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Working Party on Financial Statistics

OECD GLOSSARY ON SECURITISATION

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WORKING PARTY ON FINANCIAL STATISTICS

WORKSHOP ON SECURITISATION – MADRID (SPAIN) – MAY 2010

OECD GLOSSARY ON SECURITISATION

1. In recognition of the variety of terms, concepts and related definitions, used in the area of securitisation, and the potential confusion this may cause, Delegates at the 2010 meeting of the OECD Working Party on Financial Statistics (WPFS) requested the OECD to prepare a draft glossary of terms and definitions based on the available literature on securitisation, and, more particularly, on documents prepared for the 2010 OECD Workshop on Securitisation, held in Madrid.

2. At the 2011 WPFS meeting, the OECD Secretariat submitted a first draft glossary, including 93 terms with their definitions, as identified in various national and international sources. It was decided to create a small group of experts on securitisation, whose mandate was to agree on a final list of terms and a single definition for each of them, applicable to all OECD countries, and relevant for all users dealing with securitisation. This group, composed of experts from six OECD countries (Canada, France, Mexico, Portugal, Spain and USA), examined the terms and their definitions via electronic discussions. The expert group was operational from January 2012 to April 2013.

3. On 18 April 2013, the experts transmitted their final proposal for the Glossary on Securitisation, containing definitions for 110 terms, to the OECD Secretariat. On the 7th of June, a second proposal, based on comments and additions made by the OECD Secretariat, was submitted to the experts in securitisation who participated in the 2010 OECD Workshop. Their comments, which led to a further addition of three concepts and to a rewording of some other definitions, have been integrated in the present version, containing 113 terms and definitions. This version was endorsed by all relevant experts in this area of expertise.

4. WPFS Delegates are requested to approve the present Glossary on Securitisation which will improve the knowledge of users and will allow a better communication between experts.

5. Once approved, the Glossary on Securitisation will be made available to all WPFS Delegates and financial experts via the OECD Clearspace system, which has been developed to store methodological information related to financial statistics, and to national accounts, financial as well as non-financial, more generally.

6. The Glossary on Securitisation is currently produced in English. However, it is envisaged to produce a French version (OECD's other official language) of the glossary in due course so that it can also become an invaluable tool for translators and interpreters.

7. It is also planned to disseminate the Glossary on Securitisation as an official publication, in one of the series of the OECD, to make it available to a wider audience.

WORKING PARTY ON FINANCIAL STATISTICS

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OECD GLOSSARY on SECURITISATION

A	
Asset-Backed Commercial Paper (ABCP)	Specific type of asset-backed security ***(see ABS)*** that predominantly takes the form of a commercial paper and normally has an original term to maturity of one year or less. It is usually backed by assets such as real estate, cars, credit card loans and other commercial loans.
Asset-Backed Security (ABS)	Debt security collateralised by a single or homogeneous pool of assets, whose principal and interest payments are backed exclusively by the cash flows generated by these same assets, termed securitised assets. Assets eligible to be used as collaterals can range from mortgages and home equity loans, credit-card receivables and car loans, commercial papers and commercial loans, and leases to any financial or non-financial assets with a future income stream (such as the earnings of a musician or a government's future revenue). Asset-backed securities (ABSs) can be structured to have specific yield and maturity characteristics and can be sold to an investor or third party. ABSs are considered debt securities because, whereas the issuers are required to make periodic payments to the holders of the ABS, the holders have no residual claim on the underlying assets. Furthermore, ABSs may incorporate tranching, allowing their risk profiles to more closely correspond to investor appetites. ABSs can also be referred to in a way specific to the underlying asset (for instance, an asset-backed security collateralised by a pool of mortgages may be referred to as a mortgage-backed security).
B	
Bankruptcy remote / remoteness	Feature, common to many Special Purpose Vehicles ***(see SPV)***, defined by an entity's capacity to be deemed separately from its sponsoring firm, should the latter be subjected to bankruptcy proceedings. This is achievable through methods that allow the assets of the SPV to be isolated from those of the originator, in the event of bankruptcy of the sponsor. This legal separation of the assets from the originator/sponsor enables investors in the securities to be insulated from risks that would be associated with a direct credit exposure to the originator/sponsor, which may enable the underlying asset pool to be rated above the rating assigned to the originator/sponsor.

C	
Cash securitisation / Cash collateralised debt obligation (CDO)	Type of collateralised debt obligation ***(see CDO)*** whose collateral consists of cash positions held in different forms of debt, such as bonds and loans. In this type of securitisation, investor capital is used directly by the SPE to purchase the collateral portfolio and the cash flows generated by the portfolio are then used to pay the principal and interest due on the notes issued to investors.
Cash Flow CDO	Collateralised debt obligation (CDO) which is serviced by the cash flows of the pool of financial instruments securitised**.** Cash flow CDOs focus on managing the credit quality of the underlying pool of instruments and pay interest and principal to holders using the cash flows produced by the CDO's assets.
Catastrophe Bond (CAT Bond) / Catastrophe Call	Debt instrument, usually issued by insurance corporations to manage catastrophe risk of loss, characterised by a high interest rate at the time of issue, but that gives the ability of the issuer to suspend, defer or be completely free from, interest and/or principal payments, in case certain natural events occur (*e.g.* earthquakes, hurricanes and other natural disasters) as stated in the issuance characteristics.
Charitable Trust	Type of discretionary trust characterised by charitable purposes that the trustee is expected to fulfil, such as the relief of poverty, the promotion of education or public health, the promotion of religion, the benefit of a locality or any other purpose considered charitable by law. Charitable trusts also have favourable status in terms of taxation, and therefore are often used as parent entities to Special Purpose Vehicles (SPEs) in order to reduce their secondary tax liabilities. Bankruptcy remoteness is also reinforced through the establishment of an SPE as a charitable trust. Charitable trusts can have perpetual existence.
Clean-up call	Option that allows for securitisation exposures (e.g. asset-backed securities - ABS) to be called before all the underlying exposures have been repaid.
Closed Entity	Either Special Purpose Entity ***(see SPE)*** or Financial Vehicle Corporation ***(see FVC)*** created for the sole purpose of one securitisation transaction.
Collateral	Asset or a pool of assets pledged as a guarantee to secure an outstanding debt, liability or asset sold under a repurchase agreement, which under some contingencies may be used to satisfy the obligation. The collateral is required by the lender to mitigate the default risk of the borrower. However, in the case of bankruptcy or default, when the pledged assets are transferred to the creditor or otherwise used to cover debtor obligations according to pre-specified legal frameworks, the collateral may be sold and the revenue shared among the creditors.

Collateralised Automobile Receivable (CAR)	Asset-backed security (ABS) whose collateral consists of car loan. ***(see ABS)***
Collateralised Bond Obligation (CBO)	Collateralised debt obligation ***(see CDO)*** whose underlying assets are composed of bonds. Collateralised Bond Obligations (CBOs) are often over-collateralised, which, in conjunction with the diversification of the bond pool backing them, often earns them an investment-grade bond rating.
Collateralised Debt Obligation (CDO)	Structured asset-backed security (ABS) that is backed by a pool of heterogeneous debt instruments (securities, loans or credit default swaps). Collateralised debt obligations (CDOs) can be separated into different tranches, each one offering a rate of return commensurate with its degree of risk. ***(see Tranche)***
Collateralised Debt Obligation (CDO) squared	Collateralised debt obligation (CDO) whose underlying collateral is comprised of other CDOs. If the asset that backs a certain CDO is a CDO squared, then it is named a CDO-cubed, and so on.
Collateralised Loan Obligation (CLO)	Specific type of collateralised debt obligation (CDO) whose underlying pool of assets consists of loans, including commercial loans, letters of credit and revolving credit facilities.
Collateralised Mortgage Obligation (CMO)	Specific type of collateralised debt obligation (CDO) whose underlying pool of assets can consist of a mortgage loan portfolio or mortgage pass-through securities. These instruments are usually divided into tranches in accordance with their prepayment risks in order to meet differing risk propensities on the part of investors.
Collateralised Obligation	Security that is backed by a specific asset or pool of assets. Specific categories of these structures are collateralised bond obligations (CBOs), collateralised loan obligations (CLOs), and collateralised mortgage obligations (CMOs).
Commercial Mortgage-Backed Security (CMBS)	Asset-backed security (ABS) whose underlying pool of assets consists of mortgage loans on commercial real estate such as retail properties, multifamily properties or office buildings.
Companion Class / Tranche / Bond	Tranche of a collateralised bond obligation ***(see CBO)*** or a collateralised mortgage obligation ***(see CMO)*** whose objective is to soften the impact of prepayments on other classes within the CBO or CMO. When prepayment speed is high, this tranche absorbs the excess payments thereby reducing the prepayment risk of other tranches in the same offering. However, if prepayment speed is low, the companion tranche defers its reception of payments. As a consequence of this increased variability, this class pays a higher yield than the other CBO or CMO tranches.

Conduit	Investment vehicle that issues short-term securities to finance long-term off-balance sheet bank assets. It is an entity formed to hold receivables transferred by the originator on behalf of the investors. Conduits may be single-seller or multi-seller in nature and are often associated with asset-backed commercial paper programmes.
Consolidation	Action of treating the Special Purpose Vehicle ***(see SPV)*** and the originator as the same entity, meaning that the assets are transferred from one entity to another.
Covered Bond	Debt instrument secured by a cover pool of mortgage loans (property as collateral) or public sector debt to which investors have a preferential claim in the event of default. While the nature of this preferential claim, as well as other safety features (asset eligibility and coverage, bankruptcy-remoteness and regulation) depends on the specific framework under which a covered bond is issued, it is the safety aspect that is common to all covered bonds. (Also known as covered securities, ***see below)***
Cover Pool	Collection or portfolio of assets that are used to back a certain debt security**.**
Covered Security	Debt security that is secured by collateral, on which the creditor or holder of the covered security has a claim if the debtor should default on its obligations. Usually the originator is also the issuer (there are neither Financial Vehicle Corporations (FVCs) nor Special Purpose Entities (SPEs) involved). ***(see Covered Bond)***
Credit Default Swap (CDS)	Financial derivative contract between two counterparts under which the originator (protection buyer) is provided insurance by the protection seller against a credit event (default or breach of contract) of a certain "reference asset". The protection buyer pays a periodic fee and, in exchange, the seller is obliged to either purchase the reference asset at its face value (physical settlement) or compensate the originator with the difference between the face value and market price of the underlying asset (cash settlement) if the specified credit event occurs. Although this contract allows for credit risk to be transferred, one does not have to actually possess the reference asset in order to obtain this default insurance, which enables the buyer to take a speculative position on a particular credit event occurring. Another purpose of these contracts is to reduce the effects of generalised financial market risks.
Credit Derivative	Financial contract under which an agent buys or sells protection against the credit risk associated with a single or specific range of entities. They may be standardised and exchange-traded or bespoke and traded in the over-the-counter market and can take the form of both forward-type and option-type contracts, being that they usually involve collateral and margining procedures. The most commonly used credit derivative is the credit default

	swap (CDS).
Credit Enhancement	Contractual arrangement that refers to one or more measures taken in a securitisation structure to increase the likelihood that investors receive the planned payments of a security, thus allowing for a greater instrument rating than what the issuer or the underlying assets could achieve on their own. The credit enhancement may be either internal to the securitisation structure or externally sourced and can be characterised by: a) 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; b) 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.e. senior) creditors in case of difficulties in payment in exchange for different rates of return; c) 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; d) 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.
Credit Linked Note (CLN)	Debt security created from securitisation processes and which incorporates a credit derivative. The cash raised through the issuance of credit linked notes (CLNs) is usually invested in liquid and highly-rated securities by the issuing entities to cover interest and principal payments. This instrument is intended to transfer a specific credit risk to investors and is often used in synthetic securitisation processes.
Credit Rating	Assessment of the creditworthiness of an issuing entity with respect to its repayment capacity regarding a financial obligation, a specific financial program or its credit history. Ratings are based on the likelihood of default based both on the capacity and willingness to pay. Credit rating assessments may also consider enhancements to creditworthiness provided by a third party as a guarantor, insurer or lessee. ***(see Credit Enhancement)***
Creditor	Individual or institutional unit, resident or non-resident, that lends money to a borrower, leading to the establishment of either an asset or financial instrument. The creditor has an economic right to demand repayment of the loan, usually accompanied by interest payments. In terms of securitisation transactions, a creditor acts as a paying agent or designated client and holder when investing in securities issued as a result of securitisation. *(Also known as holder or lender,* ***see below****)*

D	
Debtor	Individual or institutional unit, resident or non-resident, that owes money raised on the financial markets through the generation of a liability. If debt is in the form of a loan from a financial institution, a debtor may also be called a borrower. If indebtedness is in the form of securities, such as bonds, the debtor may be referred to as the issuer. In the context of securitisation transactions, a debtor can be understood as a special purpose entity that issues securities backed by assets.
Deferred Purchase Price (DPP)	Clause in a purchase agreement of a financial instrument that is used as collateral to keep part of the purchase price of credit. It is the difference between the actual income of the securitised assets or future income flows and the cost of debt. In securitisation operations, a deferred purchase price (DPP) provides or ensures the distribution of all or part of the surplus to the originator and serves as a credit enhancement mechanism. ***(see Credit Enhancement)***
Depositor	Intermediate entity that acts as trustee, and is responsible for managing the asset portfolio and the securities issued in a securitisation transaction. A depositor carries out the payments of principal and interest to investors as well as channels the remaining funds to the originator.
Derecognition	Process whereby an institutional unit ceases to recognise an asset or liability in its statement of financial position. This process is usually carried out when the underlying future economic benefit of an asset no longer exists or when the reporting entity no longer controls those benefits. An associated effect is an eventual recognition of a gain or loss on the derecognised assets or liabilities.
Derivative	Financial instrument or contract between two or more parties whose value can be derived from the fluctuations of an underlying asset to which it is linked. Depending on the type of derivative, the buyer assumes future rights (e.g. swaps) or conditional rights (e.g. options) on the underlying asset. Payments associated with derivatives may be contingent on the realisation of an event, or, alternatively, both parties in the contract may have unconditional rights to a pre-determined set of payments conforming to a set of variables (e.g. swaps). Underlying assets commonly used are interest rates, currencies, stocks or stock indices, commodity prices, or other indices, but any other tradable or non-tradable (e.g. weather) variables can also be used. Common types of derivatives are futures contracts, forward contract swaps, options, warrants and credit derivatives. Derivatives are primarily used for the purposes of risk management and the speculation on the future dynamics of their underlying assets.
E	

F	
Financial Vehicle Corporation (FVC)	Entity created to be the holder of securitised assets transferred by the originator, or to accept the risks transferred by the originator. A Financial Vehicle Corporation (FVC) is the issuer of asset-backed securities. It issues securities, securitisation fund units, other debt instruments and/or financial derivatives through private placements that are sold to the public; and/or it legally or economically owns assets underlying the issued 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. *(Also known as "Special Purpose Entity (SPE)" or "Special Purpose Vehicle (SPV)",* ***see below****)*
First Loss	Reserve or fund of money held by the originating institution in a securitisation transaction equal to or larger than the expected losses of the portfolio of reference. The purpose of the first loss position is to decrease the risk of the portfolio. Its size depends on the credit rating assigned to the originating institution and the underlying asset quality. In traditional securitisations, the first loss position usually takes the form of subordinated debt (and corresponds to the most junior tranche issued in a structured financial transaction). In synthetic securitisations, the first loss takes the form of a payout clause of the contract.
Funded Synthetic CDO	Synthetic collateralised debt obligation ***(see Synthetic CDO)*** in which the principal fully covers the notional amounts of a credit derivative.
G	
Guarantee	Form of insurance or warranty that a specified event or action will occur, such as timely and full payment of principal and interest on a debt obligation.
Guarantor	Entity, typically AAA rated, which provides a guarantee.
H	
Holder	Investor or owner of a security or pool of underlying assets. *(Also known as Creditor in the case of a debt obligation)*
I	
Issuer	Institutional unit which is obligated on a security or other financial instrument. The term issuer includes foreign and domestic governments and their agencies, corporations and investment trusts. In securitisation operations, an issuer takes the role of a Special Purpose Vehicle ***(see SPV)*** which receives the assets to be securitised, authorises the securitisation process, and issues debt securities to investors.

Issuing Entity	Passive special purpose entity, i.e. the securitisation unit, which issues asset-backed securities (ABSs) to investors. In some cases, it can be a trust with independent trustee; in others cases, it is created under the direction of another entity, named Arranger or Sponsor, that owns or holds the pool of assets.
J	
Jumbo Covered Bond	Debt security created through securitisation and issued by the original asset owner and backed by assets remaining on the balance sheet of the original asset owner, but identified as belonging to a cover pool. The jumbo covered bond is an instrument from the European financial market that usually possessing the following main features: (i) it has a minimum size of Euro 1 billion; (ii) it has to be a plain vanilla bond (fixed coupon, paid annually in arrears); (iii) buybacks are allowed; (iv) the bond must be officially listed on an organised market (typically an electronic platform); and (v) there must be a minimum number of market makers (five) that quote bid/ask prices simultaneously to maintain a liquid market.
Junior Tranche	Tranche that is subordinated at second level to the senior tranche, after the mezzanine tranche for first loss effects. ***(see Tranche and First Loss)***
K	
L	
Lender	Individual or institutional unit, resident or non-resident, that lends money to a borrower with the expectation of being reimbursed, usually with interest. A lender creates debt in the form of loan; and in the case of investors, the event of acquiring financial assets (debt or equity) is the mechanism of financing in which the lender takes the form of holder. In terms of securitisation operations, a lender plays the role of investor and holder of the securities issued as a result of securitisation.
M	
Market Participant	Participant involved in structured finance transactions. Market participants may include arrangers (who set up the structure of the product, tranche the liabilities and market the tranches), originators (who originate the underlying assets or source them in the open market), servicers (who collect payments and may track pool performance), asset managers (who may assemble the initial collateral pool and trade the collateral assets), trustees (who oversee cash distributions to investors and ensure compliance with deal

	documentation) and monoline insurers (who provide guarantees on principal and interest payments).
Master Trust	Trust that allows for the issuance of a series of securitisations backed by the same asset pool, which can be renewed on an ongoing basis.
Master Servicer	Entity responsible for the aggregation of the remittances and the consolidation of information from the primary servicer as well as for the primary servicer oversight.
Market Value CDO	Collateralised debt obligation (CDO) which is serviced by the sale of the pool of financial instruments securitised. The CDO asset manager focuses on the changes in market value of the CDO's assets to realise capital gains on the assets in the CDO's portfolio. Market value CDOs are less common than cash flow CDOs.
Mezzanine Debt / Capital	Unsecured, high-yield, subordinated claim on a company that is senior only to that of the company's common stock. As a result of this subordinated position in a company's capital structure, mezzanine debt or capital is less likely to be repaid in full in the event of a default after all senior obligations have been met. Mezzanine debt is therefore often a more expensive source of financing than secured or senior debt.
Mezzanine Tranche / Risk	Tranche that is subordinated to the senior tranche, but ranks senior to the first loss ***(see First Loss)*** or junior tranche in a structured finance transaction's liability structure.
Monoline Insurer	Specialised company, also known as financial guarantor, whose sole function is to provide guarantees for the timely payment of another entity's obligations, such as bonds, mortgage-backed securities (MBSs) and collateralised debt obligations (CDOs). The ratings of debt issues that are insured in this way are often improved, protected from downgrade, and normally reflect the rating of the monoline insurer.
Monoline Wrap	Guarantee provided by a monoline insurer of the timely payment of interest and principal on bond issued by a Special Purpose Entity (SPE) in return for the payment of an insurance premium. ***(see Monoline Insurer)***
Mortgage-Backed Bond (MBB)	Asset-backed security (ABS) backed by mortgage loans. However, unlike mortgage-backed securities (MBSs), the cash flows of mortgage-backed bonds (MBBs) are not derived from the principal and interest payments of the pooled mortgages but are payable from the issuer's own income. The pooled mortgage loans remain on the balance sheet of the MBB's originator in a segregated portfolio monitored by a trustee who ensures that the market value of the pooled mortgages exceeds the face-value of the MBBs. MBBs offer a more predictable maturity than MBSs and protect against early redemption.

Mortgage-Backed Security (MBS)	Form of asset-backed security (ABS) backed by a pool of mortgages on real-estate assets. The cash flows of the mortgage-backed security (MBS) are derived from the interest and principal payments on the pooled mortgages. MBSs can be backed by residential mortgages (residential mortgage backed securities - RMBSs) or commercial mortgages (commercial mortgage backed securities - CMBSs). ***(see RMBS and CMBS)***
Multisector CDO	Collateralised debt obligation (CDO) backed by a combination of bonds, loans, or asset-backed securities (ABSs).
N	
O	
Official Public Register in the Supervisory body	Public register, kept by the supervisory body of Special Purpose Entities (SPEs), which allows the public identification of the SPE that is subject to surveillance by the supervisory body. An SPE has to be registered in an official public register in the supervisory body before it can start its activities.
Open Entity	Special Purpose Entity (SPE) (or Financial Vehicle Corporation - FVC) that can carry out several securitisation transactions over time, issuing new asset-backed securities in each new securitisation operation. An example is the master trust ***(see Master Trust)***, which allows the issuance of securities when it is needed.
Originator	Entity that, in a securitisation scheme, initially holds the assets and transfers them, or only the credit risk associated with the assets, to a securitisation vehicle. Depending on the legal structure of a country, it can be a resident or non-resident institutional unit, either a financial institution, or a non-financial corporation, or a trust, or even a public entity. In many cases, the originator can also play the role of the agent for the transferred receivables. In that case, it oversees the transfer of the receivables, manages the cash in the securitisation vehicle and checks that there are sufficient securities issued (in the case of replenishable structures). It ensures that the procedures are followed for obtaining a rating and provides the information required by the supervisory authorities.
Orphan Vehicle	Vehicle with no identifiable shareholder owners: for instance, a vehicle whose shares are owned by a charitable trust. An orphan vehicle ensures the bankruptcy remoteness of the originator, because there is no assumption of control by the originator.
Other Public Register	Public register, other than the official public register kept by the supervisory body, which allows identifying resident Special Purpose Entities (SPEs).
Over-	Process, in securitisation schemes, which consists in a greater value of the underlying assets than the amount issued. The excess amount serves as a

Collateralisation	form of credit enhancement since it represents a cushion in case of defaults.
Over-the-Counter (OTC)	Market generally conducted directly between participants rather than via an organised market (exchange). There are two key differences between over-the-counter (OTC) and exchange markets: first, in an OTC market, unlike the exchange market, deals and traded instruments are not standardised, and there is no automatic disclosure of the price of deals to other market participants; second, OTC trades are not cleared, exposing firms – and the financial system – to counterparty risk.
P	
Partially Funded Synthetic CDO	Synthetic collateralised debt obligation ***(see Synthetic CDO)*** in which the principal covers partially the notional amount of the credit derivative.
Pass-Through Security	Type of debt security (generally backed by mortgages) created by pooling mortgage loans and issuing certificates entitling the investor to receive a pro rata share in the cash flows of the underlying assets. The payments for a pass-through security are made each month and they are equal to the cash flow of the loan pool less an amount equal to servicing and other fees.
Pass-Through Certificate	Security that generally consists of the transfer to a Special Purpose Vehicle (SPV) of long-term mortgage assets. The SPV acquires the receivables, issues the certificate, and the holder of the certificate supports all of its fluctuation.
Pay-Through Security	Form of debt security (generally backed by mortgages) that allows for the creation of multiple classes, or tranches, that mature at different times. The amount of interest and principal paid to investors is indicated in the debt security prospectus. The remaining repayments collected from borrowers are paid to the Special Purpose Vehicle (SPV)'s equity owners as dividends. The ability to create such a structure is the main advantage of pay-through securities compared to pass-through securities.
Pre-Trade Transparency	Availability of information prior to a transaction, such as size and price of prospective trade interest and resting limit orders.
Post-Trade Transparency	Availability of information following a transaction, such as traded prices and volumes.
Price Vendor	Individual or special entity able to estimate the price of securities that have no price, using knowledge of the market or valuation models which reflect underlying non-observable assumptions, and to provide it to investors.
Primary Market	Market where new issues of securities take place. In the primary market,

	investors purchase securities directly from issuers, such as corporations issuing shares, or directly from the federal government in the case of treasury bonds. Any subsequent resale or purchase of such securities is handled in the secondary market.
Primary Servicer	Entity responsible for the collection of payments from securitised assets, monitoring the debtor's financial situation, and reporting to the master servicer and/or trustee.
Private-Label Security	Asset-backed security (ABS) 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). Private-label securities, also referred to as non-agency securities, are issued by private institutions, such as investment banks and real estate investment trusts. They do not bear any guarantee, either explicit or implicit, by any government agency; consequently, they bear a significantly greater risk.
Private Securities Issue	Security issued to a single investor or a particular group of investors. 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. The issuance of the securities it not legally subjected to the presentation of a prospectus.
Public Securities Issue	**S**ecurity issued to all kinds of investors and traded on a regulated secondary market. The issuer normally is required to provide a detailed prospectus referring to the characteristics of the securities issued, the financial situation of the issuer, and information on other securities issued previously by the issuer.
Q	
R	
Real Estate Mortgage Investment Conduit (REMIC)	Pass-through vehicle created to issue multiclass mortgage-backed securities. Real estate mortgage investment conduits (REMICs) may be organised as corporations, partnerships, or trusts. Those meeting the 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 collateralised mortgage obligation (CMO) vehicle. Thus, issuers are able to separate mortgage pools into both different maturity classes and different risk classes. Whereas CMOs normally have AAA bond ratings, REMICs represent a range of risk levels. The terms REMIC and CMO often are used interchangeably. ***(see CMO)***

Re-Remic	Trust that holds one or more existing securities. Re-Remics are used to resecuritise senior, private-label mortgage-backed security (MBS) tranches that have been downgraded from an initial AAA rating. In a typical Re-Remic, a downgraded tranche is subdivided into a new AAA rated senior tranche and a lower-rated mezzanine tranche. The mezzanine security is in a first loss position; the senior security is protected from losses until the mezzanine portion is completely written off. Re-Remics have been used to resecuritise both residential and commercial MBS. Re-Remic issuance is driven by a number of factors, including the need to maintain the AAA ratings that many investors require to hold these securities.
Repackaging	Type of securitisation activity that consists in the creation of a security out of a pool of previously existing securities. Through the use of different methods, this process makes it possible to rearrange cash flows, modify risk structures, and provide credit enhancement. This allows for investors, just by holding a single instrument, to have a "tailored" exposure to a variety of assets and risk profiles, thus meeting their specific needs.
Re-Securitisation	Process, also known as structured product CDO, that occurs when securitised investments are formed into new securities. For example, a Re-Securitisation would capture collateralised debt obligations of asset-backed securities (ABS), a securitisation with a single underlying ABS, or a liquidity facility to an asset-backed commercial paper program containing a securitisation exposure.
Residential Mortgage-Backed Security (RMBS)	Security whose cash flows are derived from residential debt, such as prime mortgages (in the US market, this includes "conforming" loans), home equity loans, and sub-prime and Alt-A mortgages (or "non-conforming" mortgages). In terms of the amortisation profile, the bulk of residential mortgage-backed securities (RMBSs) is amortised over a 15- or 30-year period with no balloon payment. RMBSs may include mortgages to finance the purchase of either owner-occupied or rental properties.
Residual Interest	One of the two types of interest payments (regular interest and residual interest) made by real estate mortgage investment conduits. Residual interests are considered as equity interests in the real estate mortgage investment conduit (REMIC). REMICs are required to first make regular interest payments; whatever remains, after all regular interest has been paid, is paid to holders of residual interest.
Retained Securitisation	Portion of a securitisation retained by the originator. In a typical asset-backed securitisation, an off-balance sheet entity, such as a Special Purpose Vehicle (SPV), is established by the originator or sponsor. The originator transfers assets to the SPV. The SPV usually issues debt securities with different layers of seniority. The retained securitisation is the lowest tranche of the issuance, which is held by the sponsor.

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Secondary Market	Financial market, also referred to as the aftermarket, where previously issued securities or other assets are bought or sold; by contrast the primary market is where investors purchase securities from the issuer. Both traditional public markets (such as exchanges and multilateral trading facilities) and trades executed in over-the-counter markets (OTC) are considered part of the secondary market.
Secondary Mortgage Market	Secondary market in which mortgages, mortgage servicing rights, or mortgage-backed securities (MBSs) are traded among investors, including originators.
Securitisation	Process or scheme whereby an institutional unit (originator) raises funds through the issuance and sale of debt (asset-backed security - ABS) that is secured by the cash flow of an underlying asset or pool of assets (for example mortgages, consumer loans, or car loans); the underlying assets are referred to as "securitised assets." The periodic payments from the securitised assets provide a regular income stream to back the periodic coupon and/or maturity payments of the ABS. Alternatively, the originator can transfer the cash flow-producing assets to a Special Purpose Vehicle (SPV), in return for payment. The SPV is often specifically established for the purpose of the securitisation, and is legally separated from the originator. The SPV finances the payment to the originator by issuing the ABS itself and selling it to investors. In the case of "synthetic" securitisations, the securities are created using a portfolio of derivative instruments for the sole purpose of transferring credit risk. A third party can also administer the issuance of the ABS and securitisation.
Securitised Financial Product (SFP)	Financial instrument that meets the following criteria: (1) it is based on pooling of assets, usually sold to a Special Purpose Vehicle (SPV); (2) there is a subsequent guarantee and/or credit or maturity tranching of liabilities that is backed by the asset pool. (3) there is de-linking of the credit risk of the collateral asset pool from the standalone SPV. Examples of securitised financial product (SFP) include ABS backed by credit card debt, car loan, or student loan, RMBS, CMBS, CDO/CBO, and CLO. SFPs can be issued through public offerings or private placements.
Senior Tranche	Tranche whose seniority has priority over the mezzanine, junior and equity tranches, and which is subordinated to the super senior tranche.
Seniority	Order of repayment of a security that has priority over other securities by the same issuer with respect to the payment of income and repayment of principal. As an example, for the same issuer, bonds have seniority over preferred stocks and preferred stocks have priority over common stocks.
Servicer	Entity responsible for the administrative and financial management of

	securitised assets, including the collection of principal and interest payments. A securitisation structure may use more than one servicer.
Single-Tranche CDO	Structured synthetic CDO ***(see below)*** where a unique tranche is sold.
Special Purpose Entity or Special Purpose Vehicle (SPE or SPV)	Legal entity created to fulfil specific financial or regulatory objectives. Within the securitisation framework, a Special Purpose Entity (SPE) (or a Special Purpose Vehicle - SPV) can be a legal entity (i) issuing securities, securitisation fund units and/or other debt instruments; and/or (ii) legally or economically owning assets underlying the issue of the securities mentioned above; and (iii) being financially and legally isolated from the originator. Depending on the applicable laws, the SPE (or SPV) can be a trust, a special limited partnership, or a special purpose corporation.
Special Servicer	Entity responsible for the administrative and financial management of non-performing securitised assets, including the collection of payments.
Sponsor	Entity that starts and organises a structured finance ***(see below)***. It is typically a major bank, a finance company, an investment bank or an insurance company. The sponsor often is, but not necessarily, the originator of the underlying assets.
Structured Covered Bond	Covered bond that uses a Special Purpose Entity (SPE) to achieve legal separation of the collateral pool from the issuer of the securities, typically used when the legal framework governing the issuance of the bonds does not provide “bankruptcy remoteness” for claims to assets remaining on the books of the issuer, even if segregated accounts are maintained for that purpose.
Structured Credit Product	Asset-backed security (ABS) in which the underlying pool of assets includes credit instruments or exposures to credit risk; the payouts are divided into different tranches and sold separately, each tranche having a different degree of risk.
Structured Finance	Operation that, with the use of complex legal procedures, allows for certain aspects of a financial product to be improved. These operations are common in securitisation, mainly the pooling of assets, the tranching of liabilities and the de-linking of the credit risk (for example, by using a Special Purpose Vehicle - SPV). In a broader sense, it includes project finance (i.e., financing of roads, airports, and other major public projects that will generate tolls or user fees to repay bonds) and certain types of non-ABS equipment financing, such as equipment trust certificates (ETCs).
Structured Finance CDO	Collateralised debt obligation (CDO) backed by an asset-backed security (ABS).
Structured	Special purpose vehicle which issues debt with shorter maturity than that of

Investment Vehicle (SIV)	the assets that it holds in its portfolio. Due to the maturity mismatch between its assets and liabilities, a Structured Investment Vehicle (SIV) exhibits a high liquidity risk, which can end in a run on these entities. SIVs are often established as off-shore entities and are considered as part of the shadow banking system.
Subordinated Tranche	Tranche whose principal and/or coupons will be repaid after other tranches have been. Junior and mezzanine tranches are examples of subordinated tranches.
Subordinated Debt	Debt that, in case of bankruptcy, will be repaid after other debts, to which it is subordinated, have been settled. Thus, this debt has a lower (subordinate) priority and is riskier than other debts that are considered to be primary.
Super-Senior Tranche	Tranche whose seniority has priority over the senior, mezzanine, junior and equity tranches in case any of these tranches exists.
Synthetic CDO	Collateralised debt obligation (CDO) in which the pool of financial instruments securitised includes credit derivatives.
Synthetic Instrument	Financial instrument created as a result of pooling other financial instruments. It can include any asset-backed security (ABS) from a traditional or synthetic securitisation.
Synthetic Securitisation	Securitisation in which there is one or more credit derivatives in the pool of financial instruments securitised. The Special Purpose Entity (SPE) sells protection for an underlying pool of assets and uses the premium to service the asset-backed securities (ABSs) issued. The proceeds from the securities issued are invested, normally in safe assets. These assets will be used to repay the investors at the redemption date, or, when the credit event occurs, to satisfy the SPE obligations to the protection buyers. Thus, credit risk is effectively transferred from the protection buyers to the investors in the ABSs through the SPE.
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Traditional Securitisation	Securitisation in which there is no credit derivative in the pool of financial instruments securitised. The transfer of assets from the originator to the Special Purpose Entity (SPE) entails in itself the transfer of risk associated to those assets from the originator to the investors on the ABSs issued by the SPE. Traditional securitisation does not require the assets sold to be derecognised from the originator's balance sheet.
Tranche	Collection of fungible securities within a structured finance scheme, sharing the same contractual rights and obligations, thus, sharing a specific level of risk and return. A common taxonomy of tranches, though not comprehensive, from higher to lower profitability and from lower to higher risk is: super

	senior, senior, mezzanine, and junior or equity tranches.
True Sale	Transaction in which the assets sold are derecognised from the originator's balance sheet.
True Sale Securitisation	Traditional securitisation in which the assets sold to the Special Purpose Entity (SPE) are derecognised from the originator's balance sheet. This type of securitisation is also known as "off-balance sheet securitisation".
Trustee	Fiduciary entity that receives payments on the securitised assets, makes payments to the investors, and protects the investors' rights.
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Unfunded Synthetic CDO	Synthetic collateralised debt obligation in which there is no principal and the investor receives regular spread payments as a protection seller and must pay the collateralised debt obligation (CDO) issuer when the event for which the protection is sold occurs.
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Write-down	Accounting reduction in the value of an asset when the carrying value of the asset can no longer be justified as fair value compared to a positive market value, and the likelihood of receiving the whole accounting value is questionable, or when a creditor unilaterally decides to reduce the debt owed to it.
Write-off	Accounting elimination of an asset when the carrying value of the asset can no longer be justified as fair value compared to a null market value, and the likelihood of receiving any amount is questionable, or when a creditor unilaterally decides to eliminate the debt owed to it.
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