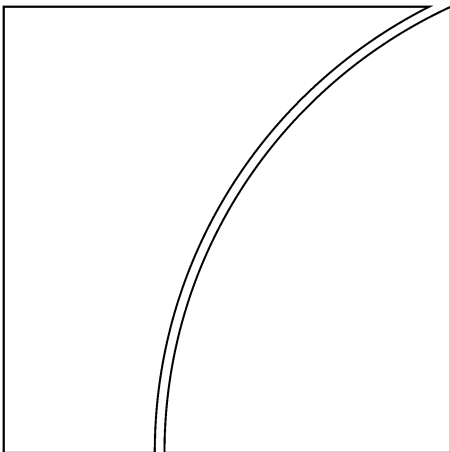


Committee on Payment and Settlement Systems



A glossary of terms used in payments and settlement systems

March 2003



BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available only on the BIS website (www.bis.org).

First edition published January 2001.

Revised editions published July 2001 and March 2003.

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ISBN 92-9197-133-2 (online)

Foreword

The Committee on Payment and Settlement Systems (CPSS) is publishing this comprehensive glossary of payment system terminology as a reference document for the standard terms used in connection with payment and settlement systems. It combines various glossaries appended to earlier reports by the CPSS and the European Central Bank (ECB).

There are many aspects to payment systems, relating for instance to legal arrangements, technological and operational issues, financial market infrastructures and the conduct of monetary policy. In payment systems, we see the practical application of many concepts that are key to central bank operations and policymaking, such as intraday liquidity, risk management and the oversight of payment and settlement systems. It is often observed that payment system policy planning requires a multidisciplinary approach and a familiarity with a wide range of subjects. Understanding the terminology of payment systems is therefore a key requirement, not only for those involved in day-to-day activities connected with these systems but also for the policymakers, financial institutions, academics and others interested in these subjects. By bringing together all the terms and concepts associated with payment and settlement systems, this publication aims to provide readers with a single and easily accessible source with which to reference the generally accepted definitions of standard payment system terminology.

I hope readers will find this glossary a valuable addition to the previous work carried out by the Committee and other institutions to advance the understanding of payment and settlement systems. The electronic version of the publication, which is available on the BIS website (www.bis.org), will be regularly updated as new terminology appears in future CPSS publications.

Tommaso Padoa-Schioppa, Chairman
Committee on Payment and Settlement Systems

Introduction

Over the years, the terminology relating to payment systems has been steadily refined as payment and settlement infrastructures have evolved and our knowledge of the complexities of the payment process has increased. Developments in technology highlight the importance of consistent usage of new terms, which we need to use whether or not we are technical experts. For example, the concept of real-time processing is intrinsic to understanding the functioning of modern payment systems and figures in discussions among users and experts. As in most disciplines, payments terminology has also been enriched by a number of analytical studies, which have added new concepts and terms.

To this end, the Committee on Payment and Settlement Systems (CPSS) has decided to bring together in a single publication all the standard terms and their definitions that have been published in the reports of the CPSS, the European Monetary Institute (EMI) and the European Central Bank (ECB). The first glossary to be included in this collection is from the report *Delivery versus payment in securities settlement systems* published in 1992. The “Red Book” series first published in 1993 attempted to provide a standard set of definitions for commonly used payment system terms. Since then, more terms have continually been added with the publication of each new CPSS report. The EMI expanded the collection with the glossary of its “Blue Book”, *Payment systems in the European Union*, published in 1996. These efforts are being continued by the ECB in its successive reports on payment systems. With each additional report, the vocabulary of payment systems continues to grow.

This combined glossary includes terms used in all the glossaries of the CPSS and EMI/ECB reports published to date. In some cases, identical terms have been used to explain concepts that may have different implications depending on the context of their use. For example, “marking to market” is defined differently in a payment system context from the way it is understood in the context of a derivatives contract. In such cases, all the relevant definitions have been included. The source reference given in the last column of each entry indicates the reports where the term was defined, thus enabling the reader to refer back if necessary.

This publication, which will be available on the BIS website (www.bis.org), will be continuously updated to include terminology from new reports as and when they are published. With a view to making this document more user-friendly, readers are invited to send any comments and suggestions to the Committee on Payment and Settlement Systems, Bank for International Settlements, CH-4002 Basel, fax: +41 61 280 9100; e-mail: cpss@bis.org (subject line: Glossary).

List of terms and abbreviations

(January 2003)

| Title | Short title | First published |
|---|--------------------|------------------------|
| Delivery versus payment in securities settlement systems | DVP | September 1992 |
| Payment systems in the Group of Ten countries | Red Book | December 1993 |
| Cross-border securities settlements | x-border | March 1995 |
| Settlement risk in foreign exchange transactions | FX | March 1996 |
| Payment systems in the European Union (Blue Book) | Blue Book | April 1996 |
| Security of electronic money | EM-Sec | August 1996 |
| Implications for central banks of the development of electronic money | EM-CPSS | October 1996 |
| Disclosure framework for securities settlement systems | SDF | February 1997 |
| Clearing arrangements for exchange-traded derivatives | ETDC | March 1997 |
| Report on electronic money | EM-ECB | August 1998 |
| Report on OTC derivatives: settlement procedures and counterparty risk management | OTC | September 1998 |
| Securities lending transactions: market development and implications | SLT | July 1999 |
| Payment systems in countries that have applied for membership of the European Union (Blue Book) | Blue Book | August 1999 |
| Retail payments in selected countries: a comparative study | Retail | September 1999 |
| Core principles for systemically important payment systems | Core Principles | January 2001 |
| Recommendations for securities settlement systems | SSS | November 2001 |

A note on the source reports

The source column lists all the reports in which the term is defined. The following notational conventions are used:

- Source marked in **bold**: generally indicates the primary source of the definition, ie generally the report in which the term was defined for the first time.
- Source marked in *italics*: indicates that the listed explanation may be slightly different from the one used in the report without materially changing the meaning. In some cases the listed explanation elaborates or clarifies the definition further than that contained in the relevant report.

Glossary

| Term | Definition | Source |
|-------------------------------------|---|---|
| acceptance for settlement | the stage in the processing of a payment at which it has passed all risk management and other tests and can be settled under the system's rules and procedures. | Core Principles |
| acceptor | any trading or service establishment that accepts, on its own behalf or on behalf of its network, the payment of goods or services via an electronic money instrument. | EM-ECB |
| access | the right of or opportunity for an institution to use the services of a particular payment system to settle payments on its own account or for customers. See also direct participant, direct participant/member, indirect participant/member, participant/member. | Core Principles |
| access products | payment instruments that allow customers to access their deposit accounts and to transfer the deposits therein. Examples include electronic funds transfers at the point of sale and home banking facilities. | EM-ECB <i>EM-CPSS</i> |
| accountability | record-keeping of electronic money transactions. | EM-ECB |
| ACH | see automated clearing house. | |
| acquirer | the entity or entities that hold(s) deposit accounts for card acceptors (merchants) and to which the card acceptor transmits the data relating to the transaction. The acquirer is responsible for the collection of transaction information and settlement with the acceptors. | EM-ECB |
| acquiring technical operator | the party providing the technical facilities for each acquiring entity to accept the data relating to each transaction. | EM-ECB |
| advisory netting | see position netting. | Red Book Blue Book |
| agency relationship | a contractual relationship in which one party, the agent, acts on behalf of another party, the principal. The agent may execute trades for the principal but is not responsible for performance by the principal. | ETDC |
| agent | an entity, such as a fund manager or a custodian, that undertakes a securities loan and negotiates the terms with the borrower on behalf of a customer-owner. | SLT |
| APS | see assured payment system. | |
| arbitrage | profiting from a difference in price when the same security, currency or commodity is traded on two or more markets. | SLT |
| assured payment system | an arrangement in an exchange-for-value system under which completion of timely settlement of a payment instruction is supported by an irrevocable and unconditional commitment from a third party (typically a bank, syndicate of banks or clearing house). See also exchange-for-value settlement system. | DVP Red Book Blue Book |

| Term | Definition | Source |
|---------------------------------|--|---|
| asymmetric cryptography | a set of cryptographic techniques in which two different keys (private and public keys) are used for encrypting and decrypting data. The private key is kept secret by its holder while the public key is made available to communicating entities. Also called public key cryptography. | EM-Sec |
| ATM | see automated teller machine. | |
| auditability | understood to mean that it is possible to establish whether a system is functioning properly and, thereafter, that it has worked properly. One aspect of auditability is to provide sufficient knowledge about the system and its structure, functions, controls, etc by means of appropriate documentation. Another important aspect of auditability is to make visible all integrity-related modifications to the system and its data. Logging data should make it possible to answer the questions “who?”, “what?” and “when?”. | EM-ECB |
| audit trail | a sequential record of events having occurred in a system. | EM-Sec |
| authentication | the methods used to verify the origin of a message or to verify the identity of a participant connected to a system and to confirm that a message has not been modified or replaced in transit. | EM-CPSS Core Principles |
| automated clearing house | an electronic clearing system in which payment orders are exchanged among financial institutions, primarily via magnetic media or telecommunications networks, and handled by a data processing centre. See also clearing/clearance. | Red Book Blue Book |
| automated teller machine | an electromechanical device that permits authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services, such as balance enquiries, transfer of funds or acceptance of deposits. ATMs may be operated either online with real-time access to an authorisation database or offline. | Red Book Blue Book <i>Retail</i> |
| availability | the ability of services and information to be accessed by users when requested. | EM-Sec |
| back office | the part of a firm that is responsible for post-trade activities. Depending upon the organisational structure of the firm, the back office can be a single department or multiple units (such as documentation, risk management, accounting or settlements). Some firms have combined a portion of these responsibilities usually found in the back office, particularly those related to risk management, into what they term a middle office function. See also front office. | OTC |
| back-to-back trades | a pair of transactions that requires a counterparty to receive and redeliver the same securities on the same day. The transactions involved may be outright purchases and sales or collateral transactions (repurchase agreements or securities loans). For example, a securities dealer might buy and sell the same securities for the same settlement date in the course of making markets for customers or it might buy securities for inventory and finance the position through a repurchase agreement. | x-border |

| Term | Definition | Source |
|--|--|--|
| back-to-back transactions | a chain of securities transactions among three or more counterparties involving the purchase and sale of a single security, for settlement on a single date. The most simple back-to-back trade is a pair of transactions in which one party agrees to purchase securities from a second party and then agrees to sell them to a third party. | Blue Book SLT |
| back-to-back transactions | a pair of transactions that requires a counterparty to receive and redeliver the same securities on the same day. The transactions involved may be outright purchases and sales or collateral transactions (repurchase agreements or securities loans). For example, a securities dealer might buy and sell the same securities for the same settlement date in the course of making markets for customers or it might buy securities for inventory and finance the position through a repurchase agreement. | SSS |
| balance-based system | an electronic money system in which the electronic funds are stored on a device as a numeric ledger, with transactions performed as debits or credits to a balance. | Blue Book EM-Sec |
| bank draft | in Europe, the term generally refers to a draft drawn by a bank on itself. The draft is purchased by the payer and sent to the payee, who presents it to his bank for payment. That bank presents it to the payer's bank for reimbursement. In the United States, the term generally refers to a draft or cheque drawn by a bank on itself or on funds deposited with another bank. In the case of a cashier's cheque, the bank is both the drawer and drawee. In the case of a teller's cheque, one bank is the drawer and a second bank is the drawee. Bank drafts may be written by a bank for its own purposes or may be purchased by a customer and sent to a payee to discharge an obligation. See also draft. | Red Book |
| bank reserves | deposits held by banks with the central bank. | EM-CPSS |
| basis risk | the risk of changes in the basis, that is, the difference between the price of a futures or forward contract and the price of the underlying asset. | ETDC |
| batch | the transmission or processing of a group of payment orders and/or securities transfer instructions as a set at discrete intervals of time. | Red Book Blue Book Retail |
| beneficial ownership/ interest | the entitlement to receive some or all of the benefits of ownership of a security or other financial instrument (eg income, voting rights, power to transfer). Beneficial ownership is usually distinguished from "legal ownership" of a security or financial instrument. See also legal ownership. | DVP Red Book Blue Book SLT |
| bilateral credit limit | see credit limit. | Core Principles |
| bilateral exposure | one party's exposure to another party. | Core Principles |
| bilateral net settlement system | a settlement system in which participants' bilateral net settlement positions are settled between every bilateral combination of participants. See also net credit (or debit) position. | Red Book Blue Book |
| 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. See also multilateral netting, netting, net settlement. | DVP Red Book Blue Book |

| Term | Definition | Source |
|-----------------------------------|---|--|
| bill of exchange | 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. Widely used to finance trade and, when discounted with a financial institution, to obtain credit. See also draft. | Red Book Blue Book |
| biometric | refers to a method of identifying the holder of a device by measuring a unique physical characteristic of the holder, eg by fingerprint matching, voice recognition or retinal scan. | EM-Sec |
| bit | the basic data element: a binary digit, either 0 or 1. | EM-Sec |
| book-entry system | an accounting system that permits the transfer of claims (eg electronic transfer of securities) without the physical movement of paper documents or certificates. See also dematerialisation, immobilisation. | Red Book Blue Book <i>DVP</i> <i>x-border</i> <i>SLT</i> |
| bridge | the "bridge" is the name commonly used for the link between Euroclear and Clearstream that permits cross-system settlement of a trade between a participant in one ICSD (international central securities depository) and a participant in the other ICSD. | x-border |
| broker | a firm that communicates bid and ask levels to potential principals and otherwise arranges transactions as agent for a fee, without acting as counterparty in the transactions. | OTC |
| broker-dealer | a person or firm sometimes acting as broker and sometimes as principal intermediary in securities transactions. A broker is a firm that communicates bid and ask levels to potential principals and otherwise arranges transactions as agent for a fee, without acting as counterparty in the transactions. | SLT |
| brute force attack | a method of cryptanalysis in which every possible cryptographic key is tried. | EM-Sec |
| bulk funds transfer system | see retail funds transfer system. | Red Book Blue Book |
| business continuity | a payment system's arrangements which aim to ensure that it meets agreed service levels even if one or more components of the system fail or if it is affected by an abnormal external event. Include both preventative measures and arrangements to deal with contingencies. | Core Principles |
| buy-in | a purchase of securities in the open market by the lender, where the borrower is not able to deliver the securities to the lender in accordance with the terms of the transaction (eg on the settlement date). All costs are borne by the borrower in this case. | SLT |
| byte | a series of eight bits. | EM-Sec |
| call money | a loan contract which is automatically renewed every day unless the lender or the borrower indicates that it wishes the funds to be returned within a short period of time. | Red Book Blue Book |
| capital risk | see principal risk. | Red Book Blue Book |
| caps | quantitative limits on the funds transfer activity of individual participants in a system; limits may be set by each individual participant or may be imposed by the body managing the system; limits can be placed on the net debit position or net credit position of participants in the system. | DVP |

| Term | Definition | Source |
|--|---|--|
| card | see cash card, cheque guarantee card, chip card, credit card, debit card, delayed debit card, prepaid card, retailer card, travel and entertainment card. | Red Book Blue Book Retail |
| card-based products | electronic money products which provide the customer with a portable, specialised computer device, typically an IC card containing a microprocessor chip. | EM-ECB |
| case law | precedents established in previously decided court cases that may influence future interpretations of law or the disposition of future court cases. | Core Principles |
| cash card | card for use only in ATMs or cash dispensers (other cards often have a cash function that permits the holder to withdraw cash). | Red Book Blue Book Retail |
| cash clearing | a method for clearing futures contracts in which positions are periodically marked to market and resulting obligations are satisfied by cash payments, known as variation margin. See also non-cash clearing and variation margin. | ETDC |
| cash correspondents | banks (or similar institutions) used by the SSS to make or receive payments. | SDF |
| cash deposit risk | the credit risk associated with the holding of cash balances with an intermediary for the purpose of settling securities transactions. | x-border <i>SLT</i> |
| cash dispenser | electromechanical device that permits consumers, typically using machine-readable plastic cards, to withdraw banknotes (currency) and, in some cases, coins. See also automated teller machine. | Red Book Blue Book Retail |
| cash-driven securities lending transactions | transactions motivated by the wish to borrow/invest a cash amount through a repo (or loan) of securities. | SLT |
| cashier's cheque | see bank draft. | Red Book Blue Book |
| cash memorandum accounts | records kept by the SSS of the funds due to be paid to or received by participants in conjunction with their securities settlements; the records are for information purposes only and do not represent legal claims or liabilities between the SSS and its participants. | SDF |
| cash settlement agent | the entity whose assets are used to settle the ultimate payment obligations arising from securities transfers within the CSD. Accounts with the cash settlement agent are held by settlement banks which act on their own behalf and may also offer payment services to participants that do not have accounts with the settlement agent. See also settlement agent. | SSS |
| central bank bills | short-term securities issued by the central bank which could be marketable or tradable. | EM-CPSS |
| central bank credit (liquidity) facility | a standing credit facility that can be drawn upon by certain designated account holders (eg banks) at the central bank. In some cases, the facility can be used automatically at the initiative of the account holder, while in other cases the central bank may retain some degree of discretion. The loans typically take the form either of advances or overdrafts on an account holder's current account which may be secured by a pledge of securities (also known as lombard loans in some European countries), or of traditional rediscounting of bills. | Red Book Blue Book <i>DVP</i> |

| Term | Definition | Source |
|--------------------------------------|--|---|
| central counterparty | an entity that is the buyer to every seller and seller to every buyer of a specified set of contracts, eg those executed on a particular exchange or exchanges. | ETDC SSS |
| central processing unit | area of a computer system (and of an IC card) that performs computations. | EM-Sec |
| central securities depository | a facility (or an institution) for holding securities, which enables securities transactions to be processed by book entry. Physical securities may be immobilised by the depository or securities may be dematerialised (ie so that they exist only as electronic records). In addition to safekeeping, a central securities depository may incorporate comparison, clearing and settlement functions. | Red Book Blue Book <i>DVP</i> <i>x-border</i> <i>SLT</i> |
| certificate | physical document which evidences an ownership claim in, indebtedness of, or other outstanding financial obligations of the issuer. | Red Book |
| certificate | the piece of paper which evidences the undertakings of an issuer of a security or financial instrument. | DVP |
| certification authority | an entity entrusted with creating and assigning public key certificates. | EM-Sec |
| CFD | see contract for difference. | |
| chaining | a method used in certain transfer systems (mostly for securities) for processing instructions. It involves the manipulation of the sequence in which transfer instructions are processed to increase the number or value of transfers that may be settled with available funds and/or securities balances (or available credit or securities lending lines). | DVP Red Book Blue Book |
| challenge-response | a means of authentication in which one device replies in a predetermined way to a challenge from another device, thus proving its authenticity. | EM-Sec |
| charge card | see travel and entertainment card. | Retail |
| cheque | a written order from one party (the drawer) to another (the drawee, normally a bank) requiring the drawee to pay a specified sum on demand to the drawer or to a third party specified by the drawer. Cheques may be used for settling debts and withdrawing money from banks. See also bill of exchange. | Red Book <i>Blue Book</i> EM-CPSS Retail |
| cheque guarantee card | a card issued as part of a cheque guarantee system. This function may be combined with other functions in the same card, eg those of a cash card or debit card. See also cheque guarantee system. | Red Book Blue Book Retail |
| cheque guarantee system | a system to guarantee cheques, typically up to a specified amount, that have been validated by the merchant either on the basis of a card issued to the cheque writer or through a central database accessible to merchants. Validated cheques are guaranteed by the issuer of the guarantee card, the drawee bank or the system operator. | Red Book Blue Book Retail |
| chip card | also known as an IC (integrated circuit) card. A card containing one or more computer chips or integrated circuits for identification, data storage or special purpose processing used to validate personal identification numbers (PINs), authorise purchases, verify account balances and store personal records. In some cases, the memory in the card is updated every time the card is used (eg an account balance is updated). | Red Book Blue Book EM-CPSS <i>Retail</i> |

| Term | Definition | Source |
|--|--|---|
| choice of law | the determination of which law most appropriately governs the relationship between parties involved in the settlement of a securities transaction. | EM-Sec |
| choice of law | a contractual provision by which parties choose the law that will govern their contract or relationship. Choice of law may also refer to the question of what law should govern in the case of a conflict of laws. See also conflict of laws. | SSS |
| ciphertext | the encrypted form of data. | EM-Sec |
| clearance | the term "clearance" has two meanings in the securities markets. It may mean the process of calculating the mutual obligations of market participants, usually on a net basis, for the exchange of securities and money. It may also signify the process of transferring securities on the settlement date, and in this sense the term "clearing system" is sometimes used to refer to securities settlement systems. | SSS DVP SLT |
| clearing and settling institution | an institution which transmits information and funds through a payment system network. It may operate as an agent or a principal. | EM-ECB |
| clearing/clearance | the process of transmitting, reconciling and, in some cases, confirming payment orders or security transfer instructions prior to settlement, possibly including the netting of instructions and the establishment of final positions for settlement. Sometimes the term is used (imprecisely) to include settlement. | Red Book Blue Book EM-ECB |
| clearing house | a central location or central processing mechanism through which financial institutions agree to exchange payment instructions or other financial obligations (eg securities). The institutions settle for items exchanged at a designated time based on the rules and procedures of the clearing house. In some cases, the clearing house may assume significant counterparty, financial or risk management responsibilities for the clearing system. See also clearing/clearance, clearing system. | Red Book Blue Book EM-CPSS |
| clearing house funds | term most commonly used in certain US markets to refer to funds that typically are provisional on the day of receipt and final on the following day. More specifically, the term is used to refer to monetary claims with next day finality that are exchanged by participants in certain clearing house arrangements in settlement of obligations arising from the clearing process. Such claims are typically transferred via cheques, drafts or other similar payment. | Red Book |
| clearing link | an arrangement in which the same contract is traded on exchanges affiliated with two clearing houses but all positions are transferred daily to a single clearing house where they are carried until expiration or offset. See also mutual offset system. | ETDC |
| clearing member | a member of a clearing house. All trades must be settled through a clearing member. A direct clearing member is able to settle only its own obligations. A general clearing member is able to settle its own obligations as well as those of clients. Variations of these two types of clearing member may also exist. | ETDC |

| Term | Definition | Source |
|--------------------------------------|--|---|
| clearing system | a set of procedures whereby financial institutions present and exchange data and/or documents relating to funds or securities transfers to other financial institutions at a single location (clearing house). The procedures often also include a mechanism for the calculation of participants' bilateral and/or multilateral net positions with a view to facilitating the settlement of their obligations on a net or net net basis. See also netting. | Red Book Blue Book EM-CPSS |
| client | a party that is not a member of the clearing house and must settle through a clearing member. Also known as customer. | ETDC |
| closed network | telecommunications network used for a specific purpose, such as a payment system, and to which access is restricted. | Retail |
| closeout | the process of offsetting existing contracts. Closeout may be used by the clearing house to prevent further losses from positions carried by an entity that has defaulted. | ETDC |
| closeout netting | a special form of netting which occurs following some predefined events such as default. Closeout netting is intended to reduce exposures on open contracts if one party meets certain conditions specified by the contract (eg becomes subject to insolvency procedures) before the settlement date (also referred to as default netting, open contract netting or replacement contract netting). | Blue Book |
| closing (or back) leg | second leg of a pair of transactions in the same securities, ie a securities lending transaction - one for a near value date, the other for a value date further into the future. See also opening (or front) leg. | SLT |
| collateral | an asset that is delivered by the collateral provider to secure an obligation to the collateral taker. Collateral arrangements may take different legal forms; collateral may be obtained using the method of title transfer or pledge. | OTC |
| collateral | an asset or third-party commitment that is accepted by the collateral taker to secure an obligation of the collateral provider vis-à-vis the collateral taker. | SSS |
| collateral management service | a centralised service that may handle any of a variety of collateral-related functions for a client firm, including valuation of collateral, confirmation of valuations with counterparties, optimisation of collateral usage and transfer of collateral. | OTC |
| collateral pool | assets owned by members of a payment system that are collectively available to the system as collateral to enable it to obtain funds in circumstances specified in its rules. | Core Principles |

| Term | Definition | Source |
|---|---|-------------------------------------|
| combination of an outright sale with put and call option | a derivative financial arrangement that has a similar economic effect to a securities lending transaction. In this arrangement, a dealer simultaneously (1) sells shares outright to a cash investor, receiving market value, (2) purchases OTC at-the-money call options from the cash investor giving the dealer the right to buy the shares at a specified date at the original price, and (3) sells to the cash investor OTC at-the-money put options that give the cash investor the right to sell the shares at the original price. This results in the dealer having a synthetic long position of the shares, retaining any positive or negative return on the shares, while the cash investor is hedged against a loss on the value of the shares, but must also pay away any gain to the dealer. The options are cash-settled at expiration. An option pricing model will produce premiums for the put and the call which net out to a predetermined financing cost. | SLT |
| committed facilities | facilities (for example, lines of credit or repo facilities) under which the provider is contractually committed to advance funds in defined circumstances. See also repurchase agreement. | Core Principles |
| comparison | see matching. | Red Book |
| confidentiality | the quality of being protected against unauthorised disclosure. | EM-Sec EM-ECB |
| confirmation | a particular connotation of this widely used term is the process whereby a market participant notifies its counterparties or customers of the details of a trade and, typically, allows them time to affirm or to question the trade. | Red Book Blue Book |
| confirmation | the process in which the terms of a trade are verified either by market participants directly or by some central entity (typically the market place). When direct participants execute trades on behalf of indirect market participants, trade confirmation occurs on two separate tracks: verification (generally termed confirmation) of the terms of the trade between direct participants and verification (sometimes termed affirmation) of the intended terms between each direct participant and the indirect participant for whom the direct participant is acting. | SSS |
| confirmation process | the procedure for verifying trade details with a counterparty. This is generally done by exchanging via fax or mail a document (ie a confirmation) identifying the trade details and any governing legal documentation and verifying the accuracy of the information provided by the counterparty (ie matching). | OTC SLT |
| conflict of laws | a situation in which two or more sets of laws that appropriately apply to a particular transaction require different results. | x-border |
| conflict of laws | an inconsistency or difference in the laws of jurisdictions that have a potential interest in a transaction. Each jurisdiction's conflict of laws rules specify the criteria that determine the law applicable in such a case. | SSS |
| contact cards | cards that require physical contact through an electronic connection surface between the card and the card reader or terminal device. | EM-Sec |
| contactless cards | cards that do not require physical contact between the card and the card reader or terminal. | EM-Sec |

| Term | Definition | Source |
|---|--|--|
| contract for difference | a financial contract in which the difference between the agreed fixed price of an asset and its prevailing market price is periodically credited to the counterparty in the money. Since there is no transfer of principal, a CFD covers hedging or speculative needs. | SLT |
| contract law | body of law concerned with making and enforcing arrangements. | Core Principles |
| contractual income collection | a contractual commitment by a custodian to credit a customer's cash account with interest, dividend or tax refund payments on the date on which the payments are scheduled, regardless of whether the custodian has actually received the payment. Usually such credits are provisional and are reversed if the custodian does not receive the payment within an interval established by the custodian. | x-border |
| contractual settlement date accounting | a contractual commitment by a custodian to credit and debit a customer's cash and securities accounts, as appropriate, on the date on which the customer's contract with its counterparty provides for settlement (the contractual settlement date), regardless of whether settlement has actually occurred. Usually these credits and debits are provisional and are reversed if settlement does not occur within an interval established by the custodian. | x-border |
| correspondent banking | an arrangement under which one bank (correspondent) holds deposits owned by other banks (respondents) and provides payment and other services to those respondent banks. Such arrangements may also be known as agency relationships in some domestic contexts. In international banking, balances held for a foreign respondent bank may be used to settle foreign exchange transactions. Reciprocal correspondent banking relationships may involve the use of so-called nostro and vostro accounts to settle foreign exchange transactions. | Red Book Retail |
| counterparty | the opposite party to a financial transaction such as a securities trade or swap agreement. | Red Book Blue Book Retail |
| counterparty credit limits | limits set by a trading party to restrict the largest amount of its credit exposures to different counterparties. | SLT |
| CPU | see central processing unit. | |
| credit caps | see caps. | Red Book Blue Book |
| credit card | a card indicating that the holder has been granted a line of credit. It enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest is charged on the amount of any extended credit and the holder is sometimes charged an annual fee. | Red Book Blue Book EM-CPSS Retail |
| credit card company | a company which owns the trademark of a particular credit card, and may also provide a number of marketing, processing or other services to its members using the card services. | Red Book Blue Book Retail |

| Term | Definition | Source |
|---------------------------------------|---|---|
| credit institution | the definition given to a “bank” in the European Union. The First EC Banking Directive defines it as an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account. | EM-CPSS EM-ECB |
| credit limit | limit on the credit exposure a payment system participant incurs vis-à-vis another participant (bilateral credit limit) or vis-à-vis all other participants (multilateral credit limit) as a result of receiving payments that have not yet been settled. | Core Principles |
| credit risk/exposure | the risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. In exchange-for-value systems, the risk is generally defined to include replacement cost risk and principal risk. | DVP Blue Book |
| credit transfer | a payment order or possibly a sequence of payment orders made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein move from the bank of the payer/originator to the bank of the beneficiary, possibly via several other banks as intermediaries and/or more than one credit transfer system. | Red Book Blue Book EM-CPSS EM-ECB Retail |
| credit transfer system | a funds transfer system through which payment orders move from (the bank of) the originator of the transfer message or payer to (the bank of) the receiver of the message or beneficiary. | DVP <i>Red Book</i> |
| cross-border netting scheme | an arrangement to net positions or obligations between or among parties in more than one country or jurisdiction. See also netting. | Core Principles |
| cross-border settlement | a settlement that takes place in a country other than the country in which one trade counterparty or both are located. | x-border SDF |
| cross-border trade | a trade between counterparties located in different countries. | x-border |
| cross-border trade | a trade that requires cross-border settlement. | SSS |
| cross-currency settlement risk | see principal risk. | Red Book |
| cross-margining agreement | an agreement between central counterparties to consider positions and supporting collateral at their respective organisations as a portfolio for participants that are members of both organisations. Positions held in cross-margined accounts are subject to lower collateral requirements because the positions held at one central counterparty collateralise part of the exposure of related positions at the other central counterparty. In the event of a default by a participant whose account is cross-margined, one central counterparty can use the positions and collateral in the cross-margined account at the other central counterparty to cover losses. | SSS |
| cross-system settlement | a settlement of a trade that is effected through a link between two separate securities transfer systems. | x-border SSS |
| cryptanalysis | area of cryptography dedicated to studying and developing methods by which, without prior knowledge of the cryptographic key, plaintext may be deduced from ciphertext. | EM-Sec |
| cryptographic algorithm | a mathematical function used in combination with a key that is applied to data to ensure confidentiality, data integrity and/or authentication. Also called cipher. | EM-Sec |

| Term | Definition | Source |
|--------------------------------------|---|---|
| cryptography | the application of mathematical theory to develop techniques and algorithms that can be applied to data to ensure goals such as confidentiality, data integrity and/or authentication. | EM-Sec EM-CPSS EM-ECB |
| CSD | see central securities depository. | |
| CSDA | see contractual settlement date accounting. | |
| current exposure | the loss that would be incurred today on a contract or set of contracts if a counterparty failed to perform on its obligations. Also known as replacement cost, current exposure is what it would cost to replace a given contract if the counterparty defaulted now. See also potential future exposure. | OTC |
| custodian | an entity, often a bank, that safekeeps and administers securities for its customers and that may provide various other services, including clearance and settlement, cash management, foreign exchange and securities lending. | x-border SDF SLT |
| custody | the safekeeping and administration of securities and financial instruments on behalf of others. | DVP Red Book x-border Blue Book |
| custody-only link | a link between two Securities Settlement Systems (SSSs) which enables transactions in securities held in SSS1 to be settled using SSS2 (rather than SSS1) when the buyer and seller are both participants in SSS2. Custody-only links do not provide for the transfer of funds between SSS1 and SSS2 and cannot be used to settle transactions between a participant in SSS1 and a participant in SSS2. | SDF |
| custody risk | the risk of loss of securities held in custody occasioned by the insolvency, negligence or fraudulent action of the custodian or of a subcustodian. | x-border ETDC OTC SLT SSS |
| customer | a buyer, seller or holder of securities and financial instruments that does not participate directly in a system. A participant's holdings in a system often include securities and financial instruments of which the participant's customers are the beneficial owners. | DVP SDF |
| customer-to-customer transfer | see transferability. | EM-ECB |
| daily processing | complete cycle of processing tasks that need to be completed in a typical business day, from start-of-day procedures to end-of-day procedures including backing-up of data. | Core Principles |
| daily settlement | completion of settlement on the day of value of all payments accepted for settlement. | Core Principles |
| data encryption standard | a symmetric cryptographic algorithm (ANSI standard) that is widely used, in particular in the financial industry. Triple DES consists of operating three times on a set of data (encrypting-decrypting-encrypting) using a double-length DES key. | EM-Sec |

| Term | Definition | Source |
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| daylight credit | credit extended for a period of less than one business day; in a credit transfer system with end-of-day final settlement, daylight credit is tacitly extended by a receiving institution if it accepts and acts on a payment order even though it will not receive final funds until the end of the business day. Also called daylight overdraft, daylight exposure and intraday credit. | DVP Red Book Blue Book <i>SDF</i> |
| day of value | day on which a payment is due to be credited to the receiving participant in the payment system. The day of value for the receiving participant's customer (that is, the day on which the receiving participant credits the customer in its books) may or may not be the same day, depending on specific arrangements or local practice. | Core Principles |
| DBV | see delivery by value. | |
| dealer | a firm that enters into transactions as a counterparty on both sides of the market in one or more products. OTC derivatives dealers are primarily large international financial institutions - mostly commercial banks but also some securities firms and insurance companies - as well as a few affiliates of what are primarily non-financial firms. See also end user. | OTC |
| debit balance | see net credit (or debit) position. | SDF |
| debit caps | see caps. | Red Book Blue Book |
| debit card | card enabling the holder to have his purchases directly charged to funds on his account at a deposit-taking institution (may sometimes be combined with another function, eg that of a cash card or cheque guarantee card). | Red Book Blue Book <i>EM-CPSS</i> Retail |
| debit transfer system | a funds transfer system in which debit collection orders made or authorised by the payer move from (the bank of) the payee to (the bank of) the payer and result in a charge (debit) to the account of the payer; for example, cheque-based systems are typical debit transfer systems. Also called debit collection system. | DVP Red Book Blue Book SLT |
| debt book-entry system | a computerised system for the issue and registration of debt securities in book-entry form. See also book-entry system, share book-entry system. | Blue Book |
| default | failure to complete a funds or securities transfer according to its terms for reasons that are not technical or temporary, usually as a result of bankruptcy. Default is usually distinguished from a "failed transaction". | Red Book Blue Book <i>SDF</i> SLT |
| defaulter pays | a loss-sharing arrangement where each participant is required to collateralise any exposures it creates for other participants. As a result, losses from a party's default are borne by the defaulting party. | Core Principles |
| deferred net settlement system | a system that effects the settlement of obligations or transfers between or among counterparties on a net basis at some later time. | ETDC |
| delayed debit card | card issued by banks indicating that the holder may charge his account up to an authorised limit. It enables him to make purchases but does not offer extended credit, the full amount of the debt incurred having to be settled at the end of a specified period. The holder is usually charged an annual fee. | Red Book Blue Book |

| Term | Definition | Source |
|---------------------------------------|---|--|
| deletion | a mechanism whereby some or all transfers to/from a defaulting participant are excluded from the settlement process. In a netting scheme, other participants' bilateral and/or multilateral net positions are recalculated. See also unwinding. | Red Book Blue Book |
| delivery | final transfer of a security or financial instrument. | DVP Red Book x-border Blue Book SDF |
| delivery by value | a mechanism in some settlement systems to assist a participant to borrow money from or lend money to another participant against collateral held in the system. The system will select and deliver securities (based on the preset specifications of the giver and the taker) to the appropriate party and arrange that equivalent securities be returned the following business day. | SLT |
| delivery versus delivery | a link between two securities transfer (settlement) systems that ensures that a delivery occurs if, and only if, another delivery occurs and vice versa. | SLT |
| delivery versus payment | a link between a securities transfer system and a funds transfer system that ensures that delivery occurs if, and only if, payment occurs. | DVP x-border SDF ETDC |
| delivery-versus-payment system | a mechanism in an exchange-for-value settlement system that ensures that the final transfer of one asset occurs if and only if the final transfer of (an)other asset(s) occurs. Assets could include monetary assets (such as foreign exchange), securities or other financial instruments. See also exchange-for-value settlement system, final transfer. | Red Book Blue Book |
| dematerialisation | the elimination of physical certificates or documents of title which represent ownership of securities so that securities exist only as accounting records. | DVP Red Book Blue Book SDF |
| depository | an agent with the primary role of recording securities either physically or electronically and keeping records of the ownership of these securities. | Blue Book |
| depository institution | the definition given to a "bank" in the United States. Under the Depository Deregulation and Monetary Control Act, all depository institutions, including commercial banks, savings and loan associations, mutual savings banks and credit unions, are authorised to issue demand or time deposits to individuals and non-profit organisations. | EM-CPSS |
| depository receipt | an instrument issued in one country that establishes an entitlement to a security held in custody in another country. | x-border SDF |
| derivative | a financial contract the value of which depends on the value of one or more underlying reference assets, rates or indices. For analytical purposes, all derivatives contracts can be divided into basic building blocks of forward contracts, options or combinations thereof. | OTC |
| derived key | a cryptographic key that is obtained by using an arithmetic function in combination with a master key and a unique identification value such as a card serial number. | EM-Sec |

| Term | Definition | Source |
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| DES | see data encryption standard. | |
| digital signature | a string of data generated by a cryptographic method that is attached to a message to ensure its authenticity as well as to protect the recipient against repudiation by the sender. | EM-Sec |
| direct debit | preauthorised debit on the payer's bank account initiated by the payee. | Red Book Blue Book |
| direct holding system | a holding system for securities in which the beneficial owner of securities (i) is reflected as the legal owner on the issuer's official register(s) (and, if the securities are required to be certificated, the securities are issued in the name of the owner) or (ii) is in possession of securities issued to bearer. The issuer, CSD, participants in the CSD, and third-party claimants are required to recognise the owner's rights and interests in the securities based on the record of the register or the owner's possession of the security. | SSS |
| direct market participant | a broker-dealer or member of an exchange that directly executes an order. | SSS |
| direct participant | a participant in an interbank funds transfer system (IFTS) who is responsible to the settlement agent (or to all other direct participants) for the settlement of its own payments, those of its customers and those of the indirect participants on whose behalf it is settling. | Blue Book |
| direct participant/member | the term generally denotes participants in a funds or securities transfer system that directly exchange transfer orders with other participants in the system. In some systems, direct participants also exchange orders on behalf of indirect participants. Depending on the system, direct participants may or may not also be settling participants. In the EC context, this term has a specific meaning: it refers to participants in a transfer system which are responsible to the settlement institution (or to all other participants) for the settlement of their own payments, those of their customers and those of indirect participants on whose behalf they are settling. See also indirect participant/member, participant/member, settling participant/member. | Red Book |
| discharge | release from a legal obligation imposed by contract or law. | DVP Red Book Blue Book |
| disclosure | see public disclosure. | Core Principles |
| distributing institution | an institution which distributes (as an agent) or sells (as the issuer or an underwriter) the electronic money to the customer. | EM-ECB |
| domestic settlement | a settlement that takes place in the country in which both counterparties to the trade are located. | x-border SDF |
| domestic trade | a trade between counterparties located in the same country. | x-border SDF |
| draft | a written order from one party (the drawer) to another (the drawee) to pay a party identified on the order (payee) or to the bearer a specified sum, either on demand (sight draft) or on a specified date (time draft). See also bank draft, bill of exchange, cheque. | Red Book Blue Book |
| DVD | see delivery versus delivery. | |

| Term | Definition | Source |
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| DVP schemes as defined by the G10 | in model 1, transfer instructions for both securities and funds are settled on a trade by trade basis, with final transfer of the securities from the seller to the buyer (delivery) occurring at the same time as final transfer of the funds from the buyer to the seller (payment). In model 2, securities transfer instructions are settled on a gross basis, with final transfer of securities from the seller to the buyer (delivery) occurring throughout the processing cycle, but funds transfer instructions are settled on a net basis, with final transfer of funds from the buyer to the seller (payment) occurring at the end of the processing cycle. In model 3, transfer instructions for both securities and funds are settled on a net basis, with final transfers of both securities and funds occurring at the end of the processing cycle. | Blue Book |
| early termination option | a contract provision granting either counterparty the option to terminate a contract before its maturity date, sometimes upon payment of a fee. | OTC |
| EDI | see electronic data interchange. | |
| EEPROM | electronically erasable programmable read-only memory: the area of an IC chip used to store data. Data in EEPROM can be electronically erased and rewritten under the control of the operating system. | EM-Sec |
| EFTPOS | see point of sale. | Red Book Blue Book |
| electronic data interchange | the electronic exchange between commercial entities (in some cases also public administrations), in a standard format, of data relating to a number of message categories, such as orders, invoices, customs documents, remittance advices and payments. EDI messages are sent through public data transmission networks or banking system channels. Any movement of funds initiated by EDI is reflected in payment instructions flowing through the banking system. EDIFACT, a United Nations body, has established standards for electronic data interchange. | Red Book Blue Book Retail |
| electronic money | value stored electronically in a device such as a chip card or a hard drive in a personal computer. | Retail |
| electronic purse | a reloadable multipurpose prepaid card which may be used for small retail or other payments instead of coins. See also multipurpose prepaid card. | Blue Book EM-CPSS EM-ECB |
| electronic wallet | a computer device used in some electronic money systems which can contain an IC card or in which IC cards can be inserted and which may perform more functions than an IC card. | EM-Sec |
| embedding | in IC card manufacturing, the process by which the chip module is mounted on the plastic carrier (card). | EM-Sec |
| encryption | the use of cryptographic algorithms to encode clear text data (plaintext) into ciphertext to prevent unauthorised observation. | EM-Sec EM-CPSS EM-ECB |
| end-of-day gross settlement systems | funds transfer systems in which payment orders are received one by one by the settlement agent during the business day, but in which final settlement takes place at the end of the day on a one by one or aggregate gross basis. This definition also applies to gross settlement systems in which payments are settled in real time but remain revocable until the end of the day. | Blue Book |

| Term | Definition | Source |
|---|---|---|
| endogenous default | a default by a clearing member that results in losses on house or client positions carried by the clearing member at that clearing house rather than from losses from some other (exogenous) source | ETDC |
| end user | an entity that takes derivatives positions for investment or hedging purposes. An end user often deals only on one side of the market. End users include banks, insurance companies, pension funds, other financial institutions, non-financial corporations, governments, supranational entities (for example the World Bank) and high net worth individuals. See also dealer. | OTC |
| EPROM | electronically programmable read-only memory: the area of an IC chip used to store data. Data in EPROM can only be written once and cannot be erased selectively. | EM-Sec |
| equity swap | a swap which involves an exchange of return on a recognised stock index or a specified basket of individual stocks for a fixed or floating rate of interest. | OTC SLT |
| event of default | an event stipulated in an agreement as constituting a default. Generally, the occurrence of a failure to pay or deliver on the due date, breach of agreement and insolvency are events of default. | OTC SLT |
| exchange-for-value settlement system | system which involves the exchange of assets, such as money, foreign exchange, securities or other financial instruments, in order to discharge settlement obligations. These systems may use one or more funds transfer systems in order to satisfy the payment obligations that are generated. The links between the exchange of assets and the payment system(s) may be manual or electronic. See also delivery-versus-payment system. | Red Book Blue Book |
| exchange member | a member of an exchange with certain trading privileges. An exchange member may not necessarily be a member of the exchange's clearing house. | ETDC |
| exchange-traded derivative | a derivative which is listed and traded at an organised marketplace. Derivatives exchanges generally provide standardised contracts and central clearing facilities for participants. | OTC |
| exit criteria | criteria for an existing participant in a payment system to cease to participate. | Core Principles |
| face-to-face payment | payment carried out by the exchange of instruments between the payer and the payee in the same physical location. | Red Book Blue Book EM-CPSS EM-ECB Retail |
| fail | a failure to settle a securities transaction on the contractual settlement date, usually because of technical or temporary difficulties. Fail is usually distinguished from "default". Also called failed transaction. | SLT |
| failed transaction | a securities transaction in which the securities and cash are not exchanged as agreed on the settlement date, usually because of technical or temporary causes. | DVP SDF |
| failed transaction | a securities transaction that does not settle on the contractual settlement date. | SSS |
| final (finality) | irrevocable and unconditional. | Red Book Blue Book |

| Term | Definition | Source |
|---|--|---|
| finality risk | the risk that a provisional transfer of funds or securities will be rescinded. | SDF |
| final settlement | settlement which is irrevocable and unconditional. | Red Book Blue Book |
| final settlement | the discharge of an obligation by a transfer of funds and a transfer of securities that have become irrevocable and unconditional. | SSS |
| final transfer | an irrevocable and unconditional transfer which effects a discharge of the obligation to make the transfer. The terms "delivery" and "payment" are each defined as a final transfer. See also provisional transfer. | DVP Red Book Blue Book x-border SDF Retail |
| financial risk | term covering a range of risks incurred in financial transactions – both liquidity and credit risks. See also credit risk/exposure, liquidity risk. | Core Principles |
| firewall | a hardware- and/or software-based system that is used as an interface between the internet and a computer system to monitor and filter incoming and outgoing communications. | EM-Sec |
| fleckless | from the German "fleckelos", which means spotless; a device (card) or a system is said to be fleckless when it can provide evidence that it has not been tampered with. | EM-Sec |
| forced settlement | securities or funds settlement that is either mandated or enforced by the actions of a third party. | SDF |
| foreign exchange settlement risk | the risk that one party to a foreign exchange transaction will pay the currency it sold but not receive the currency it bought. This is also called cross-currency settlement risk or principal risk; it is also referred to as Herstatt risk, although this is an inappropriate term given the differing circumstances in which this risk has materialised. | Blue Book |
| forward contract | a contract that obligates one party to buy, and the other to sell, an underlying asset at a specific price and date in the future. | ETDC OTC |
| forward rate agreement | a forward contract on interest rates in which the rate to be paid or received on a specific obligation for a set period of time, beginning at some time in the future, is determined at contract initiation. | OTC |
| free-of-payment delivery | delivery of securities with no corresponding payment of funds. | SLT |
| front office | a firm's trading unit and other areas that are responsible for developing and managing relationships with counterparties. See back office. | OTC |
| FTS | see funds transfer system | |
| funds transfer system | a formal arrangement, based on private contract or statute law, with multiple membership, common rules and standardised arrangements, for the transmission and settlement of money obligations arising between the members. See also interbank funds transfer system. | Blue Book |

| Term | Definition | Source |
|--------------------------------|---|---|
| fungibility | a concept that characterises the method of holding securities by a CSD or other financial intermediary in which each of a number of issues of physical or dematerialised securities are held in separate fungible pools. No owner has the right to any particular physical or dematerialised security in a particular pool, but has a right to such an amount of physical or dematerialised securities as shown in its account with a CSD or other financial intermediary. | Blue Book |
| futures contract | a standardised forward contract traded on an exchange. | ETDC |
| futures-style margining | a method of margining derivatives contracts in which positions are marked to market and current exposures are extinguished through cash payments known as variation margin. Both futures and options contracts can be margined in this manner. When options contracts are margined using a futures-style system, the option premium is gradually paid over the life of the option (through the cumulative variation margin payments) and fully paid once the option has been exercised. See also options-style margining. | ETDC |
| general collateral | securities that satisfy the general requirements of a lender of cash to collateralise its cash lending. General collateral comprises securities which are not in particular demand in the market; categories of general collateral are usually defined by market convention. See also special collateral. | SLT |
| giro system | see credit transfer system. | Red Book Blue Book |
| global custodian | a custodian that provides its customers with custody services in respect of securities traded and settled not only in the country in which the custodian is located but also in numerous other countries throughout the world. | x-border SDF SSS |
| gridlock | a situation that can arise in a funds or securities transfer system in which the failure of some transfer instructions to be executed (because the necessary funds or securities balances are unavailable) prevents a substantial number of other instructions from other participants from being executed. See also failed transaction, queuing, systemic risk. | Red Book Blue Book SDF |
| gross margining | marginng system in which the clearing member is required to deposit with the clearing house sufficient initial margin to cover the gross positions of its clients. See also net margining. | ETDC |
| gross settlement system | a transfer system in which the settlement of funds or securities transfer instructions occurs individually (on an instruction by instruction basis). | x-border SDF |
| haircut | the difference between the market value of a security and its collateral value. Haircuts are taken by a lender of funds in order to protect the lender, should the need arise to liquidate the collateral, from losses owing to declines in the market value of the security. See also margin. | Red Book Blue Book SDF |
| hedge fund | a private investment fund, often leveraged, and often engaging in active trading strategies (including arbitrage). Hedge funds are typically subject to limited regulatory oversight. | SLT |
| Herstatt risk | see principal risk. | Red Book |

| Term | Definition | Source |
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| home banking | banking services which a retail customer of a financial institution can access using a telephone, television set, terminal or personal computer as a telecommunications link to the institution's computer centre. | Red Book Blue Book EM-CPSS Retail |
| hot list | in a card-based system, a list - held by the merchant terminal or other device - of suspicious card numbers or ranges of suspicious card numbers. The hot list is used to detect and block any transaction with such cards. | EM-Sec |
| hybrid system | a payment system that combines characteristics of RTGS systems and netting systems. | Core Principles |
| IC card | see chip card. | Red Book Blue Book EM-CPSS |
| IC (integrated circuit) card | a plastic card in which one or more integrated circuits are embedded. Also called chip card. | EM-Sec |
| ICSD | see international central securities depository. | |
| IFTS | see interbank funds transfer system. | |
| immobilisation | placement of certificated securities and financial instruments in a central securities depository to facilitate book-entry transfers. | DVP Red Book Blue Book SDF |
| immobilisation | placement of physical certificates for securities and financial instruments in a central securities depository so that subsequent transfers can be made by book entry, that is, by debits from and credits to holders' accounts at the depository. | SSS |
| imprinter | mechanical device to reproduce the name and account number of a cardholder on a paper sales slip. See also imprinter voucher. | Red Book Blue Book |
| imprinter voucher | in card transactions, a sales slip that is to be signed by the customer on which the name and card number of the customer are imprinted. See also imprinter. | Red Book Blue Book |
| indemnification | an agreement to compensate for damage or loss. Custodians sometimes offer it to lending customers in a variety of forms. | SLT |
| indirect holding system | a holding system for securities in which (i) a nominee is reflected as the legal owner of securities on the official register of the issuer and the beneficial owner (or the intermediary through which the latter holds the security) is reflected as the owner of the securities on the books of the nominee or (ii) bearer securities are deposited with an intermediary and the intermediary maintains an account reflecting the beneficial owner's rights and interests in the security. The beneficial owner's rights and interests in securities in an indirect holding system are transferred by accounting entries on the nominee's or relevant intermediary's books. | SSS |
| indirect market participant | a market participant that uses an intermediary for the execution of trades on its behalf. Generally, institutional and cross-border clients are indirect market participants. See also indirect participant/member. | SSS |

| Term | Definition | Source |
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| indirect participant/member | refers to a funds or securities transfer system in which there is a tiering arrangement. Indirect participants are distinguished from direct participants by their inability to perform some of the system activities (eg input of transfer orders, settlement) performed by direct participants. Indirect participants, therefore, require the services of direct participants to perform those activities on their behalf. In the EC context, the term refers more specifically to participants in a transfer system which are responsible only to their direct participants for settling the payments input to the system. See also direct participant/member, settling participant/member, tiering arrangement. | Red Book |
| initial margin | cash or collateral that is deposited with the clearing house to ensure performance on obligations to it (also known as performance bond and original margin). | ETDC |
| inpayment | payment instruction, sent together with the bill for the delivery of goods and/or services, which is prepared by the payee; the payer can either pay through its designated bank account or by means of a cash payment at a designated agent (bank or non-bank). | Retail |
| integrity | the quality of being protected against accidental or fraudulent alteration or of indicating whether or not alteration has occurred. | EM-Sec |
| interbank funds transfer system | a funds transfer system in which most (or all) direct participants are financial institutions, particularly banks and other credit institutions. | Red Book <i>Blue Book</i> |
| interchange fee | transaction fee payable in the context of a payment card network by one participating financial institution to another, for example by an acquirer to a card issuer in respect of a card payment by the cardholder to the card acceptor (merchant). | |
| interlinking | within the TARGET system, interlinking provides the common procedures and infrastructure which allow payment orders to move from one domestic RTGS system to another domestic RTGS system. See also TARGET. | Blue Book |
| internal settlement | a settlement that is effected through transfers of securities and funds on the books of a single intermediary. An internal settlement requires both counterparties to maintain their securities and funds accounts with the same intermediary. | x-border SDF |
| international central securities depository | a central securities depository which clears and settles international securities or cross-border transactions in domestic securities. At the moment there are two ICSDs located in EU countries, Clearstream and Euroclear. | Blue Book |
| international central securities depository | a central securities depository that settles trades in international securities and in various domestic securities, usually through direct or indirect (through local agents) links to local CSDs. | SSS |
| internet | an open worldwide communication infrastructure consisting of interconnected computer networks and allowing access to remote information and the exchange of information between computers. | EM-Sec EM-CPSS EM-ECB |
| interoperability | a situation in which payment instruments belonging to a given scheme may be used in other countries and in systems installed by other schemes. Interoperability requires technical compatibility between systems, but can only take effect where commercial agreements have been concluded between the schemes concerned. | EM-ECB |

| Term | Definition | Source |
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| intraday credit | see daylight credit. | Red Book Blue Book |
| intraday liquidity | funds which can be accessed during the business day, usually to enable financial institutions to make payments in real time. See also intraday credit. | Core Principles |
| irrevocable and unconditional transfer | a transfer which cannot be revoked by the transferor and is unconditional. | Red Book Blue Book <i>DVP</i> <i>SDF</i> |
| irrevocable transfer | a transfer which cannot be revoked by the transferor. | |
| ISO | International Organization for Standardization: an international body whose members are national standards bodies and which approves, develops and publishes international standards. | EM-Sec |
| issuer | in a stored value or similar prepaid electronic money system, the entity which receives payment in exchange for value distributed in the system and which is obligated to pay or redeem transactions or balances presented to it. | EM-Sec EM-CPSS |
| issuer | the entity which is obligated on a security or other financial instrument. For example, a corporation or government having the authority to issue and sell a security, or a bank that approves a letter of credit. Issuer is sometimes used to refer to a financial institution that issues credit or debit cards. | Blue Book |
| issuing agent | an institution that acts on behalf of the issuer of securities in distributing the securities and in realising the proceeds thereof for the benefit of the issuer. | SDF |
| issuing institution | the institution receiving funds in exchange for value distributed in the system and, in principle, being obliged to pay or redeem the customer's transactions and unused funds which are presented to it. It is normally the institution which invests the float. | EM-ECB |
| key | a unique series of digits used in combination with a cryptographic algorithm. | EM-Sec |
| key length | the number of bits comprising an encryption key. | EM-Sec |
| key management | the design of the life cycle of keys and the relationships between keys which are used in a computer system for cryptographic purposes. Alternatively, when referring to a system in operation, the processes by which cryptographic keys used in a computer system are generated, stored and updated. | EM-Sec |
| large-value funds transfer system | a funds transfer system through which large-value and high-priority funds transfers are made between participants in the system for their own account or on behalf of their customers. Although, as a rule, no minimum value is set for the payments they carry, the average size of payments passed through such systems is usually relatively large. Large-value funds transfer systems are sometimes known as wholesale funds transfer systems. | EM-CPSS Blue Book |
| large-value payments | payments, generally of very large amounts, which are mainly exchanged between banks or between participants in the financial markets and usually require urgent and timely settlement. | EM-CPSS <i>Blue Book</i> |
| L/C | see letter of credit. | |

| Term | Definition | Source |
|-------------------------------------|---|--|
| legal ownership | recognition in law as the owner of a security or financial instrument. It is usually represented by holding "legal title" and sometimes distinguished from beneficial ownership/interest. See also beneficial ownership/interest, legal title. | SLT SDF |
| legal risk | the risk of loss because of the unexpected application of a law or regulation or because a contract cannot be enforced. | x-border ETDC OTC SDF SLT |
| legal risk | the risk that a party will suffer a loss because laws or regulations do not support the rules of the securities settlement system, the performance of related settlement arrangements, or the property rights and other interests held through the settlement system. Legal risk also arises if the application of laws and regulations is unclear. | SSS |
| legal title | one recognisable or enforceable in law or one which is complete and perfect as regards the apparent right of ownership, and possession, which may carry no beneficial interest. | SLT |
| letter of credit | a promise by a bank or other issuer to a third party to make payment on behalf of a customer in accordance with specified conditions. Frequently used in international trade to make funds available in a foreign location. | Red Book Blue Book |
| limit | see credit limit. | Core Principles |
| limited-purpose prepaid card | a prepaid card which can be used for a limited number of well defined purposes. Its use is often restricted to a number of well identified points of sale within a well identified location (eg a building, corporation or university). In the case of single-purpose prepaid cards, the card issuer and the service provider may be identical (eg cards used in public telephones). See also prepaid card. | Blue Book EM-CPSS |
| liquidity risk | the risk that a counterparty (or participant in a settlement system) will not settle an obligation for full value when due. Liquidity risk does not imply that a counterparty or participant is insolvent since it may be able to settle the required debit obligations at some unspecified time thereafter. | Red Book Blue Book |
| load | the action of transferring electronic balance from an issuer to a consumer's device. | EM-Sec |
| loading operator | the entity providing the technical infrastructure for loading transactions. | EM-ECB |
| local agent | a custodian that provides custody services for securities traded and settled in the country in which it is located to trade counterparties and settlement intermediaries located in other countries (non-residents). | x-border SDF |
| local custodian | a custodian that provides custody services for securities traded and settled in the country in which the custodian is located. See also global custodian. | SDF |

| Term | Definition | Source |
|---|---|---|
| long-form confirmation | a confirmation that includes key legal provisions from a master agreement. When no master agreement has been executed between the counterparties, use is sometimes made of a long-form confirmation or of a confirmation that incorporates by reference the standard terms of a master agreement. | OTC |
| long position | a condition in which the buyer or holder of securities owns more securities than it contracts to deliver. See also short sale. | SLT |
| loss-sharing agreement | an agreement among participants in a clearing or settlement system regarding the allocation of any losses arising from the default of a participant in the system or of the system itself. | SDF <i>DVP</i> |
| loss-sharing pools | cash, securities or possibly other assets that are provided by the participants in advance and are held by the system to ensure that commitments arising from loss-sharing agreements can be met. | SDF |
| loss-sharing rule | an agreement between participants in a transfer system or clearing house arrangement regarding the allocation of any loss arising when one or more participants fail to fulfil their obligation: the arrangement stipulates how the loss will be shared among the parties concerned in the event that the agreement is activated. Also called loss-sharing agreement. | Red Book Blue Book |
| MAC | message authentication code: a hash algorithm parameterised with a key to generate a number which is attached to the message and is used to authenticate it and to guarantee the integrity of the data transmitted. | EM-Sec |
| magnetic ink character recognition | a technique, using special MICR machine-readable characters, by which documents (ie cheques, credit transfers, direct debits) are read by machines for electronic processing. See also optical character recognition. | Red Book Blue Book |
| manufactured payment | an equivalent payment made by the borrower of securities to the lender in lieu of actual dividends or other income earned on the securities (net of any applicable taxes), which the lender would have received if it had not lent the securities. | SLT |
| margin | margin has at least two meanings. In the futures/commodity markets, margin is a good faith deposit (of money, securities or other financial instruments) required by the futures clearing system to assure performance. In the equities markets, margin is a sum of money deposited by a customer when borrowing money from a broker to purchase shares. The money deposited with the broker is the difference between the purchase value of the shares and the collateral value of the shares. See also haircut. | Red Book Blue Book <i>DVP</i> |
| margin | generally, the term for collateral used to secure an obligation, either realised or potential. In securities markets, the collateral deposited by a customer to secure a loan from a broker to purchase shares. In organisations with a central counterparty, the deposit of collateral to guarantee performance on an obligation or cover potential market movements on unsettled transactions is sometimes referred to as margin. | SSS |
| margin call | a demand for additional funds or collateral, following the marking to market of a securities lending transaction, if the market value of underlying collateral falls below a certain level relative to the loaned asset. Similarly, if the value of the underlying collateral assets, following their revaluation, were to exceed the agreed margin, the return of collateral might be required. | SLT |

| Term | Definition | Source |
|--------------------------------|---|--|
| market risk | the risk of losses in on- and off-balance sheet positions arising from movements in market prices. | ETDC |
| market value | the cost that would be incurred or the gain that would be realised if an outstanding contract were replaced at current market prices. Also called replacement value. | OTC |
| marking to market | the practice of revaluing securities and financial instruments using current market prices. In some cases, unsettled contracts to purchase or sell securities are marked to market and the counterparty with an as yet unrealised loss on the contract is required to transfer funds or securities equal to the value of the loss to the other counterparty. | DVP Red Book Blue Book SLT <i>SDF</i> |
| marking to market | the revaluation of open positions in financial instruments at current market prices and the calculation of any gains or losses that have occurred since the last valuation. See also futures-style margining, options-style margining, variation margin. | ETDC OTC |
| mask | the hardware specifications that define the physical and functional properties of the IC chip. | EM-Sec |
| master agreement | an agreement that sets forth the standard terms and conditions applicable to all or a defined subset of transactions that the parties may enter into from time to time, including the terms and conditions for closeout netting. | OTC |
| master key | a cryptographic key, often used to generate other cryptographic keys. | EM-Sec |
| master master agreement | an umbrella agreement that provides for closeout netting of transactions governed by different master agreements. For example, where the parties have used separate master agreements to cover different types of OTC derivatives transaction, the parties may enter into a master master agreement in an effort to achieve a greater reduction of credit risk. | OTC |
| matched book | portfolio of assets and portfolio of liabilities having equal maturities. The term is used most often in reference to money market instruments and money market liabilities. In reference to securities lending, this entails borrowing securities and then relending the same securities for an equivalent period for the purpose of borrowing and lending money at a locked-in rate. In contrast, an unmatched book refers to borrowing and lending of the same securities for different maturities to take a short or long interest rate position. | SLT |
| matching | the process for comparing the trade or settlement details provided by counterparties to ensure that they agree with respect to the terms of the transaction. Also called comparison checking. | SLT |
| memory card | an IC (integrated circuit) card capable of storing information only. | EM-Sec |
| MICR | see magnetic ink character recognition. | |

| Term | Definition | Source |
|--|---|--|
| minimum standards of the lamfalussy report (Lamfalussy standards) | the six minimum standards for the design and operation of cross-border and multicurrency netting schemes or systems. (i) Netting systems should have a well founded legal basis under all relevant jurisdictions. (ii) Netting scheme participants should have a clear understanding of the impact of the particular scheme on each of the financial risks affected by the netting process. (iii) Multilateral netting systems should have clearly defined procedures for the management of credit risks and liquidity risks which specify the respective responsibilities of the netting provider and the participants. These procedures should also ensure that all parties have both the incentives and the capabilities to manage and contain each of the risks they bear and that limits are placed on the maximum level of credit exposure that can be produced by each participant. (iv) Multilateral netting systems should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single net debit position. (v) Multilateral netting systems should have objective and publicly disclosed criteria for admission which permit fair and open access. (vi) All netting schemes should ensure the operational reliability of technical systems and the availability of backup facilities capable of completing daily processing requirements. | Blue Book |
| monetary aggregate | a composite monetary variable used as a measure of the money supply (and as such sometimes adopted as an intermediate monetary policy objective or as an indicator of monetary conditions) comprising a varying range of liquid assets depending on its definition. Monetary aggregates range from narrow to broad. The narrowly defined aggregate M1 typically includes currency and demand deposits. | EM-CPSS |
| money laundering | the attempt to conceal or disguise the ownership or source of the proceeds of criminal activity and to integrate them into the legitimate financial systems in such a way that they cannot be distinguished from assets acquired by legitimate means. Typically this involves the conversion of cash-based proceeds into account-based forms of money. | EM-CPSS EM-ECB |
| money order | an instrument used to remit money to the named payee, often used by persons who do not have a chequing account relationship with a financial institution, to pay bills or to transfer money to another person or to a company. There are three parties to a money order: the remitter (payer), the payee and the drawee. Drawees are usually financial institutions or post offices. Payees can either cash their money orders or present them to their bank for collection. | Red Book Blue Book <i>Retail</i> |
| multifunctional cards | a card which, in addition to a stored value card function, may include other payment facilities such as a debit or credit card function and/or non-payment facilities. | EM-ECB |
| multilateral credit limit | see credit limit. | Core Principles |
| multilateral net settlement position | the sum of the value of all the transfers a participant in a net settlement system has received during a certain period of time less the value of the transfers made by the participant to all other participants. If the sum is positive, the participant is in a multilateral net credit position; if the sum is negative, the participant is in a multilateral net debit position. | Red Book Blue Book |

| Term | Definition | Source |
|---|---|--|
| multilateral net settlement system | a settlement system in which each settling participant settles (typically by means of a single payment or receipt) the multilateral net settlement position which results from the transfers made and received by it, for its own account and on behalf of its customers or non-settling participants for which it is acting. See also direct participant, multilateral net settlement position, multilateral netting, settling participant/member. | Red Book Blue Book |
| multilateral netting | an arrangement among three or more parties to net their obligations. The obligations covered by the arrangement may arise from financial contracts, transfers or both. The multilateral netting of payment obligations normally takes place in the context of a multilateral net settlement system. See also bilateral netting, multilateral net settlement position, multilateral net settlement system. | Red Book Blue Book |
| multilateral netting | netting on a multilateral basis is arithmetically achieved by summing each participant's bilateral net positions with the other participants to arrive at a multilateral net position. Such netting is conducted through a central counterparty (such as a clearing house) that is legally substituted as the buyer to every seller and the seller to every buyer. The multilateral net position represents the bilateral net position between each participant and the central counterparty. See also netting. | OTC |
| multiple issuer scheme | a scheme in which more than one institution acts as issuer. | EM-ECB |
| multipurpose prepaid card | a prepaid card which can be used at the outlets of several service providers for a wide range of purposes, and which has the potential to be used on a national or international scale but may sometimes be restricted to a certain area. See also electronic purse, prepaid card. | Blue Book <i>EM-ECB</i> |
| multipurpose prepaid card scheme | a scheme in which at least three parties are involved: the issuer, the cardholder and the acceptor of the card. (Where one acceptor currently exists, it must be possible for other legally distinct acceptors to join the scheme.) | EM-ECB |
| mutual offset system | a link between clearing houses in which positions entered into on one exchange can be transferred to the clearing house of another exchange and vice versa. Also, positions need not be transferred. | ETDC |
| net credit (or debit) position | a participant's net credit or net debit position in a netting system is the sum of the value of all the transfers it has received up to a particular point in time less the value of all transfers it has sent. If the difference is positive, the participant is in a net credit position; if the difference is negative, the participant is in a net debit position. The net credit or net debit position at settlement time is called the net settlement position. These net positions may be calculated on a bilateral or multilateral basis. | DVP Red Book Blue Book SDF |
| net debit cap | see caps, net credit (or debit) position. | Red Book Blue Book |
| net margining | margining system in which the clearing member is required to deposit with the clearing house sufficient initial margin to cover the net positions of its clients. Clients, however, are typically still obligated to deposit with the clearing member initial margin to cover their own positions. See also gross margining. | ETDC |

| Term | Definition | Source |
|---------------------------------------|---|--|
| net settlement | the settlement of a number of obligations or transfers between or among counterparties on a net basis. See also netting. | DVP Red Book Blue Book SDF |
| net settlement system | a system in which transfer orders are settled on a net basis. Some systems distinguish between types of transfer orders and settle some, such as payment orders, on a net basis and others, such as securities transfer orders, on an instruction by instruction basis. | x-border DVP |
| net settlement system | a funds transfer system whose settlement operations are completed on a bilateral or multilateral net basis. | Blue Book Red Book |
| net settlement system | a settlement system in which final settlement of transfer instructions occurs on a net basis at one or more discrete, prespecified times during the processing day. | SSS |
| netting | an agreed offsetting of positions or obligations by trading partners or participants. The netting reduces a large number of individual positions or obligations to a smaller number of obligations or positions. Netting may take several forms which have varying degrees of legal enforceability in the event of default of one of the parties. See also bilateral netting, multilateral netting, novation, position netting, substitution. | DVP Red Book Blue Book SDF |
| netting | an agreed offsetting of mutual obligations by trading partners or participants in a system, including the netting of trade obligations, for example through a central counterparty, and also agreements to settle securities or funds transfer instructions on a net basis. | SSS |
| netting by novation | netting by novation agreements provide for individual forward-value contractual commitments (eg foreign exchange contracts) to be discharged at the time of their confirmation and replaced by new obligations forming part of a single agreement. Amounts due under a discharged contract will be added to running balances due between the parties in each currency at each future value date. | Blue Book |
| network money | electronic money which is transferred via telecommunications networks such as the internet. | EM-ECB |
| nominee | a person or entity named by another to act on his behalf. A nominee is commonly used in a securities transaction to obtain registration and legal ownership of a security. | DVP Red Book Blue Book SDF |
| non-bank financial institution | a financial institution that does not come under the definition of a "bank" (eg a financial institution other than a credit institution in Europe or a depository institution in the United States). | EM-CPSS |
| non-cash clearing | a method for clearing futures contracts in which positions are periodically marked to market and resulting obligations are collateralised. See also cash clearing. | ETDC |
| non-repudiability | the ability to prevent denial or repudiation by the sender or receiver of a payment message. | Core Principles |
| note-based system | an electronic money system in which the electronic funds are represented by records (electronic notes) that are uniquely identified by a serial number and are associated with a fixed, unchangeable denomination. | EM-Sec |

| Term | Definition | Source |
|---------------------------------------|--|--|
| novation | satisfaction and discharge of existing contractual obligations by means of their replacement by new obligations (whose effect, for example, is to replace gross with net payment obligations). The parties to the new obligations may be the same as those to the existing obligations or, in the context of some clearing house arrangements, there may additionally be substitution of parties. See also substitution. | Red Book Blue Book |
| obligation | a duty imposed by contract or law. It is also used to describe a security or other financial instrument, such as a bond or promissory note, which contains the issuer's undertaking to pay the owner. | DVP Red Book Blue Book SDF <i>Retail</i> |
| OCR | see optical character recognition. | |
| off-balance sheet transactions | financial transactions that are not reflected on the balance sheet of the financial institution conducting them. An example would be the purchase or sale of financial assets in futures markets. | EM-CPSS |
| offline | in the context of payment and settlement systems, the term may refer to the transmission of transfer instructions by users, through such means as voice, written or telefaxed instructions, that must subsequently be input into a transfer processing system. The term may also refer to the storage of data by the transfer processing system on media such as magnetic tape or disk such that the user may not have direct and immediate access to the data. See also online. | Red Book Blue Book <i>Retail</i> |
| offsetting | see netting. | Core Principles |
| omnibus account | a single account for the commingled funds or positions of multiple parties. A clearing member will often maintain an omnibus account at the clearing house for all of the clearing member's clients. In this case, the clearing member is responsible for maintaining account records for individual clients. | ETDC |
| omnibus customer account | an account in which the securities held by a participant on behalf of all (or at least several) of its customers are kept. See also proprietary account, segregation. | SDF |
| one-way hash function | a mathematical algorithm (hash algorithm) applied to a message to generate a number that is attached to the message and is used to verify the integrity of the data transmitted. The result of the application of a hash function to a message is called a hash value. | EM-Sec |
| onlend | to borrow a security from one party and then lend the same security to another party. | SLT |
| online | in electronic money systems, indicates that a direct connection is made to a centralised computer system for authorisation or validation before a transaction can be executed. | EM-Sec |
| online | in the context of payment and settlement systems, this term may refer to the transmission of transfer instructions by users, through such electronic means as computer-to-computer interfaces or electronic terminals, that are entered into a transfer processing system by automated means. The term may also refer to the storage of data by a transfer processing system on a computer database such that the user has direct access to the data (frequently in real time) through input/output devices such as terminals. | Red Book Blue Book EM-CPSS EM-ECB <i>Retail</i> |

| Term | Definition | Source |
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| opening (or front) leg | first leg of a pair of transactions in the same securities, ie a securities lending transaction - one for a near value date, the other for a value date further into the future. See also closing (or back) leg. | SLT |
| open market sales | sales of marketable securities conducted in secondary financial markets by central banks in order to reduce the amount of bank reserves (liquidity) held by banks. | EM-CPSS |
| open network | telecommunications network to which access is not restricted. | EM-Sec EM-ECB Retail |
| open offer netting | describes a contractual means by which a third party, such as a clearing house, becomes party to a transaction agreed by two separate entities. The third party extends an "open offer" to those entities, with the effect that if they agree the terms of a transaction which satisfies certain pre-agreed conditions, the third party automatically and immediately becomes interposed in that transaction. Two separate, equal and opposite contractual obligations are created, between the clearing house and one party, and between the clearing house and the other entity. If all pre-agreed conditions are met, at no stage does a direct contractual obligation exist between the two entities. | x-border Blue Book |
| open outcry trading | trading that is conducted on the floor of an exchange without any electronic intermediation. See also screen-based trading. | ETDC |
| open transactions | transactions with no fixed maturity date, with the possibility of terminating the transaction or refixing its terms or substituting collateral daily. | SLT |
| operating system | that part of the software of a computer system (including chips) that is closely tied to the hardware on which it runs and that performs basic input/output operations, computations, memory management, etc. | EM-Sec |
| operational risk | the risk that deficiencies in information systems or internal controls could result in unexpected losses. | Red Book |
| operational risk | the risk of human error or a breakdown of some component of the hardware, software or communications systems that are crucial to settlement. | ETDC SLT |
| operational safe custody accounts | securities accounts run by the central bank in which credit institutions can place securities deemed suitable for the backing of central bank operations. The securities held on these accounts are finally deposited with the CSD under the name of the national central bank (NCB), so that the transfer into a safe custody account results in a transfer between the bank's and the NCB's account with the CSD. The securities deposited with the NCB are generally pledged to the NCB as collateral for (interest bearing) overnight and (interest free) intraday lombard loans. They can also be used for open market transactions (repos) based on a general authorisation given to the NCB to acquire securities. | x-border Blue Book |
| optical character recognition | a technique, using special OCR machine-readable characters, by which documents (eg cheques, credit transfers, direct debits) are read by machines for electronic processing. See also magnetic ink character recognition. | Red Book x-border Blue Book |

| Term | Definition | Source |
|-------------------------------------|---|--|
| optimisation routine | routine processes in a payment system to determine the order in which payments are accepted for settlement. Optimisation routines are used to improve system liquidity and increase settlement efficiency. See also queuing, scheduling. | Core Principles |
| option contract | a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset by (or on) a specific date for a specific price. For this right the purchaser pays a premium. | OTC ETDC |
| options-style margining | a method of margining derivative contracts in which positions are marked to market and current exposures are collateralised. When an option contract is margined using such a system, the buyer of the option pays the premium in full at the time of the purchase. The seller of the option receives the premium and collateralises current exposures as they occur. See also futures-style margining. | ETDC |
| out-of-the-money | a term used to describe an option contract that would produce a negative cash flow for the holder if it were exercised now. | OTC |
| overnight money | a loan with a maturity of one business day. Also called day-to-day money. | Red Book x-border Blue Book |
| oversight | a public policy activity principally intended to promote the safety and efficiency of payment and securities settlement systems and in particular to reduce systemic risk. | SSS |
| oversight of payment systems | a central bank task, principally intended to promote the smooth functioning of payment systems and to protect the financial system from possible "domino effects" which may occur when one or more participants in the payment system incur credit or liquidity problems. Payment systems oversight aims at a given system (eg a funds transfer system) rather than individual participants. | x-border Blue Book |
| over the counter | a method of trading that does not involve an exchange. In over-the-counter markets, participants trade directly with each other, typically through telephone or computer links. | ETDC <i>OTC</i> <i>SLT</i> |
| paperless credit transfers | credit transfers that do not involve the exchange of paper documents between banks. Other credit transfers are referred to as being paper-based. | Red Book x-border Blue Book Retail |
| participant/member | a party who participates in a transfer system. This generic term refers to an institution which is identified by a transfer system (eg by a bank identification number) and is allowed to send payment orders directly to the system or which is directly bound by the rules governing the transfer system. See also direct participant/ member, indirect participant/member. | Red Book x-border Blue Book SDF |
| paying agent | an institution that, acting on behalf of an issuer, makes payments to holders of securities (eg payments of interest or principal). | SDF |
| payment | the payer's transfer of a monetary claim on a party acceptable to the payee. Typically, claims take the form of banknotes or deposit balances held at a financial institution or at a central bank. | Red Book Blue Book EM-CPSS EM-ECB |
| payment card company | a company which owns trademarks of payment cards (credit, debit or prepaid cards) and may also provide a number of marketing, processing or other services to institutions issuing its cards. | EM-ECB |
| payment instrument | any instrument enabling the holder/user to transfer funds. | EM-ECB |

| Term | Definition | Source |
|---------------------------------------|---|---|
| payment lag | the time lag between the initiation of the payment order and its final settlement. | Red Book x-border Blue Book |
| payment message/instruction | an order or message to transfer funds (in the form of a monetary claim on a party) to the order of the beneficiary. The order may relate either to a credit transfer or to a debit transfer. See also credit transfer, debit transfer system, payment. | Core Principles |
| payment netting | settling payments due on the same date and in the same currency on a net basis. | OTC |
| payment order | an order or message requesting the transfer of funds (in the form of a monetary claim on a party) to the order of the payee. The order may relate either to a credit transfer or to a debit transfer. Also called payment instruction. | Red Book Blue Book Retail |
| payment system | a payment system consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money. | Red Book Blue Book EM-CPSS EM-ECB Retail |
| payment versus payment | a mechanism in a foreign exchange settlement system which ensures that a final transfer of one currency occurs if and only if a final transfer of the other currency or currencies takes place. | Blue Book |
| PCMCIA card | personal computer media control interface adapter: a device that is attached externally to a PC and can perform various functions such as memory storage and modem communications. PCMCIA cards can be designed in such a way as to provide a certain level of tamper-resistance. | EM-Sec |
| personal identification number | a numeric code which the cardholder may need to quote for verification of identity. In electronic transactions, it is seen as the equivalent of a signature. | Red Book Blue Book Retail |
| personalisation | the phase of the IC card manufacturing process during which customer information is loaded into the card. | EM-Sec |
| PIN | see personal identification number | |
| plaintext | data which are not encrypted and are therefore in a readable form. | EM-Sec |
| plain vanilla transactions | the most common and generally the simplest types of derivatives transaction. Plain vanilla is a relative concept, and no precise list of plain vanilla transactions exists. Transactions that have unusual or less common features are often called exotic or structured. | OTC |
| pledge | a delivery of property to secure the performance of an obligation owed by one party (debtor/pledgor) to another (secured party). A pledge creates a security interest (lien) in the property so delivered. See also security interest. | OTC SLT |
| point of sale | this term refers to the use of payment cards at a retail location (point of sale). The payment information is captured either by paper vouchers or by electronic terminals, which in some cases are designed also to transmit the information. Where this is so, the arrangement may be referred to as "electronic funds transfer at the point of sale" (EFTPOS). | Red Book Blue Book Retail |
| POS | see point of sale. | |

| Term | Definition | Source |
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| position limit | a restriction on the number of contracts or share of a contract's open interest that a single entity may hold. | ETDC |
| position netting | the netting of instructions in respect of obligations between two or more parties which neither satisfies nor discharges those original individual obligations. Also referred to as payment netting, in the case of payment instructions, and advisory netting. | DVP Red Book <i>Blue Book</i> SDF |
| potential future exposure | the additional exposure that a counterparty might potentially assume during the life of a contract or set of contracts beyond the current replacement cost of the contract or set of contracts. See also current exposure. | OTC |
| prefunding | the requirement that funds be available in accounts at the settlement institution before institutions use these accounts to extinguish their settlement obligations. | Core Principles |
| pre-matching process | process for comparison of trade or settlement information between counterparties that occurs before other matching or comparison procedures. Generally, pre-matching does not bind counterparties as matching can do. | SDF |
| prepaid card | a card on which value is stored, and for which the holder has paid the issuer in advance. See also electronic purse, limited-purpose prepaid card, multipurpose prepaid card, stored value card. | EM-CPSS |
| prepaid card acceptor | the party agreeing to deliver goods or services against payments made with a prepaid card. | EM-ECB |
| prepaid cardholder | the customer associated with the prepaid cardholder's identification on the card or the customer owning the card in the case of anonymous card products not related to any account. | EM-ECB |
| pre-settlement risk (replacement cost risk) | the risk that a counterparty to an outstanding transaction for completion at a future date will fail to perform on the contract or agreement during the life of the transaction. The resulting exposure is the cost of replacing the original transaction at current market prices and is also known as replacement cost risk. See also credit risk/exposure. | OTC SSS |
| prime brokerage | the provision by firms (eg large securities houses) of credit, clearing, securities lending and other services to clients (typically hedge funds). | SLT |
| principal | a party to a transaction that acts on its own behalf. In acting as a principal, a firm is buying/selling (or lending/borrowing) from its own account for position and risk, expecting to make a profit. A lender institution offering customers' securities on an undisclosed basis may also be considered to be acting as principal. | SLT |
| principal risk | the risk that the seller of a security delivers a security but does not receive payment or that the buyer of a security makes payment but does not receive delivery. In this event, the full principal value of the securities or funds transferred is at risk. | DVP SLT x-border ETDC SDF |

| Term | Definition | Source |
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| principal risk | the credit risk that a party will lose the full value involved in a transaction. In the settlement process, this term is typically associated with exchange-for-value transactions when there is a lag between the final settlement of the various legs of a transaction (ie the absence of delivery versus payment). Principal risk that arises from the settlement of foreign exchange transactions is sometimes called cross-currency settlement risk or Herstatt risk. See also credit risk/exposure. | Red Book Blue Book |
| principal-to-principal relationship | a contractual relationship in which both parties are acting on their own behalf and are responsible for performance of any contractual obligations. | ETDC |
| privacy | in the context of a payment system, the fact that no information which might permit determination of behaviour may be collected without the consent of the individual to whom it relates. | EM-Sec EM-ECB |
| property interest | a generic term that refers to the exclusive right or interest of possessing, enjoying and disposing of a specific property. | SLT |
| proprietary account | an account in which a participant holds only those securities it is holding on its own behalf (as opposed to those securities it is holding on behalf of its customers). See also omnibus customer account, segregation. | SDF |
| proprietary positions | positions held by a participant on its own behalf (as opposed to positions held for clients). | ETDC |
| proprietary (trading) | trading in securities or derivatives for the account of a firm itself, rather than on behalf of clients. | |
| protocol | procedures for the interchange of electronic messages between communicating devices. | EM-Sec |
| provider | operator who establishes the hardware and software conditions for the conduct of transactions with electronic money, without necessarily being the issuer of the electronic money units. | EM-ECB |
| provisional transfer | a conditional transfer in which one or more parties retain the right by law or agreement to rescind the transfer. | DVP Red Book x-border Blue Book SDF |
| public disclosure | making information publicly accessible, for example by posting on an internet website or by making copies publicly available. | Core Principles |
| public key cryptography | see asymmetric cryptography. | EM-Sec |
| PVP | see payment versus payment. | |
| queuing | a risk management arrangement whereby transfer orders are held pending by the originator/deliverer or by the system until sufficient cover is available in the originator's/deliverer's clearing account or under the limits set against the payer; in some cases, cover may include unused credit lines or available collateral. See also caps. | Red Book Blue Book |
| RAM | random-access memory: the volatile memory area of a chip that is used for calculations and can only store data when electrical current is being supplied. | EM-Sec |
| real time | the processing of instructions on an individual basis at the time they are received rather than at some later time. | DVP SDF |

| Term | Definition | Source |
|---|--|--|
| real-time gross settlement | the continuous (real-time) settlement of funds or securities transfers individually on an order by order basis (without netting). | ETDC SLT |
| real-time risk management | process that allows risk associated with payments between payment system participants to be managed immediately and continuously. | Core Principles |
| real-time transmission, processing or settlement | the transmission, processing or settlement of a funds or securities transfer instruction on an individual basis at the time it is initiated. | Red Book Blue Book |
| rebate | the interest rate that a securities lender pays the borrower on cash collateral. This will normally be a below market rate to reflect the lending fee. | SLT |
| recall | a demand by a securities lender for the return of securities from the borrower where they are lent on an open transaction. | SLT |
| receiver finality | analytical rather than operational or legal term used to describe the point at which an unconditional obligation arises on the part of the receiving participant in a transfer system to make final funds available to its beneficiary customer on the value date. See also final settlement. | Red Book Blue Book |
| registration | the listing of ownership of securities in the records of the issuer or its transfer agent/registrar. | Red Book Blue Book |
| remote access to a CSD | the facility for a securities settlement system (SSS) in one country ("home country") to become a direct participant in a CSD established in another country ("host country") and, for that purpose, to have a securities account in its own name with the CSD in the host country. See also securities settlement system. | Blue Book |
| remote access to an IFTS | the facility for a credit institution established in one country ("home country") to become a direct participant in an interbank funds transfer system (IFTS) established in another country ("host country") and, for that purpose, to have a settlement account in its own name with the central bank in the host country, if necessary, without having established a branch in the host country. | Blue Book |
| remote participant | a participant in a transfer system which has neither its head office nor any of its branches located in the country where the transfer system is based. | Red Book Blue Book |
| remote payment | payment carried out through the sending of payment orders or payment instruments (eg by mail). Contrast with face-to-face payment. | Red Book Blue Book EM-ECB <i>Retail</i> |
| replacement cost risk | the risk that a counterparty to an outstanding transaction for completion at a future date will fail to perform on the settlement date. This failure may leave the solvent party with an unhedged or open market position or deny the solvent party unrealised gains on the position. The resulting exposure is the cost of replacing, at current market prices, the original transaction. Also called market risk, price risk. See also credit risk/exposure. | DVP Red Book x-border Blue Book SDF ETDC |
| repo | see repurchase agreement. | |
| repo rate | the return earned on a repo transaction expressed as an interest rate on the cash side of the transaction. | SLT |

| Term | Definition | Source |
|--|--|--|
| repricing/ revaluation | the act of marking to market. | SLT |
| repudiation | the denial by one of the parties to a transaction of participation in all or part of that transaction or of the content of the communication. | EM-Sec |
| repurchase agreement | a contract to sell and subsequently repurchase securities at a specified date and price. Also known as an RP or buyback agreement. | x-border SLT |
| reservable deposits | bank deposits subject to reserve requirements. | EM-CPSS |
| reserve requirement | the obligation for banks to maintain balances (bank reserves) at the central bank in respect of certain types of liabilities (in some cases vault cash can be counted towards this). | EM-CPSS |
| respondent | see correspondent banking. | Red Book |
| retailer card | a card issued by non-banking institutions, to be used in specified stores. The holder of the card has usually been granted a line of credit. | Red Book Blue Book |
| retail funds transfer system | a funds transfer system which handles a large volume of payments of relatively low value in such forms as cheques, credit transfers, direct debits, ATM and EFTPOS transactions. | Red Book Blue Book EM-CPSS Retail |
| retail payments | this term describes all payments which are not included in the definition of large-value payments. Retail payments are mainly consumer payments of relatively low value and urgency. | Blue Book EM-CPSS EM-ECB |
| retail transactions | see retail payments. | EM-CPSS |
| reuse of collateral (rehypotheca- tion) | a party's pledging or transferring to another party of collateral that was pledged or transferred to it. The term rehypothecation is generally used to refer to pledging collateral that was pledged. | OTC |
| reverse engineering | the process of analysing software code in order to determine how the software works. | EM-Sec |
| reverse repo | a contract with a counterparty to buy and subsequently resell securities at a specified date and price, the mirror image of a repo. | SLT |
| revocable transfer | a transfer that a system operator or a system participant can rescind. | SSS |
| risk factor | a variable that affects the value of financial instruments or an entire portfolio. The most common market risk factors are interest rates, foreign exchange rates, equity prices and commodity prices. | OTC |
| risk management test | test carried out on payments submitted to a payment system in order to establish whether processing a particular payment would cause the system or its participants greater risk than permitted under the rules of the system. | Core Principles |

| Term | Definition | Source |
|--|--|--|
| rolling settlement | a situation in which settlement of securities transactions takes place each day, the settlement of an individual transaction taking place a given number of days after the deal has been struck. This is in contrast to a situation in which settlement takes place only on certain days - for example, once a week or once a month - and the settlement of an individual transaction takes place on the next settlement day (or sometimes the next but one settlement day) following the day on which the deal is struck. | SLT SDF |
| rolling settlement | a procedure in which settlement takes place a given number of business days after the date of the trade. This is in contrast to account period procedures in which the settlement of trades takes place only on a certain day, for example a certain day of the week or month, for all trades that occurred within the account period. | SSS |
| ROM | read-only memory: typically the area of a chip that holds the operating system and possibly parts of the application. | EM-Sec |
| RSA | Rivest, Shamir, Adleman: a commonly used asymmetric cryptographic algorithm. | EM-Sec |
| RTGS | see real-time gross settlement. | |
| SAM | security application module: a tamper-resistant computer component typically integrated into a terminal. | EM-Sec |
| same day funds | money balances that the recipient has a right to transfer or withdraw from an account on the day of receipt. | DVP Red Book x-border Blue Book SDF |
| scattering | the process of mixing the IC chip components so that they cannot be analysed easily. | EM-Sec |
| scheduling | technique to manage payment queues by determining the order in which payments are accepted for settlement. See also optimisation routine, queuing. | Core Principles |
| screen-based trading | trading conducted through a network of electronic terminals. See also open outcry trading. | ETDC |
| secret key cryptography | see symmetric cryptography. | EM-Sec |
| secured party | a party that holds collateral that secures its claims on a debtor. | OTC |
| securities borrowing and lending programme | a facility whereby a loan of securities is made to facilitate timely fulfilment of settlement obligations. | SDF |
| securities depository | see central securities depository. | Red Book Blue Book SDF |
| securities-driven securities lending transactions | transactions whose motivation lies in borrowing/lending specific securities via a repo or securities loan. See also cash-driven securities lending transactions. | SLT |
| securities loan | a loan of securities, with or without collateral, to facilitate timely fulfilment of settlement obligations. | x-border |

| Term | Definition | Source |
|---|---|-------------------------------|
| securities settlement system | a system which permits the transfer of securities: either free of payment (free delivery), for example in the case of pledge; or against payment. Settlement of securities occurs on securities deposit accounts held with the CSD (both private CSDs or a national central bank acting as a CSD) or with the central bank (safe custody operational accounts). In the latter case, the central bank acts as the intermediate custodian of the securities. The final custodian is normally a CSD. Settlement of cash occurs in an interbank funds transfer system (IFTS), through a settlement agent. | Blue Book |
| securities settlement system | the full set of institutional arrangements for confirmation, clearance and settlement of securities trades and safekeeping of securities. | SSS |
| security interest | a form of interest in property which provides that the property may be sold on default in order to satisfy the obligation covered by the security interest. | OTC SLT |
| segregation | a method of protecting client assets and positions by holding or accounting for them separately from those of the carrying firm or broker. | ETDC |
| seigniorage | in a historical context, the term seigniorage was used to refer to the share, fee or tax which the seignior, or sovereign, took to cover the expenses of coinage and for profit. With the introduction of paper money, larger profits could be made because banknotes cost much less to produce than their face value. When central banks came to be monopoly suppliers of banknotes, seigniorage came to be reflected in the profits made by them and ultimately their major or only shareholder, the government. Seigniorage can be estimated by multiplying notes and coin outstanding (non-interest bearing central bank liabilities) by the long-term rate of interest on government securities (a proxy for the return on central bank assets). | EM-CPSS EM-ECB |
| self-collateralising | an arrangement whereby securities being transferred can be used as collateral to secure risks involved in the transfer process. | SDF |
| sell-buybacks (or buy-sellbacks) | transactions that have the same economic effect and intent as a repurchase agreement and which consist of two distinct simultaneous purchase and sale transactions for different value dates - one for immediate settlement and the other for forward settlement. Typically, sell-buybacks do not allow for marking to market and margin calls. | SLT |
| sender finality | analytical rather than operational or legal term used to describe the point at which an unconditional obligation arises on the part of the initiating participant in a funds transfer system to make final payment to the receiving participant on the value date. See also final settlement. | Red Book Blue Book |
| sequence number | a number attributed sequentially to a message and attached to it to prevent the duplication or loss of messages. | EM-Sec |
| server | a computer that provides services through a network to other computers. | EM-Sec |
| session key | a cryptographic key which is used for a limited time, such as a single communication session or transaction, then discarded. | EM-Sec |

| Term | Definition | Source |
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| set off | a method of cancelling or offsetting reciprocal obligations and claims (or the discharge of reciprocal obligations up to the amount of the smaller obligations). Set off can operate by force of law or pursuant to a contract. | OTC |
| settlement | an act that discharges obligations in respect of funds or securities transfers between two or more parties. See also final settlement, gross settlement system, net settlement, net settlement system. | Red Book EM-CPSS Blue Book EM-ECB Retail |
| settlement | the completion of a transaction, wherein the seller transfers securities or financial instruments to the buyer and the buyer transfers money to the seller. A settlement may be final or provisional. | DVP <i>x-border</i> SDF |
| settlement agent | an institution that manages the settlement process (eg the determination of settlement positions, monitoring of the exchange of payments, etc) for transfer systems or other arrangements that require settlement. See also cash settlement agent, final settlement, multilateral net settlement system, settlement, settlement institution. | Red Book Blue Book |
| settlement asset | an asset used for the discharge of settlement obligations as specified by the rules, regulations or customary practice for a payment system. | Core Principles |
| settlement bank | either a central bank or private bank used to effect money settlements. | ETDC |
| settlement bank | the entity that maintains accounts with the settlement agent in order to settle payment obligations arising from securities transfers, both on its own behalf and for other market participants. | SSS |
| settlement date | the date on which the parties to a securities transaction agree that settlement is to take place. The intended date is sometimes referred to as the contractual settlement date. | x-border SDF |
| settlement finality | see final settlement. | Red Book Blue Book |
| settlement institution | the institution across whose books transfers between participants take place in order to achieve settlement within a settlement system. See also bilateral net settlement system, multilateral net settlement system, settlement agent, settling participant/member. | Red Book Blue Book |
| settlement interval | the amount of time that elapses between the trade date (T) and the settlement date (S). Typically measured relative to the trade date, eg if three days elapse, the settlement interval is T+3. | x-border SLT SDF |
| settlement lag | in an exchange-for-value process, the time lag between entering into a trade/bargain and its discharge by the final exchange of a financial asset for payment. See also payment lag. | Red Book Blue Book |
| settlement obligation | an amount due from a financial institution to other financial institutions as a result of the clearing of payments. See also net credit (or debit) position. | Core Principles |
| settlement risk | general term used to designate the risk that settlement in a transfer system will not take place as expected. This risk may comprise both credit and liquidity risk. | Red Book Blue Book SDF Retail |

| Term | Definition | Source |
|------------------------------------|---|--|
| settlement risk | the risk that a party will default on one or more settlement obligations to its counterparties or to a settlement agent. | DVP |
| settlement system | a system used to facilitate the settlement of transfers of funds or financial instruments. | Blue Book EM-CPSS EM-ECB |
| settling participant/member | in some countries, a settling participant in a funds or securities transfer system delivers and receives funds or securities to/from other settling participants through one or more accounts at the settlement institution for the purpose of settling funds or securities transfers for the system. Other participants require the services of a settling participant in order to settle their positions. Currently, in the EC direct participants are by definition also settling participants. See also direct participant/member, tiering arrangement. | Red Book |
| share book-entry system | a computerised system for the issue and registration of equity securities in book-entry form. See also book-entry system, debt book-entry system. | Blue Book |
| short sale | a sale of securities which the seller does not own and thus must be covered by the time of delivery; a technique used (1) to take advantage of an anticipated decline in the price or (2) to protect a profit in a long position. Also called short position. | SLT |
| single-purpose prepaid card | a stored value card for which the card issuer and merchant (card acceptor) are identical, thus representing a prepayment for specific goods and services delivered by the issuer. See also prepaid card. | EM-ECB |
| smartcard | an integrated circuit card with a microprocessor, capable of performing calculations. | EM-Sec EM-CPSS EM-ECB |
| software-based products | electronic money products which employ specialised software on a personal computer and which can typically be used to transfer electronic value via telecommunications networks such as the internet. | EM-ECB |
| special collateral | securities that, for any reason, are highly sought after in the market by borrowers. Repo rates for these specific securities tend to be higher than the prevailing repo rate for general collateral. Also known as "special". See also general collateral. | SLT |
| SSS | see securities settlement system. | |
| stakeholder | in a payment system, stakeholders are those parties whose interests are affected by the operation of the system. | Core Principles |
| stamp duty | a tax in the form of the cost of stamps which are required to be affixed to legal documents such as certificates, receipts and the like. | SLT |
| standing order | an instruction from a customer to his bank to make a regular payment of a fixed amount to a named creditor. | Red Book Blue Book Retail |
| sterilisation | the use by a central bank of operations (such as open market sales) to reduce bank reserves (liquidity) which it has created through some other financial transactions such as the purchase of foreign currency. | EM-CPSS |

| Term | Definition | Source |
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| stored value card | a prepaid card in which the record of funds can be increased as well as decreased. Also called an electronic purse. | EM-Sec EM-CPSS |
| straight through processing | the capture of trade details directly from front-end trading systems and complete automated processing of confirmations and settlement instructions without the need for rekeying or reformatting data. | OTC |
| straight through processing | the completion of pre-settlement and settlement processes based on trade data that is manually entered only once into an automated system. | SSS |
| stress testing | the estimation of credit and liquidity exposures that would result from the realisation of extreme price and implied volatility scenarios. | ETDC |
| subcustodian | where one custodian (eg a global custodian) holds its securities through another custodian (eg a local custodian), the latter is known as a subcustodian. | SDF |
| substitution | the substitution of one party for another in respect of an obligation. In a netting and settlement context, the term typically refers to the process of amending a contract between two parties so that a third party is interposed as counterparty to each of the two parties and the original contract between the two parties is satisfied and discharged. See also novation. | Red Book Blue Book |
| substitution | the substitution of one party for another in respect of an obligation. In the context of a futures or options clearing house, the term usually refers to the interposition of the clearing house as buyer to the seller of a contract and seller to a buyer. | ETDC |
| substitution | recalling the securities lent from a borrower and replacing them with other securities of equivalent market value during the life of the lending. | SLT |
| supervision of financial institutions | the assessment and enforcement of compliance by financial institutions with laws, regulations or other rules intended to ensure that they operate in a safe and sound manner and that they hold capital and reserves sufficient to support the risks that arise in their business. | Core Principles |
| surcharge fee | transaction fee set by an ATM owner and paid directly by the cardholder to the ATM owner for the cost of deploying and maintaining the ATM. | Retail |
| survivors pay | loss-sharing arrangements which, in the event of a participant's inability to settle, require losses to be borne by the surviving participants according to some predetermined formula. | Core Principles |
| swap | an agreement for an exchange of payments between two counterparties at some point(s) in the future and according to a specified formula. | OTC |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication: a cooperative organisation created and owned by banks that operates a network which facilitates the exchange of payment and other financial messages between financial institutions (including broker-dealers and securities companies) throughout the world. A SWIFT payment message is an instruction to transfer funds; the exchange of funds (settlement) subsequently takes place over a payment system or through correspondent banking relationships. | Red Book Blue Book |

| Term | Definition | Source |
|--|---|--|
| switch fee | transaction fee set by the network organisation and paid by the card issuing institution to the organisation for the cost of routing transaction information. | Retail |
| symmetric cryptography | a set of cryptographic techniques in which devices share the same secret key in combination with algorithms. For encryption, the same key is used for encrypting and decrypting, and the decrypting algorithm is the reverse function of the encrypting algorithm. | EM-Sec |
| systemically important payment system | a payment system is systemically important where, if the system were insufficiently protected against risk, disruption within it could trigger or transmit further disruptions amongst participants or systemic disruptions in the financial area more widely. | Core Principles |
| systemic disruption | events whose impact has the potential to threaten the stability of the financial system, by transmission from one financial institution to another, including through the payment system. See also systemic risk. | Core Principles |
| systemic risk | the risk that the failure of one participant in a transfer system, or in financial markets generally, to meet its required obligations will cause other participants or financial institutions to be unable to meet their obligations (including settlement obligations in a transfer system) when due. Such a failure may cause significant liquidity or credit problems and, as a result, might threaten the stability of financial markets. | Red Book Blue Book EM-CPSS ETDC OTC |
| tamper-evident | the capacity of devices to show evidence of physical attack. | EM-Sec |
| tamper-proof | the proven capacity of devices to resist all attacks. | EM-Sec |
| tamper-resistant | the capacity of devices to resist physical attack up to a certain point. | EM-Sec EM-CPSS EM-ECB |
| TARGET | Trans-European Automated Real-time Gross settlement Express Transfer: the TARGET system is defined as a payment system composed of one RTGS system in each of the countries which participate in stage three of EMU and the European Central Bank (ECB) payment mechanism. RTGS systems of non-participating countries may also be connected, provided that they are able to process the euro alongside their national currency. The domestic RTGS systems and the ECB payment mechanism are interconnected according to common procedures ("interlinking") to allow cross-border transfers throughout the European Union to move from one system to another system. See also interlinking. | Blue Book |
| TCP/IP | transmission control protocol/internet protocol: a set of commonly used communications and addressing protocols; TCP/IP is the de facto set of communications standards of the internet. | EM-Sec |
| telematics | the combined use of data processing and data transmission techniques. | Red Book Blue Book |
| teller's cheque | see bank draft. | Red Book Blue Book |
| term transactions | transactions with a fixed end or maturity date. | SLT |

| Term | Definition | Source |
|--|--|---|
| tiering arrangement | an arrangement which may exist in a funds or securities transfer system whereby participants in one category require the services of participants in another category to exchange and/or settle their transactions. See also direct participant/member, indirect participant/member, settling participant/member. | Red Book Blue Book |
| time stamp | a value inserted in a message to indicate the time at which the message was created. | EM-Sec |
| title transfer | conveyance of the ownership interest in property from one counterparty to another. Title transfer is used as one of the methods for collateralisation. The title transfer method employs an outright transfer of the ownership interest in property serving as collateral, ie the collateral provider transfers title to or ownership interest in the assets given as collateral against an agreement that the collateral taker will return the equivalent assets in accordance with the terms of their agreement. | OTC SLT |
| total return swap | an OTC swap with a fixed maturity, in which a dealer agrees to receive the total return on the shares of stock sold to the cash investor, counterparty of the swap, and in exchange to pay a floating rate of interest for the maturity to the counterparty. Payment to the cash investor at the termination of the swap is therefore the floating rate of interest plus any fall in the share price or minus any rise in the share price; on the other hand, the cash investor sells the shares to get back his investment in the market. The end result of this arrangement is that the dealer borrowed cash at the floating rate for a set period of time, using his equity position as collateral. The total return swap is combined with an outright sale of stock in this way where the dealer is looking to finance an equity position, and functions economically similarly to securities lending. | SLT |
| traceability | in electronic money systems, the degree to which value transfer transactions can be traced to the originator(s) or the recipient(s) of the transfer. | EM-Sec EM-ECB |
| trade date | the date on which a trade/bargain is executed. | DVP x-border SDF |
| trade-for-trade settlement | the settlement of individual transactions between counterparties. See also gross settlement system. | DVP Red Book Blue Book SDF |
| trade-for-trade settlement system | a system in which each individual transfer order is settled separately. | DVP |
| trade matching | the process of matching trade details (such as number of contracts, contract month and price) submitted by the trade counterparties. The clearing house often guarantees a trade at the time it is successfully matched. | ETDC |
| trade netting | a legally enforceable consolidation and offsetting of individual trades into net amounts of securities and money due between trading partners or among members of a clearing system. A netting of trades which is not legally enforceable is a position netting. | DVP SDF Red Book Blue Book |

| Term | Definition | Source |
|--------------------------------------|---|---|
| trade registration | the process by which matched trades are formally recorded on the books of the clearing house. For clearing houses that act as central counterparties, registration may also be the time at which the clearing house substitutes itself as counterparty to the clearing members. | ETDC |
| transaction log | a sequential record of transactions that is stored on a device. | EM-Sec |
| transfer | operationally, the sending (or movement) of funds or securities or of a right relating to funds or securities from one party to another party by (i) conveyance of physical instruments/money; (ii) accounting entries on the books of a financial intermediary; or (iii) accounting entries processed through a funds and/or securities transfer system. The act of transfer affects the legal rights of the transferor, transferee and possibly third parties in relation to the money balance, security or other financial instrument being transferred. | Red Book Retail |
| transferability | in electronic money systems, the degree to which an electronic balance can be transferred between devices without interaction with a central entity. | EM-ECB <i>EM-Sec</i> |
| transfer system | a generic term covering interbank funds transfer systems and exchange-for-value systems. | Red Book Blue Book |
| travel and entertainment card | card issued by non-banks indicating that the holder has been granted a line of credit. It enables him to make purchases but does not offer extended credit, the full amount of the debt incurred having to be settled at the end of a specified period. The holder is usually charged an annual fee. Also called charge card. | Red Book Blue Book Retail |
| tri-party repo | repo in which bonds and cash are delivered by the trading counterparty to an independent custodian bank, clearing house or securities depository that is responsible for ensuring the maintenance of adequate collateral value during the life of the transaction. | SLT |
| truncation | a procedure in which the physical movement of paper payment instruments (eg paid cheques or credit transfers) within a bank, between banks or between a bank and its customer is curtailed or eliminated, being replaced, in whole or in part, by electronic records of their content for further processing and transmission. | Red Book Blue Book |
| ultimate settlement | sometimes used to denote final settlement in central bank money. | Red Book Blue Book |
| unwind | a procedure followed in certain clearing and settlement systems in which transfers of securities and funds are settled on a net basis, at the end of the processing cycle, with all transfers provisional until all participants have discharged their settlement obligations. If a participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations from the remaining transfers are then recalculated. Such a procedure has the effect of allocating liquidity pressures and losses from the failure to settle to the counterparties of the participant that fails to settle. Unwinds can be distinguished from debits to securities accounts that do not imply the original transfer is rescinded (eg in cases where securities are discovered to be forged or stolen). | SDF <i>DVP</i> <i>Red Book</i> |

| Term | Definition | Source |
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| unwinding | a procedure followed in certain clearing and settlement systems in which transfers of securities or funds are settled on a net basis, at the end of the processing cycle, with all transfers provisional until all participants have discharged their settlement obligations. If a participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations from the remaining transfers are then recalculated. Such a procedure has the effect of transferring liquidity pressures and possibly losses from the failure to settle to other participants, and may, in an extreme case, result in significant and unpredictable systemic risks. Also called settlement unwind. | Blue Book ETDC |
| user | payment system users comprise both participants and their customers for payment services. See also customer, direct participant, direct participant/member, indirect participant/member, participant/member. | Core Principles |
| user fee | transaction fee set by the card issuer and paid by the cardholder to the issuing institution for card payments or ATM cash withdrawals; other user fees, sometimes called foreign fees, are paid by the cardholder to the issuing institution for the use of ATMs not owned by the issuing institution. | Retail |
| value-at-risk | an estimate of the upper bound on losses an institution would expect to incur during a given period (eg one day) for a given confidence level (eg 95%). | ETDC |
| variation margin | funds that are paid to (or received from) a counterparty (clearing house or clearing member) to settle any losses (gains) that are implied by marking open positions to market. | ETDC |
| velocity | the average number of times a measure of money (as captured, for instance, by a monetary aggregate) turns over within a specified period of time. The income velocity of circulation is typically calculated as the ratio of a monetary aggregate to nominal GDP. | EM-CPSS |
| white list | in a card-based system, a database containing the list of all authorised card numbers. | EM-Sec |
| wholesale funds transfer system | see large-value funds transfer system. | Red Book Blue Book |
| withholding tax | a tax on income deducted at source, which a paying agent is legally obliged to deduct from its payments of interest on deposits, securities or similar financial instruments. | SLT |
| zero hour rule | a provision in the insolvency law of some countries whereby the transactions of a closed institution that have taken place after midnight on the date the institution is ordered closed may be retroactively rendered ineffective. | ETDC |