type of derivative debt instrument, securitised by approved bonds lodged with the CCIL through Subsidiary General Account. The instrument has short maturities, from 1day (to an year).Membership to CBLO segment is extended to entities who are RBI- NDS members viz. Nationalized Banks, Private Banks, Foreign Banks, Co-operative Banks, Financial Institutions, Insurance Companies, Mutual Funds, Primary Dealers etc. Associate Membership to CBLO segment is extended to entities who are not members of RBI- NDS viz. Co-operative Banks, Mutual Funds, Insurance companies, NBFC's, Corporates, Provident/ Pension Funds etc. Eligible securities are Central Government securities including Treasury Bills,as specified by CCIL from time to time. The instrument was developed when the RBI decided to turn the Call Money Market into a pure interbank market and phase out other entities

270. Collectivism

Collectivism is a belief that nation's interest is superior to individual interest. This is the collective thinking of the society and polity national leaders and also communist opine the theory of collection.

271. Collusion

Producers of an industry reduce competition among themselves to raise their profits. They fix the price themselves with a clear understanding in this regard. This understanding among different firms is called collusion.

272. CommercialBank

Commercial Bank is an institution of finance. It deals with the banking services through its branches in whole of the country. Operation of current accounts, deposits, granting of loans to individuals and companies etc. are various functions of the commercial bank.

273. Commercial Paper

It is a short term money market instrument comprising of unsecured, negotiable, short term usance promissory note with fixed maturity, issued at a discount to face value. CPs are issued by corporates to mpart flexibility in raising working capital resources at market determined rates. CPs are actively traded in the secondarymarket since they are issued in the form of Promissory Notes and are freely transferable in demat form.

274. Commodity Index

An index or average, which may be weighted, of selected commodity prices, intended to be representative of the markets in general or a specific subset of commodities, e.g., agricultural commodities or metals.

275. Communism

Communism is a political and economic system in which the state makes the major economic decision State owns the bulk of capital assets. Responsibility for production and distribution lies with the state in this system.

276. Company limit

The exposure you are willing to risk on a company.

277. Company

The name in which the treasury department undertakes the transactions in with the bank. Journal entries are created only for those the general ledger of the company.

278. Compound Interest

Compound interest is the interest that is ‘compounded’ on a sum of money that is deposited for a long time. The compound interest, unlike simple interest, is calculated by taking into consideration, the principal amount and the accumulated interest.

279. Confirmation

A memorandum to the other party describing all the relevant details of the transaction.

280. Constant holiday

A holiday that occurs on the same date every year.

281. Consumer Price Index:

It is the measure of the average price of consumer goods and services purchased by households. It is measured with 1982 as it’s base year.

282. Core Sector

Economy needs basic infrastructure for accelerating development. Development of infrastructure industries like cement, iron and steel, petroleum, heavy machinery etc. can only ensure the development of the economy as a whole. Such industries are core sector industries

283. Corporation-Tax

It is a tax on company's profit. It is a direct tax which is calculated on profits after interest payments and allowance (i.e., Capital allowance) have been deducted but before dividends are allowed for.

284. Correction

A short-term drop in stock market prices. The term comes from the notion that, when this happens, overpriced stocks are returning back to their "correct" values.

285. Correspondent bank

The foreign banks representative who regularly performs services for a bank which has no branch in the relevant center for example to facilitate the transfer of funds.

286. Cost-push Inflation

It arises due to an increase in production cost. Such type of inflation is caused by three factors : (i) an increase in wages, (ii) an increase in the profit margin and (iii) imposition of heavy taxation.

287. Counterparty group limit

The exposure you are willing to risk on a counterparty group.

288. Counterparty limit

The exposure you are willing to risk on a counterparty.

289. Counterparty risk

The risk that a debtor will not repay.

290. Counterparty

The other organization or party with whom the deal is being transacted.

291. Countervailing Duties:

These are the duties that are imposed by a country on Foreign producers in order to neutralize the negative effects of other duties.

292. Constituent SGL Accounts (CSGL)

Distinct ***SGL*** accounts held by the main SGL account holder on behalf of its clients. Usually belongs to cooperative banks, PFs, etc. If credits and debits are to CGSL accounts, the RBI is suitably advised before ***settlement***. See ***Deal Approval Screen*** asking whether deal is for constituent and name of constituent.

293. Consumer Credit

Consumer credit is the credit and loan facility that is provided to the consumer for the purchase of goods, services and real estate property. Most consumer credit is unsecured with the help of a collateral

294. CPI

Consumer Price Index is an economic indicator that measures the change in a batch of consumer products. The change in price is considered to be inflation

CPI actually measures the increase in prices a consumer will have to pay for a particular commodity basket (which may be revised every four to five years to factor in changes in consumption pattern). India does not have an aggregate CPI, but only sectional CPIs for industrial workers (CPI-IW), agricultural labour (CPI-AL), urban non-manual workers (CPI-UNME) and rural labour (CPI-RL).

295. Contract

An installment contract is a contract where the borrower, who is also the purchaser, pays a series of installments that includes the interest of the principal amount.

296. Credit Crunch

The situation created when banks hugely reduced their lending to each other because they were uncertain about how much money they had. This in turn resulted in more expensive loans and mortgages for ordinary people.

297. Credit Default Swap CDS

It is a bilateral swap contract, between the buyer and seller of protection (/insurance), to hedge default risk usually of a corporation or Government bond and is the most widely used credit derivative. When a lender purchases a CDS from an insurance company, the liability of the loan becomes a credit that may be swapped for cash on the event of a default. (Though most CDSs are documented using standard forms promulgated by the International Swaps and Derivatives Association (ISDA), Credit default swaps are not traded on an exchange and there is no required reporting of transactions to a government agency.)

The RBI has introduced CDS on corporate bonds is to provide market participants a tool to transfer and manage credit risk in an effective manner through redistribution of risk. CDS provides credit protection to corporate bond buyers, as the sellers of the swaps guarantee the credit-worthiness of the product. Thus, the risk of default is transferred from the holder of the fixed income security to the seller of the swap. To avoid the pitfalls of non-transparent CDS deals as witnessed during the global crisis, RBI has mandated that all market makers shall report their CDS trades in corporate bonds within 30 minutes of the trade to the Clearing Corporation of India Ltd (CCIL) trade repository CCIL Online Reporting Engine (CORE) beginning December 1, 2011.

298. Credit Rationing

Credit rationing takes place when the banks discriminates between the borrowers. Credit rationing empowers the bank to lend to some and to refuse to lend to others. In this way credit rationing restricts lending on the part of bank.

299. Credit Squeeze

Monetary authorities restrict credit as and when required. This credit restriction is called credit squeeze. Monetary authorities adopt the policy of credit squeeze to control inflationary pressure in the economy.

300. CRISIL

Short for Credit Rating Information Services of India Ltd, which rates debt issues and other financial obligations in the Indian market.

301. Cross rates

Rates between two currencies, neither of which is the USD.

302. Country Risk

The possibility that a country will default on its Government's obligations to foreigners and / or on the foreign liabilities of its banking system/private sector for lack of foreign exchange reserves.

303. Coupon value

The annual rate of interest of a bond.

304. Current Account Deficit:

Current account deficit= Export-Import

305. Current Account Transactions

where the payments are income for the recipient. A country's balance of payments on current account includes trade in goods, or visibles; trade in services, or invisibles; payments of factor incomes, including dividends, interests, migrants remittances from earnings abroad; and international transfers, that is gifts. Current account is contrasted with capital account, where transactions do not give rise to incomes, but represent changes in the form in which assets are held

306. Currency Appreciation:

Increase in the value of a currency over the other. It takes place when the market exchange rates change.

307. Current GDP:

Current GDP is GDP expressed in the current prices of the period being measured3

308. Currency Futures:

A Currency Futures contract is a standardised foreign exchange derivative contract traded on a recognized stock exchange to buy or sell one currency against another on a specified future date, at a price specified on the date of contract.

309. Currency limit

The exposure you are willing to risk on a currency.

310. Currency Option

A contract that grants the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time. For this right, a premium is paid to the broker, which will vary depending on the number of contracts purchased. Currency options are one of the best ways for corporations or individuals to hedge against adverse movements in exchange rates. Currency options provide a way of availing benefits of the upside from any currency exposure while being protected from the downside, for the payment of an upfront premium; these contracts were allowed in the Indian market to be used as a hedge for foreign currency loans.

311. Currency peg

A commitment by a government to maintain its currency at a fixed value in relation to another currency. Typically this is done by the government buying its own currency to force the value up, or selling its own currency to lower the value. One example of a peg was the fixing of the exchange rate of the Chinese yuan against the dollar.

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312. Currency Swap

A swap that involves the exchange of principal and interest in one currency for the same in another currency.

313. Current / Capital Account Transactions

Transactions involving imports and exports of goods and services and interest/dividends on financial investments are current account transactions.Transactions involving deposits and financial investments in India or abroad by foreigners/foreign entities and Indian individuals/entities respectively are capital account transactions.

314. Credit risk:

The amount of money you could lose as the result of a default by a counterparty. When making a loan, (or bond purchase), all the principal and accrued interest is at risk. The actual loss following default will depend on the *recovery rate*. *Over-the-counter* derivative transactions that do not involve principal investments can also create credit exposures. These are any positive *mark-to-market values,* (MTM) on trades. Banks also measure the credit risk associated with the potential for the mark-to-market value of a derivative to increase with time and therefore increase credit risk. This is called the potential future exposure, (PFE). This means that the credit risk on OTC derivatives comprise the MTM plus the PFE.

315. Current Yield

Annual coupon on a bond divided by the purchase price or market price of the security

316. Custom Duty

Custom duty is a duty that is imposed on the products received from exporting nations of the world. It is also called protective duty as it protects the home industries.

317. Cyclical Unemployment

It is that phase of unemployment which appears due to the occurrence of the downward phase of the trade cycle. Such an employment is reduced or eliminated when the business cycle turns up again.

318. Capital markets:

Generally assumed to be that sector of financial markets concerned with medium and long term borrowing using tradable financial instruments like *bonds*.

319. Caps & floors:

These are options that are based on short term interest rates like *Libor*. They are used to trade and *hedge* the risk associated with changes in Libor. For example, if you borrow money on a variable rate basis the purchase of a cap may protect you against rising borrowing costs should interest rates increase.

320. Certificate of deposit, (CD):

A bank deposit that can be bought and sold as a tradable financial instrument. Used by banks for funding purposes it provides investors with greater *liquidity* than normal bank deposits.

321. Clean price:

The price at which traders buy and sell bonds is called the clean price, it excludes any accrued interest associated with the bond *coupon*.

322. Collar:

This is normally the purchase of an interest rate *cap* and the sale of an interest rate *floor*. Frequently it used to hedge the interest rate cost associated with floating rate, (*Libor* linked), funding. The cap provides a maximum funding cost and the floor a minimum cost for the borrower. If the value of the cap and floor are identical the net cost to buy the cap and sell the floor will be nil. Hence the term zero cost collar.

323. Collateral:

Collateral is something that is used as security in order to reduce the credit risk that a party is taking when it enters into a transaction. Increasingly *over the counter*, (OTC), derivative transactions are being collateralized.

324. Collateral continued.

Normally the collateral used is cash. The portfolio of OTC trades between the two parties is valued. The party that has the positive *mark-to-market* value on the trade portfolio calls for collateral from the party that has the negative mark-to-market value. This process is repeated at regular intervals, (daily or weekly). It is used to reduce counterparty *credit exposure*.

325. Collateralised bond obligations, (CBO):

A type of c*ollaterised debt obligation* that uses *bonds* as the assets in the special purpose vehicle.

326. Collateralised debt obligation, (CDO):

A CDO is a type of *bond*. The issuer is normally a *special purpose vehicle, (SPV)*. The SPV contains assets that back the interest and principal repayment of the CDO. The assets can be other bonds, loans, credit derivatives or receivables eg credit card payments.
The SPV normally issues different tranches of CDO. The priority of the individual

tranches to the assets contained in the SPV differ, some tranches will have priority over others. They are senior tranches. Some will be middle ranking, they are mezzanine tranches, some will be subordinated, they are called the equity or first loss tranche. The more senior a tranche, the lower will be the credit risk and the return. CDOs therefore permit the slicing up of the credit risk contained in a portfolio. The individual slices of risk can then be marketed and sold to investors attracted to the individual risk and reward attributes of the tranche.

327. Collaterised loan obligation, (CLO):

A type of c*ollaterised debt obligation* that uses loans as the assets in the special purpose vehicle.

328. Collaterised vorrowing and lending obligstion(CBLO)

CBLO is a money instrument designed to meet the borrowing and lending needs of banks , financial institutions, mutual funds, NBFCs and corporate. Borrowing and lending is collateralized ie. Secured using G-sec or T-Bill.Traders are screen based and with clearing corporation of india ltd.(CCIL) being counter party.

329. Commercial paper (CP):

CP is a short term negotiable debt instrument. Normally the maturity does not exceed 365 days. It can be issued by a bank or a corporate under a CP programme. The programme will have several dealers. The dealers are responsible for selling the paper to end investors on behalf of the issuer. CP is tradable and this means that investors can liquidate it before maturity if required. The return to the investor largely depends on the maturity and the credit rating of the CP. Many CP programmes are rated by *rating agencies.*

There is a very large domestic commercial paper market in the United States, (USCP). Issuers do not have to be US resident companies or banks. USCP is issued under a separate USCP programme. Normally USCP is rated and the maximum maturity is 270 days.

330. Common code:

A nine digit code that identifies a security. It is used by Euroclear and Clearstream.

331. Credit linked note, (CLN):

This is normally a bond that is issued using a *medium term note* programme. From the investor's perspective the CLN not only contains the credit risk of the issuer but also contains the credit risk of a third party. The investor is paid a higher return to take this risk.

CLNs are normally constructed by the issuer using *credit default swaps*. The CLN therefore contains an *embedded* CDS and the final terms of the CLN will use similar legal language to CDS transactions.

332. Conduit:

A conduit is often used in structured finance. It is normally a company that is specially incorporated for a particular transaction. The conduit holds *assets*, these secure the repayment of debt that has been issued by the conduit.

333. Confirmation:

A confirmation is a document that provides all the necessary details about a trade that has been agreed between two dealers. It normally takes a standard format. The *settlements* department independently check and agree confirmations. All transactions should have an agreed confirmation,

334. EFT (Electronic Funds Transfer)

The movement of funds by non-paper means (i.e. electronically), usually through a payment system such as the ACH network or Fedwire.

335. Contingent premium option:

The premium for a contingent premium *option* is paid only if the option expires in the money. The premium payable will be relatively large reflecting the risk the seller is taking. The buyer has the risk that the option expires only just in the money thereby triggering a large premium payment.

336. Cost-of-carry:

A term used by traders to describe the net profit or loss that arises from holding an asset. It is the net of the interest income less the funding expense.

337. Coupon:

This is the interest payment on a bond. It is so called because in the past bond holders had to physically detach a coupon from a bond certificate and present it for payment of interest. Coupons are normally paid annually, semi-annually or quarterly in arrears.

338. Covered bond:

A bond issued by a bank or mutual society that is backed by a ring fenced pool of mortgage assets (collateral). If the issuer fails to repay the bond the investor will have recourse to the collateral. These bonds are normally AAA rated and as a result the borrowing cost for the issuer is relatively low. To maintain the rating there are strict requirements on the collateral held, they include loan to value ratios, loan quality and overcollateralisation ratios. Any non performing collateral must be replaced by the issuer and in this respect the issuer does not achieve risk transfer to the investor.

339. Credit default swap, (CDS):

A CDS is an OTC derivative transaction. It allows the parties involved to trade the credit risk on an underlying entity. One party, (the protection buyer), pays a fixed rate, this is a regular premium, to the other, (the protection seller). This payment is calculated on a quarterly actual 360 basis. If there is no credit event on the reference entity this regular fixed payment is the only payment that is made and it ceases on the maturity date. If a credit event occurs on the reference entity the fixed payment stops and the floating payment is triggered. The party that sold protection pays a cash amount equal to the principal of the CDS to the protection buyer. The protection buyer delivers a bond or loan to the protection seller. The delivered bond or loan is an obligation of the defaulted reference entity. The protection seller will therefore experience a credit loss.

340. Day count basis

The convention used to count the appropriate number of days between two dates to calculate accrued interest, yield, and odd coupon amounts. For each rule, the numerator indicates the number of days between the dates and determines what happens if one of the dates falls on the 31st of the month. The denominator indicates how many days are considered in a year. The available day count bases are: actual/actual, actual/360, actual/365, actual/365L, actual/actual-bond, 30/360, 30E/360, and 30E+/360.

341. Deal date

The date on which a transaction is agreed upon.

342. Deal number

A number to uniquely identify the deal. In Treasury, deal numbers are system generated.

343. Deal rate tolerance

The acceptable minimum and maximum value for a deal.

344. Dealer limit

The exposure you are willing to risk on a dealer.

345. Dear Money

Dear money is that money which can only be borrowed at a high rate of interest. In dear money policy, bank rate and other rates of interest are high and as a result borrowing becomes expensive. Dear money policy is deliberate policy which is adopted by the monetary authorities to check inflation in the economy.

346. Death Duty

It is a direct tax which is imposed on the estate of deceased person. Death duty or Death Tax is a form of personal tax on property which is levied when property passes from one person to other at the time of death of the former.

347. Death Rate

Death rate signifies the number of deaths in a year per thousand of the population. It is mostly known as crude death rate. Life expectancy is important determinant of death rate.

A country having high life expectancy will have a high crude death rate.

348. Debentures

Debentures are long term corporate bonds that are unsecured in nature. It must be noted that debenture holders are not protected by any collateral and tend to be treated like ordinary creditors unless they are secured.

349. Debit

Debit is a banking term that indicates the amount of money that is owed by a borrower. It also indicates the amount that is payable, or the amount that has been deducted from an account. The origin of the term is from the concept of debit side of a ledger account.

350. Debit Card

A debit card is an instrument that was developed with digital cash technology, and is used when a consumer makes that payment first to the credit card company and then swipes the card. The debit card operates in the exact opposite manner of the credit card.

351. Debt

A debt is any amount that is owed by an individual, organization or corporation to a bank.

352. Debt Consolidation Loan

A debt consolidation loan is a type of loan, where the bank or the lending institution provides the borrower with a loan that helps the borrower to pay off all his previous debts.

353. Debt Management

Debt management is a process of managing debts and repaying creditors. Debt management is a very broad concept covering almost anything related to debts and their repayment.

354. Debt Recovery

Debt recovery is the process that is initiated by the banks and lending institutions, by various procedures like debt settlement or selling of collaterals.

355. Debt Repayment

Debt repayment is the total process repayment of a debt along with the interest. Sometimes, the consolidation that is provided is also included in debt repayment.

356. Debt Service (Total)

The sum of principal repayments and interest actually paid in foreign currency, goods and services on longterm debt (having maturity of more than one year), interest paid on shortterm debt and repayments to IMF.

357. Debt Settlement

Debt settlement is a procedure wherein a person in debt negotiates the price with the lender of a loan, in order to reduce the installments and the rate of repayment, and ensure a fast and guaranteed repayment.

358. Decentralisation

Decentralisation means the establishment of various unit of the same industry at different places. Large scale organisation or industry can not be run at one particular place or territory. In order to increase the efficiency of the industry, various units at different places are located.

359. Deed

A deed is a very important document that indicates the ownership of an asset, especially a real estate. The deed is also used to convey the property from the seller to the buyer.

360. Default

A default is a scenario where the debtors of a bank are unable to repay the debt or the loan.

361. Deficit Financing

It is a practice resorted to by modern government of spending more money than it receives in revenue. It is a policy of bridging a deficit between governments expenditure and revenue. Deliberately budgeting for a deficit is called deficit financing. This practice was popularised by Prof. J. M. Keynes to deal with the depression and unemployment situations and to stimulate economic activity. Deficit financing, though having inflationary effects, has now become a common practice in all countries.

362. Deflation

Deflation is the reverse case of inflation. Deflation is that state of falling prices which occurs at that time when the output of goods and services increases more rapidly than the volume of money in the economy. In the deflation the general price level falls and the value of money rises.

363. Demand deposits (RBI)

It includes current deposits, demand liabilities portion of savings bank deposits, overdue deposits and cash certificates, outstanding telegraphic and mail transfers and margins against letters of credit/guarantees.

364. Demat

The existence of securities in electronic form in ***depositories*** and ***depository participants***.

365. Dematted/Dematting

The process of converting physical securities to electronic (demat) form.

366. Deposit Slip

A deposit slip is a bill of itemized nature and depicts the amount of paper money, coins and the check numbers that are being deposited into a bank account.

367. Depositor

The person who deposits money into a bank account is called a depositor.

368. Depository Participant(s) (DPs)

Satellites of apex depositories - _NSDL_ or **_CDSL_**. They maintain records of ownership of securities.

369. Depression

Technically, a depression is any economic downturn where real GDP declines by more than 10 percent and a downturn which persists for 3 or more years. (IMF regards periods when global growth is less than 3% to be global recession). [During the Great Depression of the 1930s lasting from August 1929 to March 1933, real GDP declined by almost 33 percent, this was followed by a period of recovery, then another less severe depression of 1937-38, when GDP declined by 18%. By this yardstick, the United States hasn't had anything even close to a depression in the post-war period. The worst recession in the last 60 years was from November 1973 to March 1975, where real GDP fell by 4.9 percent. During the Great Depression, unemployment was around 25%, compared to 8.1% (Feb, 2009) in the recent downturn. About 9000 banks failed during the 1930's compared to only 17 now. The stock market has now dropped about 53% from its high, whereas during the Great Depression the Dow fell almost 90%.]

370. Derivatives

Financial instruments or contracts based on an underlying cash instrument. An example is a forward contract in foreign exchange in which the purchase/sale of a currency for a future date is fixed today. The forward contract is "derived" and exists because of spot transactions between the two currencies, that is, the existence of a spot (cash) market, which is a fundamental condition. The price of a derivative is a function of the price of the underlying instrument or product in the cash market and other variables such as interest rates, time to maturity of the derivative and **_volatility_** of prices in the cash market.

371. Devaluation

The loss of value of currency of a country relative to other foreign currency is known as devaluation. Devaluation is a process in which the government deliberately cheapens the exchange value of its own currency in terms of other currency by giving it a lower exchange value. Devaluation is used for improving, the balance of payment situation in the country .

372. Direct Tax

A tax is said to be a direct tax when it is not intended to be shifted to anybody else. The person who pays it in the first instance is also excepted to bear it. Thus the impact and incidence of direct tax fall on the same person shifting of direct tax is not possible Income Tax is a example of direct tax.

373. Discount

In the terms of banking, in the term ‘discount’ is used when any negotiable instrument is converted into cash. For example, a person can exchange a bearer check for cash with the amount being little less than the face value of the check. This method is used by merchants who are in a dire need for liquid finances.

374. Disinflation

It refers to a process of bringing down prices moderately from their high level without any adverse impact on production and employment. Thus, disinflation is an anti-inflationary measure.

375. Dissaving

Dissaving occurs when expenditure exceeds income. Raising of loans or utilization of past accumulated savings takes place in such eventuality.

376. Dividend

A dividend is a part of the profit that is earned by a corporation or joint stock companies, and is distributed amongst the shareholders.

377. DP Deflator

GDP measured in nominal terms expresses the value of goods and services using the current level of prices, however to compare GDP (of different years) one needs the measure of Real GDP which uses constant base-year prices to value the goods and services produced in any year. The GDP deflator for a particular year, calculated as (Nominal GDP/Real GDP)×100, reflects the average prices of all goods and services produced in the economy for that year. The GDP deflator is similar to the consumer price index in that it measures inflation; or the cost of living at a particular period of time. However, CPI measures a fixed basket of goods and services while the GDP deflator takes into account a much broader variety of goods and services, especially new ones that are introduced into the economy. Further, technically the GDP deflator gives a measure of inflation for all goods produced domestically (CPI may include goods produced abroad but entering the domestic consumers’ basket).

378. Discount factor:

A discount factor shows how time and interest rates affect the present value of money. A simple discount factor can be calculated by using the formula 1 / (1 + interest rate x days / 360). To find the present value of a cash flow it is discounted. To do this you multiply the cash flow by the appropriate discount factor. When interest rates go up discount factors get smaller. This means the present value of future cash flows fall. It is why bond prices fall when interest rates rise.

379. Discount rate:

This is the rate of interest that an institution is charged if it borrows money directly from the Federal Reserve.

380. Duration:

Duration is a method that is used to measure interest rate risk. It is used by portfolio managers rather than dealers. It is the weighted average life of the present values of the cash flows that arise from a bond or financial instrument. It is measured in years. If a bond has a duration of 3 it means that for a 1% increase in interest rates that bond will lose approximately 3% of its value. Long dated bonds have higher durations than short dated bonds, that means they are more sensitive to changes in interest rates. If a trader expects interest rates to increase he will try to reduce the portfolio duration, this can be achieved by*hedging* or buying short dated instruments.

381. Embedded risk:

This term is sometimes used with structured *bonds*. These are bonds that contain risks over and above those you would normally expect to find. For example the interest and principal repayment may be dependent on interest rates, foreign exchange rates or credit spreads. In order to create structured bonds originators use swaps and options. These derivatives add the risk to the bond. The additional risk is said to be embedded in the bond.

382. Euribor:

Euro Interbank Offered Rate is the interest rate that one bank charges another in the interbank market for Euro deposits. The rate is published daily at 11am Central European Time using panel of banks that contribute prices.

383. E-Cash

Also known as electronic cash and digital cash, e-cash is a technology where the banking organizations resort to the use of electronics, computers and other networks to execute transactions and transfer funds.

384. Early Withdrawal Penalty

An early withdrawal penalty is basically a penalty that is levied by a bank because of an early withdrawal of a fixed investment by any investor. There can be several types of early withdrawal penalties, like forfeiting the promised interest.

385. Earning Assets

Earning assets generate returns, either in the form of returns or in the form of interest or cash. One must note that in the case of earning assets, the owner does not have to take any daily efforts to achieve returns.

386. EPS Earnings per share

It is the total profits of a company divided by the number of shares. A company with Rs.1 billion in earnings and 200 million shares would have earnings of Rs.5 per share

387. Earnest Money Deposit

An earnest money deposit is made by the buyer to the potential seller of a real estate, in the initial stages of negotiation of purchase.

388. Education Loan

An education loan, also known as student's loan, is specifically meant to provide for the borrower's expenditure towards education. In the majority of countries, educational loans tend to have a low rate of interest. The period of repayment also starts after the completion period of the loan.

389. Economic Integration

Economic integration appears when two or more nations coordinate themselves and their economies are linked up. It may exhibit itself in the form of free trade area or a full economic union. EEC is an example of economic integration.

390. Electronic Filing

Electronic filing is the method of filing of tax returns and tax forms on the Internet.

391. Endorsement

Endorsement is basically the handing over of rights of a financial/legal document or a negotiable instrument to another person. The person who hands over his/her rights is known as the endorser, and the person to whom the rights have been transferred is known as the endorsee.

392. Engel's Law

This law was formulated by Ernst Engel. This law states that, with given taste and preference, the portion of income spend on food diminishes as income increases. According to this law, smaller a person's income, the greater the proportion of it that he will spend on food and vice versa.

393. Equity

Equity is the remainder balance between market value of a given property and the outstanding real estate debt that is to yet be paid. The equity is a risk that is basically borne by the lender.

394. Estate Duty

It is a tax which is levied on the estate of a decreased person. It is also known as death duty. The ownership of state changes hands only after the payments of the estate duty. It is an progressive tax in nature.

395. European Option

An option that can only be exercised at the end of its life i.e at the maturity date.

396. Exchange

An exchange is a trade of property, assets, goods or services for consideration of any kind.

397. Exchange Rate

An exchange rate is a basically a rate, with the help of which one country's currency can be exchanged with the currency of another country.

398. Exchange-Traded Fund (ETF)

An investment vehicle holding an asset such as a commodity that issues shares that are traded like a stock on a securities exchange.

399. Excise Duty

It is a tax which is imposed on certain indigenous production (e.g., petroleum products, cigarettes etc.) of the country. Excise duty may be imposed either to raise revenue or to check the consumption of the commodities on which they are imposed. Excise duty is progressive in nature.

400. Expiration Date

This term indicates the invalidity of a financial document or instrument, after a specified period of time.

401. ECBs (External Commercial Borrowings)

It include bank loans, suppliers' and buyers' credits, securitised instruments such as fixed and floating rate bonds (without convertibility) and commercial borrowings from private sector windows of multilateral Financial Institutions such as International Finance Corporation, ADB, AFIC, CDC etc, Euro-issues including Euro-convertible bonds and GDRs, credit from official export credit agencies and investment by FIIs in dedicated debt funds. ECBs are being permitted by the Government for providing an additional source of funds to Indian corporates and PSUs for financing expansion of existing capacity and as well as for fresh investment, to augment the resources available domestically. ECBs can be used for any purpose (rupee-related expenditure as well as imports) except for investment in stock market and speculation in real estate

402. Face Value

Face value is the original value of any security or negotiable instrument.

403. Fascism

It is a form of political system. In it every economic consideration rests on one criterion—the increase in the people's standard of living. It also lays emphasis on military strength and prestige of the country. It is the extreme nationalism and the ultimate goal is self-sufficiency.

404. Fedwire

The same-day value electronic funds transfer system operated in the U.S. by the Fed.

405. Fixed Rate

An interest rate on a security that does not change for the remaining life of the security.

406. FEDAI

Short for Foreign Exchange Dealers’ Association of India, a body comprising representatives of the foreign exchange departments of banks and entrusted with the formulation of norms for inter- bank and merchant forex transactions and self-regulation of forex markets.

407. Federal Economy

It refers to a federation which is an association of two and more states. A federal state is a union of state in which authority is divided between the federal (or central) government and the state governments. In a federal economy both the centre and the states are independent in the exercise of this authority.

408. Fertility Rate

The term fertility refers to the actual bearing of children or ‘occurrence of births’. Fertility rate measures the average number of the live births per 1000 women. This rate is one of the most important and useful aids to population projection. It helps in assessing population trends in the economy.

409. Fiduciary Issue

Generally bank-note are backed by gold. But when they are not backed by gold and government securities replace gold, it is called fiduciary issue. Such fiduciary issue results in inflation.

410. Field Audits

Field audits are basically the audits that are conducted by bank officials, on the site itself, in order to assess the status and condition of the collateral. Many a times, field audits are also conducted in order to assess the financial situation of debtors, especially corporations, who have availed huge loans.

411. FIMMDA

Acronym for **Fixed Income Money Market and Derivatives Association of India**, a body comprising representatives of the treasury departments of banks and entrusted with the responsibility of self-regulation of money markets and fixed income and derivative markets.

412. Final Maturity

A final maturity is the date of maturity when a last, single loan matures from a pool of loans. The final maturity indicates the total and final payment of the pool of mortgage loans.

413. Financial Instrument

A financial instrument is anything that ranges from cash, deed, negotiable instrument, or for that matter any written and authenticated evidence, that shows the existence of a transaction or agreement.

414. Financial Intermediary

A financial intermediary is basically a party or person who acts as a link between a provider who provides securities and the user, who purchases the securities. Share broker, and almost all the banks, are the best examples of financial intermediaries.

415. Financial Statement

A financial statement is a record of historical financial figures, reports and a record of assets, liabilities, capital, income and expenditure.

416. Fiscal Deficit:

Fiscal Deficit= Goverment Expenditure in the current fiscal year- Goverment Revenues in the fiscal year.

417. Fiscal Policy

Fiscal policy is that part of government economic policy which deals with taxation, expenditure, borrowing, and the management of public debt in the economy. Fiscal policy primarily concerns itself with the flow of funds in the economy. Fiscal policy primarily concerns itself with the flow of funds in the economy. It exerts a very powerful influence on the working of economy as a whole.

418. Fixed Rate Mortgage

A fixed rate mortgage is a home loan, for which the interest rate remains constant and fixed throughout the lifetime of loan.

419. Fixtures

The term 'fixture' is used in the context of a real estate property, when assets like furniture are attached to the real estate and are also included in its book value. Banks, in many a cases, are known to include fixtures in the value, if the real estate property has been pledged as a collateral

420. Floors

An interest rate ***option*** product which protects lenders/investors from falling interest rates.

421. Food Credit (RBI)

It indicates bank credit to Food Corporation of India, State governments and State cooperative agencies for food procurement.

422. Forbearance Agreement

A forbearance agreement is an authenticated agreement between a debtor and a creditor, and is utilized by the creditor, when the debtor initiates a debt settlement or the loan is defaulted, or the former becomes bankrupt.

423. Foreclosure

A foreclosure is a standardized procedure where creditors like banks, are authorized to obtain the title of the real estate property that has been pledged as a collateral.

424. Foreign Currency Surcharge

The foreign currency surcharge is is levied by some banks and credit card companies, when a credit card or an ATM is used in a foreign country.

425. Foreign Direct Investment:

It is the investment made by a company in one country on building a factory in another country

426. Foreign Institutional Investor:

Investor from a foreign country.

427. Forward Contracts (Forex)

Forex deals between two currencies to be ***settled*** on a future date specified at the time of the deal.

428. Forward Discount

Refers to the value of a currency in the forward market, i.e., for future delivery. When a currency is at a discount compared to the spot rate, it is worth less or, in other words, is cheaper to buy in the forward market than for spot settlement.

429. Forward Premium

A currency is at a premium in the forward market when fewer can be bought for a forward maturity than spot.

430. FRAs

Short for **Forward Rate Agreements**. Enables FRA buyer or seller to lock-in a rate of interest for a future period. An example of how it is structured is a bank selling a 6-6 FRA @7%. This means the FRA buyer will pay 7% interest for the 6-month period commencing 6 months hence (nomenclature, therefore, as 6-6), irrespective of the actual market rate for 6 months at that time.

431. Fractional Deposit Lending

A banking system in which only a fraction of the total deposits managed by a bank must be kept in reserve.See Reserve Bank.

432. Free Cash Flow

A free cash flow is basically is a total of financially liquid assets that does not include capital expenditures and dividends.

433. Free Trade:

In this type of trade there is no tariffs to the imported or exported goods between two countries.

434. Fringe Benefit:

These are the benefits that are offered to employees in addition to their salaries like lunch coupons, cars, free petrol etc.

435. Fundamentals

Fundamentals determine a company, currency or security's value. A company's fundamentals include its assets, debt, revenue, earnings and growth.

436. Futures

A futures contract is a standardized contract, traded on a futures exchange, to buy or sell a certain underlying instrument at a certain date in the future, at a specified price. The future date is called the delivery date or final settlement date. The pre-set price is called the futures price. The price of the underlying asset on the delivery date is called the settlement price. A futures contract gives the holder the obligation to buy or sell, which differs from an options contract, which gives the holder the right, but not the obligation. Futures contracts, or simply futures, are exchange traded derivatives. The exchange's clearinghouse acts as counterparty on all contracts, sets margin requirements, and crucially also provides a mechanism for settlement.

437. Futures Contract

An agreement to purchase or sell a commodity for delivery at a specified time in the future: (1) at a price that is determined at initiation of the contract; (2) that obligates each party to the contract to fulfill the contract at the specified price; (3) that is used to assume or shift price risk; and (4) that may be satisfied by delivery or offset.

438. Fed Funds:

This is the rate of interest that banks charge each other for funds that are immediately available at the Federal Reserve. The Fed targets the Fed Funds rate as a tool in its monetary policy.

439. Floating rate note:

A bond where the *coupons* are variable rate. This means they are reset every three or six months using the prevailing *Libor* rate. Interest is paid in arrears.

440. Forward transaction:

Forward deals are over-the-counter bilateral transactions. They allow you to buy or sell an underlying financial instrument or commodity at a price agreed today but settlement of the deal is agreed to take place on a future date. Forwards are used for both *trading* and hedging purposes.

441. Foreign exchange swap, (FX swap):

This is a short term transaction involving two parties. The following example will explain a USD/GBP FX swap. There is an exchange of USD for GBP between the two parties. This occurs in two days time, (spot date) and is at the prevailing spot exchange rate. On the maturity date there is re-exchange of the currency amounts. This occurs at the forward rate that was also agreed at the start of the transaction. FX swaps are widely used to temporarily lend and borrow foreign currency.

442. GATT:

The General Agreement on Tariffs and Trade{GATT} was created in 1947 as a replacement to International Trade Organization (ITO). GATT was replaced by World Trade Organization in the year 1995.

443. GDI

GDI (Gender Related Development Index) is a composite index measuring average achievement in the three basic dimensions captured in the human development index–a long and healthy life, knowledge and a decent standard of living–adjusted to account for inequalities between men and women.

444. GDP {Gross Domestic Product}:
Expenditure method:
GDP = consumption + gross investment + government spending + (exports – imports)
Note: GNP is similar to GDP except for the fact that GNP takes the country's localities into account

Income method:
The formula for GDP measured using the income approach, called GDP(I), is:
GDP = Compensation of employees + Gross operating surplus + Gross mixed income + Taxes less subsidies on production and imports

445. GDP per capita:
GDP per capita is the contribution of every citizen of the country to the total GDP

446. GEM
GEM (Gender Empowerment Measure) is a composite index measuring gender inequality in three basic dimensions of empowerment–economic participation and decision making, political participation and decision making, and power over economic resources.

447. Giffin Goods
Giffin goods have the positive relationship between price and quantity demanded and as a result demand curve of Giffin goods slopes upward from left to right. This phenomenon was first observed by Sir Robert Giffin in relation to the demand for bread by poor labours.

448. General collateral, (GC):

A term that is used in repo markets to indicate the *repo rate* that is applicable to collateral that is not specifically in demand, (see *repurchase agreement* and *special collateral)*.

449. The "Greeks":

The Greeks are used to explain the risks associated with option positions. The delta is an equivalent underlying position that gives you the same risks as the option position itself. The gamma is how the delta changes when the underlying price moves. The theta describes the time decay of an option. The vega describes the effect of changes in the implied *volatility* on the value of the option. Rho is the option's sensitivity to changes in interest rates.

450. Haircut:

A term that is used in several different markets. It normally refers to a deposit of cash or *collateral* that is used to secure a transaction and thereby reduce the credit exposure for one of the parties.

451. Gini-coefficient

It represents the measurement of inequality derived from the 'Lorenz Curve,' with every increase in the degree of inequality, the curvature of the Lorenz Curve also increases and
the area between the curve and 45° line becomes larger.
The Gini-coefficient is measured as—
G =Area between Lorenz Curve & 45° Line/Area above the 45° Line

452. Government Bonds

A government bond, which is also known as a government security, is basically any security that is held with the government and has the highest possible rate of interest.

453. Government Securities {G-Secs}

These are issued by the RBI on behalf of the market borrowing programme. It includes State Government Securities, Central Government Securities and Treasury Bills.

454. Grace Period

A grace period is an interest-free period that is to be given by a creditor to a debtor after the period of the loan gets over, before initiating the process of loss recovery. The grace period depends on the amount of the loan and also the credit score of the borrower.

455. Grant

A grant is any type of financial aid that is given by the government

456. Gresham's Law

"Bad money (if not limited in quantity) drives good money out of circulation"—This statement was given by Sir Thomas Gresham, the economic Adviser of Queen Elizabeth. This law states that people always want to hoard good money and spend bad money when two forms of money are in circulation at the same time.

457. Gross Domestic Product (GDP)

It is the money value of all final goods and services produced within the geographical boundaries of the country during a given period of time (usually a year). GDP can be calculated both at current prices and at constant prices. If we add net factor income from abroad to the GDP, we get 'Gross National Product' (GNP).

458. Gross Income

Gross income is the total income of a person, organization or corporation in one financial year, before making any deductions.

459. Gross National Product (GNP)

It refers to the money value of total output or production of final goods and services produced by the nationals of a country during a given period of time, generally a year.

460. Gross National Product Deflator

It is a Price Index Number used to correct the money value of Gross National Product (GNP) for price changes so as to isolate the changes which have taken place in the physical output of goods and services.

461. Ground Rent

Ground rent is the amount of rent that a leaseholder pays periodically to the owner for using a piece of land.

462. Guarantor

One, such as a person or corporation that makes or gives a promise, assurance, or pledge typically relating to performance.

463. Guild Socialism

This form of socialism accepts the leadership of artisans. The operation of the whole economy specially the management and control of industries lies in the hands of artisans Socialism established by artisans is termed a Guild Socialism.

464. HDI

HDI (Human Development Index) is a composite index measuring average achievement in three basic dimensions of human life–a long and healthy life, knowledge and a decent standard of living.

465. Hedge

Hedge is a strategy that is used to minimize the risk of a particular investment and maximize the returns of an investment. A 'hedge' strategy is, most of the times, implemented with the help of a hedge fund. This terms has been written from the banker's point of view and may be interpreted differently in the field of finance.

466. Hedge Fund

A private investment fund or pool that trades and invests in various assets such as securities, commodities, currency, and derivatives on behalf of its clients, typically wealthy individuals.

467. Hedger

A trader who enters into a position in a futures market opposite to a position held in the cash market to minimize the risk of financial loss from an adverse price change; or who purchases or sells futures as a temporary substitute for a cash transaction that will occur later. One can hedge either a long cash market position *(e.g.*, one owns the cash commodity) or a short cash market position *(e.g.*, one plans on buying the cash commodity in the future).

468. Hedging

Insulating (for example) interest rate exposures from market fluctuations, mostly using ***derivative*** instruments like swaps and futures. (See Interest Rate Swap below).

469. Holding Period

The holding period is the time duration during which a capital asset is held/owned by an individual or corporation. The holding period is taken into consideration, while pledging the asset as collateral.

470. IDR

Itis an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with the Securities and Exchange Board of India) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities Markets. The foreign issuing company must have pre-issue paid-up capital and free reserves of at least US$ 50 million and a minimum average market capitalization (during the last 3 years) in its parent country of at least US$ 100 million; a continuous trading record or history on a stock exchange in its parent country for at least three immediately preceding years; a track record of distributable profits for at least three out of immediately preceding five years. In every issue of IDR—(i) At least 50% of the IDRs issued shall be subscribed to by QIBs;(ii) The balance 50% shall be available for subscription by non-institutional entities.

471. IIP

Index of Industrial Production is an abstract number, the magnitude of which represents the status of production in the industrial sector for a given period of time as compared to a reference period of time It is a statistical device which enables us to arrive at a single representative figure to measure the general level of industrial activity in the economy.

472. Import Duty

Import duty is a tax on imports imposed on an ad-valorem basis i.e., fixed in the form of a percentage on the value of the commodity imported.

473. Income

Household income is the income of all the members of one household put together. One must note that the income earned through the family business, is also counted in the household income.

474. Issuer

Any Discover®, MasterCard® American Express or VISA® member, or a commercial organization that establishes and maintains customer credit lines that are accessed through the use of a card. (Public and private companies and financial institutions that offer card-accessed lines of credit to consumers and businesses.

475.

476. Indirect Tax

Indirect tax is that tax which is levied on goods or services produced or purchased. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense to another.

477. INFINET

Short for Indian Financial Network. A secure closed-user group (CUG) hybrid network consisting of VSATs and closed lines. Membership is restricted to entities having SGL and current accounts with the RBI. All banks and PDs are obliged to become members of INFINET, as only INFINET members can participate in the NDS and CCIL settlements.

478. Inflation

A situation of a steady and sustained rise in general prices is usually known as inflation.

Inflation is a state in which the value of money is falling i.e., prices are rising.

479. Installment Credit

Installment credit is a debt or loan that is to be returned to the lender in a set of periodic installments. Auto loans, home loans and other types of loans are included in installment credit.

480. Insurance Regulatory & Development Authority (IRDA):

It is based in Hyderabad and the Mission of IRDA as stated in the act is "to protect the interests of the policyholders, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto."

481. Insurance Regulatory and Development Authority Act in 1999

This act allowed private companies into the insurance sector. It also increased the cap on FDI in insurance sector to 26 percent.

482. Interest

Interest is a charge that is paid by any borrower or debtor for the use of money, which is calculated on the basis of the rate of interest, time period of the debt and the principal amount that was borrowed. Interest is, sometimes, also titled as the 'cost of credit'.

483. Interest Accrual Rate

The interest accrual rate is a percentage of interest that is calculated on the basis of the rate of interest and is expressed in terms of annual percentage rate or APR.

484. Interest Rate

Interest rate is the percentage of principal amount that is paid as an interest for the use of money. Usually, the interest rate is decided by a country's central bank, on the basis of the economic conditions called bank prime lending rate.

485. Internal rate of return, (IRR):

IRR is used to calculate the return on an investment. It is the rate of interest, that when used discounts all the cash flows, (including the initial investment), to a net present value of zero. The investment with the highest IRR, all other factors being equal, is regarded as being more attractive. *Bond* traders use IRR they call it yield to maturity. High yielding bonds that have the same risk are considered to be more attractive investments.

486. ISIN:

International Securities Identification Number. Issued securities are given an ISIN. This is a unique number that is preceded by a country code. The number is used to identify securities. For example when settling a trade the ISIN number will correctly identify what has been bought and sold. It allows IT systems to retrieve the correct static data in order to complete the settlement process.

487. Interchange Fees

Fees generally collected from Acquirers on the value of their card sales and paid to Issuers.

488. Interest Rate Swap (IRS)

A derivative transaction in which one party pays a fixed rate of interest and the counterparty pays a floating rate of interest (reset at predetermined intervals) on an agreed principal.
For example, Bank A might pay 9% fixed (semi-annually) to Bank B and Bank B pays MIBOR + 0.25%, (half-yearly) to Bank A on Rs.100cr. No exchange of principal takes place at the beginning or end. Only interest payments (or the net flow from Bank A to Bank B or vice-versa at six- monthly intervals.
This swap protects Bank A' s investments from a rise in interest rates as it receives and pays offsetting fixed rates through the swap.

489. International Labour Organization{ILO}
Was established in 1919 and is a specialized UN agency that deals with labour issues.

490. Internation Monetary Fund:
It is an organization of 186 countries that aims at stabilizing foreign exchange rates and assisting the reconstruction of the international payment system. It was established in 1944.

491. International Poverty Line:
It is the minimum money expressed in dollars that an individual needs to achieve an adequate standard of living. For some years this Internation Poverty Line has been roughly around one dollar a day

492. Internet Banking
Internet banking is a system wherein customers can conduct their transactions through the Internet. This kind of banking is also known as e-banking or online banking.

493. Investment Bank
Investment banks provide financial services for governments, companies or extremely rich individuals. They differ from commercial banks where you have your savings or your mortgage.

494. Investment Property
An investment property is a real estate property that generates income for the owner, in terms of rent and lease.

495. IPO

Short for **Initial Public Offering**, the first offer of its shares to the public by a company.

496. Issuing and Paying Agent (IPA)

The bank responsible for due diligence, issue and redemption in the issue of

Commercial Paper (CP) by a corporate.

497. Joint and Several Liability

This is a legal term utilized to point that two or more entities are individually entirely responsible, instead of being collectively responsible.

498. Joint Demand

Joint demand appears in case of complementary goods. When two commodities are complementary to one another and cannot be used separately, they have joint demand. Bread and butter, sugar and tea, pen and ink are a few examples of joint demand. In joint demand a change in demand of one commodity bring about the proportionate change in demand for the other.

499. Joint Sector

When a sector is jointly owned, managed and run by both public and private sector, it is called joint sector. This sector indicates the partnership between the two i.e., public and private sector.

500. Judicial Lien

It pertains to an interest in the holdings, which are gained from judicial or court orders.

501. Key Rate Duration

This pertains to a measure of duration, which computes efficient or empirical duration by altering the market price for a particular maturity date on the yield curve, while keeping all other variables constant.

502. Knot Points

It relates to the points that are on the yield curve for which there are discernible rates for traded instruments.

503. Labour Union

Labour union represents that organisation of workers which works for improving working condition of labours and also for raising their wage by adopting ‘collective bargaining’ measures with the management of the industry in particular.

504. Laffer Curve

This curve is given by American economist Prof. Arthur Laffer. It represents relationship between total tax revenue and corresponding tax rates.

505. Laissez Faire

It is a French word meaning ‘non-interference’. This doctrine was popularised by classical economists who gave the view that government should interfere as little as possible in the economic activities of the individuals.

506. LOC (Letter of Credit)

A document issued by a bank guaranteeing the payment of a customer’s draft up to a stated amount for a specific period, provided that specified terms and conditions are met.

507. Lockbox

A collection system in which a bank or a third party receives, processes and deposits a company's mail receipts. Also known as a lockbox processor.

508.

509. Land Contract

Otherwise known as an article of agreement, a land contract denotes a form of contract, wherein the buyer makes periodic installment payments to the seller, in order to buy a real estate. But, the title to the property is not transferred to the buyer, until he makes the final payment.

510. Lease

A contract, through which, the owner (lessor) of a certain property, allows another (lessee) to use the same for a specified period, in exchange for a value called the rent.

511. Letter of Credit

A document issued by a bank (on behalf of the buyer or the importer), stating its commitment to pay a third party (seller or the exporter), a specific amount, for the purchase of goods by its customer, who is the buyer. The seller has to meet the conditions given in the document and submit the relevant documents, in order to receive the payment. Letters of credit are mainly used in international trade transactions of huge amounts, wherein the customer and the supplier live in different countries.

512. Leveraging

Leveraging, or gearing, means using debt to supplement investment. The more one borrows on top of the funds (or equity) one already has, the more highly leveraged one becomes. Leveraging can maximise both gains and losses. Deleveraging means reducing the amount of borrowing.

513. Limits:

These are maximum amounts of risk that a dealer is permitted to take. They are set in order to protect the bank against large financial losses. A typical type of limit is a "stop loss", this is the maximum loss permitted before trading must stop.

514. Liquidity:

Liquidity can have two meanings. 1. The ease by which you can sell a financial instrument and turn it into cash. 2. The amount of short term liquid assets a bank holds against its liabilities to ensure that it will not be insolvent.

515. Long position:

When you own something you are "long"-you benefit from its price rising.

516. Liability

This is a legal term utilized to point that two or more entities are individually entirely responsible, instead of being collectively responsible.

517. LIBOR

London Interbank Offer Rate, the rate at which banks in London lend and borrow U.S. dollars from one another.

518. Life Cap

The upper and lower limit for changes in the borrower's interest rate over the term of his/her loan.

519. Life Expectancy at Birth

The number of years a newborn infant would live if prevailing pattern of age specific mortality rates at the time of birth were to stay the same throughout the child's life.

520. Limited liability

Confines an investor's loss in a business to the amount of capital they invested. If a person invests $100,000 in a company and it goes bankrupt, the investor will lose only his/her investment and not more.

521. Liquidation

It refers to the termination (or winding up) of a registered company. Liquidation takes place because of company's insolvency. In liquidation, assets are turned into cash for settling outstanding debts and for apportioning the balance, if any, amongst the owners.

522. Liquidity

Assets which can easily be converted into cash money are said to have liquidity. Land does not possess liquidity at it takes longer time to get converted into cash.

523. Liquidity Ratio

The commercial banks under banking regulations have to maintain a certain specified proportion of their total deposits of various categories in liquid assets. This maintainable proportion is called liquidity ratio.

524. Liquidity Adjustment Facility (LAF)

A facility designed by the RBI to mop up excess liquidity or supply liquidity to the banking system on a daily basis through ***repo / reverse repo*** auctions.

Thus, if the market is surplus in funds, the RBI will attract more ***reverse repos***. When the market is liquidity – short, LAFs will attract more ***repos***. (***Repos*** and ***reverse repo*** are used here from the perspective of the RBI-it borrows cash in a ***repo*** and borrows securities in a ***reverse repo).***

525. Liquidated Damages

A clause, which is commonly found in contracts, wherein the parties agree to pay a fixed amount, in case of any breach of the contractual provisions. The party, who violates the provisions has to pay the amount to the aggrieved party.

526. Liability Driven Investment (LDI):

This term is often used in the pensions industry. Pension funds have long dated liabilities (annuities to pensioners). Traditionally assets have often been equities but these can go down in value leaving a pension fund underfunded. LDI calculates the future liability of the pension fund and determines the amount of cash currently required to meet future obligations. This cash is then invested in assets with known future cash flows (like bonds). Alternatively the cash is placed on deposit with the variable rate interest being converted to fixed rate using interest rate swaps.

527. Libid:

London interbank bid rate, this is the interest rate which a bank pays for wholesale deposits, it is normally several *basis points* beneath *Libor*.

528. Lock-in

A guarantee given by the lender that there will be no change in the quoted mortgage rates for a specified period of time, which is called the lock-in period.

529. Lock-out

Lock-out refers to such a situation when the management does not permit the workers to work unless they agree to accept the employer's term. Lock-out is the closing of work by the management for an uncertain period of time to put pressure on the labour union. It is an action by the employer equivalent to a strike by employees.

530. Long Term Debt

An amount owed for a period exceeding one year, from the date of last balance sheet/accounting year. Otherwise known as funded debts,long term debts refers to those loans, which become due, after one year from the last balance sheet/accounting year. Such debts can be a bank loan, bonds, mortgage, debenture, or other obligations.

531. Lorentz Curve

This curve shows the degree of inequalities of a frequency distribution in a graphical manner. It is a curve on a graph which shows the cumulative proportion of a statistical population against this cumulative share of some characteristic. This curve is commonly used to depict income distribution showing the cumulative percentage of people from the poorest up and their cumulative share of national income.

532. Loss Given Default (LGD)

A term used to denote the actual loss incurred by a bank, in case of default by a debtor to pay off the loan. If there is any collateral pledged by the debtor, the value of such assets will be reduced from the loan amount.

533. Lump Sum Tax

Lump sum tax is a fixed amount which has imperative nature irrespective of the income level. This tax is not equitable in nature.

534. Market risk:

Financial market prices constantly change. This means when you have a position you are exposed to profits or losses that can arise as a result of changes in interest rates, foreign exchange prices, commodity prices or credit spreads. This risk is called market risk.

535. Medium term note, (MTN):

A MTN is a type of *bond*. It is issued under the prospectus of a MTN programme. It offers the issuer the ability to tailor make a bond for an investor. This means that the bond can be in different currencies, have different maturities, interest payments and risks. This flexibility has made MTNs very popular with issuers and investors.

536. Money markets:

The sector of financial markets concerned with financial instruments that have a maturity shorter than one year eg wholesale deposits.

537. Monoline Insurance Company:

An insurance company that specializes in offering investors protection against losing money from the default of a bond. The purpose is to increase the rating of the bond, normally to AAA. This reduces the borrowing cost for the bond issuer. The monoline is paid a fee by the issuer. Monolines have been in existence for three decades and started business insuring Municipal bonds before branching out to include structured products.

538. MMD

A high-grade municipal bond index. The index serves as a benchmark for fixed rate tax-exempt bonds.

539. Minimum transfer amount, (MTA):

MTAs are associated with the process of collateral management. It refers to a minimum amount of money that can be asked for when you have the right to call for additional collateral. Its purpose is to prevent the calling of nuisance amounts.

540. Macro-economics:

As the word suggests, it deals with the economic behaviour and performance of an entire country.

541. Marked-to-Market

The valuation of a security at its market price on a continuous basis. Applied generally on trading positions in the securities and forex markets to determine the profit (or loss) on these exposures.

542. Marketmakers

Entities (brokers, banks, institutions) which maintain a market (liquidity) in a security or a currency by always quoting buy (bid) and sell (offer) prices for the security or currency.

543. Market Value

Market value is the value at which the demand of consumers and the supply of the manufacturers decide the price of a commodity or service. The market value is the equilibrium point on the supply and demand graph, where the demand and supply curves meet. Thus, market value is decided on the basis of the number people who demand a commodity and the number of commodities that the sellers are capable of selling.

544. Margin

The amount of money or collateral deposited by a customer with his broker, by a broker with a clearing member, or by a clearing member with a clearing organization. The margin is not partial payment on a purchase.

(1) Initial margin is the amount of margin required by the broker when a futures position is opened; (2) Maintenance margin is an amount that must be maintained on deposit at all times. If the equity in a customer's account drops to or below the level of maintenance margin because of adverse price movement, the broker must issue a margin call to restore the customer's equity to the initial level. Exchanges specify levels of initial margin and maintenance margin for each futures contract, but futures commission merchants may require their customers to post margin at higher levels than those specified by the exchange.

545. Marginal Standing Facility (MSF)

A new facility introduced by the RBI in its monetary policy for 2011-12, under which banks could borrow funds from RBI at a rate which is 1% above the repo rate under the liquidity adjustment facility (see above) against pledging government securities. The MSF rate is pegged 100 basis points or a percentage point above the repo rate.

546. Maturity

The term maturity is used to indicate the end of investment period of any fixed investment or security. After maturity, the investor is repaid the invested amount along with the interest that has been accumulated. For example, on the maturity of a one year fixed deposit, the invested sum along with the accumulated interest, is transferred by the bank to the account of the investor.

547. Maturity Date

Maturity date is the date on which the investment or security attains maturity.

548. Merit Goods

Merit goods refer those goods that are very essential to the society as a whole and hence the government ensures their availability to all consumers, regardless of their ability to pay to reasonable price.

549. MIBOR

Mumbai Inter-bank Offer Rate (MIBOR) is the interest rate at which a bank can borrow in the money market.

550. Microcredit

It is the provision of credit, parsimony, and other financial services and products of very small amount to the poor in semi-urban, rural and urban areas. It is to enable them to raise their income levels and improve their living standards.

551. Micro-economics:

This deals with studying how firms and households make decisions to allocate resources in markets. Market analysis is the main concept of Microeconomics.

552. MIFOR

Mumbai Inter-bank Forward Offered Rate indicates the sum of **LIBOR** and the forward premium on USD/INR.

553. <u>Mixed Economy</u>

It refers to that economic system in which both private and public sector co-exists. Indian economy is an example of a <u>mixed economy</u>.

554. Monetary Policy

Monetary policy comprises all measures applied by the monetary authorities with a view to produce a deliberate impact on the nature and volume of money so as to achieve the objectives of general economic policy. It aims at regulating the flow of currency, credit and other money substitutes in an economy with a view to affect the total stock of such assets as well as to influence the demand of the community for such assets.

555. Monetary Aggregates

Monetary aggregates measure the amount of money circulating in an economy. Statistically, they are items in the balance sheet of the banking system. In the balance sheet the liabilities items are ordered, starting with very narrow definitions of money (such as notes and coin) and gradually widening through various types of bank accounts (e.g. term deposits) to very board items which include sophisticated products like financial derivatives. The Monetary aggreagates or Ms usually range from M0 (narrowest) to M4(broadest), where narrow money measures cover highly liquid forms of money (money as a means of exchange) while broad money includes the less liquid forms (money as a store of value).

556. Monetary Reforms

When a new currency is introduced in a country due to hyperinflation or due to a deliberate policy measure (such as decimalization) it is termed as monetary reform.

557. Monetized Deficit (RBI)

Measures the level of support the RBI provides to the Centre's borrowing program.

558. Money Markets

Markets dealing in borrowing and lending on a short-term basis.

559. Monopoly

Monopoly refers to that market structure where there is only one seller in the market who controls the entire market supply and no substitute of the product is available in the market.

560. Monopsony

Monopsony is that market situation in which there is only one single buyer of the product in the market. In other word, 'buyer's monopoly' is termed as monopsony.

561. Mortgage

A mortgage is a legal agreement between the lender and borrower where real estate property is used as collateral for the loan, in order to secure the payment of the debt. According to the mortgage agreement, the lender of the loan is authorized to confiscate the property, the moment the borrower stops paying the installments.

562. Mortgage-backed Securities

These are securities made up of mortgage debt or a collection of mortgages. Banks repackage debt from a number of mortgages which can be traded. Selling mortgages off frees up funds to lend to more homeowners

563. Mortgage Refinance

A mortgage refinance involves the replacement of current debt with another debt with more convenient terms and conditions.

564. Market Stabilisation Scheme

MSS Market Stabilisation Scheme of RBI involves the sale/auction of instruments (Government securities/ bonds) to curb the excess liquidity in the system created due to the consistent dollar inflows into the foreign exchange market

565. The Marketwide Yield Curve

MWYC The Marketwide Yield Curve would show the average yield (YTM) for liquid Indian Government bonds which are regularly traded in the secondary market.

566. Multinational Company

It is a large scale company which has its production base in several countries and the bulk of the production is produced in outside nations. This company produces more overseas
than they do in its parent country. Increased trade and economies of scale have encouraged such type of companies in the recent years.

567. National Income

In the simplest way it can be defined as 'factor income accruing to the national residents of a country.' It is the sum of domestic factor income and net factor income earned from abroad. Net national product at factor cost is called national income.

568. Nationalisation

The act of bringing an industry or assets like land and property under state control.

569. NDTL

Short for **Net Demand and Time Liabilities.**

The liability base of a bank, as defined by the RBI, on which the bank must maintain minimum ***CRR*** and ***SLR*** as prescribed by the RBI.

570. Netting:

The right to net credit exposures is commonly found in legal agreements that support financial transactions. In the event of default, netting permits counterparties to add up all their positive and negative credit exposures to provide a net figure. This is important because if you do not have a netting agreement in place it is possible for a liquidator to "cherry pick" transactions. If this happens you will not be able to net out trades that have positive values with those that have negative values. This will potentially increase your credit loss.

571. NSF (Not Sufficient Funds)

A bank check having insufficient funds to back it.

572. Novation:

Novation is a legal process where the rights and obligations of one of the parties to the contract are passed to a new third party. In order to do this the original parties to the contract and the new party must agree the novation. The term is often used in the over the counter derivative market, particularly where banks novate swaps to each other.

573. Negative Amortization

When the monthly payment is unable to cover the principal and the interest due, there is a slow increase in the mortgage debt. This situation is termed as negative amortization.

574. Negative Equity

Refers to a situation in which, say, the value of one's house is below the amount of the mortgage that still has to be paid off.

575. Net Income

The amount that is left after paying the taxes is called the net income.

576. Net Domestic Product:

NDP= GDP-depreciation of capital goods in that country.
All are measured using Purchasing Power Parity

577. Net National Product (NNP)

When depreciation is deducted from GNP i.e., Gross National Product, we get Net National Product (NNP).

578. Net Operating Loss

A total loss that is calculated for a tax year and is attributed to business or casualty losses.

579. Net Owned Funds (NOF)

Paid-up equity plus free unencumbered reserves – also called net worth – of a bank.

580. No Cash Out Refinance

A home loan, which is at a lower interest, an amount which does not go over the closing costs and the outstanding principal of the original mortgage

581. Nominal GDP:

Nominal GDP growth is GDP growth in nominal prices (unadjusted for price changes).

582. Non-Liquid Asset

A possession or asset which cannot be changed into cash very easily is called non liquid asset.

583. Non Recourse Loan

A loan which is secured by collateral and for which the borrower is not personally liable, is called a non recourse loan.

584. Non-SLR Bonds/Securities

Debt instruments that do not qualify for inclusion in the ***SLR*** of a bank. Usually corporate bonds.

585. Nostro Accounts

Nostro Accounts are foreign currency accounts maintained with ***correspondent banks*** to facilitate clearing forex transactions of the Bank.

586. NSDL

Short for **National Securities Depository Ltd**, the apex depository for electronic custody, ownership and transfer of securities, of which ***DP***s are members.

587. NSE

Acronym for National Stock Exchange.

588. Operational Risk:

The risk of loss that is a result of an inadequate or a failed internal process, people or system. It can also arise as a result of external events. Some definitions include legal risks as operational risks but exclude strategic and reputational risks.

589. Operations:

The area of a bank that normally deals with processing a transaction after it has been agreed by a dealer. Some banks still refer to this area as the "back office" and the dealing room as the "front office". Typically operations staff are involved in confirmations, settlements and payments.

590. Official Statement

A document prepared by or on behalf of the issuer of municipal securities in connection with a primary bond offering that discloses material information on the offering of such securities.

591. Options:

There are four basic option trades:Long call - you have the right but not obligation to buy an asset at an agreed price on a future dateShort call - if the long call holder exercises the option to buy, you have the obligation to sell the asset at an agreed priceLong put - you have the right but not obligation to sell an asset at an agreed price on a future dateShort put - if the long put holder exercises the option to sell, you have the obligation to buy the asset at an agreed priceThe agreed price at which the option can be exercised is commonly referred to as the strike. The maturity date of an option is called the expiry date. Option sellers take risk and therefore receive a sum of money from the option buyer, this is called the option premium. Selling either call or put options is regarded as being risky because in theory your losses can be unlimited.

592. Off balance sheet

Items which do not appear in the main balance sheet. Examples are contingent liabilities such as guarantees and LCs. Swaps are also treated as such.

593. Offer(s)

The price(s) at which ***market makers/***sellers want to sell securities or foreign exchange to the market.

594. Offset

Liquidating a purchase of futures contracts through the sale of an equal number of contracts of the same delivery month, or liquidating a short sale of futures through the purchase of an equal number of contracts of the same delivery month

595. Okun’s Law

Arthur Okun presented an empirical relationship between cyclical movements in GNP and unemployment. Okun found that an annual 2•5% increase in the rate of real growth above the trend growth results in a 1% decrease in the rate of unemployment. This relationship is known as Okun’s Law.

596. Oligopoly

Oligopoly is that form of imperfect competition in which there are only a few firms in the industry (or group) producing either homogeneous products or may be having product differentiation in a given line of production.

597. Online Banking

The accessing of bank information, accounts and transactions with the help of a computer through the financial institution's website on the Internet, is called online banking. It is also called Internet banking or e-banking

598. On balance sheet

Items of assets and liabilities which figure in the balance sheet. Examples are paid-up capital, reserves, borrowings, investments, fixed assets, etc.

599. On-the-run

Recently – issued or latest issues of ***G-Secs***, which are generally most active in the secondary market.

600. Open Economy

Open economy is that economy which is left free and the government imposes no restrictions on trade with areas outside that economy.

601. Open End Credit

Open end credit means a line of credit that can be used a number of times, up to a certain limit. Another name for this type of credit is charge account or revolving credit.

602. Open Market Operations (OMOs)

When the RBI itself buys securities from or sells securities to the market, they are called open market operations or OMOs. The RBI's actions have the effect of decreasing the money supply when selling securities to the market and increasing the money supply when buying securities from the market.

603. Open Interest

The total number of futures contracts long or short in a delivery month or market that has been entered into and not yet liquidated by an offsetting transaction or fulfilled by delivery.

604. Original Principal Balance

The amount borrowed by any borrower is called the original principal balance.

605. Origination Fee

The charges a lender or creditor levies for processing a loan. It includes cost of loan document preparation, verification of the credit history of the borrower and conducting an overall appraisal.

606. Overdraft

An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero. In this situation the account is said to be "overdrawn". If there is a prior agreement with the account provider for an overdraft, and the amount overdrawn is within the authorized overdraft limit, then interest is normally charged at the agreed rate. If the negative balance exceeds the agreed terms, then additional fees may be charged and higher interest rates may apply.

607. Over-the-Counter (OTC)

The trading of commodities, contracts, or other instruments not listed on any exchange. OTC transactions can occur electronically or over the telephone.

608. Owner Financing

When the seller loans the whole sum or a part of it to a buyer, it is called owner financing.

609. Parallel economy:

Alternative term for black economy, shadow economy and underground economy.

610. Payee

Payee is the person to whom the money is to be paid by the payer.

611. Payer

Payer is the person who pays the money to the payee.

612. PDO (Public Debt Office)

RBI’s department maintaining ***SGL*** accounts and handling ***SGL*** transfers.

613. Penalty Rate

Extra payment made to workers for working more than normal working hours is called as penalty rate.

614. Perfect Competition

Perfect competition is the market in which there are many firms selling identical products with no firm large enough relative to the entire market to be able to influence market price.

615. P/E (Price/Earnings) Ratio

It is a valuation ratio of a company's current share price compared to its per-share earnings. Also sometimes known as "price multiple" or "earnings multiple".
Calculated as:

Market Value per Share
Earnings per Share
(EPS)

EPS is usually from the last four quarters (trailing P/E).

616. Payment Gateway

An Internet-based service that transports credit card information from a computer terminal or website to a credit card processor, where it can be verified.

617. Positive Pay

Positive pay is the leading method of check fraud deterrence. The process entails a daily reconcilement of a company's issued checks to checks presented for payment to your bank to identify potentially fraudulent checks.

618.

619. Peril Point

It indicates that point beyond which tariff reductions would threaten the existence of domestic industry.

620. Personal Identification Number (PIN)

Personal identification number or PIN is a secret code of numbers and alphabets given to customers to perform transactions through an automatic teller machine or an ATM.

621. Point of Sale (POS)

Point of sale a terminal is where cash registers are replaced by computerized systems.

622. Politically Exposed Persons PEPs

Politically Exposed Persons are individuals who are or have been entrusted with prominent public functions in a foreign country

623. Poverty Line

Poverty line is a virtual line demarcating persons living below and above it. In India all those persons are treated living below poverty line who are not able to earn that much of income which is not sufficient to acquire food equivalent to 2100 calories per person per day in urban areas and 2400 calories per person per day in rural areas. As per UNDP, one US dollar (1993 PPP US $) per person per day is treated as poverty line.

624. PQLI

PQLI is known as Physical Quality of Life Index which is used to assess the level of social development. This index was developed by Jim Grant for The Overseas Development Council PQLI is calculated by using indices of (i) Adult literacy rate, (ii) IMR, (iii) Life Expectancy.

625. Preference Shares

A class of shares that usually do not offer voting rights, but do offer a superior type of dividend, paid ahead of dividends to ordinary shareholders. Preference shareholders often also have superior status in the event of a liquidation.

626. Pre-Qualification

A preliminary stage prior to bidding process, where the applicant is verified of whether he has the resources and the ability to do a given job.

627. Previous Balance

Previous balance is an outstanding amount which appears on the credit card statement on date when it is generated.

628. Price Mechanism

Price mechanism signifies the working of those market forces which establishes equilibrium in the economy. Laissez faire policy is the basis for the working of price mechanism.

629. Price Ring

It is an unofficial syndicate by which the prices are controlled with the prior understanding among the traders. These dealers under a price ring decide not to over-bid one another at the public auction to keep the prices low. This price ring may discourage outsiders from coming to the auctions.

630. Prime Lending Rate:

PLR Prime Lending Rateis the benchmark rate for all bank loans. Historically, the PLR has been the rate at which banks lend to the best borrower—one who is the safest or the least likely to default on the loan. Earlier, banks could not lend below the base rate, but along with more liberal financial markets came the freedom for banks to fix rates below the PLR.

631. Private Sector

Private Sector is that part of the economy which is not owned by the government and is under the hands of private enterprise. In other words, private sector is not under direct government control. Private sector includes the personal as well as the corporate sector.

632. Privatisation

Privatisation is the antithesis of nationalisation. When the government owned public industries are denationalised and the disinvestment process is initiated, it is called privatisation.

633. Primary Dealers (PDs)

These are the intermediaries between the RBI and the market. They are under an obligation to take a minimum percentage of the primary issues of securities by the RBI through the central bank’s auctions as and when they take place. For this commitment, they are paid a commission by the RBI, based on the value of securities absorbed by them.

634. Principal

Principal is basic amount which is invested to yield returns over a certain period of time at a given rate of interest.

635. Profit Warning

When a company issues a statement indicating that its profits will not be as high as it had expected

636. Pik notes:

Payment in kind notes allow the borrower to opt to pay interest in the form of additional debt rather than in cash. Piks are generally regarded as being risky because they are associated with borrowers who are frequently highly leveraged and use the mechanism to defer interest payments.

637. Pool factor:

Mortgage backed securities experience principal repayment before maturity. This means the outstanding principal amount declines. The pool factor is the outstanding principal amount divided by the original principal amount. A pool factor of 0.5670 would mean that for an original principal amount of $1,000,000, $567,000 remains outstanding.

638. Public Debt

Public debt represents borrowing by the state and public authorities. All loans taken by the public authorities constitute public debt.

639. Public Goods

Public goods are those goods which belong to the entire community. None of the individual of the society can be made deprived of using these public goods. National defence, Police, Street lighting etc. are examples of public goods.

640. Public Sector

Public sector signifies those undertakings which are owned, managed and run by public authorities. Public sector includes direct government enterprise, the nationalized industries and public corporations. In this sector of the economy the government acts itself as an entrepreneur.

641. Purchasing power parity:

Using market exchange values to equalize their purchasing power.

642. Put Option

A financial instrument giving the holder the right but no obligation to sell a security at a predetermined price and during or at a predetermined time to the option seller.

643. Present value:

This is the value of a future cash flow expressed in today's money. To calculate present value a cash flow is *discounted* using an appropriate rate of interest. Present values are widely used in the pricing and valuation of financial instruments, particularly derivatives.

644. Primary market:

When a bond or equity is first distributed and sold to investors it is called a primary issue. This area of financial markets is called the primary market.

645. Proprietary trading:

Proprietary trading is a way in which dealers can make money. It involves using your firm's capital to take risk, thereby hoping to profit from favourable movements in market prices.

646. Qualified Opinion

An auditor's opinion mentioned in his report which holds some reservations regarding the process of audit is called as a qualified opinion.

647. Quality Spread

The difference between the yields of Treasury securities and non-Treasury securities, as a result of different ratings or quality, is termed as quality spread.

648. Quasi Money:

Also called as Near Money. These are the assets that can be easily converted to money without no loss in value.

649. Quanto Swap:

Customer pays, say, USD 12 month LIBOR, in-arrears quantoed into INR (i.e. fixings are in USD LIBOR but all payments made in INR and are calculated based on an INR notional).

650. Quick Asset

Those assets are quick assets which are liquid or nearly liquid in nature and easily be turned into cash.

651. Quick Ratio

Quick ratio is also called as the acid-test ratio. It measures the company's liabilities and determines its position to pay off its obligations.

652. Quoted Company

That company is called quoted company whose share prices are quoted on a stock exchange.

653. Rating

Bonds are rated according to their safety from an investment standpoint - based on the ability of the company or government that has issued it to repay. Ratings range from AAA, the safest, down to D, a company that has already defaulted.

654. Rate Risk

Rate risk is the rate of return determined to attract capital on a given investment.

655. Rate Sensitive

Rate sensitive pertains to deposit account or security investment. If any changes are made to the related interest rate that causes variations in its demand and supply.

656. Real GDP:

Real GDP growth is GDP growth adjusted for price changes(using ppp).

657. Real Property

Real property refers to anything that is built on land.

658. Recapitalisation

To inject fresh money into a firm, thus reducing the debts of a company. For example, when a government intervenes to recapitalise a bank, it might give cash in exchange for some form of guarantee, such as a stake in the company. Taxpayers can then benefit if the bank recovers.

659. Reconveyance

In banking terms, reconveyance is transfer of property to its real owner, once the loan or the mortgage is paid off.

660. Recession

A period of negative economic growth or contracting economic activity. In most parts of the world a recession is technically defined as two consecutive quarters of negative economic growth - or fall in real output/GDP. In the United States (US), a larger number of factors are taken into account to define *recession*, by the NBER (National Bureau of Economic Research), like monthly measures of activity across the entire economy: (1) personal income less transfer payments, in real terms and (2) employment. In addition, to two indicators with coverage primarily of manufacturing and goods: (3) industrial production and (4) the volume of sales of the manufacturing and wholesale-retail sectors adjusted for price changes. The bottoming out of these indicators is taken to mark the end of the recession period

661. Record Date

A date set by the issuer, on which an individual must own the shares, so as to be eligible to receive the dividend.

662. Redemption Fee

A commission or fee paid, when an agent or an individual sells an investment, such as mutual funds or annuity.

663. Rating:

A rating is an assessment of the relative safety of an investment (whether it will repay the capital and interest). Ratings are applied to bond issuers and bond issues. A bond that has a AAA rating is considered a very safe investment. Its returns are therefore low. Bonds with lower ratings carry more risk of loss for the investor and therefore a higher return. There are many firms that rate bonds but Moody's, Standard & Poors and Fitch are probably the best known. These firms undertake quantitative and qualitative analysis in order to determine ratings. Ratings are regularly reviewed and can be altered by the agencies. The rating system has become controversial. Some commentators believe therating process to be flawed. They would like to see more transparency. More accountability and segregation between the firm being rated and the fees paid to the agency.

664. Rating agency:

Rating agencies assess the credit quality of issuers and debt instruments. The three most well known rating companies are, Standard & Poors, Moodys and Fitch. The best long term rating is AAA. In general the higher a rating the lower the risk for the investor, therefore highly rated bonds offer relatively low returns.

665. Recovery rate:

If you make a loan or have a credit exposure to a counterparty and that party defaults you may lose some or all of your money. The recovery rate is the percentage of your money that you get back. Recovery rates for different assets, ratings and industries vary greatly and they are monitored by rating agencies on a historic basis.

666. Reg-144a:

A private placement issued under 144a allows Non-US companies to access sophisticated domestic US investors. A non US company does not have to comply with Sarbanes-Oxley legislation when issuing under 144a. Marketing of 144a deals to general investors is prohibited.

667. Reg-S:

Reg-S is a Securities Exchange Commission filing used for Initial Public Offerings that are targeted at non US investors. Marketing to investors in the US is therefore prohibited.

668. Registered bond:

A bond that is issued in a certificated form. There is a register of ownership with a new certificate issued each time the bond is sold.

669. Repo rate:

The rate of interest applied to the cash involved in a repo transaction.

670. Repurchase agreement:

This is often referred to as a repo. A repo transaction involves two parties, the buyer and the seller. There are two exchanges that occur. One is at the start of the trade, the other is at maturity.
At the start, the seller delivers collateral, normally bonds, to the buyer. In return the buyer simultaneously pays cash to the seller. That amount is equal to the *market value* of the collateral, this includes any *accrued* interest. On the maturity date the

buyer returns the collateral to the seller. Simultaneously the seller repays the original cash amount to the buyer plus a sum of interest for being able to use the cash.

671. Reverse repo:

There are always two counterparties to a repurchase agreement. The party that buys the collateral at the start of the trade and sells it on the maturity date is entering a reverse repo.

672. Reflation

It signifies general increase in the level of business activity in the economy. Reflation generally involves greater government expenditure and the easing of credit to encourage increased production.

673. Reference Asset

An asset such as debt instrument which has a credit derivative is called as a reference asset.

674. Reference Rate

The basis of floating rate security is called as the reference rate.

675. Refinance

Refinance means clearing the current loan with the proceeds of a new one and using the same property for collateral.

676. Refunding

The act of paying back the amount or returning the funds is called as refunding.

677. Regressive Tax

It is a tax in which rate of taxation falls with an increase in income. In regressive taxation incidence falls more on people having lower incomes than that of those having higher incomes.

678. Reinvestment Risk

The risk that arises from the fact that dividends or any yields may not be eligible for investment to earn the rate of interest is called as the reinvestment risk.

679. Relative Value

The liquidity, risk and return of one instrument in relation to another financial instrument is the relative value.

680. Reporting Fortnight/Friday

This is the day of the week, every alternate week, for which banks must report their closing ***Net Demand and Time Liabilities (NDTL)*** to the RBI. The RBI checks their compliance with the ***Cash Reserve Ratio(CRR)*** and ***Statutory Liquidity Ratio (SLR)*** obligations based on the ***NDTL*** data provided by the banks on reporting Fridays. Reporting fortnight refers to the gap between two reporting Fridays.

681. Repo/Reverse Repo

Repo is short for repurchase agreement.

A repurchase agreement, as the name suggests, is a contract to buy securities today and sell them back on a future date at a price fixed today. The securities are nominally transferred to the buyer but the seller has full entitlement to interest/dividends and all other benefits accruing as if he is the owner of the securities between the time of sale and buyback.

The difference between the repurchase price (future) and sale price (today) is normally based on the inter-bank rate of interest for the tenor of the repo.

The buyer of securities in a repo in effect borrows securities and gives cash while the seller in the repo lends securities and receives cash. The transaction is termed repo for the seller of securities and **reverse repo** for the buyer of securities.

682. Repossession

Taking back of property by a seller or a lender from the buyer or the borrower due to default of payment.

683. Repressed Inflation

It is a state in which aggregate demand is greater than the total supply of goods and services in an economy, but prices are prevented from rising to eliminate excess demand. The holding down of price is sometimes done by government as a means of suppressing inflation.

684. Repricing

Repricing means a change in the rate of interest.

685. Reserve Account

An account which is maintained by depositing undistributed parts of profit for future needs is called as a reserve account.

686. Reserve Asset Ratio

It is the ratio of a bank’s reserve assets to its eligible liabilities.

687. RBI

Reserve Bank of India is the central bank of India. The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as: "...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage."

688. Reserve Banking/ Fractional-Reserve Banking

is the universal banking practice in which banks are required by law to keep only a fraction of their deposits in reserve (termed *reserve requirement*) as cash and other highly liquid assets with the choice of lending out the remainder, while maintaining the simultaneous obligation to redeem all deposits immediately upon demand. Under fractional-reserve banking also known as ***fractional deposit lending*** central bank money is used to create commercial bank money to augment economic activity, instead of it lying idle in the bank. With a fractional-reserve rate of 20%, from an initial deposit of say, $100 of central bank money $80 can be lent out as $20, is set aside as reserves. The recipient(s) of the $80 then spends that money. If the receiver(s) of that $80 deposits it into a bank, the bank sets aside 20% of that $80, or $16, as reserves and can lend out the remaining $64. As the process continues, more commercial bank money is created from an initial deposit. Full-Reserve Banking refers to a situation when the Reserve requirement is set at 100% by law. This is usually not the case as it is only in situations of grave crisis that all depositors can demand their money at the same time. Ususally only a fraction of net deposits maintained by any bank is withdrawn at a time

689. Reserve Requirements

Cash money or liquidity that member banks need to hold with the Federal Reserve System.

690. Residual Value

The anticipated value that a company calculates, to sell its asset at the end of its full life.

691. Retained Earnings

Money not paid out as dividend and held awaiting investment in the company.

692. Returns

The yield or earning at the end of a given period at a given rate of interest.

693. Return on Capital

A measure which determines how a company will optimize its funds.

694. Revolving Credit

It is a bank credit that is renewed automatically until notice of cancellation is received. Revolving credits may be sanctioned for an unlimited amount in total but with a limit on the amount that may be drawn at any one time or within a specified period, e.g., one month.

695. Revolving Line of Credit

Revolving line of credit is a rule followed by the lender, which binds him to allow a certain credit to the borrower.

696. Rights Issue

When a public company issues new shares to raise cash. The company might do this for a number or reasons - because it is running short of cash, or because it wants to make an expensive investment. By putting more shares on the market, a company dilutes the value of its existing shares

697. Risk

The probability of threat, danger, damage, liability or loss is called as risk.

698. Risk Weight

The full capital ratio for 'risky' assets is 9%. Risk weight is the proportion of the full capital ratio applicable to individual assets/asset categories. For example, ***G-Secs*** carry a risk weight of 2.5%. This means the capital provision for the ***G-Secs*** asset category should be 2.5% of 9%, i.e., 0.225% of the investment in ***G-Secs.*** Similarly, if the risk weight is 50%, the capital provision required for the asset is 4.5%.

699. RTGS (Real Time Gross Settlement)

System of clearing trades in securities immediately on completion of a deal. Is possible on STP platform. RBI/NDS/***CCIL***plan to move to RTGS mode in the near future in the ***G-Secs*** market.

700. Safekeeping

An arrangement for holding and protecting a customer's assets, like valuables, documents, etc. Such arrangements are commonly provided by banks and some financial institutions, usually for a fee. The customer is issued a safekeeping receipt, which indicates that the assets do not belong to the bank and they have to be returned to the customer, upon his request.

701. Sale Contract

A sale contract refers to a written agreement between the buyer and the seller of an asset (usually real estate), with details regarding the terms and conditions of the sale.

702. Sale Lease back

A sale of property, wherein the title is transferred to the buyer, on condition that the property will be leased to the seller on a long-term basis, after the sale.

703. Same Day Funds

This banking term refers to the funds or money balances, which can be transferred or withdrawn on the same day of presenting and collection. In short, a transfer of money, which can be used by the recipient on the same day of transfer and this provision is subject to the net settlement of accounts between the bank, through which the money is sent and the receiving bank.

704. Scheduled Commercial Banks (SCBs)

are commercial banks, which are included in the second schedule to the Reserve Bank of India Act 1934. These banks enjoy certain privileges such as free concessional remittance facilities and financial accommodation from the RBI. They also have certain obligations like minimum cash reserve ratio (CRR) to be kept with the RBI.

705. Seasonal Unemployment

It is that unemployment which is caused by seasonal variation in demand for labour by various industries, such as agriculture, construction and tourism. Seasonal unemployment
normally declines in spring as more outdoor work can be undertaken.

706. Second Mortgage

Otherwise known as ‘second trust’, a second mortgage is a mortgage which is taken out on property, which has been pledged as security to ensure payment (collateral) of an original or first mortgage. A first mortgage has priority in settlement of claims, before all other subsequent mortgages. Unlike a first mortgage, a second mortgage has a shorter repayment term, with higher interest rates.

707. Secured Loan

A loan which is backed by a pledging of real or personal property (collateral) by the borrower to the lender. Unlike unsecured loans, which is backed by a mere promise by the borrower that he will repay the loan, in case of a secured loan, the lender can initiate legal action against the borrower to reclaim and sell the collateral (pledged property).

708. Security

Property or assets, which are pledged to the lender by the borrower, as a guarantee to the repayment of a loan.

709. Securities lending

Security lending is when one broker or dealer lends a security to another for a fee. This is the process that allows short selling.

710. Securitisation

The conversion of loans into tradeable securities based on the underlying cash flows from the loans for interest payments and principal amortisation.

711. Sensex

The ***BSE*** index of its 30 most actively traded shares.

712. Settlement

The process of exchanging securities and funds after a trade/deal is concluded. If done through a clearing house, called clearing. The custodian is responsible for accepting or delivering securities bought or sold by its clients. ***Depository participants*** are examples of custodians. In Western countries, major banks also perform the role of custodians. They may even settle and guarantee trades on behalf of their clients.

Settlement of foreign exchange deals involve crediting and debiting ***nostro*** accounts for cross-currency deals (i.e., deals entirely in foreign currencies) and ***nostro*** account and rupee account for USD/INR deals.

713. SGL Depository and SGL

The **SGL** (short for **Subsidiary General Ledger) Depository** is a computerised system of records of ownership of ***SLR*** securities issued by the Government of India and ***State Governments***.

The RBI pays the coupons and redeems the SGL securities on the interest due and redemption dates.

714. Shadow Price

It is an imputed value for a good based on the opportunity costs of the resources used to produce it such values are of particular significance in resolving problems of resource allocating with respect to the effect on welfare.

715. Share Capital

It is the amount of money raised by a company by issuing shares. The authorized share capital is the amount that a company is allowed to issue as laid down in its Articles of Association. The issued share capital is the amount actually issued i.e., the number of issued shares multiplied by their par value. Fully paid share capital is the amount raised by payment of the full par value of the issued shares.

716. Short(s)

A sale position in the cash or futures markets without the investor actually owning the underlying shares. The trade anticipates the price will decline, enabling squaring up the (short) sale at a lower price.

717. SIFMA Index

A 7-day high-grade market index comprised of tax-exempt floating rate securities. The index serves as a benchmark to gauge the cost of borrowing in tax-exempt money markets.

718. Shortselling

Selling securities without actually owning the securities, in the expectation of buying them back at a lower price later.

719. Single Tax System

It is a system in which all tax revenues are raised from one form of taxation

720. SLR Bonds / Securities

Securities notified by the RBI the ownership of which by a bank qualifies for inclusion in computation of the ***SLR*** of the bank.

721. Smart Cards

Unlike debit and credit cards (with magnetic stripes), smart cards possess a computer chip, which is used for data storage, processing and identification.

722. Socialism

The political doctrine that the means of production (machines, materials and output) should be owned by society and specifically either by the state, as in the case of nationalized industries or by the workers directly, as in the case of producer co-operatives.

723. Social Security

Provision by the state out of taxation of welfare assistance to those in need as a result of illness, unemployment, or old age compare national insurance refers to social security.

724. Soft Currency

A currency with limited convertibility into gold and other currencies, either because it is depreciating due to balance of payments difficulties or because controls have been placed on it to prevent the exchange rate falling

725. Special Drawing Rights (SDRs)

It is a reserve asset (known as 'Paper Gold') created within the framework of the International Monetary Fund in an attempt to increase international liquidity, and now forming a part of countries official reserves along with gold, reserve positions in the IMF and convertible foreign currencies.

726. Special Tax (Unit Tax)

It is a tax imposed per unit of a commodity rather than on the value of the commodity compare ad-valorem.

727. Spot

Foreign exchange deals between two currencies to be settled two working days after the deal.

728. Stabilization Policy

It is Government economic policy announced at reducing the cyclical and other fluctuations that take place in a market economy.

729. Stagflation

It is a state of the economy in which economic activity is slowing down, but wages and prices continue to rise. The term is a blend of the words stagnation and inflation.

730. Standard Assets

Loans/investments which are not in arrears or default with regard to interest and principal.

731. Standard Payment Calculation

A method used to calculate the monthly payment required to repay a loan, based on the loan balance, term of the loan and the current interest rate.

732. Statutory Liquidity Ratio (SLR)

The **Statutory Liquidity Ratio** is the mandatory minimum percentage of ***Net Demand and Time Liabilities (NDTL)***, which scheduled commercial banks must invest in notified securities (also called SLR Securities). This is monitored by the RBI with reference to the ***NDTL*** position in each bank at the close of every reporting fortnight (alternate Fridays). Currently the SLR is 25%.

733. STRIPS

Separation of interest from principal in a fixed – income instrument. Each interest payment till maturity is converted into a security, which is priced on prevailing market interest rates for that maturity. The principal becomes a separate security representing a one-off payment on maturity and is similarly priced. A stripped security becomes, in essence, a series of zero coupon securities representing interest and principal cash flows from the security.

734. Stock Market Indices

A stock index is a measure of the performance of underlying stocks. Changes in the index reflect changes in the value of the stocks

735. Subsidy:

It is the payment given to the producers and distributors in a particular sector to prevent the downfall of that sector. For example goverment providers subsidies to small scale industry owners in order to prevent the downfall of small scale industries in the country.

736. Subsidiary General Ledger (SGL)

An electronic record of ownership of ***G-Secs*** / ***T-bills*** / ***State Government securities*** maintained by the RBI.

737. Surplus Value

It is the difference between the amount paid to a factor and the revenue earned by selling the output it produced.

738. SWIFT

'Society for Worldwide Interbank Financial Telecommunication' is a co-operative society created under Belgian law and having its Corporate Office at Brussels. The Society, which has been in operation since May 1977 and covers most of Western Europe and North America, operates a computer-guided communication system to rationalize international payment transfers. It comprises a computer network system between participating banks with two operating centers, in Amsterdam and Brussels, where messages can be stored temporarily before being transmitted to the relevant bank's terminal.

739. Secondary market:

A tradable financial instrument like a bond or money market instrument can be bought and sold between dealers. This market is called the secondary market.

740. Segregation of duties:

Segregation of duties is all about separation of responsibilities. In banks it means different people are responsible for entering deals, confirming deals and arranging payments. The purpose is to prevent fraud. It is something that regulators take seriously. This is because several high profile frauds have been partly attributed to a break down in segregation.

741. Settlements:

This is the area of a financial institution that is responsible for originating confirmations, verifying trades and arranging payments. It is outside and independent of the treasury.

742. Settlement risk:

Settlement risk arises where a bank pays away funds before receiving funds or securities. Whilst settlement risk may arise for only a few hours the absolute size of the risk can be large. To reduce this risk many securities transactions are completed "delivery against payment". This is where the funds are released by the clearing system only when the securities are delivered.

743. Sharpe ratio:

This is a measure of risk and return often used in fund management. It is calculated by taking the monthly return on an investment minus the risk free rate. This is then divided by the standard deviation of the monthly return. (Excess investment return divided by volatility). A low ratio indicates that volatility is relatively high in comparison with the return. This may mean the investment is not attractive.

744. Short position:

When you sell a financial asset that you do not own you are going "short". You hope to benefit from any fall in the price of that asset.

745. Special collateral: When a particular bond is in demand in the repo market the *repo rate* can fall much lower than *money market* interest rates. That bond is then referred to as special collateral, (see *repurchase agreement*).

746. Special purpose vehicle, (SPV):

A special purpose vehicle is a company that is normally set up in a tax and business friendly environment for example, Delaware, Jersey or the Netherlands Antilles. SPVs are used in structured finance. The sponsor of the SPV is normally a financial institution. The SPV buys assets from the sponsor or the market and can then use them for the purpose of different types of transaction. One such transaction would be a *collateralized debt obligation*.

747. Spot:

This is the traditional two day settlement period. Where transactions are agreed today but the delivery and payment takes place in two days time. Increasingly financial markets are moving towards one day and real time settlement to reduce risk.

748. Swap:

A bilateral transaction where two institutions exchange cash flows based on separate indices. A swap has a start date, a maturity date and a principal amount on which the cash flow payments are calculated. The simplest example is an *interest rate swap*. There are is no principal exchange only interest payments. One party pays a fixed interest rate to the other party and in return receives a variable interest rate, typically Libor. Swaps are used for both *hedging* and *trading* purposes.

749. Swaption:

A swaption is an *option* on a swap. There are two types of swaption:
1. A payer's swaption, if you buy this option it gives you the right, (but not obligation), to enter into a forward starting swap where you pay fixed interest.
2. A receiver's swaption, if you buy this option it gives you the right, (but not obligation), to enter into a forward starting swap where you receive fixed interest on a swap.

750. Synthetic:

This term is used in financial markets to describe the construction of a financial instrument or product using derivatives. For example a synthetic floating rate note is a fixed rate bond that has been converted to a floating rate bond using an interest rate swap. A synthetic CDO uses credit derivatives to create the credit risk rather than cash based assets.

751. Synthetic collateralised debt obligation:

A type of collaterised debt *obligation* that uses *credit default swaps* as the assets in the *special purpose vehicle*.

752. Syndicated Loan

A very large loan extended by a group of small banks to a single borrower, especially corporate borrowers. In most cases of syndicated loans, there will be a lead bank, which provides a part of the loan and syndicates the balance amount to other banks.

753. T-bills

Short for Treasury Bills. Sovereign debt of the Government of India. Qualifies for inclusion in the ***SLR***. Issued through auctions by the RBI. Maximum maturity: one year. A ***discount*** instrument

754. Tail

The lower among the bid prices is an auction, if bids are arranged in descending order

755. Take down Period

The time (period) when a borrower receives finances from a lender under a line of credit or loan commitment.

Takeout Commitments

This term relates to a written promise by a loaner to make a long-term financial arrangement to substitute or replace a short-run loan.

756. Tariff

It is a tax or a duty on imports, which can be levied either on physical units, e.g., per tonne (specific), or on value (ad-valorem). Tariffs may be imposed for a variety of reasons including; to raise government revenue, to protect domestic industry from subsidized or low-wage imports, to boost domestic employment, or to ease a deficit on the balance of payments.

757. Term Insurance

It is the insurance for a certain time period which provides for no defrayal to the insured individual, excluding losses during the period, and that becomes null upon its expiration.

758. Term Note

A legal notice offered by a particular organization to investors through a dealer.

759. The Wealth of Nations:

It is the famous book written by Adam Smith {Renowned economist}

760. Time Deposit

A kind of bank deposit which the investor is not able to withdraw, before a time fixed when making the deposit.

761. Time Value

This is the sum of money that an option's premium surpasses its intrinsic worth, and is also called as 'time premium'.

762. Tier I Capital

Consists of paid-up equity and free reserves and constitutes the core capital of the Bank.

763. Tier II Capital

Consists of revaluation reserves, general provisions and loss reserves and subordinated debt in the form of long-term bonds and ***Investment Fluctuation Reserve.***

Subordinated debt issued by banks/FIs/NBFCs to meet Tier II capital requirements are called Tier II bonds.

764. Title Insurance

It is the insurance for the purpose of protecting a loaner or owner against loss, if there is any kind of a property ownership conflict.

765. Title Opinion

It pertains to a legal instrument confirming that a property title is clear and can be offered for sale in the market.

766. Title Search

This refers to the procedure of analyzing all applicable records to affirm that the vendor is the legal possessor of the property and that there are no liens or other claims undischarged.

767. Total Return Swap

It is a kind of switch wherein an entity pays another entity according to the fixed rate in return for defrayals based on the return of a given asset.

768. Total Risk-Based Capital

The finances that are provided for startup companies and small businesses with prodigious growth abilities.

769. Trade Credit

It is the credit which a company gives to another organization for the purpose of buying products or services.

770. Trade Date

The day on which the actual transaction takes place; one to five days before the settlement period, according to the kind of transaction.

771. Trade Gap

It signifies the size of the deficit (or surplus) in the balance of trade i.e., the difference in value between visible imports and exports.

772. Trade Union

It is an organisation of employees who join together to further their interests. Trade Unions negotiate on behalf of their members in collective bargaining with employers, and in the event of a dispute may put pressure on employers by withdrawing labour (i.e. strike) or by some less drastic form of action (i.e. go-slow, working to rule).

773. Trading Portfolio

As defined by the RBI, the trading portfolio of a bank consists of securities bought with a view to profit from short-term upward movements in their prices. They must be compulsorily marked-to- market.

774. Term

A fixed amount of time usually given to repay a loan

775. Transfer Payment

It is a payment made by public authority other than one made in exchange for goods or services produced. Transfer payments are not the part of National Income. Examples includes unemployment benefit and child benefits.

776. Treasury Bills:

These are short term borrowing instruments that are issued by RBI. They are issued at discount to face value and on attaining maturity the maturity value is paid to the holder. The minimum amount in treasury bills is 25,000 Rs and thereafter they are available in multiples of 25,000.

777. TT Buying/Selling Rates

Rates quoted by a bank for immediate purchases/sales of foreign exchange. Usually the inter-bank rate ± bank's spread. TT buying/selling rates are converted to TT forward rates by applying the applicable forward premiums on the foreign currency.

778. Trading:

Trading is the processes of buying and selling financial instruments on a frequent basis *(see mark-to-market).*

779. Trading book: When financial instruments are bought and sold on a regular basis this normally constitutes trading. The portfolio where these trading positions are held is called the trading book. It is accounted for on a*mark-to-market* basis. Also see *banking book*.

780. Uncovered

It is the condition of an option bearer who doesn’t even possess an offsetting position in the underlying instrument.

781. Underwriter

Any investment or commercial financial firm or a securities house that works with an issuing entity for the purpose of selling anew issue.

782. Undivided Profits

This is a banking work for retained earnings.

783. Unexpected Loss or Unexpected Risk

The element or part of risk or loss which surpasses the anticipated amount.

784. Unlimited Guaranty

A guarantee understanding which doesn’t consist of any provisos limiting the amount of debt guaranteed.

785. Unqualified Opinion

A word used to depict a suggestion letter concomitant with scrutinized financial statements.

786. Unwind

To unwind a deal is to reverse it - to sell something that you have previously bought, or vice versa.

787. Variable Rate Demand Note (VRDN)

A long-term taxable or tax-exempt bond that bears a floating interest rate and that provides investors the option to tender or put securities at any time with specified notice. The put price is par plus accrued interest

788. VAT (Value Added Tax)

VAT seeks to tax the value added at every stage of manufacturing and sale, with a provision of refunding the amount of VAT already paid at the earlier stages to avoid double taxation. In other words, the tax already paid can be claimed at the next stage of value addition.

789. Value At Risk (VAR)

The sum or portion of the value that is at stake of subject to loss from a variation in prevalent interest rates.

790. Value Based Management (VBM)

It is a structured approach to evaluate the performance of the company’s unit managers or goods and services, in terms of the aggregate gains they render to stockholders.

791. Value Date

Payment date to settle a transaction, that is, the date on which funds will actually be credited or debited.

792. Variance

This is a stats-related word which measures the distribution of information, like rates or costs around the mean.

793. Vested Accumulated Benefit Obligation

The part of the conglomerated benefit obligation under a specified benefit plan to which the workers possess a legal right, even if their employment is terminated before retirement.

794. Vital Statistics

Vital statistics refers to those data which are associated with vital events of masses like birth, death, marriage divorce etc.

795. Volatility

The standard deviation (average deviation of individual prices from the mean) of a series of prices of a financial instrument. Measures the fluctuation over time in the market price of an instrument and is extensively used in the valuation of financial instruments.

796. Value-at-risk, (VAR):

VAR is a risk management technique that tells you how much money you can lose from your trading positions, for a given holding period and confidence interval. It uses statistics and works on probability. Therefore it does not show a guaranteed maximum loss figure, only an estimate. VAR is widely used by banks for risk management and in internal models that determine regulatory capital usage.

797. VIX:

The VIX is an index of short term volatility for the S&P 500 index. The index was created by the Chicago Board Options Exchange (CBOE). The index is often seen as a barometer of fear in the stock market. The higher the index the higher is uncertainly. There are futures and options contract linked to the VIX.

798. Vostro Accounts

Vostro Accounts are rupee accounts maintained by banks outside India with Bank of Baroda to clear their rupee transactions.

799. Waiver

In banking terms, a waiver is relinquishing the rights. Sometimes also considered to be the exemption or settlement of a part of debt.

800. Warehouse Receipt

A document or a statement which states the quantity and quality of the items at the warehouse for safekeeping.

801. Warrants

A document entitling the bearer to receive shares, usually at a stated price.

802. Warranty Deed

A deed which states that the seller holds the clear title of the goods or real estate to be sold. This gives him or her the right to sell the title toa prospective buyer.

803. Wealth Tax

Wealth tax is that tax which is imposed on the value of total assets but the wealth upto a certain limit is exempted from such tax.

804. Welfare State

It refers to a nation that provides to all at least the minimum standards in respect of education, health, housing, pensions and other social benefits.

805. Whole Life Insurance

A whole life insurance is a contract between the insurer and the policy owner, that the insurer will pay the sum of money on the occurrence of the event mentioned in the policy to the insured. It's a concept wherein the insurer mitigates the loss caused to the insured on the basis of certain principles.

806. Wholesale Banking

Wholesale banking is a term used for banks which offer services to other corporate entities, large institutions and other financial institutions.

807. Wholesale Price Index

Wholesale Price Index is that index which is calculated on the basis of wholesale prices. It is calculated in a similar way to the Retail Price Index.

808. Wire Transfers

A wire transfer is an Electronic medium used while transferring of funds.

809. Withdrawals

Removing of funds from a bank account is called as making a withdrawal.

810. Without Recourse

A term which signifies that the buyer is responsible for non-performance of an asset or non-payment of an instrument, instead of the seller.

811. Working Capital

In banking terms, working capital is defined as the difference between current assets and current liabilities.

812. World Bank:

It is an international financial institution that was established in the year 1945. It provides loans to poor countries in order to reduce poverty

813. World Trade Organization:

Was established in the year 1995 in order to supervise international capital trade.

814. Yield

The returns earned on a stock or bonds, as per the effective rate of interest on the effective date, is called as a yield in the banking terms.

815. Yield Curve

Yield curve is a graph or a curve that shows the relationship between maturity dates and yield.

816. Yield Curve Risk

Yield curve risk is the huge risk involved in a fixed income instrument, due to major fluctuations in the market rates of interest.

817. Yield to Call (YTC)

The yield on a bond calculated on the supposition that the issuer will redeem the amount at the first call as stated on the bond's prospectus is called as yield to call.

818. YTM (Yield to Maturity)

The rate of interest which equates the present value of future interest payments and principal redemption with today's price of the bond.

819. Zero Balance Account

A bank account which does not require any minimum balance is termed as a zero balance account.

820. Zero Cost Collar

A type of arrangement, wherein, the borrower buys a cap from the bank and sells the floor. In this arrangement, the cost of the capis recovered by sale proceeds of the floor or vice versa.

821. Zero coupon bond:

A bond that pays no interest over its life. Long dated zero coupon bonds therefore trade at prices well below their eventual redemption price of par.

822. Zero Coupon Yield

The yield on bonds paying no coupons and cumulating interest till maturity.

823. Zero Coupon Yield Curve

Zero coupon yield curve is also called as spot yield curve, and is used to determine discount factors.

824. Zero-Down-Payment Mortgage

Zero-down-payment mortgage is a type of mortgage given to a buyer who does not make any down payments while borrowing. The mortgage buyer borrows the amount at the entire purchase price