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DRAFT OECD GLOSSARY ON SECURITISATION TERMS

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This document has been prepared by Michèle Chavoix-Mannato (OECD) and will be presented under item 3 of the draft agenda

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DRAFT OECD GLOSSARY ON SECURITISATION TERMS

1. In recognition of the variety of terms and definitions used in the area of securitisation, and the potential confusion this can cause, Delegates at the 2010 meeting of the OECD Working Party on Financial Statistics (WPFS) asked the OECD to undertake an assessment of terms and definitions found in documents prepared for OECD meetings - in particular documents presented during the May 2010 Workshop on Securitisation, held in Madrid -, in national and international publications, and in guides and standards established by IOs. They also asked to prepare a draft glossary of terms and definitions based on this assessment.

2. This draft glossary, prepared by the OECD Secretariat, is the first tangible step in meeting the request from Delegates. It is presented as a dictionary and describes for each term the various definitions identified in the Secretariat's review, with each definition accompanied by its source.

3. Building on this first step it is envisaged to create a small group of experts on securitisation, which will be tasked with arriving at a single definition for each term. Given the nature of the work it should be possible for the group to agree on definitions via electronic discussion, however a physical meeting will be organised by the Secretariat if the need arises. It is recommended that at least one of the experts is a native English speaker. However as the intention will be to produce versions of the glossary in different languages in due course (starting with the OECD's other official language, French) the group should also, ideally, include native speakers of the relevant languages.

4. On completion the glossary will be made available via the Clearspace system, which is being developed to store methodological information relating to financial accounts and more generally financial statistics managed under the auspices of the CMF.

DRAFT OECD GLOSSARY on SECURITISATION

A	
Asset-Backed Security (ABS)	<p>An Asset-Backed Security (ABS) is a debt security which is backed by specific assets (such as mortgages over real estate) rather than the general credit-worthiness of the issuing entity. (<i>Australian Bureau of Statistics, Glossary</i>)</p> <p>An Asset-Backed Security (ABS) can have all sorts of underlying assets. Their structure can be rather complex. Their average maturity is of 25 years, and there is no maturity mismatch since the issuer transfers the cash flows to the bondholders and the maturity of the ABS follows that of its underlying assets. In an ABS, risks can be fully transferred from the originator of the securitised asset to the bondholder. (<i>R. Blanco, OECD Workshop on Securitisation, 2010</i>)</p> <p>An Asset-Backed Security (ABS) is any security, including commercial paper, that is collateralized by the cash flows from a pool of underlying assets, such as loans, leases, and receivables. When the cash flows are collateralized by real estate, an ABS may be called a <i>mortgage backed security</i> (MBS); when the cash flows are divided into <i>tranches</i>, an ABS may be called a <i>structured credit product</i>. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>An Asset-Backed Security (ABS) is a security that is collateralized by the cash flows from a pool of underlying assets, such as loans, leases, and receivables. Often, when the cash flows are collateralized by real estate, an ABS is called a mortgage-backed security. (<i>IMF, GFSR, Glossary, April 2008</i>)</p> <p>An Asset-Backed Security (ABS) is a security that is collateralized by loans, leases, receivables, or (ABS) installment contracts on personal property, but not real estate and commercial or residential mortgages. When the securities are collateralized by mortgages, they are called commercial mortgage-backed securities (CMBSs) or residential mortgage-backed securities (RMBSs). (<i>IMF, GFSR, Glossary, 2006</i>)</p> <p>Asset-Backed Securities (ABSs) are created through the <i>securitization</i> of various categories of loans, or through <i>double securitization</i>—the packaging and selling of securities that already are backed by other securities. (<i>IMF, MFS: Compilation Guide, April 2008</i>)</p> <p>Asset-Backed Securities (ABSs), collateralized debt obligations, and collateralized mortgage obligations are arrangements under which payments of interest and principal are backed by payments on specified assets or income streams. They are backed by mortgages, home equity loans, student loans, and other debts as well as pools of leased property. Securitization of these assets provides liquidity in assets that are otherwise not so liquid. Asset-backed securities may be issued by a specific holding unit or vehicle, which issues securities that are sold to raise funds to pay the originator for the underlying assets. Asset-backed securities are classified as debt securities because the security issuers have a requirement to make payments, while the holders do not have a residual claim on the underlying assets; if they did, the instrument would be equity or investment funds shares. Asset-backed securities are backed by various types of financial assets (e.g., mortgages and credit card loans), nonfinancial assets,</p>

	<p>or future income streams-such as the earnings of a musician or a government's future revenue-that are not recognized as economic assets in macroeconomic statistics. (<i>IMF, BPM6, 2009</i>)</p> <p>Asset-Backed Securities (ABSs) are arrangements under which payments of interest and principal are backed by payments on specified assets or income streams. Asset-backed securities may be issued by a specific holding unit or vehicle, which issues securities that are sold to raise funds to pay the originator for the underlying assets. Asset-backed securities are classified as debt securities because the security issuers have a requirement to make payments, while the holders do not have a residual claim on the underlying assets; if they did, the instrument would be equity or investment funds shares. Asset-backed securities are backed by various types of financial assets, for example, mortgages and credit card loans, non-financial assets, or by future income streams (such as the earnings of a musician or a government's future revenue) that are not recognized in themselves as an economic asset in macroeconomic statistics.</p> <p>Some governments may set up special purpose entities (SPEs) for financial convenience, the SPE being involved in fiscal or quasi-fiscal activities (including securitization of assets, borrowing, etc.). (<i>2008 SNA</i>)</p> <p>An Asset-Backed Security (ABS) is a bond, created through securitisation, whose coupon payments and principal repayments are dependent on a homogeneous pool of assets, either purchased in the secondary market or from the balance sheet of an original asset owner, such as mortgages, credit card loans, motor vehicle loans, etc. (<i>BIS,ECB,IMF Handbook, Glossaries, 2009 and 2010</i>)</p> <p>Asset-Backed Securities (ABSs), such as residential mortgage backed securities (RMBS), are debt securities created through securitisation that typically have an original term to maturity of more than one year, and are usually backed by long-term mortgages. ABS are classified as debt securities because the security issuers are required to make payments, while the holders do not have a residual claim on the underlying assets; if they did, the instrument would be classified as either equity securities or investment fund shares. (<i>BIS,ECB,IMF Handbook, 1st Part, 2009</i>)</p> <p>An Asset-Backed Security (ABS) is a securitised interest in a pool of assets; includes (tranching) structured finance transactions as well as untranching securitisations. (<i>BIS, CGFS, 2005</i>)</p> <p>Asset-Backed Securities (ABSs) are securities that are primarily serviced by the cash flows of a discrete pool of receivables or other financial assets, either fixed or revolving, that by their terms convert into cash within a finite period of time, plus any rights or other assets designed to assure the servicing or timely distributions of proceeds to the security holders. In an ABS transaction, the financial assets are transferred to a passive entity that issues securities to investors that are backed by the assets transferred to it. The Principles would not apply to covered bonds, such as mortgage bonds, which are regulated by different laws and regulations in some jurisdictions. (<i>IOSCO, June 2009</i>)</p>
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<p>Asset-Backed Commercial Paper (ABCP)</p>	<p>Asset-Backed Commercial Papers (ABCPs) refers to securities which predominantly take the form of commercial paper with an original maturity of one year or less. <i>(EC Directive 2006/48/EC)</i></p> <p>Asset-Backed Commercial Papers (ABCPs) are asset-backed securities with terms less than 270 days are usually referred to as Asset-Backed Commercial Papers (ABCP). <i>(OECD WPFS 2009, Statistics Canada document)</i></p> <p>An Asset-Backed Commercial Paper (ABCP) is a commercial paper collateralized by a pool of loans, leases, receivables, or structured credit products. <i>(IMF, GFSR, Glossary, April 2008)</i></p> <p>Asset-Backed Commercial Papers (ABCPs) are debt securities similar to ABS, but they have an original term to maturity of one year or less. ABCP may be backed by residential mortgages, but also by short-term trade receivables, leases, or margin loans, among other assets. ABCP are classified as debt securities because the security issuers are required to make payments, while the holders do not have a residual claim on the underlying assets; if they did, the instrument would be classified as either equity securities or investment fund shares. <i>(BIS, ECB, IMF Handbook, 1st Part, 2009)</i></p> <p>An Asset-Backed Commercial Paper (ABCP) is a commercial paper, created through securitisation, whose redemption value is dependent on a homogenous pool of assets, either purchased in the secondary market or from the balance sheet of an original asset owner, such as mortgages, residential mortgage-backed securities (RMBS), motor vehicle and equipment loans and leases etc. <i>(BIS, ECB, IMF Handbook, Glossaries, 2009 and 2010)</i></p> <p>An Asset-Backed Commercial Paper (ABCP) is a commercial paper with an original maturity of one year or less that is backed by assets or other exposures held in a bankruptcy-remote, special purpose entity. <i>(BIS, BCBS, 2006)</i></p>
<p>B</p>	
<p>Bankruptcy remote/remoteness</p>	<p>Bankruptcy remoteness is a feature common to many SPEs whereby an SPE's assets are isolated from any creditors of its sponsoring firm should the latter go into bankruptcy. This feature can be achieved through a variety of methods, including limiting the SPE's purpose, indebtedness, assets, and other liabilities (or non-financial obligations), as well as by ensuring through its corporate governance process that decisions regarding bankruptcy will be made from the point of view of the SPE itself (not its sponsor or other affiliate). A "true sale" of assets from the sponsor's balance sheet to such a bankruptcy-remote SPE should ensure that the recourse of investors to assets held as security in the SPE is unlikely to be successfully challenged. <i>(BIS, BCBS, 2009)</i></p> <p>Bankruptcy remote means unlikelihood of an entity being subjected to voluntary or involuntary bankruptcy proceedings, including by the originator or its directors. <i>(IOSCO, October 2010)</i></p>

Borrower	<i>Terminology mainly used in 2008 SNA (also see Debtor and Issuer)</i>
C	
Cash securitization/Cash CDO	<p>In a Cash CDO, investor capital is used directly by the SPE to purchase the collateral portfolio and the cash flows generated by the portfolio are used to pay the principal and interest due on the notes issued to investors. (<i>BIS, BCBS, 2009</i>)</p> <p>A Cash CDO is a CDO whose collateral comprises cash positions in bonds, loans or other forms of debt. (<i>BIS, CGFS, 2005</i>)</p> <p>Cash securitization refers to the creation of securities from a pool of pre-existing assets and receivables that are placed under the legal control of investors through a special intermediary created for this purpose. This compares with a “synthetic” securitization where the generic securities are created out of derivative instruments. (<i>IMF, GFSR 2004</i>)</p>
Catastrophe Bonds (CAT Bonds)/Catastrophe Call	<p><i>Catastrophe Bonds, also named “Act of God” bonds</i></p> <p>Catastrophe Bonds have been created to allow insurers a mechanism to manage Catastrophic risk of loss, e.g. hurricanes, earthquakes, etc. (<i>BIS, BCBS, 2009</i>)</p> <p>A Catastrophe Call is a premature redemption of a municipal revenue bond because a catastrophe destroyed the source of the revenue backing the bond. For example, a bond backed by toll revenues from a bridge might be called, meaning bondholders will receive their principal back, if a storm destroyed the bridge. Usually, the proceeds for the payment will come from a commercial insurance policy covering the revenue-producing asset such as the bridge. A bond's indenture will spell out the conditions under which a catastrophe call can be implemented. (<i>Dictionary of Finance and Investment Terms</i>)</p>
Charitable Trust	<p>A Charitable Trust is a form of discretionary trust where property is held by a trustee for charitable purposes. Charitable trusts are often used as parent entities to an SPE as they will typically remove it from membership of any group with potential secondary tax liability, thereby reinforcing the argument that the SPE is bankruptcy remote. Additionally, putting the shares of an SPE in trust establishes the SPE as an orphan company, which cannot easily be subjected to winding down by the originator's shareholders (as the originator is not a shareholder). Charitable trusts are also exempt from many of the other standard corporate and capital gains taxes and, therefore, tax leakage of the structure is minimised. These charitable trusts are provided by professional corporate services providers. (<i>BSI, BCBS, 2009</i>)</p>
Clean-up call	<p>A Clean-up Call is an option that permits the securitisation exposures (e.g. asset-backed securities) to be called before all of the underlying exposures or securitization exposures have been repaid. In the case of traditional securitisations, this is generally accomplished by repurchasing the remaining securitisation exposures once the pool balance or outstanding securities have fallen below some specified level. In the case of a synthetic transaction, the clean-up call may take the form of a clause that extinguishes the credit protection. (<i>BIS, BCBS, 2006</i>)</p>

Closed entities	Closed entities are special purpose entities (SPEs) or Financial vehicle corporations (FVCs) created to participate in one single securitisation transaction. (<i>OECD Glossary, April 2007</i>)
Collaterals	<p>Collaterals are assets pledged or posted to a counterparty to secure an outstanding exposure, derivative contract, or loan. (<i>IMF, GFSR 2011</i>)</p> <p>Collaterals are assets pledged or transferred in some form as a guarantee for the repayment of loans, as well as assets sold under repurchase agreements. Collateral used in Eurosystem reverse transactions must fulfill certain eligibility criteria. (<i>ECB, Monthly Bulletin, July 2011</i>)</p> <p>Collateral is a borrower's pledge of specific property to a lender, to secure repayment of a loan. The collateral serves as protection for a lender against a borrower's default - that is, any borrower failing to pay the principal and interest under the terms of a loan obligation. If a borrower does default on a loan (due to insolvency or other event), that borrower forfeits (gives up) the property pledged as collateral - and the lender then becomes the owner of the collateral. In a typical mortgage loan transaction, for instance, the real estate being acquired with the help of the loan serves as collateral. Should the buyer fail to pay the loan under the mortgage loan agreement, the ownership of the real estate is transferred to the bank. The bank uses a legal process called foreclosure to obtain real estate from a borrower who defaults on a mortgage loan obligation. (<i>Wikipedia</i>)</p>
Collateralized automobile receivables (CAR)	Collateralised Automobile Receivables (CAR) refers to the securitization of car loans. (<i>IMF, MFS: Compilation Guide, April 2008</i>)
Collateralized bond obligation (CBO)	<p>(<i>see CDO</i>). <i>CDOs are classified by the type of underlying asset.</i></p> <p>If the underlying assets are corporate bonds or other debt securities, the transaction is known as a Collateralised Bond Obligation (CBO). (<i>ECB, Monthly Bulletin, February 2008</i>)</p> <p>CDO are called Collateralised Bond Obligations (CBOs) if the underlying collateral is comprised of bonds. (BIS, BCBS, 2009)</p> <p>A Collateralised Bond Obligation (CBO) is an investment grade bond backed by a pool of variously rated bonds, including junk bonds . CBOs are similar in concept to Collateralized Mortgage Obligations (CMOs) , but differ in that CBOs represent different degrees of credit quality rather than different maturities. Underwriters of CBOs package a large and diversified pool of bonds, including high-risk, high-yield junk bonds, which is then separated into "tiers." Typically, a top tier represents the higher quality collateral and pays the lowest interest rate; a middle tier is backed by riskier bonds and pays a higher rate; the bottom tier represents the lowest credit quality and, instead of receiving a fixed interest rate, receives the residual interest payments-money that is left over after the higher tiers have been paid. CBOs, like CMOs, are substantially over-collateralized and this, plus the diversification of the pool backing them, earns them investment-grade bond ratings. Holders of third-tier CBOs stand to earn high yields or less money depending on the rate of defaults in the collateral pool. CBOs provide a way for big holders of junk bonds to reduce their portfolios and for securities firms to tap a new source of buyers in the disenchanted junk bond market of the early 1990s. (<i>Dictionary of Finance and Investment Terms</i>)</p>

<p>Collateralized debt obligation (CDO)</p>	<p>Collateralized Debt Obligations (CDOs) are designed with tranches for investors with specific sensitivities to risk: for a CDO, it is credit risk. The investors in each CDO tranche contract for a portion of the credit risk, which is allotted to CDO tranches (<i>IMF, MFS: Compilation Guide, April 2008</i>)</p> <p>A Collateralised Debt Obligation (CDO) is a structured credit security backed by a pool of securities, loans, or credit default swaps, where securitized interests in the security are divided into tranches with differing repayment and interest earning streams. The pool can be either managed within preset parameters or static. If the CDO is backed by other structured credit securities, it is called a structured finance CDO, and if it is backed solely by other CDOs, it is called a CDO-squared. (<i>IMF, GFSR, Glossary, April 2008</i>)</p> <p>A Collateralised Debt Obligation (CDO) is a structured debt security backed by the performance of a portfolio of securities, loans, or credit default swaps, and where securitized interests in the portfolio's performance are divided into tranches with differing repayment and interest earning streams. In the event of nonpayment or default, the higher-risk "equity" tranche absorbs the first loss from anywhere in the portfolio, up to a limit. After the equity tranche has been exhausted, the next least-secured tranche then absorbs the additional principal loss, and so on. When the tranches are backed by securities or loans, the structure is called a "cash" CDO, and when backed by CDSs, it is a "synthetic" CDO. (<i>IMF, GFSR, Glossary, 2006</i>)</p> <p>Collateralized Debt Obligations (CDOs) are arrangements under which payments of interest and principal are backed by payments on specified assets or income streams. (<i>2008 SNA</i>)</p> <p>Collateralized Debt Obligations (CDOs) are instruments that enable market participants to readily transfer very significant amounts of credit risk to investors, often via highly leveraged transactions. CDOs aim to create value by attracting liquidity towards credit risk in asset classes that, on their own, would be too illiquid or too complex for some investors to consider. Unlike traditional securitisation, the number of assets backing a CDO tends to be rather low, but they are often highly heterogeneous, with high concentrations of exposure to individual obligors. Hence, it is more difficult for investors to ascertain the risk of CDOs, as they need to consider not only the credit risk of individual assets, but also correlations between them. In practice, rating agencies play a crucial role, assigning credit ratings to the different tranches based on their models and assumed correlations. (<i>ECB, Monthly Bulletin, February 2008</i>)</p> <p>Collateralized Debt Obligations (CDOs) are debt securities created through securitisation that are backed by a relatively small pool of heterogeneous debt instruments, such as bonds and loans. Liabilities are ranked to protect investors against different levels of credit risk. (<i>BIS, ECB, IMF Handbook, 1st Part, 2009</i>)</p> <p>A Collateralised Debt Obligation (CDO) is a bond, created through securitisation, whose coupon payments and principal repayments are dependent on a diversified pool of loan and bond instruments, either purchased in the secondary market or from the balance sheet of an original</p>
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	<p>asset owner. <i>(BIS, ECB, IMF Handbook, 1st Part, Glossary, 2009)</i></p> <p>Collateralised Debt Obligation (CDO) structures involve an SPE acquiring a pool of assets (bonds or loans, or a combination thereof), and funding the acquisition by issuing securities to investors. A CDO creates fixed or floating rate securities with a range of coupons and risk ratings through the re-prioritising of cash flows from the underlying asset pools. The prioritisation of cash flows from the underlying assets in a CDO results in the issuance of securities or tranches with ratings that can be higher, as well as lower, than the overall ratings on the assets of the underlying portfolio. CDOs can be backed by RMBS, CMBS, investment-grade or high yield corporate bonds, emerging market bonds, other asset-backed securities, bank loans, trust preferred securities (TRUPS), or other CDOs. <i>(BIS, BCBS, 2009)</i></p> <p>A Collateralized Debt Obligation (CDO) is a structured finance transaction backed by a relatively small pool of heterogeneous debt instruments, such as bonds or loans. <i>(BIS, CGFS, 2005)</i></p> <p>Collateralized Debt Obligations (CDOs) are a type of structured asset-backed security (ABS) with multiple "tranches" that are issued by special purpose entities and collateralized by debt obligations including bonds and loans. Each tranche offers a varying degree of risk and return so as to meet investor demand. CDOs' value and payments are derived from a portfolio of fixed-income underlying assets. CDO securities are split into different risk classes, or tranches, whereby "senior" tranches are considered the safest securities. Interest and principal payments are made in order of seniority, so that junior tranches offer higher coupon payments (and interest rates) or lower prices to compensate for additional default risk. <i>(Wikipedia)</i></p>
<p>Collateralized Debt Obligation (CDO) squared</p>	<p>Collateralized Debt Obligations squared are ABSs that are securitised more than once. <i>(R. Blanco, OECD Workshop on Securitisation, 2010)</i></p> <p>A CDO structured using other CDOs is termed a "Collateralized Debt Obligation squared", while one structured using other CDO-squared is termed a "CDO-cubed". <i>(BIS, BCBS, 2009)</i></p> <p>If the CDO is backed solely by other CDOs, it is called a Collateralized Debt Obligation squared <i>(IMF, GFSR, Glossary, April 2008)</i></p>
<p>Collateralized Loan Obligation (CLO)</p>	<p><i>(see CDO). CDOs are classified by the type of underlying asset.</i></p> <p>CDOs are called Collateralised Loan Obligations (CLOs) if the underlying collateral is comprised of loans <i>(BIS, BCBS, 2009)</i></p> <p>If the underlying assets are loans, used, for example, to fund leveraged buy-outs of corporations, the transaction is known as a Collateralised Loan Obligation (CLO), <i>(ECB, Monthly Bulletin, February 2008)</i></p> <p>A Collateralised Loan Obligation (CLO) is a collateralized debt obligation backed by whole commercial loans, revolving credit facilities, or letters of credit. <i>(IMF, GFSR, Glossary, April 2008)</i></p> <p>Collateralized Loan Obligations (CLOs) are a form of securitization where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches. A CLO is a type of collateralized debt obligation.</p> <p>Each class of owner may receive larger payments in exchange for being the</p>

	<p>first in line to lose money if the businesses fail to repay the loans. The actual loans used are generally multi-million dollar loans known as syndicated loans, usually originally lent by a bank with the intention of the loans being immediately paid off by the collateralized loan obligation owners. The loans are usually "leveraged loans", that is, loans to businesses which owe an above average amount of money for their kind of business, usually because a new business owner has borrowed funds against the business to purchase it (known as a "leveraged buyout") or because the business has borrowed funds to buy another business. (<i>Wikipedia</i>)</p>
<p>Collateralized Mortgage Obligation (CMO)</p>	<p>Collateralized Mortgage Obligations (CMOs) are securities that are designed to attract investors who have differing sensitivities to prepayment risk, depending on their individual portfolio management objectives for acquiring mortgage pass-through securities. A CMO can be backed by direct securitization of a mortgage loan portfolio or by double securitization —backing in the form of a new or outstanding issue of mortgage pass-through securities. CMOs are designed with tranches for investors with specific sensitivities to risk: for a CMO, prepayment risk is the relevant risk. CMOs are often originated by selling a mortgage loan portfolio to a <i>trust</i> or other type of vehicle company that then issues the asset-backed securities. (<i>IMF, MFS: Compilation Guide, April 2008</i>)</p> <p>Collateralized Mortgage Obligations (CMOs) give investors an improved capacity to deal with the prepayment risk of pass-throughs. In the CMO market, pass-throughs are used as collateral to support "multi-class securities", in which investors are grouped into a number of classes which receive payment in a predetermined order. (<i>OECD, FMT, June 1995</i>)</p> <p>A Collateralised Mortgage Obligation (CMO) is a mortgage-backed bond that separates mortgage pools into different maturity classes, called <i>tranches</i>. This is accomplished by applying income (payments and prepayments of principal and interest) from mortgages in the pool in the order that the CMOs pay out. Tranches pay different rates of interest and can mature in a few months, or as long as 20 years. Issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and private issuers, CMOs are usually backed by government- guaranteed or other top-grade mortgages and have AAA ratings. In return for a lower yield, CMOs provide investors with increased security about the life of their investment compared to purchasing a whole mortgage-backed security. Even so, if mortgage rates drop sharply, causing a flood of refinancings, prepayment rates will soar and CMO tranches will be repaid before their expected maturity. CMOs are broken into different classes, called companion bonds or planned amortization class (PAC) bonds. (<i>Dictionary of Finance and Investment Terms</i>)</p>
<p>Commercial Mortgage-Backed Security (CMBS)</p>	<p>Commercial Mortgage-Backed Securities (CMBSs) are securities whose cash flows stem from loans secured by commercial real estate such as office buildings, multi-family apartments, and retail property. In terms of the amortisation profile, in CMBS payment structures, the bonds issued often contain bullet payment provisions (e.g. a ten-year balloon payment, with a 25- to 30-year amortisation schedule). (<i>BIS, BCBS, 2009</i>)</p> <p>A Commercial Mortgage-Backed Security (CMBS) is a security that is collateralized by mortgages. (<i>IMF, GFSR, Glossary, 2006</i>)</p>

	<p>Commercial Mortgage-Backed Securities (CMBSs) are a type of mortgage-backed security backed by mortgages on commercial rather than residential real estate. CMBS issues are usually structured as multiple tranches, similar to CMOs, rather than typical residential "pass-throughs." (<i>Wikipedia</i>)</p>
<p>Companion class/tranche/bond</p>	<p>In general, a Companion class (or support class) is a tranche or class that absorbs a higher level of the impact of prepayment variability of the assets in order to stabilize the principal payment schedule for another tranche or class in the same offering. (<i>IOSCO, June 2009</i>)</p> <p>A Companion bond is one class of a Collateralized Mortgage Obligation (CMO) which is paid off first when the underlying mortgages are prepaid as interest rates fall. When interest rates rise and there are fewer prepayments, the principal on companion bonds will be prepaid more slowly. Companion bonds therefore absorb most of the prepayment risk inherent in a CMO, and are therefore more volatile. In return, they pay higher yields than the other class within a CMO, called planned amortization class (PAC) bonds. (<i>Dictionary of Finance and Investment Terms</i>)</p>
<p>Covered Bond</p>	<p>Covered Bonds are alternative sources of capital market funding. Covered bonds are debt obligations that are secured by a dedicated reference (or "cover") portfolio of assets. Issuers are fully liable for all interest and principal payments, so investors benefit from double protection against default, and rating agencies have given most covered bonds AAA/Aaa ratings. However, covered bonds do not allow the asset to move off the balance sheet of the issuer and thus do not provide any of the risk transfer benefits and regulatory capital relief normally associated with securitization. The classic covered bond is a bond collateralized by a "cover pool" of loans that are legally ring-fenced on the issuer's balance sheet. Bondholders have a priority claim on the collateral, and they rank at or above all the issuer's other creditors. Because covered bonds are both obligations of the issuing lender and collateralized by the underlying cover portfolio, they are viewed as less risky than both. (<i>IMF, GFSR, Glossary, 2009</i>)</p> <p>Covered bonds differ from securitization products in that the risks associated with the underlying assets are retained by the issuer, whereas securitization transfers them to capital markets. See below for more details.</p> <p>The classic covered bond is a bond collateralized by a "cover pool" of loans that are legally ring-fenced on the issuer's balance sheet. Bondholders have a priority claim on the collateral, and they rank at or above all the issuer's other creditors. Because covered bonds are both obligations of the issuing lender and collateralized by the underlying cover portfolio, they are viewed as less risky than both. Hence, for example, rating agencies reward covered bonds with a rating "uplift" beyond the stand-alone rating of the issuer.</p> <p>The vast majority of covered bonds are issued under "special law" frameworks that ensure that the dual recourse works properly, and that set uniform standards for product structures and cover pool credit quality. (<i>IMF, GFSR, Chapter 2, 2009</i>)</p> <p>A Covered Bond is a debt obligation in which the originator's or issuer's</p>

	<p>obligation to make all interest and principal payments is secured by a dedicated reference (or “cover”) portfolio of assets. A covered bond is typically not <i>structured</i>. (IMF, <i>GFSR, Glossary, 2006</i>)</p> <p>Covered Bonds are debt securities created through securitisation and issued by the original asset holder that are backed by assets remaining on its balance sheet, but are identified as belonging to a cover pool. The cover pool consists mainly of mortgages with a high credit rating or loans to the public sector. In the MFS Guide, covered bonds are referred to as mortgage backed bonds (MFS Guide 4.24). (<i>BIS, ECB, IMF Handbook, 1st Part, 2009</i>)</p> <p>Covered Bonds are securities that are issued as direct obligations of a credit institution and are collateralised by specifically identified assets, which are typically residential mortgages or public sector loans but can also range from shipping loans to commercial mortgage loans. Therefore, covered bonds are somewhat similar to the mortgage-backed securities described earlier, but with some key differences. Firstly, covered bonds are typically direct obligations of the issuing institution, not of an SPE – and the SPE (if used at all, as some covered bond programs do not) only has the purpose of holding the collateral in trust as security for note holders in case of the insolvency of the issuing institution. It is only upon insolvency of the issuing institution (typically, a bank) that the cash flows from the assets or the proceeds from the sale of the assets are applied directly to pay the bonds, rather than the issuing institution paying the bonds itself. Secondly, because of this difference, covered bonds are technically “secured funding” as opposed to “securitisation” proper – ie the assets in the SPE act as security, but note holders are not exposed to the credit quality of these assets until Report on Special Purpose Entities 57 insolvency of the issuing institution. Finally, covered bonds can be issued without the use of any SPE in countries where it is possible to register collateral as security for note holders under a legislatively or statutorily created register.</p> <p>Covered bond assets also will generally remain on the issuer’s balance sheet for accounting purposes, even though they may have been legally segregated or “ring fenced” through the sale to the consolidated SPE. Consequently, the issuer, and not the note holders, is exposed to the credit quality of the pool of assets that secures or “covers” the bonds unless the issuer becomes insolvent. (<i>BIS, BCBS, 2009</i>)</p> <p>Covered Bonds [<i>in Spain</i>] have only mortgages or loans to the government as collaterals and their structure remains simple. Their average maturity is of 10 years. In a covered bond there could be a maturity mismatch as in any other fixed-income security issued by a bank since the maturity of the bond is not necessarily the same as the maturity of the assets. Generally, banks issue bonds with a shorter duration than the duration of their assets, incurring refinancing risks. In covered bonds, the risk of the assets is retained by the issuer. Since all bonds have the same seniority, covered bonds do not have different classes of securities, referred to as tranches. (<i>R. Blanco, OECD Workshop on Securitisation, 2010</i>)</p> <p>Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitization, but covered bond assets remain on the issuer’s consolidated balance sheet. A covered bond is a corporate bond</p>
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	<p>with one important enhancement: recourse to a pool of assets that secures or "covers" the bond if the originator (usually a financial institution) becomes insolvent. For the investor, one major advantage to a covered bond is that the debt and the underlying asset pool remain on the issuer's financials, and issuers must ensure that the pool consistently backs the covered bond. In the event of default, the investor has recourse to both the pool and the issuer. Another advantage is that the interest is paid from an identifiable source of projected cash flow versus out of other financing operations. Because non-performing loans or prematurely paid debt must be replaced in the pool, success of the product for the issuer depends on the institution's ability to evaluate the assets in the pool and to rate and price the bond. (<i>Wikipedia</i>)</p>
Cover Pool	<p>A Cover Pool is a package of assets, such as mortgages and credit card loans, which is used to back debt securities issues. (<i>BIS, ECB, IMF Handbook, 1st Part, Glossary, 2009</i>)</p>
Covered Securities	<p>Covered Securities are debt securities secured by some type of collateral, e.g. mortgage bonds secured by mortgage loans. The originator is the issuer of the covered bonds, and the assets remain in the originator's balance-sheet. There is not an SPE or FVC implied in the issuing of securities, and the bonds could be covered by the total loans of the originator and not by a specific set of loans. (<i>OECD Glossary, April 2007</i>)</p>
Credit Default Swap (CDS)	<p>A Credit Default Swap (CDS) is an agreement used in synthetic securitisations where the originator (protection buyer) sells the credit risk of an underlying portfolio to counterparty (protection seller) without transferring the ownership of the assets. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>A Credit Default Swap (CDS) is a derivative contract through which a protection seller provides insurance to a protection buyer against the credit risk of a "reference asset" underlying the swap. A "credit event" regarding the reference asset - a default most commonly, or other breach of specified terms - will trigger a payout to the protection buyer. CDS payouts can be either "physical," whereby the protection seller pays to the protection buyer the face value of the reference asset or delivers the asset; or in "cash," whereby the protection seller pays the protection buyer the difference between the face value and the current price of the reference asset. A "single name" CDS contract references a security of a single firm or government agency, whereas CDS index contracts reference standardized indices based on baskets of liquid single-name CDS contracts. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>A Credit Default Swap (CDS) is a default-triggered credit derivative. Most CDS default settlements are "physical," whereby the protection seller buys a defaulted reference asset from the protection buyer at its face value. "Cash" settlement involves a net payment to the protection buyer equal to the difference between the reference asset face value and the price of the defaulted asset. (<i>IMF, GFSR, Glossary, April 2008</i>)</p> <p>A Credit Default Swap (CDS) is a financial contract under which an agent buys or sells risk protection credit default swaps against the credit risk associated with a specific reference entity (or (CDSs) specific entities). For a periodic fee, the protection seller agrees to make a contingent payment to</p>

	<p>the buyer on the occurrence of a credit event (default in the case of a credit default swap (CDS)). Most CDS default settlements are “physical,” whereby the protection seller buys a defaulted reference asset from the protection buyer at its face value. “Cash” settlement involves a net payment to the protection buyer equal to the difference between the reference asset face value and the price of the defaulted asset. (<i>IMF, GFSR, Glossary, 2006</i>)</p> <p>A Credit Default Swap (CDS) is a financial contract under which an agent buys protection against credit risk for a periodic fee in return for a payment by the protection seller contingent on the occurrence of a credit/default event. (<i>IMF, GFSR, Glossary, 2004</i>)</p> <p>A Credit Default Swap (CDS) is a financial derivative whose primary purpose is to trade credit default risk. (<i>BIS, ECB, IMF Handbook, 1st Part, Glossary, 2009</i>)</p> <p>A Credit Default Swap (CDS) is a credit derivative contract between two counterparties to transfer the risk of debt default. The buyer makes periodic payments (usually monthly) to the seller and receives a payout if the underlying debt instrument defaults. (<i>BIS, BCBS, 2009</i>)</p> <p>Credit Default Swaps (CDSs) are guarantees provided by means of a financial derivative and actively traded on financial markets. The derivative is based on the risk of default of a reference instrument and so is not actually linked to an individual loan or bond. (<i>2008 SNA</i>)</p> <p>A Credit Default Swap (CDS) is a credit derivative contract in which one counterparty pays a premium in exchange for compensation when a default event occurs. (<i>BIS, CGFS, 2005</i>)</p> <p>A Credit Default Swap (CDS) is a form of insurance that protects the buyer of the CDS in the case of a loan default. If the borrower defaults (fails to repay the loan), the lender who has bought traditional insurance can exchange or "swap" the defaulted loan instrument (and with it the right to recover the default at some later time) for money - usually the face value of the loan. The significant difference between a traditional insurance policy and a CDS is that anyone can purchase one, even those who do not hold the loan instrument and may have no direct "insurable interest" in the loan. The buyer of the CDS makes a series of payments (the CDS "fee" or "spread") to the seller and, in exchange, receives a payoff if the loan or any credit instrument named in the contract (typically a bond or loan) defaults, creating a credit event. (<i>Wikipedia</i>)</p>
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<p>Credit Derivative</p>	<p>A Credit Derivative is a contract under which an agent buys or sells protection against the credit risk associated with a specific reference entity (or specified range of entities). For a periodic fee, the protection seller agrees to make a payment to the buyer on the occurrence of a credit event (usually default in the case of a <i>credit default swap</i>). (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>A Credit Derivative is a financial contract under which an agent buys or sells risk protection against the credit risk associated with a specific reference entity (or specific entities). For a periodic fee, the protection seller agrees to make a contingent payment to the buyer on the occurrence of a credit event (default in the case of a credit default swap). (<i>IMF, GFSR, Glossary, April 2008</i>)</p> <p>Credit Derivatives are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk. In contrast, the financial derivatives described in the previous paragraphs are mainly related to market risk, which pertains to changes in the market prices of securities, commodities, interest, and exchange rates. Credit derivatives take the form of both forward-type (total return swaps) and option-type contracts (credit default swaps). Under a credit default swap, premiums are paid in return for a cash payment in the event of a default by the debtor of the underlying instrument. Like other financial derivatives, credit derivatives are frequently drawn up under standard master legal agreements and involve collateral and margining procedures, which allow for a means to make a market valuation. (<i>IMF, BPM6, 2009</i>)</p> <p>Credit Derivatives are financial derivatives whose primary purpose is to trade credit risk. They are designed for trading in loan and security default risk. Credit derivatives take the form of both forward-type and option-type contracts and like other financial derivatives, they are frequently drawn up under standard master legal agreements and involve collateral and margining procedures, which allow for a means to make a market valuation. (<i>2008 SNA</i>)</p> <p>A Credit Derivative is a securitized derivative whose value is derived from the credit risk on an underlying bond, loan or any other financial asset. In this way, the credit risk is on an entity other than the counterparties to the transaction itself.[1] This entity is known as the reference entity and may be a corporate, a sovereign or any other form of legal entity which has incurred debt.[2] Credit derivatives are bilateral contracts between a buyer and seller under which the seller sells protection against the credit risk of the reference entity. (<i>Wikipedia</i>)</p>
<p>Credit Enhancement</p>	<p>Credit Enhancement refers to one or more measures taken in a securitisation structure to enhance the security, the credit quality or the rating of the securitised instrument, e.g. by providing a third party guarantee (such as the EIF guarantee). The credit enhancement could be provided in the form of:</p> <ul style="list-style-type: none"> • Structural credit enhancement (tranching of the transaction in senior, mezzanine and junior tranches); <p>Originator credit enhancement (cash collateral, profit retention mechanism, interest sub-participation mechanism);</p>

	<p>Third party credit enhancement (EIF or monoline insurers). (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>Concerning the innovation of Credit Enhancements, the investor seeks not only assurance of repayment by examining risks inherent in the underlying cash flows, but also additional support. Credit enhancements can take several forms:</p> <ul style="list-style-type: none"> i) Third party enhancement - An external party, often an insurance company or a bank, provides a guarantee. A number of specialised companies called "monoline insurers" have emerged whose sole function is to offer credit enhancements for fees. ii) Subordination - An alternative means of obtaining credit enhancement is to create a "senior/subordinated" structure, meaning that some creditors agree to grant priority to other (<i>i.e.</i> senior) creditors in case of difficulties in payment in exchange for different rates of return. iii) Over-collateralisation - The assets put into the pool can be of greater value than is needed to support the contractual payments, so that the investor is protected in the event of a shortfall in expected payments. iv) Cash collateral accounts - A cash deposit can be held in a special account which will allow for payments in case of shortfall of cash from the receivables. (<i>OECD, FMT, June 1995</i>) <p>Credit Enhancement means a contractual arrangement whereby the credit quality of a position in a securitisation is improved in relation to what it would have been if the enhancement had not been provided, including the enhancement provided by more junior tranches in the securitisation and other types of credit protection. (<i>EC Directive 2006/48/EC</i>)</p> <p>Securities sold in a securitisation deal can be credit-enhanced by various types of credit enhancement provider, meaning that the credit quality of the securities is either increased above the originator's unsecured debt rating or (more typically) the underlying rating of the asset pool. Credit enhancement increases the likelihood that investors will receive the scheduled payments from securities, thus allowing the securities to achieve a higher credit rating than the originator or the underlying assets could achieve on their own. Some securitisations use external (or third party) external credit enhancement, such as surety bonds, letters of credit, and guarantees – these are generally provided by a financial guarantee provider. Other methods of credit enhancement – such as subordination, reserve funds, or over-collateralisation – are built into the securitisation structures, and are often referred to as internal credit enhancement. They may nonetheless be provided by certain specific parties or counterparties to the SPE. (<i>BIS, BCBS, 2009</i>)</p> <p>A Credit Enhancement is a contractual arrangement in which the bank retains or assumes a securitisation exposure and, in substance, provides some degree of added protection to other parties to the transaction. (<i>BIS, BCBS, 2006</i>)</p> <p>A Credit Enhancement is any methodology that reduces the credit risk of a transaction with a counterparty. (<i>BIS, CGFS, 2005</i>)</p> <p>Credit Enhancement refers to rights or other assets designed to assure the</p>
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	<p>servicing or timely distribution of proceeds to ABS holders. External credit enhancements may include, among other things, insurance or other guarantees, swap or hedging arrangements, liquidity facilities, and lending facilities. Internal credit enhancements may also be structured into the securitization transaction to increase the likelihood that one or more classes of ABS will pay in accordance with their terms. Examples of these include subordination provisions, overcollateralization, reserve accounts, and cash collateral accounts. (<i>IOSCO, June 2009</i>)</p> <p>Credit Enhancement is a key part of the securitization transaction in structured finance, and is important for credit rating agencies when rating a securitization. The credit crisis of 2007-2008 has discredited the process of credit enhancement of structured securities as a financial practice as the risk was not assessed correctly and defaults began to rise. If the credit rating was properly assessed and higher interest rates assigned to structured securities, then the crisis may have been averted. (<i>Wikipedia</i>)</p>
Credit Linked Notes (CLN)	<p>A security issued by an SPV (or directly from the balance-sheet of the originator) credit-linked to the default risk of an underlying portfolio of assets. Usually used in synthetic securitisations for the mezzanine tranches of a transaction. (H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010)</p> <p>A Credit Linked Note (CLN) is a debt security, created through securitisation, with an embedded credit derivative used to hedge the credit risk of reference assets on the balance sheet of the original asset owner (<i>BIS, ECB, IMF Handbook, 1st Part, Glossary, 2009</i>)</p> <p>A Credit Linked Note (CLN) is a security that is bundled with an embedded credit default swap and is intended to transfer a specific credit risk to investors. The CLN issuance proceeds are usually invested in liquid and highly rated securities to cover the principal repayment at maturity plus any interim conditional payments associated with the underlying credit default swap. (<i>IMF, GFSR, Glossary, 2008</i>)</p> <p>A Credit Linked Note (CLN) is a security backed by one or more credit derivative contracts. (<i>IMF, GFSR, Glossary, 2006</i>)</p> <p>A Credit Linked Note (CLN) is a form of funded credit derivative. It is structured as a security with an embedded credit default swap allowing the issuer to transfer a specific credit risk to credit investors. The issuer is not obligated to repay the debt if a specified event occurs. This eliminates a third-party insurance provider. It is issued by a special purpose company or trust, designed to offer investors par value at maturity unless the referenced entity defaults. In the case of default, the investors receive a recovery rate. The trust will also have entered into a default swap with a dealer. In case of default, the trust will pay the dealer par minus the recovery rate, in exchange for an annual fee which is passed on to the investors in the form of a higher yield on their note. The purpose of the arrangement is to pass the risk of specific default onto investors willing to bear that risk in return for the higher yield it makes available. The CLNs themselves are typically backed by very highly-rated collateral. (<i>Wikipedia</i>)</p>
Credit Rating	<p>Credit Ratings are often used in securitization transactions to provide an indication of the likelihood that the Issuing Entity will be able to fulfill its obligations on the offered securities. (<i>IOSCO, June 2009</i>)</p>

	<p>Credit Rating is the formal evaluation of an individual's or company's credit history and capability of repaying obligations. Any number of firms investigate, analyze, and maintain records on the credit responsibility of individuals and businesses. Most large companies and lending institutions assign credit ratings to existing and potential customers. (<i>Dictionary of Finance and Investment Terms</i>)</p>
Creditor	<p>(also known as <i>Holder or Lender</i>)</p> <p>A Creditor is a party (e.g. person, organization, company, or government) that has a claim to the services of a second party. It is a person or institution to whom money is owed. The first party, in general, has provided some property or service to the second party under the assumption (usually enforced by contract) that the second party will return an equivalent property or service. The second party is frequently called a debtor or borrower. The first party is the creditor, which is the lender of property, service or money. (<i>Wikipedia</i>)</p>
D	
Debtor	<p>(also known as <i>Issuer or Borrower</i>)</p> <p>The Debtor is the party obliged to make payments on the underlying securitised assets. (<i>OECD Glossary, April 2007</i>)</p> <p>A debtor is any individual or company that owes money. If debt is in the form of a loan from a financial institution, you might use <i>borrower</i>. If indebtedness is in the form of securities, such as bonds, you would refer to the issuer. (<i>Dictionary of Finance and Investment Terms</i>)</p> <p>A debtor is an entity that owes a debt to someone else. The entity may be an individual, a firm, a government, a company or other legal person. The counterparty is called a creditor. When the counterpart of this debt arrangement is a bank, the debtor is more often referred to as a borrower. (<i>Wikipedia</i>)</p>
Deferred purchase price (DPP)	<p>In a securitisation contract, a “Deferred purchase price (DPP)” is a device of credit enhancement whereby the securitisation entity promises the originator to pay (performance related) instalments of the purchase price at a later date. When such clauses exist, the assets are disposed of at a value fixed below their market value. A DPP should not be confused with delayed settlements of a fixed price, which must appear as originator's receivables and as the securitisation entity's liabilities at inception, in accordance with the accrual principle. (<i>Eurostat, MGDD, 2010</i>)</p>
Depositor	<p>In some jurisdictions, an intermediate entity is created by the Sponsor, and sells or transfers a group of assets from the Sponsor to the Issuing Entity for a securitization program. If the Sponsor does not use an intermediate entity to act as Depositor in a transaction, the Sponsor itself would be considered the Depositor. (<i>IOSCO, June 2009</i>)</p>
Derecognition	<p>Derecognition of a financial asset or liability is ceasing to recognize that asset or liability in an entity's statement of financial position. [<i>This definition replaces the previous IAS 39 definition “Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.” (IASB, ED 2009/3)</i>]</p> <p>A reporting entity should derecognise a financial asset when it ceases to</p>

	<p>qualify as an asset, this taking place either when the underlying future economic benefits no longer exist or when the reporting entity no longer controls those benefits. In turn, the reporting entity no longer controls the asset's underlying future economic benefits when it no longer has the ability to access those benefits and to restrict others' access to them. (<i>IASB exposure draft ED/2009/3, reported in P. Pérez Rodríguez, Banco de España, and F. García Martínez, Universidad Complutense de Madrid, OECD Workshop on Securitisation</i>)</p>
<p>Derivative(s)</p>	<p>A Derivative is a special type of financial instrument whose value depends on the value of an underlying asset, an index or a reference rate. Examples are swaps, forwards, futures and options. (<i>Australian Bureau of Statistics, Glossary</i>)</p> <p>A Derivative is a financial instrument (or, more simply, an agreement between two parties) whose value is derived from the price of an underlying asset to which it is linked, such as a security or currency. Examples include stock options, currency and interest rate swaps, <i>credit derivatives</i>, and <i>credit default swaps</i>. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>Derivatives are financial contracts whose value derives from underlying securities prices, interest rates, foreign exchange rates, commodity prices, and market or other indices. (<i>IMF, GFSR, Glossary, 2008</i>)</p> <p>A Derivative is a financial contract whose value depends on the value of one or more underlying reference assets, rates or indices, on a measure of economic value or on factual events (<i>ECB, Glossary</i>)</p> <p>Financial derivatives are financial instruments that are linked to a specific financial instrument or indicator or commodity, through which specific financial risks can be traded in financial markets in their own right. The value of a financial derivative derives from the price of the underlying item: the reference price. The reference price may relate to a commodity, a financial asset, an interest rate, an exchange rate, another derivative or a spread between two prices. The derivative contract may also refer to an index or a basket of prices. (<i>2008 SNA</i>)</p> <p>A Derivative is a financial instrument with a value dependent upon underlying variables. The term can refer to a contract, or its value, derived from the underlying assets. The most common derivatives are futures, options, and swaps but may also include other tradable assets such as a stock or commodity or non-tradable items such as the temperature (in the case of weather derivatives), the unemployment rate, or any kind of (economic) index. A derivative is essentially a contract whose payoff depends on the behavior of a benchmark. Derivatives are broadly categorized by the relationship between the underlying asset and the derivative (e.g., forward, option, swap); the type of underlying asset (e.g., equity derivatives, foreign exchange derivatives, interest rate derivatives, commodity derivatives, or credit derivatives); the market in which they trade (e.g., exchange-traded or over-the-counter); and their pay-off profile. Derivatives can be used for speculating purposes ("bets") or to hedge ("insurance"). For example, a speculator may sell deep in-the-money naked calls on a stock, expecting the stock price to plummet, but exposing himself to potentially unlimited losses. Very commonly, companies buy currency forwards in order to limit losses due to fluctuations in the</p>

	exchange rate of two currencies. (<i>Wikipedia</i>)
E	
Equity tranche	(see Tranches)
F	
Financial Vehicle Corporation (FVC)	<p><i>Terminology mainly used by the ECB</i> <i>(also known as special purpose entities - SPE-, or special purpose vehicles - SPV-)</i></p> <p>Financial Vehicle Corporations (FVCs) are entities created to be the holders of the securitised assets transferred by the originator, or to accept the risks transferred by the originator. Also known as “special purpose entities” (SPEs). FVCs are the issuers of the asset-backed securities. (<i>OECD Glossary, April 2007</i>)</p> <p>A Financial Vehicle Corporation (FVC) is an entity whose principal activity is to carry out securitisation transactions. An FVC typically issues marketable securities that are offered for sale to the general public, or sold in the form of private placements. In some cases, an FVC simply holds the securitised assets and issues the securities through another entity, often an FVC itself. (<i>ECB, Monthly Bulletin, July 2011</i>)</p> <p>A Financial Vehicle Corporation (FVC) is an entity which issues, or intends to issue, securities, securitisation fund units, other debt instruments and/or financial derivatives through private placements that are sold to the public. (<i>ECB, Guidance on the Definitions of FVC, March 2011</i>)</p> <p>A Financial Vehicle Corporation (FVC) is an undertaking which is constituted pursuant to national or Community law under one of the following:</p> <ul style="list-style-type: none"> (i) contract law as a common fund managed by management companies; (ii) trust law; (iii) company law as a public or private limited company; (iv) any other similar mechanism; <p>and whose principal activity meets both of the following criteria:</p> <ul style="list-style-type: none"> (a) it intends to carry out, or carries out, one or more securitisation transactions and is insulated from the risk of bankruptcy or any other default of the originator; (b) it issues, or intends to issue, securities, securitization fund units, other debt instruments and/or financial derivatives and/or legally or economically owns, or may own, assets underlying the issue of securities, securitisation fund units, other debt instruments and/or financial derivatives that are offered for sale to the public or sold on the basis of private placements. (<i>ECB Regulation of 19 December 2008 - ECB/2008/30</i>) <p>A Financial Vehicle Corporation (FVC) is an entity whose principal activity meets both of the following criteria:</p> <p>It carries out securitisation transactions and is insulated from the risk of bankruptcy or any other default of the originator;</p> <p>It issues securities, securitisation fund units, other debt instruments and/or</p>

	financial derivatives and/or legally or economically own assets underlying the issue of securities, securitisation fund units, other debt instruments and/or financial derivatives that are offered for sale to the public or sold on the basis of private placements. (<i>ECB, Background information on FVC statistics</i>)
First Loss	<p>First Loss is part of a securitisation transaction which is usually kept by the originator (as an “equity piece”) and which covers the risk of first loss in the portfolio. Its size is a function of the historical losses, so as to protect the investors against the economic risk (estimated loss) of the transaction. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>Materiality thresholds on payments below which no payment shall be made in the event of loss are considered to be equivalent to retained First Loss positions and to give rise to a tranching transfer of risk. (<i>EC Directive 2006/48/EC</i>)</p> <p>A First-Loss tranche is the most junior tranche in a structured finance transaction; equity tranche (<i>BIS, CGFS, 2005</i>)</p>
G	
H	
Holder	<i>(also known as Creditor or Lender)</i>
I	
Issuer	<p><i>(also known as Borrower or Debtor)</i></p> <p>Issuer refers to the SPV which issues the securities to the investors. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>The Issuer is the entity which is obligated on a security or other financial instrument. (<i>ECB, Glossary</i>)</p> <p>An Issuer is a legal entity that has the power to issue and distribute a security. Issuers include corporations, municipalities, foreign and domestic governments and their agencies, and investment trusts. Issuers of stock are responsible for reporting on corporate developments to shareholders and paying dividends once declared. Issuers of bonds are committed to making timely payments of interest and principal to bondholders. (<i>Dictionary of Finance and Investment Terms</i>)</p> <p>An Issuer is a legal entity that develops, registers and sells securities for the purpose of financing its operations. Issuers may be domestic or foreign governments, corporations or investment trusts. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions. (<i>Wikipedia</i>)</p>
Issuing Entity	An Issuing Entity is a passive special purpose entity that issues ABS to investors that are either backed by or represent interests in the assets transferred to it. In some jurisdictions, the Issuing Entity is typically a trust with an independent trustee. The Issuing Entity is created at the direction of another entity, described in some jurisdictions as an Arranger or as a Sponsor that owns or holds the pool assets. The Issuing Entity is the entity

	in whose name the ABS supported or serviced by the pool assets are issued. (<i>IOSCO, June 2009</i>)
J	
Jumbo covered bonds	Jumbo covered bonds are typically large (at least € 1,000 million outstanding) and meet certain minimum liquidity criteria (e.g., a minimum number of market makers have committed to quote continuous two-way prices). (<i>IMF, GFSR, Chapter 2, 2009</i>)
Junior tranche	(<i>see Tranches</i>)
K	
L	
Lender	<p><i>Terminology mainly used in 2008 SNA</i> <i>(also known as Creditor or Holder)</i></p> <p>A Lender is an individual or firm that extends money to a borrower with the expectation of being repaid, usually with interest. Lenders create debt in the form of loans, and in the event of liquidation they are paid off before stockholders receive distributions. But the investor deals in both debt (bonds) and equity (stocks). It is useful to remember that investors in commercial paper, bonds, and other debt instruments are in fact lenders with the same rights and powers enjoyed by banks. (<i>Dictionary of Finance and Investment Terms</i>)</p>
M	
Market participants	<p>(<i>to be eventually dispatched and presented according to the words in bold</i>)</p> <p>A number of different participants are involved in structured finance markets. These include:</p> <ul style="list-style-type: none"> - the arranger, who sets up the structure, tranches the liabilities and markets the tranches; when the collateral pool is made up of traded assets, the arranger is typically also the originator and is often an investment bank or the asset management arm of a financial conglomerate; - one or more originators, who either originate the underlying assets in the course of their regular business activities or source them in the open market; When structured finance instruments are made up of non-traded loans or similar claims, the originators tend to be banks or finance companies. - the servicer, who collects payments and may track pool performance; The servicer, whose role is particularly important for instruments based on large, traditional ABS pools, is often the originating bank or a specialised institution; - the asset manager, who - in managed transactions - may assemble the initial pool and subsequently trades in and out of collateral assets; asset managers are typically dedicated units within banks and other financial institutions or standalone asset management firms with prior experience managing fixed income assets; - the trustee, who oversees cash distributions to investors and monitors

	<p>compliance with deal documentation; the role of trustee is usually assumed either by specialist legal firms or units within major financial institutions;- and, in certain deals, financial guarantors (e.g. the so-called monolines), who provide guarantees on principal and interest payments to, or sell credit default swaps on, particular tranches as part of their business model of underwriting high-grade credit risk.</p> <p>In addition, given their tranching nature, structured finance transactions will also involve one or more investors (either institutions or individuals), who buy different tranches issued against the asset pool. Investors differ across products and with regard to the seniority level of the tranches they invest in. Initially, demand for structured finance products was dominated by banks and dedicated ABS investors seeking exposure to new sectors, regions, or asset classes. Also, as most of these tranches will be rated, one or more rating agencies tend to be involved. (<i>BIS, BCBS, 2009</i>)</p>
Master Trust	<p>Master Trusts are a form of trust which allows for the issuance of a series of securitisations out of the same trust. (<i>BIS, BCBS, 2009</i>)</p> <p>Some ABS transactions involve a Master Trust, in which one or more additional series or classes have been or may be issued that are backed by the same asset pool. (<i>IOSCO, June 2009</i>)</p>
Mezzanine Debt/Capital	<p>A Mezzanine Debt is an unsecured, high-yield, subordinated debt, or preferred stock that represents a claim on a company's assets that is senior only to that of a company's shareholders. (<i>IMF, GFSR, Glossary, 2008</i>)</p> <p>Mezzanine Capital, in finance, refers to a subordinated debt or preferred equity instrument that represents a claim on a company's assets which is senior only to that of the common shares. Mezzanine financings can be structured either as debt (typically an unsecured and subordinated note) or preferred stock. Mezzanine Capital is often a more expensive financing source for a company than secured debt or senior debt. The higher cost of capital associated with mezzanine financings is the result of its location as an unsecured, subordinated (or junior) obligation in a company's capital structure (i.e., in the event of default, the mezzanine financing is less likely to be repaid in full after all senior obligations have been satisfied). Additionally, mezzanine financings, which are usually private placements, are often used by smaller companies and may involve greater overall leverage levels than issuers in the high-yield market; as such, they involve additional risk. In compensation for the increased risk, mezzanine debt holders require a higher return for their investment than secured or other more senior lenders. (<i>Wikipedia</i>)</p>
Mezzanine Tranche/Risk	<p>(<i>see Tranches</i>)</p> <p>A Mezzanine Tranche is a risk or tranche which is subordinated to Senior risk, but ranks senior to the First Loss Piece. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>A Mezzanine Tranche is a tranche in the middle of a structured finance transaction's liabilities structure. (<i>BIS, CGFS, 2005</i>)</p>

Monoline Insurer	<p>Monoline Insurers are specialized companies whose sole function is to offer credit enhancements for fees. (<i>OECD, FMT, June 1995</i>)</p> <p>Monoline Insurers are generally prohibited or restricted from serving as a counterparty in a credit default swap (CDS) transaction.</p> <p>They can only guarantee another entity's obligations, not an asset. To circumvent these limitations, an SPE is used so that the insurance company is providing insurance to a firm, the SPE, which may hold only one significant asset, the CDS. (<i>BIS, BCBS, 2009</i>)</p> <p>A Monoline Insurer is a specialised insurer providing bond investors with guarantees of timely payment of interest and principal, including protection on super-senior structured finance tranches. (<i>BIS, CGFS, 2005</i>)</p> <p>Monoline Insurers are companies whose sole line of business is to provide bond insurance services to one industry are called monoline insurers. The term 'monoline' eventually became synonymous in some literature with terms like 'financial guarantors', and 'municipal bond insurers'. (<i>Wikipedia</i>)</p>
Monoline Wrap	<p>A Monoline Wrap is when an insurer guarantees the timely payment of interest and principal on a tranche (or multiple tranches) of bonds issued by an SPE in return for the payment of an insurance premium. The cost of this premium will be based upon the credit quality of the assets. Typically, when the SPE is being structured the bonds issued will receive a “shadow rating” from a credit rating agency, which indicates the rating that would be expected on the bonds in the absence of any wrap. The extent to which the shadow rating of the bonds (without a wrap) differs from the final rating of the bonds (after a wrap) will be reflected in the insurance premium charged by the insurer. The insurer is often referred to as a “monoline” as it typically specialises in the provision of financial guarantees and wraps. (<i>BIS, BCBS, 2009</i>)</p>
Mortgage-Backed Bond (MBB)	<p>A Mortgage-Backed Bond (MBB) is an asset-backed instrument that differs from pass-through securities and CMOs with respect both to the treatment of cash flows and to the institutional arrangements. MBBs are backed by mortgage loans that provide collateral, but no direct linkage exists between the cash flows from the mortgage loans and the principal and interest payments on the MBBs. The mortgage loans remain on the MBB-issuing FC's balance sheet, but in a segregated portfolio that is monitored by a <i>trustee</i> who assures that the market value exceeds the principal amount of the MBBs. In contrast, pass-throughs and CMOs are often originated by selling a mortgage loan portfolio to a <i>trust</i> or other type of vehicle company that then issues the asset-backed securities. (<i>IMF, MFS: Compilation Guide, April 2008</i>)</p>
Mortgage-Backed Security (MBS)	<p>A Mortgage-Backed Security (MBS) is a security, backed by pooled mortgages on real estate assets, that derives its cash flows from principal and interest payments on those mortgages. MBS can be backed by residential mortgages (residential mortgage-backed securities, or RMBS) or mortgages on commercial properties (commercial mortgage-backed securities, or CMBS). A <i>private-label</i> MBS is typically a <i>structured credit product</i>. RMBS that are issued by a <i>government-sponsored enterprise</i> are not structured. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>A Mortgage-Backed Security (MBS) is a security that derives its cash</p>

	<p>flows from principal and interest payments on pooled mortgage loans. MBSs can be backed by residential mortgage loans or loans on commercial properties. <i>(IMF, GFSR, Glossary, 2008)</i></p> <p>A Financial Corporation that originates residential mortgage loans may pool some of these assets and sell units, or portions, of the mortgage loan pool to investors. The units acquired by the investors are the Mortgage-Backed Securities (MBSs). The interest and principal payments made by the mortgagees within the pool are directly passed through to the investors who hold the mortgage-backed securities. <i>(IMF, MFS: Compilation Guide, April 2008)</i></p> <p>A Mortgage-Backed Security (MBS) is an asset-backed security that represents a claim on the cash flows from mortgage loans through a process known as securitization. <i>(Wikipedia)</i></p>
N	
O	
Official public register in the Supervisory body	<p>An Official public register in the Supervisory body is a public register kept by the supervisory body of SPEs (FVCs) in which these entities have to be registered before they start their activities. The information in the register allows public identification of the SPEs (FVCs) that are subject to surveillance by the supervisory body. <i>(OECD Glossary, April 2007)</i></p>
Open Entities	<p>Open Entities are SPEs (FVCs) participating in several securitisation transactions. They issue new asset-backed securities in each new securitisation transaction they undertake. <i>(OECD Glossary, April 2007)</i></p>
Originator	<p><i>(also known as sponsor, as well as seller or administrator)</i></p> <p>The Originator is the entity assigning receivables in a securitisation transaction (funded transaction) or seeking credit risk protection on the assets (unfunded transaction). <i>(H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010)</i></p> <p>The Originator is the original holder of the assets. In the securitisation processes is the institutional unit that securitises a portfolio of its assets. The originator can be a resident or non-resident institutional unit. The originator may be a financial institution, a unit of the government sector or a non-financial corporation. <i>(OECD Glossary, April 2007)</i></p> <p>The Originator is the transferor of the assets, or a pool of assets, and/or the credit risk of the asset or pool of assets to the securitisation structure. <i>(ECB Regulation of 19 December 2008 - ECB/2008/30)</i></p> <p>‘Originator’ means the transferor of the assets, or a pool of assets, and/or the credit risk of the asset or pool of assets to the securitisation structure. <i>(ECB, Background information on FVC statistics)</i></p> <p>Originator means either of the following:</p> <p>(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 exposure being securitised; or</p> <p>(b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them. <i>(EC Directive 2006/48/EC)</i></p>

	<p>The Originator is the unit which conveys the ownership rights over financial or nonfinancial assets or the right to receive specific future flows, to another unit, named the securitization unit. In return, the securitization unit pays an amount to the originator from its own source of financing. The securitization unit is often an SPE. The securitization unit obtains its own financing by issuing securities using the assets or rights to future flows transferred by the originator as collateral. Government units have made widespread use of this source of finance. <i>(2008 SNA)</i></p> <p>An Originator is an institutional unit that originates assets as part of its regular business activities. <i>(BIS, ECB, IMF Handbook, 1st Part, Glossary, 2009)</i></p> <p>The Originator is able to earn fees from the origination process, sell assets through an SPE and use the proceeds to repeat the process and generate more assets. <i>(BIS, BCBS, 2009)</i></p> <p>For risk-based capital purposes, a bank is considered to be an Originator with regard to a certain securitisation if it meets either of the following conditions:</p> <p>(a) The bank originates directly or indirectly underlying exposures included in the securitisation; or</p> <p>(b) The bank serves as a sponsor of an asset-backed commercial paper (ABCP) conduit or similar programme that acquires exposures from third-party entities. In the context of such programmes, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements. <i>(BIS, BCBS, 2006)</i></p> <p>Originator refers to an entity that transfers from its balance sheet a single asset or a pool of assets to an SPV as apart of a securitisation transaction and would include other entities of the consolidated group to which the entity belongs. <i>(IOSCO, October 2010)</i></p> <p>An Originator is an entity that creates the receivables, loans or other financial assets that will be included in the asset pool. <i>(IOSCO, June 2009)</i></p>
Orphan Vehicles	<p>Orphan Vehicles are entities whose share capital is a nominal amount and held beneficially on trust for a charity. The holding of shares on trust for charitable purposes ensures the SPE is not owned by the originator, making the case that the originator does not control the SPE.</p> <p>Orphan vehicles are used to meet one of the basic legal aims of SPEs, which is to ensure that the assets transferred to the SPE are not affected by any claims on or against the originator. The assets transferred to the SPE are the paramount property of the SPE and should not be threatened by claims from third party creditors of the originator or parent entity. <i>(BIS, BCBS, 2009)</i></p>
Other public registers	<p>Public registers, other than the register kept by the supervisory body of SPEs (FVCs), from which the data identifying these entities can be obtained. <i>(OECD Glossary, April 2007)</i></p>
Over-the-counter (OTC)	<p>While any financial instrument can potentially be traded, securities are designed to be traded, usually on organized exchanges or “Over The Counter (OTC).” (The over-the-counter market involves parties negotiating</p>

	<p>directly with one another, rather than on a public exchange.) (<i>IMF, BPM6, 2009</i>)</p> <p>Over The Counter (OTC) can refer to:</p> <p>a security that is not listed and traded on an organized exchange.</p> <p>a market in which securities transactions are conducted through a telephone and computer network connecting dealers in stocks and bonds, rather than on the floor of an exchange.</p> <p>Over-the-counter stocks are traditionally those of smaller companies that do not meet the listing requirements of the New York Stock Exchange or the American Stock Exchange. In recent years, however, many companies that qualify for listing have chosen to remain with over-the-counter trading, because they feel that the system of multiple trading by many dealers is preferable to the centralized trading approach of the New York Stock Exchange, where all trading in a stock has to go through the exchange specialist in that stock. The rules of over-the-counter stock trading are written and enforced largely by the National Association of Securities Dealers (NASD) , a self-regulatory group. Prices of over-the-counter stocks are published in daily newspapers, with the National Market System stocks listed separately from the rest of the over-the-counter market. Other over-the-counter markets include those for government and municipal bonds. (<i>Dictionary of Finance and Investment Terms</i>)</p>
P	
Pass-Through Security	<p>Pass-Through Securities that are backed by fixed-rate mortgage loans are a prominent type of asset-backed securities. Pass-throughs are often originated by selling a mortgage loan portfolio to a trust or other type of vehicle company that then issues the asset-backed securities. (<i>IMF, MFS: Compilation Guide, April 2008</i>)</p> <p>A Pass-Through Security is a security, representing pooled debt obligations repackaged as shares, that passes income from debtors through the intermediary to investors. The most common type of pass-through is a mortgage-backed certificate , usually government guaranteed, where homeowners' principal and interest payments pass from the originating bank or savings and loan through a government agency or investment bank to investors, net of service charges. Pass-throughs representing other types of assets, such as auto loan paper or student loans, are also widely marketed. (<i>Dictionary of Finance and Investment Terms</i>)</p>
Pass-Through Certificate	<p>In a Pass-Through Certificate offering of ABS, the originator transfers the assets to a trustee of a trust in exchange for certificates that represent 100% beneficial ownership of the receivables. The sponsor sells the pass-through certificates into the market. The trustee has legal title to the assets, and passes the payments on those assets through to the holders of the certificates. (<i>IOSCO, June 2009</i>)</p>
Pre-Trade Transparency and Post-Trade Transparency	<p>Pre-Trade Transparency could include information accurately indicating the size and price of prospective trading interest, such as firm quotations in representative size, and resting limit orders, both at the best firm bid and ask quotations and away from such quotations.</p> <p>Post-Trade Transparency' relates to information about traded volume and</p>

	prices (and possibly other information) which is disseminated publicly to market participants shortly after a transaction is executed. (<i>IOSCO, October 2010</i>)
Price Vendors	Price Vendors encompass entities who provide the prices of securities, including SFPs, to investors (usually institutional/professional investors) for the purposes of valuing their portfolios. (<i>IOSCO, October 2010</i>)
Primary market	<p>The Primary Market is the market in which securities are issued. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>Investors which purchase securities from the issuer (or from a member of the issuer's dealer panel) are said to buy in the Primary Market. (<i>Australian Bureau of Statistics, Glossary</i>)</p> <p>The Primary Market is the market in which a newly issued security is first offered for sale to investors. (<i>IMF, GFSR, Glossary, 2008</i>)</p> <p>The Primary Market is the market where a newly issued security is first offered/sold to the investors. (<i>IMF, GFSR, Glossary, 2006</i>)</p> <p>The Primary Market is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. Primary markets create long term instruments through which corporate entities borrow from capital market.</p> <p>Features of primary markets are:</p> <p>This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM).</p> <p>In a primary issue, the securities are issued by the company directly to investors.</p> <p>The company receives the money and issues new security certificates to the investors.</p> <ul style="list-style-type: none"> • Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business. <p>The primary market performs the crucial function of facilitating capital formation in the economy.</p> <p>The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as "going public."</p> <p>The financial assets sold can only be redeemed by the original holder. (<i>Wikipedia</i>)</p>
Private-Label Security	A Private-Label Security is an asset-backed security not issued or backed by a government-sponsored enterprise or public sector entity. Unlike a covered bond or a pass-through bond, it is typically a structured credit product (divided into tranches of varying risk). (<i>IMF, GFSR, Glossary,</i>

	<p>2011)</p> <p>Private-Label Securitisation products comprise those not issued or backed by governments and their agencies, that is, excluding those of government-sponsored enterprises (e.g., Fannie Mae and Freddie Mac in the United States), and public sector entities (such as Canada Mortgage and Housing Corporation in Canada). (<i>IMF, GFSR, Chapter 2, 2009</i>)</p>
Private Securities Issues	<p>Private Securities Issues are securities issued to a single investor or a particular group of investors. Under national rules, a prospectus relating to the issue is generally not necessary. These securities are not traded on a regulated secondary market and may be subject to transfer clauses limiting their ownership to a particular group of investors. (<i>OECD Glossary, April 2007</i>)</p>
Public Securities Issues	<p>Public Securities Issues are securities issued to all kinds of investors. Under national rules, the issuer generally prepares a detailed prospectus referring to the characteristics of the securities issued, the financial situation of the issuer and the other securities previously issued by the issuer. These securities are traded on a regulated secondary market. (<i>OECD Glossary, April 2007</i>)</p>
Q	
R	
Remic	<p>Remic, acronym for <i>real estate mortgage investment conduit</i>, is a pass-through vehicle created to issue multiclass mortgage-backed securities. REMICs may be organized as corporations, partnerships, or trusts, and those meeting qualifications are not subject to double taxation. Interests in REMICs may be senior or junior, regular (debt instruments) or residual (equity interests). The practical meaning of REMICs has been that issuers have more flexibility than is afforded by the Collateralized Mortgage Obligation (CMO) vehicle. Issuers can thus separate mortgage pools not only into different maturity classes but into different risk classes as well. Whereas CMOs normally have AAA bond ratings, REMICs represent a range of risk levels. (<i>Dictionary of Finance and Investment Terms</i>)</p>
Re-Remic	<p>Re-Remics are being used to resecuritise senior private-label mortgage-backed security (MBS) tranches that have been downgraded from their initial AAA levels. In a typical Re-Remic, a downgraded tranche is subdivided into a new AAA-rated senior tranche and a lower-rated mezzanine tranche.</p> <p>Re-Remic issuance is being driven by a number of factors, including the need to maintain the AAA ratings that many investors require to hold these securities. (<i>IMF, GFSR, Chapter 2, 2009</i>)</p>
Repackaging	<p>Repackaging is a category of securitisation activity: a security is created by purchasing an existing pool of securities or of loans and restructuring them so as to alter the payments and/or credit rating by adding seniority provisions or other credit enhancements. In addition to transforming cash flows, repackaging can be used to modify credit risk and to create multiclass securities with different degrees of credit risk assumed by different investors. In particular, senior-subordinated structures can be created for a pool of assets and/or third-party enhancements can be used.</p>

	<p><i>(OECD, FMT, June 1995)</i></p> <p>Repackaging vehicles are significant client-driven business that has grown from the use of SPEs to securitise assets. They are tailored to meet the specific needs of a financial institution’s clients, allowing them to access markets and to invest in specific assets that, for regulatory or tax reasons, they may be unable or unwilling to invest in directly. These structures also allow investors to invest in synthetic assets. Repackaging has developed into a global market through which practically any asset which generates a cash flow can be transformed into a security. The basic structure entails the purchase by an SPE (established by the structuring financial institution) of one type of security (the “underlying security”) from another entity. The SPE then issues its own debt or equity securities (the “repackaged securities”). This structure allows the benefits of the underlying security to pass to the holders of the repackaged securities (the financial institution’s customers). The availability of these types of structures helps the financial institution attract and retain clients by providing a mechanism for clients to acquire exposure to many asset classes and risk profiles in a single instrument. <i>(BIS, BCBS, 2009)</i></p> <p>Repackaging vehicles are significant business that involves SPE vehicles, one which permits clients to acquire tailored exposure to a variety of asset classes and risk profiles though a single instrument. For example, an investor that is seeking a structured return might request that a financial institution structure a transaction that combines otherwise unrelated credit components (exposure to one or more corporate entities), interest rate components (fixed, floating, inflation-linked, etc) and maturity components (bullet, scheduled maturity, etc) that are not currently available “packaged together” in the marketplace. <i>(BIS, BCBS, 2009)</i></p>
<p>Re-Securitisation</p>	<p>A Re-Securitisation occurs when one or more exposures of an FVC are to already securitised assets. Re-securitisation should be classified within ‘traditional’, ‘synthetic’ or ‘other’ on a look-through basis, by determining the nature of the securitisation of the underlying asset-backed securities. <i>(ECB, Guidance on the Definitions of FVC, March 2011)</i></p> <p>A Re-Securitization is defined as “a securitization exposure in which the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitization exposure. In addition, an exposure to one or more re-securitization exposures is a re-securitization exposure” <i>(BIS, BCBS, 2009)</i>.</p> <p>A Re-Securitization would capture collateralized debt obligations of asset-backed securities (ABS), a securitization with a single underlying ABS, or a liquidity facility to an asset-backed commercial paper program containing a securitization exposure, for example. <i>(IMF, GFSR, Glossary, 2009)</i></p> <p>A Re-Securitisation would capture collateralized debt obligations of asset-backed securities (ABS), a securitization with a single underlying ABS, or a liquidity facility to an asset-backed commercial paper program containing a securitization exposure, for example. <i>(IMF, GFSR, Chapter 2, 2009)</i></p>
<p>Residential Mortgage-Backed Security (RMBS)</p>	<p>Residential Mortgage-Backed Securities (RMBSs) are securities whose cash flows are derived from residential debt such as prime (or in the US agency market, “conventional” or “conforming”) mortgages, home equity loans, and sub-prime and Alt-A (or in European terms, “nonconforming”)</p>

	<p>mortgages. In terms of the amortisation profile, the bulk of RMBS amortise over a 15- or 30-year period with no balloon payment. (<i>BIS, BCBS, 2009</i>)</p> <p>A Residential Mortgage-Backed Security (RMBS) is a security that is collateralized by mortgages. (<i>IMF, GFSR, Glossary, 2006</i>)</p> <p>A Residential Mortgage-Backed Security (RMBS) is a type of mortgage-backed security which is backed by mortgages on residential rather than commercial real estate. (<i>Wikipedia</i>)</p>
Residual Interest	In general, the Residual Interest is the tranche or class that is entitled to any cash flow from the collateral that remains after the obligations to all the other tranches have been met. (<i>IOSCO, June 2009</i>)
Retained Securitisation	Retained Securitisation refers to assets that have been packaged into a security on a bank's balance sheet but have not been sold in the market. (<i>IMF, GFSR, Glossary, 2011</i>)
S	
Secondary Markets	<p>If these securities purchased in the primary market are subsequently sold by investors, the sales are said to occur in the Secondary Market. (Australian Bureau of Statistics, Glossary)</p> <p>Secondary Markets are markets where issued securities are traded. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>Secondary Markets are markets in which securities are traded after they are initially offered/sold in the primary market. (<i>IMF, GFSR, Glossary, 2008</i>)</p> <p>Secondary Markets is defined broadly to include secondary trading on traditional public markets (such as exchanges and alternative trading systems/multilateral trading facilities) as well as bilateral trades executed over-the-counter (OTC). (<i>IOSCO, October 2010</i>)</p> <p>The Secondary Market, also called aftermarket, is the financial market where previously issued securities and financial instruments such as stock, bonds, options, and futures are bought and sold. Another frequent usage of "secondary market" is to refer to loans which are sold by a mortgage bank to investors. The term "secondary market" is also used to refer to the market for any used goods or assets, or an alternative use for an existing product or asset where the customer base is the second market. With primary issuances of securities or financial instruments, or the primary market, investors purchase these securities directly from issuers such as corporations issuing shares in an IPO or private placement, or directly from the federal government in the case of treasuries. After the initial issuance, investors can purchase from other investors in the secondary market. The secondary market for a variety of assets can vary from loans to stocks, from fragmented to centralized, and from illiquid to very liquid. The major stock exchanges are the most visible example of liquid secondary markets - in this case, for stocks of publicly traded companies. (<i>Wikipedia</i>)</p>
Secondary Mortgage Market	<p>The Secondary Mortgage Market is the market for the sale of securities or bonds collateralized by the value of mortgage loans. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>The Secondary Mortgage Market is the market for buying, selling, and trading of existing mortgage loans and mortgage-backed securities.</p>

	<p>Original lenders are thus able to sell loans in their portfolios in order to build liquidity to support additional lending. Mortgages originated by lenders are purchased by government agencies (such as the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association) and by investment bankers. These agencies and bankers, in turn, create pools of mortgages, which they repackage as mortgage-backed securities, called pass-through securities or participation certificates , which are then sold to investors. The secondary mortgage market thus encompasses all activity beyond the primary market , which is between the homebuyers and the originating mortgage lender. (<i>Dictionary of Finance and Investment Terms</i>)</p> <p>The Secondary Mortgage Market is the market for the sale of securities or bonds collateralized by the value of mortgage loans. The mortgage lender, commercial banks, or specialized firm will group together many loans and sell grouped loans as securities called collateralized mortgage obligations (CMOs). The risk of the individual loans is reduced by that aggregation process.[citation needed] These securities are collateralized debt obligations (CDOs), also known as mortgage-backed securities (MBS). The CMOs are sometimes further grouped in other CDOs. Mortgage delinquencies, defaults, and decreased real estate values can make these CDOs difficult to evaluate. (<i>Wikipedia</i>)</p>
<p>Securitisation</p>	<p>Securitisation refers to a process whereby an institutional unit raises funds by issuing securities and enabling the investors investing in these securities to buy directly parcels of specific financial assets. In some cases, the securitisation process encompasses additionally the following: a) banks' issues (covered bonds) where a given portion of their own assets are used as collateral; and b) securities issues to replace other assets, mainly loans. Asset securitisation indicates a process whereby securities are issued to fund assets and where the cash flow of the underlying assets represents the interest claims of the securities issued. In the National Accounts Manuals (SNA93 and ESA95) the following references to securitisation are included in the context of the elaboration of the Financial Accounts:</p> <p>The SNA93 refers to securitisation in paragraph 11.75: "New negotiable securities are often issued backed by existing assets such as loans, mortgages, credit card debt, or other assets (including accounts receivable). This repackaging of assets is often referred to as securitization. The creation of the new assets gives rise to entries in the financial account and the new assets should be classified as securities other than shares. The previously existing assets will continue to be reported on the balance sheet of the institutional units that hold them. Loans which have become negotiable de facto should also be classified under securities other than shares".</p> <p>The ESA95 refers to securitisation in paragraph 5.63: "Sub-position AF.332 includes further financial assets as part of the securitization of loans, mortgages, credit card debt, accounts receivable and other assets. Sometimes the new security is issued as replacement for the original asset, which is effectively liquidated. Alternatively, the original asset is transferred to another institutional unit and the new securities replace the original asset on the original institutional unit's balance sheet. In this case the original asset should be recorded on the balance sheet of the new</p>

	<p>institutional unit that holds it". (<i>OECD Glossary, April 2007</i>)</p> <p>Securitisation refers to a transaction or scheme whereby an asset or a pool of cash flow-producing assets, often consisting of loans (mortgages, consumer loans, etc.), is transferred from an originator (usually a credit institution) to a financial vehicle corporation (FVC). The FVC effectively converts these assets into marketable securities by issuing debt instruments with principal and interest serviced through the cash flows produced by the asset pool. (<i>ECB, Monthly Bulletin, July 2011</i>)</p> <p>A transaction or scheme whereby an asset or pool of assets is transferred to an entity that is separate from the originator and is created for or serves the purpose of the securitisation and/or the credit risk of an asset or pool of assets, or part thereof, is transferred to the investors in the securities, securitisation fund units, other debt instruments and/or financial derivatives issued by an entity that is separate from the originator and is created for or serves the purpose of the securitisation, and:</p> <p>(a) in case of transfer of credit risk, the transfer is achieved by:</p> <ul style="list-style-type: none"> - the economic transfer of the assets being securitised to an entity separate from the originator created for or serving the purpose of the securitisation. This is accomplished by the transfer of ownership of the securitised assets <p>from the originator or through sub-participation,</p> <p>or</p> <ul style="list-style-type: none"> - the use of credit derivatives, guarantees or any similar mechanism; <p>and</p> <p>(b) where such securities, securitisation fund units, debt instruments and/or financial derivatives are issued, they do not represent the originator's payment obligations. (<i>ECB Regulation of 19 December 2008 - ECB/2008/30</i>)</p> <p>Securitisation means a transaction or scheme whereby: (i) an asset or pool of assets is transferred to an entity that is separate from the originator and is created for or serves the purpose of the securitisation; and/or (ii) the credit risk of an asset or pool of assets, or part thereof, is transferred to the investors in the securities, securitisation fund units, other debt instruments and/or financial derivatives issued by an entity that is separate from the originator and is created for or serves the purpose of the securitisation. (<i>ECB, Background information on FVC statistics</i>)</p> <p>Securitisation is a practice whereby an asset or a pool of cash flow-producing assets is converted into marketable securities, usually referred to as asset-backed securities (ABSs). This practice often entails the use of entities – FVCs – dedicated to holding the securitized assets and/or issuing the marketable securities. (<i>ECB, Explanatory notes on FVC statistics</i>)</p> <p>Securitisation means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, having the following characteristics:</p> <p>(a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and</p> <p>(b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme. (<i>EC Directive</i>)</p>
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	<p style="text-align: center;"><i>2006/48/EC of the Parliament and of the Council of 14 June 2006)</i></p> <p>Securitisation occurs when a unit, named the originator, conveys the ownership rights over financial or nonfinancial assets or the right to receive specific future flows, to another unit, named the securitization unit. In return, the securitization unit pays an amount to the originator from its own source of financing. The securitisation unit is often an SPE. The securitization unit obtains its own financing by issuing securities using the assets or rights to future flows transferred by the originator as collateral. Government units have made widespread use of this source of finance. <i>(2008 SNA)</i></p> <p>Securitisation is a financial technique that consists in issuing securities (bonds) on the basis of cash flows expected to be generated by assets or other kinds of rights, belonging to the originator of the arrangement. Securities issued this way are usually referred to as "asset backed securities" (ABS).</p> <p>The originator conveys the legal ownership rights over assets and/or over specific future flows, to a securitisation entity, which in return pays an amount to the originator. The securitisation entity finances this payment by issuing securities using the assets and/or rights to future flows transferred by the originator as collateral. Such a securitisation entity is often, though not always, a special purpose vehicle (SPV) specially established for the purpose of the securitisation and legally separated from the originator. Issuance of securities may be managed by a third party, for example a private bank, however this third party usually takes on no risk or reward within the operation.</p> <p>Investors buy securities issued by the securitisation entity only on the basis of the flows that are generated by the assets/rights, and not on the basis of the credit position of the originator. The investors usually have a direct and legal claim on the receipts generated by the assets or other rights in the event that the securitisation entity does not pay the interest and capital due.</p> <p>Thus, a securitisation operation typically differs from a collateralised borrowing operation: in the latter case the investor has both a claim on assets or other rights and a claim on the initial owner. Most securitisations operations do not provide for a recourse for investors against the originator. <i>(Eurostat, MGDD 2010)</i></p> <p>Securitisation results in debt securities for which coupon or principal payments (or both) are backed by specified financial or non-financial assets or future income streams. A variety of assets or future income streams may be used securitized including, among others: residential and commercial mortgage loans; consumer loans; corporate loans; government loans; credit derivatives, and future revenue. <i>(BIS, ECB, IMF Handbook, 1st Part, 2009)</i></p> <p>A distinction should be drawn between asset securitisations and liability securitisations. Asset securitisations are usually undertaken by banks and finance companies, and typically involve issuing bonds that are backed by the cashflows of income-generating assets (ranging from credit card receivables to residential mortgage loans). Liability securitisations are usually undertaken by insurance companies, and typically involve issuing bonds that assume the risk of a potential insurance liability (ranging from a catastrophic natural event to an unexpected claims level on a certain</p>
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	<p>product type). (<i>BIS, BCBS, 2009</i>)</p> <p>Securitisation has the added benefit (if compared with covered bonds) that it can be used to disperse credit risk outside the banking sector to investors most willing and able to manage it. Securitisation that involves tranching has the added advantage of allowing risks to be more closely matched to investor desires, and should result in more credit growth, depending on the amount of retained risk and capital requirements. (<i>IMF, GFSR, Glossary, 2009</i>)</p> <p>Securitisation refers to the creation of securities from a pool of pre-existing assets and receivables that are placed under the legal control of investors through a special intermediary created for this purpose (a “special purpose vehicle” [SPV] or “special purpose entity” [SPE]). In the case of “synthetic” securitizations, the securities are created from a portfolio of derivative instruments. (<i>IMF, GFSR, Glossary, 2008</i>)</p> <p>Securitisation involves raising funds by selling a security backed by specific assets or income streams. For example, an originating mortgage lender could sell a portfolio of loans to a special purpose vehicle that issues units sold to investors. The originator may continue to provide administrative services, but the vehicle is the legal owner of the portfolio. Such vehicles are included in “other financial intermediaries, except ICPFs” if the entity is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has or potentially has a full set of accounts. However, in cases in which the originator issues asset-backed securities on its own books, then securitization may take place without the creation of a separate entity. When the portfolio is not transformed, or the vehicle does not bear market or credit risks, then it can be combined with its parent (if resident in the same economy) or treated as a captive intermediary (if in a different economy to that of its parent). (<i>IMF, BPM6, 2009</i>)</p> <p>Securitisation is the process by way of which a single or a pool of assets are sold to a bankruptcy remote Special Purpose Vehicle (SPV) in return for immediate cash payment. (<i>IOSCO, October 2010</i>)</p> <p>Securitisation is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations and selling said debt as bonds, pass-through securities, or Collateralised mortgage obligation (CMOs), to various investors. The principal and interest on the debt, underlying the security, is paid back to the various investors regularly. Securities backed by mortgage receivables are called mortgage-backed securities, while those backed by other types of receivables are asset-backed securities. The granularity of pools of securitised assets is a mitigant to the credit risk of individual borrowers. Unlike general corporate debt, the credit quality of securitised debt is non-stationary due to changes in volatility that are time- and structure-dependent. If the transaction is properly structured and the pool performs as expected, the credit risk of all tranches of structured debt improves; if improperly structured, the affected tranches may experience dramatic credit deterioration and loss. (<i>Wikipedia</i>)</p>
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Securitized Financial Product (SFP)	<p>Securitized Financial Products (SFPs) are financial instruments which meet the following three key features:</p> <p>(1) They are based on pooling of assets usually sold to a special purpose vehicle (SPV).</p> <p>(2) There is subsequent guarantee and/or credit or maturity tranching of liabilities which are backed by the asset pool;</p> <p>(3) There is de-linking of the credit risk of the collateral asset pool from the standalone special purpose vehicle (SPV).</p> <p>Credit card ABS, auto-loan ABS, student loan ABS, RMBS, CMBS, CDO/CBOs, CLOs, are examples of SFPs. SFPs can be issued through public offerings or private placements. <i>(IOSCO, October 2010)</i></p>
Senior [Tranche]	<p><i>(see Tranches)</i></p> <p>The Senior Tranche is the class of securities with the highest claim against the underlying assets in a securitisation transaction. Often they are secured or collateralised, or have a prior claim against the assets. In true sale structures they rank senior in the cash flow allocation of the issuer's available funds. <i>(H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010)</i></p> <p>The Senior Tranches have the highest credit quality and the lowest yield. <i>(BIS, BCBS, 2009)</i></p> <p>A Senior Tranche is a tranche at the top of a structured finance transaction's liabilities structure. <i>(BIS, CGFS, 2005)</i></p> <p>Senior debt, frequently issued in the form of senior notes or referred to as senior loans, is debt that takes priority over other unsecured or otherwise more "junior" debt owed by the issuer. Senior debt has greater seniority in the issuer's capital structure than subordinated debt. In the event the issuer goes bankrupt, senior debt theoretically must be repaid before other creditors receive any payment. Senior debt is often secured by collateral on which the lender has put in place a first lien. Usually this covers all the assets of a corporation and is often used for revolving credit lines. It is the debt that has priority for repayment in a liquidation. It is a class of corporate debt that has priority with respect to interest and principal over other classes of debt and over all classes of equity by the same issuer. <i>(Wikipedia)</i></p>
Servicer	<p>The Servicer is the entity that continues to collect the receivables, enforcement of receivables, etc. Generally, the originator is also the servicer. <i>(H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010)</i></p> <p>Servicer means collector of principal and interest payments and processor of other back-office functions related to the assets supporting the transaction. <i>(OECD, FMT, June 1995)</i></p> <p>The Servicer is the entity responsible for the administrative management or collection for the pool assets, or for making allocations or distributions to holders of the ABS. The Servicer is responsible for carrying out the functions involved in administering the assets and calculates the amounts (net of fees) due to the ABS investors, and is often an affiliate of the Arranger/Sponsor. In some jurisdictions, some of these functions are</p>

	carried out by separate and independent entities that carry out custodial and administrative functions for the Issuing Entity. (<i>IOSCO, June 2009</i>)
Single-Tranche CDO	A Single-Tranche CDO is a structured finance transaction where only one single tranche, usually at the mezzanine level, rather than the full capital structure is sold to investors. (<i>BIS, CGFS, 2005</i>)
Special Purpose Entity or Vehicle (SPE or SPV)	<p>(<i>Other names given to these units are vehicle companies, special purpose vehicles, financial vehicle corporations, special purpose units, etc.</i>)</p> <p>A Special Purpose Entity (SPE) is an issuing entity holding the legal rights over the assets transferred by the originator. An SPV has generally a limited purpose and/or life. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>The typical SPV involved in securitisation processes is assumed to be an entity that acquires an asset (assumed, for the sake of simplicity, to be a loan) or group of assets from another entity (the originator). The SPV finances this acquisition by issuing securities, which may be acquired by any sector of the economy or the rest of the world. This is what it usually called “traditional securitisation”. If, instead of the assets being sold, only the credit risk is transferred then it is called “synthetic securitisation”. (<i>OECD, WPFS 2009, Second Survey</i>)</p> <p>Special Purpose Entities (SPEs) are entities created to be the holders of the securitised assets transferred by the originator, or to accept the risks transferred by the originator. Also known as “financial vehicle corporations” (FVCs). SPEs are the issuers of asset-backed securities. (<i>OECD Glossary, April 2007</i>)</p> <p>A Special Purpose Entity usually is a subsidiary company with a balance sheet structure and legal status that makes its obligations secure even if the parent company goes bankrupt. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>Special Purpose Entities (SPEs), also called special purpose vehicles, are created to hold securitized assets or other assets that have been removed from the balance sheets of corporations or government units. SPEs can be separate corporations, but they are often organized as trusts or are created solely to hold specific portfolios of financial assets and liabilities. Securitization of assets on a large scale has been an important financial innovation that has led to extensive use of the SPEs as a means of facilitating the creation and marketing of securities. When deciding to classify an SPE within the other financial intermediaries subsector rather than within the subsector to which the parent unit belongs, it is essential to establish that the SPE sells a new financial asset and bears risk, rather than simply acting as a trust that passively manages assets. If the SPE is the legal owner of a portfolio of assets, sells a new financial asset that represents an interest in the portfolio, and has a full set of accounts, the SPE is acting as a financial intermediary and is classified in the FC sector.</p> <p>When the SPEs belong to FCs, the SPEs’ accounts may be reported separately or may be incorporated into the balance sheets of their parent corporations, depending on the national practice for data reporting. If the SPE does not effectively transform or intermediate the portfolio and does not bear market or credit risks, it is considered to be a trust that passively holds assets. Accounts that SPEs hold at financial institutions should be classified in the same sector as their parent units, if the SPEs are not</p>

	<p>classified as separate corporations. SPEs established overseas are always treated as separate units and are classified as other financial intermediaries in the countries where they are located.</p> <p>SPEs are classified within the other financial intermediaries subsector when they actively manage their portfolios of assets, place themselves at financial risk, and have full sets of accounts. Very often, however, SPEs are created simply for accounting purposes, acquiring some of the balance-sheet items of the parent corporation. These SPEs are created through legal arrangements that heavily restrict the decision-making capacity of their governing bodies (autopilot arrangements), and all the risks and profits of their operations reside with the parent corporations.</p> <p>An SPE is created through the transfer of assets, liabilities, or rights to carry out a well specified activity or series of transactions directly related to the specific purpose for which it was formed. SPEs often are created to securitize assets, pooling financial assets owned by the parent corporation and issuing securities backed by those assets. (<i>IMF, MFS: Compilation Guide, April 2008</i>)</p> <p>There is no common definition of a Special Purpose Entity (SPE) but some of the following characteristics may apply.</p> <p>Such units often have no employees and no non-financial assets. They may have little physical presence beyond a “brass plate” confirming their place of registration. They are always related to another corporation, often as a subsidiary, and SPEs in particular are often resident in a territory other than the territory of residence of the related corporations. Entities of this type are commonly managed by employees of another corporation which may or may not be a related one. The unit pays fees for services rendered to it and in turn charges its parent or other related corporation a fee to cover these costs. This is the only production the unit is involved in though it will often incur liabilities on behalf of its owner and will usually receive investment income and holding gains on the assets it holds. (<i>2008 SNA</i>)</p> <p>Special Purpose Entity (SPE) means a corporation trust or other entity, other than a credit institution, organised for carrying on a securitisation or securitisations, the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the SSPE from those of the originator credit institution, and the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction. (<i>EC Directive 2006/48/EC</i>)</p> <p>Special Purpose Vehicles (SPVs) are legal entities that are established to undertake the economic and financial transactions associated with a single legal contract or linked set of legal contracts. The SPV is established in such a way that it is not a formal subsidiary of any other business, so that no other business can profit from it or be put at risk by it. The governing board of an SPV is usually a trust whose sole purpose is to ensure that the SPV implements the legal contract effectively. It has no authority to direct the SPV to enter into other business activity. The legal contract is usually constructed in a way that makes it very unlikely that the SPV will become insolvent or make large profits. Once the contract is completed the SPV is closed down and any remaining assets are often transferred to a charity.</p> <p>Securitisation arrangements often use an SPV to legally separate to</p>
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	<p>issuance of debt from the initial owner of the securitised assets/rights. It is the SPV which issues the securities, uses the proceeds obtained from their issuance for the purpose of taking legal ownership of the securitised assets/rights, and then services the debt thus issued.</p> <p>SPVs are also set up for reasons other than securitisation. For example an SPV might be created to hold the bad assets of a bank in financial defeasance, or to raise debt for a PPP arrangement. (<i>Eurostat, MGDD, 2010</i>)</p> <p>Special Purpose Entities (SPEs) or vehicles, international business companies, shell companies, shelf companies, and brass plate companies are all labels that are applied to flexible legal structures in particular jurisdictions, which offer various benefits that may include any or all of low or concessional tax rates, speedy and low-cost incorporation, limited regulatory burdens, and confidentiality. Although there is no internationally standard definition of such companies, typical features of these entities are that their owners are not residents of the territory of incorporation, other parts of their balance sheets are claims on or liabilities to nonresidents, they have few or no employees, and they have little or no physical presence. (<i>IMF, BPM6, 2009</i>)</p> <p>A Special Purpose Entity (SPE) is a legal entity created at the direction of a sponsoring firm (which may also be referred to as the sponsor, originator, seller, or administrator).</p> <p>An SPE can take the form of a corporation, trust, partnership, corporation or a limited liability company. An SPE is a vehicle whose operations are typically limited to the acquisition and financing of specific assets or liabilities.</p> <p>An SPE is an entity whose activities are limited to the acquisition and financing of specific assets or the assumption of specific liabilities. The SPE is usually a company with an asset/liability structure and legal status that makes its obligations secure even if the parent company goes bankrupt. This means that the assets within the SPE are protected from the risk of bankruptcy of the originator of the assets, and creditors of the originator cannot claim those assets in settlement of their claims against the originator. While there is no single definition of an SPE, there are several features that are common to many SPEs. While not all features are found in every SPE, common features include the following:</p> <ul style="list-style-type: none"> • Usually created for a single, well-defined and narrow purpose and characterised by share ownership; • Organised to promote bankruptcy remoteness and a low probability of insolvency (typically by means of non-petition and limited recourse provisions, as described more fully in Appendix 2); • Auto-pilot arrangements that restrict the decision-making capacity of the governing board and management as well as the activities of the SPE; • Use of professional directors, trustees, partners and outside administrators rather than employees; • Thin capitalisation, the proportion of “real” equity is often relatively small and may not support the SPE's overall activities, which are
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	<p>often funded through the issuance of debt securities;</p> <ul style="list-style-type: none"> • Absence of an apparent profit-making motive, such that the SPE is engineered to pay out all profits in the form of interest or fees; • Separateness covenants, such that the SPE will maintain its own books and records, offices, accounts, obligations and assets; • Debt limitations, such that the SPE should not incur additional debt unless that debt is subordinated to existing obligations (this will not necessarily always apply in such a simplistic form, for instance in the case of “evergreen” structures that are constantly issuing new debt); • Sometimes domiciled in offshore jurisdictions; • May have a specified life or a perpetual life; • Exists for financial engineering purposes; and • The creator or sponsor may often transfer assets or liabilities to the SPE in order to derecognise these financial assets or liabilities. (BIS, BCBS, 2009) <p>A Special Purpose Entity (SPE) is a corporation, trust, or other entity organised for a specific purpose, the activities of which are limited to those appropriate to accomplish the purpose of the SPE, and the structure of which is intended to isolate the SPE from the credit risk of an originator or seller of exposures. SPEs are commonly used as financing vehicles in which exposures are sold to a trust or similar entity in exchange for cash or other assets funded by debt issued by the trust. (BIS, BCBS, 2006)</p> <p>Special Purpose Entity (SPE) means any company, trust, or other entity constituted or established for a specific purpose – (a) activities of which are limited to those for accomplishing the purpose of the company, trust or other entity as the case may be; and (b) which is structured in a manner intended to isolate the corporation, trust or entity as the case may be, from the credit risk of an originator to make it bankruptcy remote. (IOSCO, October 2010)</p> <p>A Special Purpose Entity (SPE) or, especially in Europe, Special Purpose Vehicle (SPV) or, in Ireland, Financial Vehicle Corporation (FVC) is a legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfill narrow, specific or temporary objectives. SPEs are typically used by companies to isolate the firm from financial risk. A company will transfer assets to the SPE for management or use the SPE to finance a large project thereby achieving a narrow set of goals without putting the entire firm at risk. SPEs are also commonly used in complex financings to separate different layers of equity infusion. In addition, they are commonly used to own a single asset and associated permits and contract rights (such as an apartment building or a power plant), to allow for easier transfer of that asset. Moreover, they are an integral part of public private partnerships common throughout Europe which rely on a project finance type structure. A special purpose entity may be owned by one or more other entities and certain jurisdictions may require ownership by certain parties in specific percentages. Often it is important that the SPE not be owned by the entity on whose behalf the SPE is being set up (the sponsor). For example, in the context of a loan securitization, if the SPE securitisation vehicle were owned or controlled by the bank whose loans were to be secured, the SPE would be</p>
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	<p>consolidated with the rest of the bank's group for regulatory, accounting, and bankruptcy purposes, which would defeat the point of the securitisation. Therefore many SPEs are set up as 'orphan' companies with their shares settled on charitable trust and with professional directors provided by an administration company to ensure that there is no connection with the sponsor. (<i>Wikipedia</i>)</p>
Sponsor	<p>(<i>see also Originator, seller, administrator</i>)</p> <p>The Sponsor is typically a major bank, finance company, investment bank or insurance company. (<i>BIS, BCBS, 2009</i>)</p> <p>The bank serves as a Sponsor of an asset-backed commercial paper (ABCP) conduit or similar programme that acquires exposures from third-party entities. In the context of such programmes, a bank would generally be considered a sponsor and, in turn, an originator if it, in fact or in substance, manages or advises the programme, places securities into the market, or provides liquidity and/or credit enhancements. (<i>BIS, BCBS, 2006</i>)</p> <p>A Sponsor is an entity that organizes and arranges a securitization transaction by selling or transferring assets, either entirely or indirectly, including through an Affiliate, to the Issuing Entity. The assets are either originated by the Sponsor, or are purchased by the Sponsor from the originators of the receivables, or in the secondary market. (IOSCO, June 2009)</p>
Structured credit product	<p>A Structured Credit Product is an asset-backed security in which the payouts of the underlying assets are divided into tranches of varying risk and sold separately. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>A Structured Credit Product is an instrument that pools and tranches credit risk exposure, including mortgage-backed securities and collateralized debt obligations. (<i>IMF, GFSR, Glossary, 2008</i>)</p>
Structured Finance	<p>Structured Finance techniques entail dividing the cash flows into “tranches,” or slices. Tranche holders are paid in a specific order, starting with the “senior” tranches (least risky) working down through various levels to the “equity” tranche (most risky). If some of the expected cash flows are not forthcoming (e.g., some loans default), then, after any cash flow buffers are depleted, the payments to the equity tranche are reduced. If the equity tranche is depleted, then payments to the “mezzanine” tranche holders are reduced, and so on up to the senior tranches. (<i>IMF, GFSR, Chapter 2, 2009</i>)</p> <p>If the CDO is backed by other structured credit securities, it is called a Structured Finance CDO. (<i>IMF, GFSR, Glossary, April 2008</i>)</p> <p>Structured Finance refers to the repackaging of existing financial assets—securities, loans, or other assets—into new instruments that are structured to meet the liquidity, creditworthiness, and return preferences of particular investors. These arrangements may incorporate financial derivatives. (<i>IMF, BPM6, 2009</i>)</p> <p>Structured Finance instruments can be defined through three key characteristics: (1) pooling of assets (either cash-based or synthetically created); (2) tranching of liabilities that are backed by the asset pool (this property differentiates structured finance from traditional “pass-through”</p>

	<p>securitisations); (3) de-linking of the credit risk of the collateral asset pool from the credit risk of the originator, usually through use of a finite-lived, standalone special purpose vehicle (SPV). Forces driving financial intermediaries' issuance of structured finance instruments have included reduction of regulatory capital, access to new and cheaper sources of funding, and portfolio management. Investors' interest has been motivated by portfolio diversification and attractive risk-return profiles. (<i>BIS, BCBS, 2009</i>)</p> <p>A Structured Finance is a form of financial intermediation involving the pooling of assets and issuance against this pool of tranch liabilities; commonly based on an SPV. (<i>BIS, CGFS, 2005</i>)</p> <p>Structured Finance is a broad term used to describe a sector of finance that was created to help transfer risk and avoid laws[1] using complex legal and corporate entities. This risk transfer as applied to securitization of various financial assets (e.g. mortgages, credit card receivables, auto loans, etc.) has helped to open up new sources of financing to consumers. (<i>Wikipedia</i>)</p>
Structured Investment Vehicle (SIV)	<p>A Structured Investment Vehicle (SIV) is a legal entity, whose assets consist of asset-backed securities and various types of loans and receivables. An SIV's funding liabilities are usually tranch and include short- and medium-term debt; the solvency of the SIV is put at risk if the value of the assets of the SIV falls below the value of the maturing liabilities. (<i>IMF, GFSR, Glossary, 2008</i>)</p>
Subordinated Tranche	<p>(see Tranches)</p> <p>The Subordinated Tranches are the classes of securities with lower priority or claim against the underlying assets in a securitisation transaction. Typically, these are unsecured obligations. They are also called Junior (or Mezzanine) notes and bonds. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>Subordinated Tranches, for example, can lose their entire value if losses in the asset pool are severe enough. This would not occur with an exposure to a straight bond portfolio, assuming that recovery rates are positive. Subordinated tranches will thus have higher unexpected loss than a bond portfolio with the same expected loss or probability of default. Given that the latter criteria (expected 2 The role of ratings in structured finance: issues and implications loss or probability of default) represent the one-dimensional risk indicators embodied in credit ratings, structured finance tranches can be riskier than investments in bond portfolios with equal ratings. (<i>BIS, BCBS, 2009</i>)</p>
Subordinated Debt	<p>Subordinated Debt is debt that is not repayable until other specified liabilities have been settled. For example, the subordinated debt of banks (also called second-tier capital) is not repayable until the demands of depositors for repayment have been satisfied. (<i>Australian Bureau of Statistics, Glossary</i>)</p> <p>For short-term Subordinated Debt to be eligible as Tier 3 capital, it needs, if circumstances demand, to be capable of becoming part of a bank's permanent capital and thus be available to absorb losses in the event of insolvency. It must, therefore, at a minimum:</p> <ul style="list-style-type: none"> • be unsecured, subordinated and fully paid up;

	<ul style="list-style-type: none"> • have an original maturity of at least two years; • not be repayable before the agreed repayment date unless the supervisory authority agrees; • be subject to a lock-in clause which stipulates that neither interest nor principal may be paid (even at maturity) if such payment means that the bank falls below or remains below its minimum capital requirement. (<i>BIS, BCBS, 2006</i>) <p>Subordinated Debt (also known as subordinated loan, subordinated bond, subordinated debenture or junior debt) is debt which ranks after other debts should a company fall into receivership or be closed. Such debt is referred to as subordinate, because the debt providers (the lenders) have subordinate status in relationship to the normal debt. Subordinated debt has a lower priority than other bonds of the issuer in case of liquidation during bankruptcy, below the liquidator, government tax authorities and senior debt holders in the hierarchy of creditors. Because subordinated debt is repayable after other debts have been paid, they are more risky for the lender of the money. It is unsecured and has lesser priority than that of an additional debt claim on the same asset. (<i>Wikipedia</i>)</p>
Super-Senior Tranche	A Super-Senior ('wrapped') Tranche is a tranche at the very top of a structured finance deal's liabilities structure, the credit risk of which is transferred to an external counterparty via a CDS contract or a financial guarantee ("wrap"). (<i>BIS, CGFS, 2005</i>)
Supervisory Body of SPEs (FVCs)	The Supervisory Body of SPEs is a unit engaged in surveillance to ensure that good practices are followed by SPEs (FVCs) and in protection of the investors in asset-backed securities issued by SPEs (FVCs). The supervisory body may be part of the general government sector. When the activity of SPEs (FVCs) is regulated, i.e. there are legal rules governing these entities, such regulation may refer to a supervisory body engaged in their surveillance. However, the legal rules need not establish a supervisory body for SPEs (FVCs). (<i>OECD Glossary, April 2007</i>)
Synthetic Instrument	<p>A Synthetic Instrument is a tailored financial product which combines a primary financial instrument such as a parcel of bills of exchange) with a derivative instrument (such as a forward rate agreement). (<i>Australian Bureau of Statistics, Glossary</i>)</p> <p>In a Synthetic CDO, the investors' credit risk exposure is created "synthetically". Instead of the SPE purchasing the assets directly, the SPE (the protection seller) enters into a credit default swap on a reference portfolio of assets with the protection buyer (typically the arranging or originating bank). The goal is to create the credit risk of buying the reference portfolio as in a cash deal through the use of derivatives. The proceeds from the SPE's note issuance to investors are typically used to purchase collateral to cover the SPE's obligations under the credit default swap and the notes. This collateral usually consists of highly liquid, high quality securities. The protection buyer in the credit default swap usually pays a premium to the SPE, which covers the SPE's expenses and the difference between the coupon on the notes issued to the investors and the income received on the lower-risk collateral purchased. (<i>BIS, BCBS, 2009</i>)</p> <p>A Synthetic CDO is a CDO that creates credit exposures for investors</p>

	primarily through CDSs. (<i>BIS, CGFS, 2005</i>)
Synthetic Securitisation	<p>Synthetic Securitisation refers to a transaction where the assets are not sold to an SPV but remain on balance sheet; and where only the credit risk of the assets is transferred to the market through credit default swaps or credit linked notes. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>In Synthetic Securitisation the originator only transfers the credit risk to the SPV, so that the loan itself remains on the assets side of the originator's balance sheet. This transfer of credit risk takes place by means of the generation of a derivative (included in the SPV's liabilities) which is acquired by the originator (it will be reflected in the assets of this agent). The transaction entails a corresponding movement of cash or deposits between the two agents (originator and SPV). Subsequently, the SPV shall issue securities whose proceeds it shall deposit with the originator or invest in high credit quality securities (sovereign debt, for example). (<i>OECD, WPFS 2009, Second Survey</i>)</p> <p>Synthetic Securitisation refers to the securitisation process involving the transfer of economic risk by the originator to a third party, usually an SPE (FVC). The assets remain in the originator's balance-sheet. It is also known as "hybrid on-off-balance sheet securitisation". (OECD Glossary, April 2007)</p> <p>Synthetic Securitisation refers to securitisations where the transfer of risk is achieved by the use of credit derivatives, guarantees or any similar mechanism. The risk may be associated to loans, bond, trade receivables or structure finance securities. FVCs do not typically use the asset whose credit risk is being transferred. Instead, they usually use their issuance proceeds to invest in high quality assets that serve collateralise their obligations as protection sellers. (ECB, Guidance on the Definitions of FVC, March 2011)</p> <p>In the case of Synthetic Securitisation, the transactions are highly flexible in terms of their asset mix and risk-return characteristics, enabling investors to choose "tailor-made" CDOs to suit their needs. The banks arranging CDO transactions often use credit derivatives, such as credit default swaps (CDS), to transfer the credit risk of the underlying pool of assets. Furthermore, the underlying assets remain on the balance sheet of the originator or arranger, while the SPV holds a pool of CDS that reference the assets. (ECB, Monthly Bulletin, February 2008)</p> <p>Synthetic Securitisation refers to securitisations where the transfer of risk is achieved by the use of credit derivatives, guarantees or any similar mechanism. (ECB Guideline ECB/2008/31)</p> <p>Synthetic Securitisation means a securitisation where the tranching is achieved by the use of credit derivatives or guarantees, and the pool of exposures is not removed from the balance sheet of the originator credit institution. (<i>EC Directive 2006/48/EC</i>)</p> <p>Synthetic Securitisation refers to the creation of generic securities out of derivative instruments. (<i>IMF, GFSR, Glossary, 2004</i>)</p> <p>A Synthetic Securitisation is a structure with at least two different stratified risk positions or tranches that reflect different degrees of credit risk where</p>

	credit risk of an underlying pool of exposures is transferred, in whole or in part, through the use of funded (e.g. credit-linked notes) or unfunded (e.g. credit default swaps) credit derivatives or guarantees that serve to hedge the credit risk of the portfolio. Accordingly, the investors' potential risk is dependent upon the performance of the underlying pool. (<i>BIS, BCBS, 2006</i>)
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Taking up business	Taking up business refers to any activity, including any preparatory measures, related to the securitisation, other than merely establishing an entity that is not expected to commence the securitisation activity in the next six months. Any activity by the FVC taken after the securitisation activity becomes foreseeable means taking up business. (<i>ECB Regulation of 19 December 2008 - ECB/2008/30</i>)
Traditional Securitisation	<p>Traditional securitisation (in opposition to synthetic) refers to securitisations where the transfer of risk is achieved by the economic transfer of the assets being securitised to the FVC, i.e. by the transfer of ownership of the assets or through sub-participation. Sub-participation refers to an arrangement whereby one or more sub-participants agree to fund a loan (usually from an MFI) in return for the right to receive the principal and interest repayments of the loan. Sub-participants do not obtain any rights or obligations against the borrower, however, as there is no contractual relationship between the sub-participants and the borrower. (<i>ECB, Guidance on the Definitions of FVC, March 2011</i>)</p> <p>Traditional securitisation can be defined as the pooling of financial assets, such as residential mortgage loans, and their subsequent sale to a special-purpose vehicle (SPV), which then issues fixed-income securities for sale to investors – known as asset-backed securities (ABS) – the principal and interest of which depend on the cash flows produced by the pool of underlying financial assets (see Chart 1). The SPV usually acquires the underlying assets from the originator in what is known as a “true sale”.* The cash received from the investors who purchase the securities issued by the SPV is then passed back to the originator. [Note *: For investors, this helps to guarantee the “remoteness” of the expected cash flows of the underlying assets from the solvency of the originator. The SPV usually does not have any other function apart from issuing the securities and owning the assets underlying these securities, so as to eliminate any incentive for another party to place the SPV into insolvency.] (<i>ECB, Monthly Bulletin, February 2008</i>)</p> <p>Traditional securitization refers to securitisations where the transfer of risk is achieved by the economic transfer of the assets being securitised to the FVC. This shall be accomplished by the transfer of ownership of the securitised assets from the originator or through sub-participation. (<i>ECB Guideline ECB/2008/31</i>)</p> <p>Traditional securitisation means a securitisation involving the economic transfer of the exposures being securitised to a securitisation special purpose entity which issues securities. This shall be accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through sub-participation. The securities issued do not represent payment obligations of the originator credit institution. (<i>EC</i></p>

	<p><i>Directive 2006/48/EC</i>)</p> <p>A traditional securitisation is a structure where the cash flow from an underlying pool of exposures is used to service at least two different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the specified underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures. The stratified/tranched structures that characterise securitisations differ from ordinary senior/subordinated debt instruments in that junior securitisation tranches can absorb losses without interrupting contractual payments to more senior tranches, whereas subordination in a senior/subordinated debt structure is a matter of priority of rights to the proceeds of liquidation. (<i>BIS, BCBS, 2006</i>)</p>
<p>Tranches</p>	<p>A Tranche of securities is a piece, a portion or slice within a structured transaction. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>The securitisation of assets normally results in the issuance of different classes of securities, referred to as Tranches. The difference lies in their seniority. Normally, one tranche, referred to as equity, absorbs the first losses; then there are the so-called mezzanine tranches, which occupy an intermediate seniority role; and finally, the safest tranches, which tend to have a high rating. (<i>R. Blanco, OECD Workshop on Securitisation, 2010</i>)</p> <p>In the simplest transaction, the securities issued by the SPV would be broken down into three “Tranches”: the senior tranche, the mezzanine tranche and the equity tranche.* All tranches are backed by the same pool of assets but, if some of the underlying assets default, there is a “cascade” of payments such that the equity tranche is the first to suffer losses, followed by the mezzanine tranche, and lastly the senior tranche. [Note *: In practice, the number of tranches is normally much higher than three and the senior tranche can be broken into further “sub-tranches”, which often have the same credit rating, but different maturity dates, in order to better cater for different investor preferences.] (<i>ECB, Monthly Bulletin, February 2008</i>)</p> <p>In some securitisations, different Tranches of securities issued are backed by different parts of the flows from the securitised assets. This means that there is a differentiation in the risks and rewards that are borne by investors. By this process, it is possible to include some mechanisms by which the originator, government, keeps a residual risk/reward (sometimes called an “equity tranche” or “last tranche”), to protect investors against an excessive under-performance of the securitised assets. This makes the securities more attractive to investors. This mechanism prevents a full transfer of risks to the securitisation entity and leads to the recording of the securitization arrangement as government borrowing. (<i>Eurostat, MGDD, 2010</i>)</p> <p>Tranche means a contractually established segment of the credit risk associated with an exposure or number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of</p>

	<p>positions in the segment or in other segments. (<i>EC Directive 2006/48/EC</i>)</p> <p>Tranches (slices) represent a hierarchy of payment and risk typically associated with an asset-backed security, and each tranche is sold separately. The claim of the “senior” tranche (least risky) on payments flowing from the security have first priority; the claim of the “mezzanine” tranche is next; and that of the “equity” tranche (most risky) is lowest. If some of the expected cash flows are not forthcoming (e.g., some of the securitized loans default), and after any cash flow buffers are depleted, the payments to the senior tranche continue in full while those to the equity tranche are reduced. If payments made to the equity tranches are completely absent, payments to the mezzanine tranche are then reduced. The senior tranche would be the last to receive a reduced or zero payment. See also <i>private-label security</i>. (<i>IMF, GFSR, Glossary, 2011</i>)</p> <p>The CDO provides differing levels of credit quality that are typically grouped into three or more tranches having the same maturity. The senior tranches have the highest credit quality and the lowest yield; the mezzanine tranches have slightly lower credit quality with a higher yield; and the subordinated, junior or equity tranches generally receive the residual payments that remain after the more senior tranches have been paid. The equity tranches pay the highest yield, but also have the greatest risk. These tranches receive no credit rating and are the first tranches to suffer losses.</p> <p>The senior and mezzanine tranches have an investment-grade credit rating that is achieved through the use of internal credit enhancement, such as over-collateralisation (where the value of the underlying collateral is greater than the value of the CDO securities issued) and subordination (i.e. absorption of losses by the more junior tranches), as well as external credit enhancement in the form of a letter of credit or guarantee. (<i>BIS, BCBS, 2009</i>)</p> <p>A tranche (often misspelled as traunch or trauiche) is one of a number of related securities offered as part of the same transaction. The word tranche is French for slice, section, series, or portion, and is cognate to English trench ('ditch'). In the financial sense of the word, each bond is a different slice of the deal's risk. Transaction documentation (see indenture) usually defines the tranches as different "classes" of notes, each identified by letter (e.g. the Class A, Class B, Class C securities) with different bond credit ratings (ratings). (<i>Wikipedia</i>)</p>
True Sale	<p>True Sale refers to the separation of the portfolio risk from the risk of the originator, i.e. there is a non-recourse assignment of assets from the originator to the issuer (special purpose vehicle). To be contrasted with synthetic securitisations where only the underlying credit risk is transferred. (<i>H. Kramer, M. Shaber & A. Tappi, EIF, OECD Workshop on Securitisation, 2010</i>)</p> <p>Depending on the accounting standards in force in each country, the originator entity of the securitisation may or may not be permitted to derecognise from its balance sheet the securitised asset. When derecognition is permitted, the securitisation transaction is a “True Sale”. The acquired loan will appear on the assets side of the SPV's balance sheet and the issuance of securities on the liabilities side. In the originator's balance sheet, the transaction will be recorded by means of a reduction in</p>

	<p>loans on the assets side and by means of an increase in cash or deposits, also on the assets side, relating to receipt from the SPV of the monetary flow obtained from the placement of the securities issued. (<i>OECD, WPFS 2009, Second Survey</i>)</p> <p>In a synthetic securitisation, the term ‘True Sale’ is meaningless since there is no asset sale to be evaluated as to whether it qualifies as a ‘true sale’ for accounting purposes. (<i>ECB, Guidance on the Definitions of FVC, March 2011</i>)</p> <p>Refers to the acquisition by the SPV of the underlying assets from the originator. (<i>ECB, Monthly Bulletin, February 2008</i>)</p>
True sale securitisation	<p>True-sale securitisation refers to a securitisation process that involves a sale of assets by the originator to a third party, usually an SPE (FVC) which issues debt securities to finance the purchase of the assets. It is also known as “off-balance-sheet securitisation”. (<i>OECD Glossary, April 2007</i>)</p> <p>In the case of traditional True-sale securitisation, the loan is transferred from the MFI balance sheet to that of a financial vehicle corporation (FVC). This reduces the recorded MFI loans in statistical terms.* However, from the perspective of the borrower, the loan is still outstanding. [Note *: Following the adoption of the International Accounting Standards (IAS39) by the euro area MFIs, a traditional securitisation transaction may not lead to a decrease in the loan holdings if the securitised loan is not derecognised, i.e. taken off the MFI balance sheet in accounting and statistical terms.] (<i>ECB, Monthly Bulletin, February 2008</i>)</p>
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Write-off/Write-down	<p>Write-offs/Write-downs do not represent financial transactions. They are defined as the impact of changes in the value of loans recorded on the balance sheet that are caused by the application of write-offs/write-downs of loans. Write-offs/write-downs recognised at the time a loan is sold or transferred to a third party are also included, where identifiable. Write-offs refer to events where the loan is considered to be a worthless asset and is removed from the balance sheet. Write-downs refer to events where it is deemed that the loan will not be fully recovered, and the value of the loan is reduced in the balance sheet. (<i>ECB, Regulation ECB/2008/30</i>)</p> <p>Usually, debt is written off as uncollectible because of the bankruptcy or liquidation of the debtor; however, it may sometimes be written off for other reasons, such as a court order. The Write-off may be full or partial; partial write-offs may arise, for example, under a court order, or if the liquidation of the debtor’s assets will allow some of the debt to be settled. Recognition that the debt is uncollectible should be distinguished from internal accounting provisions of the creditor for the possibility of default (such as adjustments to fair value, nonperforming loans). Although such provisions may be useful for analysis, they do not mean that the debt should no longer be recognized as existing.</p> <p>A creditor can reduce the value of its debt claims on the debtor in its own books through debt write-offs - unilateral actions that arise, for instance,</p>

	<p>when the creditor regards a claim as unrecoverable, perhaps because of bankruptcy of the debtor, and so no longer carries it on its books.</p> <p>A creditor can unilaterally decide to write off debt owed to it. No transactions are recorded but the creditor economy records the reduction in its financial assets through the other changes in the volume of assets account. (The corresponding liability should also be removed from the balance sheet of the debtor, through the other changes in volume account.) (<i>IMF, BPM6, 2009</i>)</p> <p>A Write-off corresponds to charging an asset amount to expense or loss. The effect of a write-off is to reduce or eliminate the value of the asset and reduce profits. Write-offs are systematically taken in accordance with allowable tax depreciation of a fixed asset , and with the amortization of certain other assets, such as an intangible asset and a capitalized cost (like premiums paid on investments). Write-offs are also taken when assets are, for whatever reason, deemed worthless, the most common example being uncollectible accounts receivable . Where such write-offs can be anticipated and therefore estimated, the usual practice has been to charge income regularly in amounts needed to maintain a reserve , the actual losses then being charged to the reserve. (<i>Dictionary of Finance and Investment Terms</i>)</p> <p>The term Write-off describes a reduction in recognized value. In accounting terminology, it refers to recognition of the reduced or zero value of an asset. In income tax statements, it refers to a reduction of taxable income as recognition of certain expenses required to produce the income. Write-off is also used in vehicle insurance to describe a vehicle which is cheaper to replace than to repair, sometimes colloquially referred to as being "totaled" (a total loss). (<i>Wikipedia</i>)</p> <p>A Write-down is an accounting treatment that recognizes the reduced value of an impaired asset. The value of an asset may change due to fundamental changes in technology or markets. One example is when one company purchases another and pays more than the net fair value of its assets and liabilities. The excess purchase price is recorded on the buying company's accounts as goodwill. If it becomes apparent that the purchased company no longer has the value recorded in the goodwill account (it can't be resold at the same price), the value in the goodwill asset account is "written down".</p> <p>A write-down is sometimes considered synonymous with a write-off. The distinction is that while a write-off is generally completely removed from the balance sheet, a write-down leaves the asset with a lower value. (<i>Wikipedia</i>)</p>
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