



**Financial Services  
Commission**

# Guidance Notes

## Glossary

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## Definitions

<b>Actual Distribution</b>	<b>A distribution of market values or exposures at a future time period where the distribution is calculated using historic or realised values such as volatilities calculated using past price or rate changes.</b>
Aggregate calculation	The quotient of the sum of the net replacement cost calculated on a bilateral basis for all counterparties taking into account the contracts included in legally valid netting agreements (numerator) and the gross replacement cost for all contracts included in legally valid netting agreements (denominator).
Ancillary services undertaking	An undertaking whose principal activity consists in owning or managing property, managing data processing services or any other activity of one or more credit institutions.
Asset-backed commercial paper (ABCP) programme	A programme of securitisations the securities issued of which predominantly take the form of commercial paper with an original maturity of one year or less.
Asset management company	A management company of an undertaking for collective investment in transferable securities and an undertaking whose registered office is not in an EEA Member State.
Central counter party	An entity that legally interposes itself between counter parties to contracts traded within one or more financial instruments, becoming the buyer to every seller and the seller to every buyer.
Clean-up call option	A contractual option for the originator to repurchase or extinguish the securitisation positions before all of the underlying exposures have been repaid, when the amount of outstanding exposures falls below a specified level.
Clearing member	A member of the exchange or the clearing house which has a direct contractual relationship with the central counter party (market guarantor).
Close links	A situation in which two or more natural or legal persons are linked in any of the following ways: (a) participation in the form of ownership, direct or by way of control, of 20 % or more of the voting



	rights or capital of an undertaking, (b) control; or (c) the fact that both or all are permanently linked to one and the same third person by a control relationship;
Conversion factor	The ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment, the extent of the commitment shall be determined by the advised limit, unless the unadvised limit is higher.
Counter party credit risk (CCR)	The risk that the counter party to a transaction could default before the final settlement of the transaction's cash flows.
Credit institution	(a) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; (b) any other undertaking which issues means of payment in the form of electronic money.
Credit risk mitigation	A technique used by a credit institution to reduce the credit risk associated with an exposure or exposures which the credit institution continues to hold.
Credit Valuation Adjustment	An adjustment to the mid-market valuation of the portfolio of transactions with a counter party. This adjustment reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counter party. This adjustment may reflect the market value of the credit risk of the counter party or the market value of the credit risk of both the credit institution and the counter party.
Cross-Product Netting	The inclusion of transactions of different product categories within the same netting set pursuant to the Cross-Product Netting rules set out in Schedule 3 of the BCACI Regulations.
Current Exposure	The larger of zero or the market value of a transaction or portfolio of transactions within a netting set with a counter party that would be lost upon the default of the counter party, assuming no recovery on the value of those transactions in bankruptcy.
Current Market Value	The net market value of the portfolio of transactions within the netting set with the counter party. Both positive and negative market values are



	used in computing CMV.
Dilution risk	Risk that an amount receivable is reduced through cash or non-cash credits to the obligor.
Distribution of Exposures	The forecast of the probability distribution of market values that is generated by setting forecast instances of negative net market values equal to zero.
Distribution of Market Values	The forecast of the probability distribution of net market values of transactions within a netting set for some future date (the forecasting horizon), given the realised market value of those transactions up to the present time.
Early amortisation provision	In regulation 50(1) of the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 means a contractual clause which requires, on the occurrence of defined events, investors' positions to be redeemed before the originally stated maturity of the securities issued.
Effective Expected Exposure (Effective EE) at a specific date	The maximum expected exposure that occurs at that date or any prior date. Alternatively, it may be defined for a specific date as the greater of the expected exposure at that date, or the effective exposure at the previous date.
Effective Expected Positive Exposure (Effective EPE)	The weighted average over time of effective expected exposure over the first year, or, if all the contracts within the netting set mature within less than one year, over the time period of the longest maturity contract in the netting set, where the weights are the proportion that an individual expected exposure represents of the entire time interval.
Effective Maturity under the Internal Model Method, for a netting set with maturity greater than one year	The ratio of the sum of expected exposure over the life of the transactions in the netting set discounted at the risk-free rate of return divided by the sum of expected exposure over one year in a netting set discounted at the risk-free rate. This effective maturity may be adjusted to reflect rollover risk by replacing expected exposure with effective expected exposure for forecasting horizons under one year.
European parent credit institution	A parent credit institution in an EEA Member State which is not a subsidiary of another credit institution authorised in any EEA Member State or of a financial holding company set up in any EEA Member State.



European parent financial holding company

A financial holding company which is not itself a subsidiary of a credit institution authorized in the same EEA Member State, or of a financial holding company set up in the same EEA Member State.

European parent investment firm

An investment firm which has an investment firm or credit institution or financial institution as a subsidiary or which holds a participation in such entities, and which is not itself a subsidiary of an investment firm or credit institution authorised in the same EEA Member State, or of a financial holding company set up in the same EEA Member State.

Excess spread

Finance charge collections and other fee income received in respect of the securitised exposures net of costs and expenses.

Expected Exposure (EE)

The average of the distribution of exposures at any particular future date before the longest maturity transaction in the netting set matures.

Expected loss

The ratio of the amount expected to be lost on an exposure from a potential default of a counter party or dilution over a one year period to the amount outstanding at default.

Expected Positive Exposure (EPE)

The weighted average over time of expected exposures where the weights are the proportion that an individual expected exposure represents of the entire time interval. When calculating the minimum capital requirement, the average is taken over the first year or, if all the contracts within the netting set mature within less than one year, over the time period of the longest maturity contract in the netting set.

Exposures

In relation to a firm the maximum loss which the firm might suffer if:  
 (a) a counterparty or a group of connected counterparties fail to meet their obligations; or  
 (b) it realises assets or off-balance sheet positions.

Financial holding company

A financial institution, the subsidiary undertakings of which are either exclusively or mainly credit institutions or financial institutions, at least one of such subsidiaries being a credit institution.

Financial institution

An undertaking which is not a credit institution whose principal activity is to acquire holdings or to carry on one or more of the activities.



Financial instrument	Includes both primary financial instruments or cash instruments, and derivative financial instruments the value of which is derived from the price of an underlying financial instrument or a rate or an index or the price of an underlying other item.
Fully adjusted exposure value	In regulation 67(1) of the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 means the value calculated under regulations 40 to 43 taking into account the credit risk mitigation, volatility adjustments, and any maturity mismatch.
Funded credit protection	A technique of credit risk mitigation where the reduction of the credit risk on the exposure of a credit institution derives from the right of the credit institution in the event of the default of the counter party or on the occurrence of other specified credit events relating to the counter party to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the exposure to, or to replace it with, the amount of the difference between the amount of the exposure and the amount of a claim on the credit institution.
General Wrong Way Risk	Arises when the PD of counter parties is positively correlated with general market risk factors.
Group of connected clients	(a) two or more natural or legal persons who, unless it is shown otherwise, constitute a single risk because one of them, directly or indirectly, has control over the other or others: or (b) two or more natural or legal persons between whom there is no relationship of control as set out in paragraph (a) but who are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other or all of the others would be likely to encounter repayment difficulties.
Hedging Set	A group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining the exposure value under the standardised method.
KIRB	In the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 means 8 % of the risk-weighted exposure amounts that would be calculated under regulations 34 to 39 in respect of the securitised exposures, had they not been securitised, plus the amount of expected losses



	associated with those exposures calculated under those regulations.
Liquidity facility	The securitisation position arising from a contractual agreement to provide funding to ensure timeliness of cash flows to investors.
Local firm	A firm dealing on own account on markets in financial-futures or options or other derivatives and on cash markets for the sole purpose of hedging positions on derivatives markets or which deals for the accounts of other members of those markets and which are guaranteed by clearing members of the same markets, where responsibility for ensuring the performance of contracts entered into by such firms is assumed by clearing members of the same markets.
Long Settlement Transactions	Transactions where a counter party undertakes to deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodities, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of the market standard for this particular transaction and five business days after the date on which the credit institution enters into the transaction.
Loss	Economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.
Loss given default	The ratio of the loss on an exposure due to the default of a counter party to the amount outstanding at default.
Margin Agreement	A contractual agreement or provisions of an agreement under which one counter party shall supply collateral to a second counter party when an exposure of that second counter party to the first counter party exceeds a specified level.
Margin Lending Transactions	Transactions in which a credit institution extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that happen to be secured by securities collateral.
Margin Period of Risk	The time period from the last exchange of collateral covering a netting set of transactions with a defaulting counterpart until that counterpart is closed out and the resulting market risk is re-



	hedged.
Margin Threshold	The largest amount of an exposure that remains outstanding until one party has the right to call for collateral.
Minimum lease payments	Are the payments over the lease term that the lessee is or can be required to make and any bargain option (i.e. option the exercise of which is reasonably certain).
Mixed financial holding company	A parent undertaking, other than a regulated entity, which together with its subsidiaries, at least one of them is a regulated entity which has its head office in an EEA Member State, and other entities constitute a financial Conglomerate.
Multiple gearing	The multiple use of elements eligible for the calculation of own funds.
Netting Set	A group of transactions with a single counter party that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised.
One-Sided Credit Valuation Adjustment	A credit valuation adjustment that reflects the market value of the credit risk of the counter party to the credit institution, but does not reflect the market value of the credit risk of the credit institution to the counter party.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.
Original own funds	In the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 the aggregate of the amounts in regulation 7(1)(a) to (c) less the aggregate of the amounts in regulation 7(1)(h) to (j).
Originator	In relation to a securitisation, 'originator' can mean either of the following: (a) an entity which, either itself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised; or (b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them.



Own funds	In the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 has the meaning assigned to it by regulations 7 to 15.
Parent credit institution in an EEA Member State	A credit institution which has a credit or financial institution as a subsidiary or which holds a participation in such institution and which is not itself a subsidiary of another credit institution authorised in the same EEA Member State, or of a financial holding company set up in the same EEA member State.
Parent undertaking	An undertaking which, in the opinion of the Commissioner, effectively exercises a dominant influence over another undertaking.
Peak Exposure	A high percentile of the distribution of exposures at any particular future date before the maturity date of the longest transaction in the netting set.
Probability of default	The probability of default of a counter party over a one year period.
Quanto (Quantity Adjusted Option)	A quanto is an instrument where two currencies are involved.
Rated position	A securitisation position which has an approved credit assessment by an approved ECAI.
Ratings based method	The method of calculating risk-weighted exposure amounts for securitisation positions.
Recast Directive	Refers to Directive 2006/48 of 14 June 2006.
Relevant bodies	In Regulation 66 of the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 means central governments, central banks, international organisations, multilateral development banks or public sector entities.
Relevant competent authority	A competent authority which is not the EU consolidated supervisor and which has authorised a subsidiary of a European parent credit institution, a subsidiary of a European parent investment firm or a subsidiary of an EU parent financial holding company.
Revolving exposure	In regulation 50(1) of the Banking (Capital Adequacy Of Credit Institutions) Regulations 2006 means an exposure whereby customers' outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to an agreed limit.



Risk Neutral Distribution	A distribution of market values or exposures at a future time period where the distribution is calculated using market implied values such as implied volatilities.
Risk Position	A risk number that is assigned to a transaction under the standardised method.
Risk weight	In relation to an exposure, a degree of risk expressed as a percentage assigned to that exposure in accordance with whichever is applicable of the standardised approach to credit risk.
Risk-weighted exposure amounts	In relation to an exposure, the value of an exposure for the purposes of the calculation of the credit risk capital component after application of a risk weight.
Rollover Risk	The amount by which expected positive exposure is understated when future transactions with a counterparty are expected to be conducted on an ongoing basis. The additional exposure generated by those future transactions is not included in calculation of EPE.
Securitisation	A transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, having the following characteristics: (a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.
Separate calculation	The quotient of the net replacement cost for all contracts included in a legally valid bilateral netting agreement with a given counterparty (numerator) and the gross replacement cost for all contracts included in a legally valid bilateral netting agreement with that counterparty (denominator).
Specific Wrong Way Risk	Arises when the exposure to a particular counterparty is positively correlated with the PD of the counterparty due to the nature of the transactions with the counterparty. A credit institution shall be considered to be exposed to Specific Wrong Way Risk if the future exposure to a specific counterparty is expected to be high when the counterparty's PD is also high.
Sponsor	In relation to a securitisation, an undertaking other than an originator that establishes and manages an



	asset-backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities.
Subsidiary undertaking	An undertaking over which, in the opinion of the Authority, a parent undertaking effectively exercises a dominant influence and for this purpose all subsidiaries of subsidiary undertakings shall also be considered subsidiaries of the undertaking which is their original parent.
Supervisory formula method	The method of calculating risk-weighted exposure amounts for securitisation positions.
Synthetic securitisation	Is one in which the originating bank transfers only the credit risk associated with an underlying pool of assets through the use of credit-linked notes or credit derivatives while retaining legal ownerships of the pool of assets.
Traditional securitisation	Is one in which an originating bank transfers a pool of assets that it owns to a special purpose vehicle.
Unfunded credit protection	A technique of credit risk mitigation where the reduction of the credit risk on the exposure of a credit institution derives from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified credit events.
Unrated position	A securitisation position which does not have an approved credit assessment by an approved ECAI.



## Abbreviations

ABCP	Asset-backed commercial paper programme
AIG	Accord Implementation Group
AM	Asset Management
AMA	Advanced Measurement Approach
AS	Agency Services
ASA	Alternative Standardised Approach
BCACI Regulations	The Banking (Capital Adequacy of Credit Institutions) Regulations transposing Directive 2006/48/EC
BCBS	Basel Committee (on Banking Supervision)
BCD	Banking Consolidation Directive (2000/12/EC)
BIA	Basic Indicator Approach
CAD	Capital Adequacy Directive (93/6/EEC)
CB	Commercial Banking
CBA	Cost-benefit analysis
CCR	Counterparty Credit Risk
CDR	Cumulative Default Rate
CEBS	Committee of European Banking Supervisors
CF	Conversion Factor
CF	Corporate Finance
CFD	Contract for Difference
CIU	Collective Investment Undertaking
CMV	Current Market Value
CNCOM	Concentration risk capital component
CQS	Credit Quality Steps
CRD	Capital Requirements Directive (recast of BCD and CAD)



CR	Credit Risk
CRM	Credit Risk Mitigation
CRR	Capital Resources Requirement
EAD	Exposure at Default
ECAI	External Credit Assessment Institution
ECOFIN	Council of EU Finance Ministers
EE	Expected Exposure
EEA	European Economic Area
EL	Expected loss
EMP	Energy Market Participant
EPE	Expected Potential Exposure
ERM	Exchange Rate Mechanism
EU	European Union
FOR	Fixed Overheads Requirement
FRA	Forward Rate Agreement
FSCAIF Regulations	The Financial Services (Capital Adequacy of Investment Firms) Regulations transposing Directive 2006/49/EC
G10	Group of Ten central bank governors (Basel Committee)
IAA	Internal Assessment Approach
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IMM	Internal Models Method
IOSCO	International Organization of Securities Commissions
IRB	Internal ratings based approach to credit risk
ISD	Investment Services Directive



LDP	Low Default Portfolios
LE	Large Exposure
LECB	Large Exposures Capital Base
LGD	Loss given default
LTV	Loan-to-Value
Meip	minimum export insurance premiums
MiFID	Markets in Financial Instruments Directive
MR	Market Risk
NGR	Net-to-gross ratio
NIFs	Note issuance facilities
OECD	Organisation for Economic Co-operation
OFR	Own Funds Review
OR	Operational Risk
OMP	Oil Market Participant
ORCR	Operational Risk Capital Requirement
OTC	Over the counter (derivatives)
PD	Probability of default
PFE	Potential Future Exposure
PRA	Position Risk Amount
PRR	Position Risk Requirement
PS	Payment and Settlement
PSE	Public Sector Entities
QIS	Quantitative Impact Study
QRRE	Qualifying Revolving Retail Exposures
RB	Retail Banking
RBr	Retail Brokerage



RUFs	Revolving underwriting facilities
SA	Standardised Approach
Sch	Schedule
SFM	Supervisory Formula Method
SFT	Securities Financing Transaction
SM	The Standardised Method
SME	Small or Medium-Sized Enterprise
SREP	Supervisory Review and Evaluation Process
SSPE	Securitisation special purpose entity
SUP	Supervisory Manual
TBR	Trading Book Review
TS	Trading and Sales
TSA	The Standardised Approach (for operational risk)
UCITS	Undertaking for the Collective Investments in Transferable Securities
VaR	Value at Risk