GLOSSARY

Asset-backed commercial paper (ABCP)	Commercial paper collateralized by a pool of loans, leases, receivables, or structured credit products.
Asset-backed security (ABS)	A security that is collateralized by the cash flows from a pool of underlying assets, such as loans, leases, and receivables. Often when the cash flows are collateralized by real estate, an ABS is called a mortgage-backed security.
Asset guarantee	A government guarantee that partially compensates for potential losses stemming from a specified pool of assets held by a financial institution. Usually a fee is charged.
Asset Protection Scheme	The U.K. Treasury program to protect eligible financial institutions from their exposures to losses on defined assets beyond a first loss amount. A fee is charged.
Asset purchase	The offer or actual purchase of a specified pool of assets by a government or a central bank from a financial institution, for which an active market no longer exists. This measure aims to remove impaired assets from the balance sheet of a financial institution.
Assets under management (AUM)	Financial assets managed by a fund manager on behalf of end-investors. These can be direct loans or securities and may be leveraged (e.g., by hedge funds).
Bad bank	A publicly initiated financial institution that holds nonperforming loans and impaired assets of other financial institutions. The “bad bank” is formed to support troubled financial institutions and typically holds the nonperforming assets until they are sold or amortize.
Basel II	An accord providing a comprehensive revision of the Basel capital adequacy standards issued by the Basel Committee on Banking Supervision. Pillar I of the accord covers the minimum capital adequacy standards for banks, Pillar II focuses on enhancing the supervisory review process, and Pillar III encourages market discipline through increased disclosure of banks’ financial condition.
Break-even inflation rate	The difference between yields on comparable nominal and inflation-indexed bonds that provides a measure of market expectations of the future path of the reference inflation index.
Buyback (capital)	The operation by which a firm buys its own shares or hybrid securities, thereby returning capital to securities holders.
Buy-to-let residential mortgage	A mortgage used to finance the purchase of an investment property that is then rented out.

Capital adequacy ratio (CAR)	The ratio, usually shown as a percentage, of a bank's capital to its assets, generally risk-weighted.
Cédula	The Spanish version of a covered bond, mainly collateralized with mortgages and public debt.
CEMBI	JPMorgan Corporate Emerging Markets Bond Index, which includes liquid U.S. dollar-denominated bonds issued by emerging market corporate entities.
Charge-off	Provision made by a lender recognizing that an amount of debt it is owed is unlikely to be collected in full.
Charge-off rate	The flow of a bank's net charge-offs (gross charge-offs minus recoveries) during a quarter divided by the average level of its loans outstanding over that quarter.
Collateralized debt obligation (CDO)	A structured credit security backed by a pool of credit-sensitive assets, where interests in the security are divided into tranches with differing repayment and interest earning streams. The reference pool of assets typically includes a diverse range of assets, such as senior secured bank loans, high-yield bonds, and credit default swaps.
Commercial mortgage-backed security (CMBS)	A security that is collateralized by the cash flows from a pool of underlying commercial mortgages.
Commercial mortgage-backed securities index (CMBX)	A series of indexes, each referencing 25 tranches of commercial mortgage-backed securities, with differing credit ratings.
Commercial paper	A private unsecured promissory note with a short maturity.
Consolidation and derecognition	Consolidation is assessed at the entity level and a reporting entity prepares a financial statement that consolidates the assets, liabilities, equity, income, expenses and cash flows with those of the entities that it controls (i.e., its subsidiaries). Derecognition entails ceasing to recognize that asset or liability in an entity's financial statement of financial position.
Covered bond	A debt obligation on which the investor has first recourse to a cover pool of assets that secures the bond. Unlike asset-backed securities, collateral assets underlying covered bonds remain on the issuer's consolidated balance sheet, thereby providing creditors with a second level of protection ("dual recourse").
Credit default swap (CDS)	A credit derivative whose payout is triggered by a "credit event," often a default. CDS settlements can either be "physical"—whereby the protection seller buys a defaulted reference asset from the protection buyer at its face value—or in "cash"—whereby the protection seller pays the protection buyer an amount equal to the difference between the reference asset face value and the price of the defaulted asset.

Credit derivative	A financial contract under which an agent buys or sells risk protection against the credit risk associated with a specific reference entity (or specified range of entities). For a periodic fee, the protection seller agrees to make a contingent payment to the buyer on the occurrence of a credit event (usually default in the case of a credit default swap).
Credit easing	The purchase by a central bank of certain assets in order to improve conditions in (a) specific market(s). If credit easing is not sterilized, it increases the size of the central bank's balance sheet and thus the amount of base money (reserve balances of banks and cash).
Credit spread	The spread between benchmark securities and other debt securities that are comparable in all respects except for credit quality (e.g., the difference between yields on U.S. treasuries and those on single A-rated corporate bonds of a certain term to maturity).
Defined benefit	A type of pension plan in which an employer promises a specified benefit upon retirement, typically determined by a formula based on an employee's earnings history, age, and tenure in a company.
Defined contribution	A retirement plan in which the amount of the employer's annual contribution is specified. Typically, individual accounts are set up for each member, into which the employee and employer contribute. The contributions are then invested until retirement and then annuitized.
Derivative	A financial contract whose value derives from underlying securities prices, interest rates, foreign exchange rates, commodity prices, or market or other indices.
EMBIG	JPMorgan's Emerging Market Bond Index Global, which tracks the total returns for traded external debt instruments in 34 emerging market economies with weights roughly proportional to the market supply of debt.
Emerging markets	Developing countries' financial markets that are less than fully developed, but are nonetheless broadly accessible to foreign investors.
Event study	A statistical method to assess the short-term impact of an event, such as an announcement of market intervention, by measuring the reaction of the financial markets.
Financing gap	As used in this report, the gap between ex ante projected credit demand and credit capacity. There is no ex post financing gap because changes in interest rates and/or quantity rationing bring credit demand and supply into balance.
Flexible Credit Line	An instrument established on March 24, 2009 as part of a package of reforms to the IMF's lending facilities. The instrument provides upfront and automatic access to the IMF's resources to members with very strong economic fundamentals and institutional policy frameworks.

Fund for Ordered Bank Restructuring	A bank restructuring fund established by the Spanish government in June 2009 in a bid to spur mergers and prevent solvency problems at smaller banks.
Generally Accepted Accounting Principles. (GAAP)	The standard framework of guidelines for financial accounting in a given jurisdiction. In Chapter 1, it typically refers to the standards in the United States.
Government-sponsored enterprise (GSE)	A financial institution that provides credit to specific groups or areas of the economy, such as farmers or housing. Most enterprises maintain legal and/or financial ties to the government.
Hedge fund	An investment pool, typically organized as a private partnership and often resident offshore for tax and regulatory purposes. These funds face few restrictions on their portfolios and transactions. Consequently, they are free to use a variety of investment techniques—including short positions, transactions in derivatives, and leverage—to attempt to raise returns and manage risk.
Hedging	Offsetting an existing risk exposure by taking an opposite position in the same or a similar risk—for example, in related derivatives contracts.
Hybrid instrument/security	A security that combines the elements of both debt and equity in various measures. It can pay a fixed or floating rate coupon or dividend until a certain date, at which point the holder may have a number of options, including converting the security into the underlying shares at a predetermined price. Unlike pure equity, the holder enjoys predetermined cash flow, and, unlike a fixed-income security, the holder has the potential to gain if the issuer's equity price rises. Hybrids are typically subordinate to other debt obligations in the capital structure of the firm.
Implied volatility	The expected volatility of a security's price as implied by the price of options or swaptions (options to enter into swaps) traded on that security. Implied volatility is computed as the expected standard deviation needed to satisfy risk neutral arbitrage conditions, and is calculated by using an options pricing model such as Black-Scholes.
Institutional investor	A bank, insurance company, pension fund, mutual fund, hedge fund, brokerage, or other financial group that takes investments from clients or invests on its own behalf.
Internal-ratings-based (IRB) approach	A methodology of the Basel Capital Accord that enables banks to use their internal models to generate estimates of risk parameters that are inputs into the calculation of their risk-based capital requirements.
International Accounting Standards (IAS)	A standard framework of guidelines for financial accounting adopted by the International Accounting Standards Board, based in London.

Investment-grade obligation	A bond or loan is considered investment grade if it is assigned a credit rating in the top four categories. S&P and Fitch classify investment-grade obligations as BBB- or higher, and Moody's classifies investment-grade obligations as Baa3 or higher.
Jumbo bond	A bond with a face value of at least €500 million (or an equivalent amount in other currency) that meets certain minimum liquidity criteria (e.g., a minimum number of market makers have committed to quote continuous two-way prices).
Large and complex financial institution (LCFI)	A systemically important financial institution that is involved in a diverse range of financial activities and/or geographical areas. Typically they are large and interconnected to other financial institutions.
Lehman Brothers	Formerly a global investment bank, headquartered in the United States, whose failure on September 15, 2008 marked the largest bankruptcy of an investment bank in U.S. history. The bankruptcy was the catalyst for a level of exceptional turmoil in global financial markets and prompted an unprecedented, coordinated public sector response to prevent a catastrophic financial crisis.
Leverage	The proportion of debt to equity (also assets to equity and assets to capital). Leverage can be built up by borrowing on balance sheet (commonly measured by debt-to-equity ratios) or by using off-balance-sheet transactions.
Leverage ratio	A bank's leverage ratio typically refers to Tier 1 capital as a ratio of adjusted assets. Assets are adjusted for intangible assets not included in Tier 1 capital.
LIBOR	The London Interbank Offered Rate is an averaged measure of the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market.
Mortgage-backed security (MBS)	A security that derives its cash flows from principal and interest payments on pooled mortgage loans. MBSs can be backed by residential or commercial mortgage loans.
National Asset Management Agency	An Irish government agency that is due to be established to assume bad loans from the banking sector's balance sheets.
Nonperforming loans (NPLs)	Loans that the bank foresees difficulty in collecting. They include nonaccruing loans, reduced rate loans, renegotiated loans, and loans past due 90 days or more. They exclude assets acquired in foreclosures and repossessed personal property.
Off-balance-sheet entity (OBSE)	An entitiy that allows financial institutions to transfer risk off their balance sheets, improve the liquidity of loans through securitization, generate fee income, and achieve relief from regulatory capital requirements. They are commonly referred to as special-purpose entities or variable interest entities in banking and accounting.

Originate-to-distribute model	A business model for financial intermediation, under which financial institutions originate loans such as mortgages, repackage them into securitized products, and then sell them to investors.
Overnight index swap (OIS)	An interest-rate swap whereby the compounded overnight rate in the specified currency is exchanged for some fixed interest rate over a specified term.
Pass-through security	A securitization product that passes the underlying portfolio's net cash flows directly through to investors.
Pension Protection Fund	A statutory U.K. insurance fund that compensates members of eligible defined-benefit pension schemes in the event of a qualifying employer's insolvency, in which the pension plan has insufficient assets to pay out benefit claims fully.
Pfandbriefe	German term (literally "letter of pledge") for covered bonds, mainly used to refinance mortgages or public projects.
Private-label securitization	Covers securitization products not issued or backed by governments and their agencies, that is, excluding those of government-sponsored enterprises and public sector entities.
Provision for loan loss	Loss that the bank expects to take as a result of uncollectible or troubled loans. Includes transfer to bad debt reserves and amortization of loans.
Public Private Investment Program	The program jointly sponsored by the U.S. Treasury, Federal Reserve, and Federal Deposit Insurance Corporation designed to attract buyers for, and create liquidity in, legacy impaired loans and securities held by U.S. banks. U.S. authorities are to provide equity and nonrecourse financing to private investors to purchase bank assets.
Quantitative easing	An expansion of a central bank's balance sheet through purchases of government securities, funded through the creation of base money (reserve balances of banks and cash).
Regulatory arbitrage	Taking advantage of differences in regulatory treatment across countries or different financial sectors, as well as differences between economic risk and that measured by regulatory guidelines, to reduce regulatory capital requirements.
Repurchase agreement (repo)	An agreement whereby the seller of securities agrees to buy them back at a specified time and price. The transaction is a means of borrowing cash collateralized by the securities "repo-ed" at an interest rate implied by the forward repurchase price.
Re-Remic	Resecuritization of existing real estate mortgage-backed securities (MBSs) or real estate mortgage investment conduits (Remics).

Ring-fencing program	A financial restructuring strategy that is an alternative to forming an independent "bad bank." The aim is to provide official support to a financial institution by guaranteeing the losses on certain nonperforming assets of the institution above a first loss amount. These assets are said to be "ring-fenced." The program is typically provided in exchange for an equity stake on the firm and/or some transaction fee.
Risk aversion	The degree to which an investor who, when faced with two investments with the same expected return but different risk characteristics, prefers the one with the lower risk. That is, it measures an investor's aversion to uncertain outcomes or payoffs.
Risk premium	The extra expected return on an asset that investors demand in exchange for accepting its higher risk.
Risk-weighted assets (RWA)	The assets of a financial institution multiplied by a weighting established by the regulatory authorities, reflecting the relative risk of these assets.
ROA	Return on assets, which equals (net income before preferred dividends plus ((interest expense on debt-interest capitalized) multiplied by (1 minus tax rate))) divided by last year's total assets multiplied by 100.
ROE	Return on equity, which equals total income minus preferred dividends divided by total common equity multiplied by 100.
Securitization	The creation of securities from a reference portfolio of preexisting assets or future receivables that are placed under the legal control of investors through a special intermediary created for this purpose (a "special-purpose vehicle" [SPV] or "special-purpose entity" [SPE]). In the case of "synthetic" securitizations, the securities are created from a portfolio of derivative instruments.
Spread	See "credit spread" above. Other definitions include (1) the gap between the market bid and ask price of a financial instrument; and (2) the difference between the price at which an underwriter buys a new security from the issuer and the price at which the underwriter sells it to investors.
Standardized approach (SA)	A methodology of the Basel Capital Accord that enables banks to measure credit risk in a standardized manner, supported by external credit assessments, to generate estimates of risk parameters that are inputs into the calculation of their risk-based capital requirement.
Structured credit product	An instrument that pools and tranches credit risk exposure, including mortgage-backed securities and collateralized debt obligations.

Structured investment vehicle (SIV)	A legal entity, whose assets consist of asset-backed securities and various types of loans and receivables. An SIV's funding liabilities are usually tranched and include short- and medium-term debt; the solvency of the SIV is put at risk if the value of the assets of the SIV falls below the value of the maturing liabilities.
Subprime mortgage	A mortgage loan to a borrower with an impaired or limited credit history, and who typically has a low credit score.
Supervisory Capital Assessment Program	A stress test conducted in early 2009 by U.S. banking supervisors and regulators of the country's 19 largest bank holding companies to assess additional capital needs, if any, for each institution to have sufficient capital if the economy weakened in line with a hypothetical stress scenario.
Supplementary Financing Program (SFP)	A program according to which the U.S Treasury issues bills on behalf of the U.S. Federal Reserve and deposits the proceeds at the Federal Reserve. The program is designed to drain excess reserves for monetary policy purposes in the absence of the Federal Reserve's legal authority to issue central bank bills.
Swap	An agreement between counterparties to exchange periodic interest payments based on different reference financial instruments or indices on a predetermined notional amount.
Tangible assets (TA)	Total assets less intangible assets (such as good-will and deferred tax assets).
Tangible common equity (TCE)	Total common equity minus intangible assets.
Term Asset-Backed Securities Loan Facility	A U.S. Federal Reserve funding program designed to support liquidity in, and the origination of, asset-backed securities collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration. The program was expanded to include new issue and legacy commercial mortgage-backed securities.
Tier 1 capital	The core capital supporting the lending and deposit activities of a bank. It consists primarily of common stock, retained earnings, and perpetual preferred stock.
Tier 2 capital	The supplemental capital supporting the lending and deposit activities of a bank. It includes limited life preferred stock, subordinated debt, and loan loss reserves.
Total assets (banks)	The sum of cash on hand and due from banks, total investments, net loans, customer liability on acceptances, investment in unconsolidated subsidiaries, real estate assets, net property, plant and equipment, and other assets.

Total assets (insurance companies)	The sum of cash, total investments, premium balance receivables, investments in unconsolidated subsidiaries, net property, plant and equipment, and other assets.
Total assets (other financial companies)	The sum of cash and equivalents, receivables, securities inventory, custody securities, total investments, net loans, net property, plant and equipment, investments in unconsolidated subsidiaries, and other assets.
Total capital	The total investment in a company. It is the sum of common equity, preferred stock, minority interests, long-term debt, nonequity reserves, and deferred tax liability on untaxed reserves. For insurance companies, policyholders' equity is also included.
Total debt	All interest-bearing and capitalized lease obligations.
Total deposits	The value of money held by the bank or financial company on behalf of its customers.
Total loans	The total amount of money loaned to customers before reserves for loan losses but after unearned income. It includes lease financing and finance receivables.
Yield curve	The relationship between the interest rates (or yields) and time to maturity for debt securities of equivalent credit risk.