
GLOSSARY

acceleration clause A clause in a loan agreement stating that the entire loan balance shall become due immediately if a breach of certain conditions stated occurs.

acceptance for honour When a bill of exchange has been dishonoured it may be accepted by someone who has no interest in the bill in order to safeguard the good name of the drawee. This is known as Acceptance for Honour.

acceptor Before any value attaches to a bill of exchange it must be accepted by the person who is to make the payment, that is, the person on whom it is drawn. Thus the acceptor of a bill is also the drawee, that is, the debtor.

account payable (trade creditors) The amounts owed by a business to suppliers (e.g. for raw materials)

account payee only If a cheque is crossed in this way it can be paid only into the account of the payee named on the cheque and, therefore, cannot be transferred by endorsement to someone else as is the case with a simple crossing.

accounting, double-entry An accounting system whereby each transaction is entered in two accounts. This permits a constant checking of accuracy, since in double-entry accounting the right side of the balance sheet (assets) always equals the left side (liabilities plus equity).

accounts payable A business's current liabilities or debts that must be paid within 1 year.

accounts receivable (trade debtors) Amounts due to a business payable within 1 year (Current Assets), from customers for sales made on credit.

accounts receivable financing Financing receivables for Working Capital. (Books Debts/Bills).

acts of god Term denotes any occurrence to denote that cannot be ascribed to human agency and, therefore, could not be foreseen, such as storms, floods, etc.

ad valorem Taxes/duties calculated according to value (amount to be paid is proportionate to the value). Many stamp duties also are ad valorem.

administrator A person appointed by a court to settle the estate of a deceased person according to the terms of the will when the will has named no executor or the one named has failed to qualify.

advising bank A bank in an exporter's own country that informs the exporter that a letter of credit has been opened with a foreign bank, by the importer.

affidavit A sworn statement in writing before a proper official, usually a notary public.

after date The words used in a bill of exchange to indicate that the period of the bill should commence from the date inserted on the bill, e.g. '..... 30 days after date, pay

after sight The words used in a bill of exchange to indicate that the period of the bill should commence from the date on which it is presented to the drawee for acceptance, i.e., has sight of it.

agent A person who acts for another person by a Power of Attorney. The distinguishing characteristics of an agent are (a) that he or she acts on behalf, and subject to the control, of his or her principal; (b) that he or she does not have title to the property of his or her principal; and (c) that he or she owes the duty of obedience to the orders given by his or her principal.

allonge Paper attached to a negotiable instrument. Used for endorsements when there is no space for them on the instrument itself.

amalgamation The combining of two or more separate businesses into a new one, while dissolving the original businesses.

amortisation This term is used in two senses: 1) repayment of loan over a period of time; 2) write-off of an expenditure (like issue cost of shares) over a period of time.

annual report A formal financial report issued annually to shareholders by a company. The annual report generally includes a set of financial statements (balance sheet, income statement, etc.); the auditor's report; a review of the year's accomplishments; and management's expectations for the future.

annualise To convert statistics for a certain period into figures that would be represented if the statistics for the period continued for a year. For example, sales of 100 during a certain month might be expressed as sales of 1,200 on an annualised basis.

appraisal 1) A report containing an opinion of value based upon a factual analysis. 2) The act of making such an analysis.

asset and liability management The management of a bank's assets and liabilities to maximise profits. This requires planning to meet needs for liquidity, avoiding excessive risk of default, planning maturities to avoid unwanted exposure to interest-rate risk, and controlling interest rates offered and paid to assure an adequate spread between the cost of, and the return on, funds.

asset management The management of the financial assets of a company in order to maximise the return on the investment.

assets, current Form part of the working capital of a business and are turned over frequently in the course of trade. The most common current assets are stock in trade, debtors, (converted into cash, usually within 1 year), and cash.

assets, intangible (invisible asset) An asset which has no substance or physical body; Nonmaterial resources of a firm having no quantifiable value, such as a patent, franchise, or good will (An asset that can neither be seen nor touched). (E.g. The

purchase price of 'Goodwill' is determined by the profits a business has enjoyed due to business ethics, quality of the product handled, or desirable location).

assets, tangible Material resources that can be touched or recognised with the senses, such as cash, land, or machinery. (Can be transferred/converted/disposed).

assignment The act of transferring, of a document (a deed of assignment) transferring, property. Examples of assignment include the transfer of rights under a LIC Policy.

assignment of life policies Transfer of the legal right under a life-Insurance policy to collect the proceeds. Assignment is only valid if the life insurer is advised and agrees; life insurance is the only form of insurance in which the assignee need not possess an insurable interest.

at sight A term used on a bill of exchange to indicate that it is payable on its being presented. In contrast to other bills of exchange it does not require to be accepted. Such a bill is known as a 'sight' bill. Legally a cheque is a bill of exchange of this kind.

attachment 1) Legal writ of process for seizing a person's property and bringing it into the custody of the law; to arrest a fund in the hands of a third person who may become liable to pay it over. 2) The seizure of property by court order. Attachments are usually taken to provide security in a pending suit.

authorised capital When a new company is formed its application for registration is accompanied by a statement indicating the amount of capital with which it proposes to be registered. This is known as its nominal, registered, or authorised capital. The actual amount issued may be less than this, and so the company will be able to increase its capital at a later date up to the full amount authorised without further application to the Registrar of Companies.

authorised dealer A bank that is permitted by RBI to deal in foreign exchange.

automated teller machine (ATM) A machine, activated by a magnetically encoded card or by the transmission of a code via a keyboard or keyset, that allows customers to make routine banking transactions, such as withdrawal and deposit of funds, transfer of funds between accounts, and the payment of certain obligations, especially outside normal banking hours. May also be used to obtain statements. They are, generally, operated by Credit/ATM/Debit cards or multifunctional cards in conjunction with PIN. ATMs are often known colloquially as cash dispensers. They can be 'On site' (at the Bank) or 'Off site'.

average clause 1) In an insurance policy, in which it is stated that the sum payable in the event of a claim shall not be more than the proportion that the insured value of an item bears to its actual value. 2) A partial loss in marine insurance.

bad debt An amount owed by a debtor that is unlikely to be paid; example, due to a company going into liquidation.

bailee 1) An individual or other legal entity who receives and holds property under a contract of bailment. 2) A person who receives goods or money from another person in trust.

bailor A person who delivers property in trust to another person or legal entity for a certain purpose and limited period.

balance of payment 1) The accounts setting out a country's transactions with the outside world. They are divided into various sub-accounts notably by the current account and the capital account. The former includes the trade account, which records the balance of imports and exports. Overall the accounts must always be in balance. A deficit or surplus on the balance of payments refers to an imbalance on a sub-account, usually the amount of which the foreign-exchange reserves of the government have been depleted or increased. The conventions used for presenting balance-of-payments statistics are those recommended by the International Monetary Fund. 2) A double-entry bookkeeping system that records all of a country's receipts from and payments to foreign countries during a given period.

balance of trade The accounts setting out the results (over a period) of a country's trading position. It is a component of the balance of payments, forming part of the current account. It includes both the visibles (i.e., imports and exports in physical form/merchandise) and the invisible balance (receipts and expenditure on such services as insurance, finance, freight and tourism).

balance sheet A statement of the total assets and liabilities of an organisation at a particular date, usually the last day of the accounting period. The statement lists the fixed and current assets and, shows how they have been financed (liabilities).

balloon payment The last payment on a loan when that payment is substantially larger than other earlier payments.

bancassurance (allfinanz) The combination of traditional loan and saving bank products with such assurance products.

bank credit card A credit card, issued by a bank, used as a means of indicating to participating merchants that the issuing bank has established a line of credit for the cardholder and will pay the sales notes submitted by the merchant. The specific financial arrangements with the issuing bank may not be discernible from the card.

bank draft (banker's cheque; banker's draft) A cheque drawn by a bank on itself or its agent. A person who owes money to another buys the draft from a bank and hands it to the creditor who need have no fear that it might be dishonoured. A bank draft is used if the creditor is unwilling to accept an ordinary cheque.

bank for international settlements (BIS) An international bank originally established in 1930 as a financial institution to coordinate the payment of war reparations between European central banks. It was hoped that the BIS, with headquarters in Basle, would develop into a European central bank but many of its functions were taken over by the International Monetary Fund (IMF) after World War-II.

bank guarantee An undertaking given by a bank to settle a debt should the debtor fail to do so. A bank guarantee can be used as a security for a loan but the banks themselves will require good cover in cash or counter-indemnity before they issue a guarantee. A guarantee has to be in writing to be legally binding. Such guarantees

are backed, amongst other collateral, by counter guarantees with an indemnity clause. They are immediately paid on invocation.

bank rate The rate at which the central bank of the country is prepared to lend to the other banks in the banking system.

banker's acceptance A time draft (usance bill) (bill of exchange) drawn on and accepted by the bank on which it was drawn (i.e., stamped with the word 'accepted' and signed by a representative of the bank). It usually arises from international trade transactions where there is an underlying obligation of a buyer to make the payment to a seller at some future time. Many banker's acceptances are created when payment is made by a letter of credit. In all instances, the bank accepting the draft assumes the obligation of making payment at maturity on behalf of the buyer or the buyer's bank.

barratry Any act committed wilfully by the master or crew of a ship to the detriment of its owner or charterer.

barter The exchanging of goods for goods without the use of money. It has three serious drawbacks; i) it is dependent on two people mutually being able to satisfy one another's wants; ii) a rate of exchange has to be determined before a transaction can take place; iii) the exchange of large for small commodities is difficult. The use of a medium of exchange overcomes the difficulties of barter.

base currency The currency used as the basis for an exchange rate i.e., a foreign currency rate of exchange is quoted per single unit of the base currency, usually sterling or US dollars.

base rate The rate used as a basis by banks for the rates they quote to charge their customers. In practice most customers will pay a premium over base rate to take care of the bank's profit and risk involved, competitive market pressures.

Basel Capital Accord The Basel Capital Accord is an Agreement concluded among country representatives in 1988 to develop standardised risk-based capital requirements for banks across countries. The Accord was replaced with a new capital adequacy framework (Basel II), in June 2004.

Basel II is based on three mutually reinforcing pillars that allow banks and supervisors to evaluate properly the various risks that banks face. These three pillars are (a) minimum capital requirements, which seek to refine the present measurement framework; (b) supervisory review of an institution's capital adequacy and internal assessment process; (c) market discipline through effective disclosure to encourage safe and sound banking practices.

Basel Committee on Banking Supervision The Basel Committee is a committee of bank supervisors consisting of members from each of the G10 countries. The Committee is a forum for discussion on the handling of specific supervisory problems. It coordinates the sharing of supervisory responsibilities among national authorities in respect of banks' foreign establishments with the aim of ensuring effective supervision of banks' activities worldwide.

basis point One hundredth of one per cent; this unit is often used in finance when prices involve fine margins. Typically used in expressing bond yield differentials (9.50% - (minus) 9.15%=0.35% or thirty-five basis points).

basket of currencies A group of selected currencies used to establish a value for some other currency.

Basle Concordat The basis for cooperation between European banks. The concordat was agreed in 1975 and revised in 1983. It provides a moral rather than practical obligation for banks to be supervised and to help one another. It was formulated by the Cooke Committee on Banking and Regulation.

bear market A market dominated by bears. (A bear is an operator who has a pessimistic view of future).

bearer A term applied to cheques and bonds, the possession of which gives a right to payment without endorsement. A cheque payable to bearer, unless crossed, can be cashed over the counter of the issuing bank without having to be endorsed by the person presenting it. Bank-notes are always payable to bearer.

bearer bonds Bonds which can be transferred from one person to another without the new ownership having to be registered, the legal owner being the holder.

bearer security A security for which possession is the primary evidence of ownership.

beneficiary 1) A person for whose benefit a trust exist. 2) A person who benefits under a will. 3) A person who receives money from the proceeds of a letter of credit.

bill discount A promissory note or bill of exchange from which a bank has deducted, in advance, its fees or interest (discount) charge for lending the funds.

bill of entry Particulars of all goods imported into the country are required by the Customs at the port of entry. These particulars are given on a form known as a Bill of Entry.

bill of exchange An unconditional order in writing, addressed by one person (the drawer) to another (the drawee) and signed by the person giving it, requiring the drawee to pay on demand or at a fixed or determined future time a specified sum of money to or to the order of a specified person (the payee) or to the bearer. If the bill is payable at a future time the drawee signifies (sign) acceptance, which makes the drawee the party primarily liable upon the bill; the drawer and endorsers may also be liable upon a bill (as sureties). The use of bills of exchange enables one person to transfer to another an enforceable right to a sum of money. A bill of exchange is not only transferable but also negotiable, since, if a person without an enforceable right to the money transfers a bill to a holder in due course (for value), the latter obtains a good title to it.

bill of lading 1) A document acknowledging the shipment of a consignor's goods for carriage by sea. It is used primarily when the ship is carrying goods belonging to a number of consignors (a general ship). In this case, each consignor receives a bill issued (normally by the master of the ship) on behalf of either the ship-owner or a charterer under a charterparty. The bill serves three functions; it is a receipt for the

goods; it summarises the terms of the contract of carriage; and it acts as a document of title to the goods. During transit, ownership of the goods may be transferred by delivering the bill to another if it is drawn to bearer or by endorsing it if it is drawn to order. It is not, however, a negotiable instrument. The bill gives details of the goods, freight, etc., if the packages are in good order a clean bill is issued; if they are not, the bill says so (a dirty bill of lading). It is, generally, asked in a set of which each is valid. 2) A document used in foreign trade, it gives the name of the ship and full particulars of the goods – the quantity, their type, the special markings on the packing cases (if any), any other important details, together with the names of the ports of embarkation and disembarkation. A Bill of Lading is a document of title, giving the holder a right to possession of the goods to which it refers.

blanket policy An insurance policy that covers a number of items but has only one total sum insured for individual items. The policy can be of any type, e.g. covering a fleet of vehicles or a group of buildings.

blocked account A bank account from which money cannot be withdrawn, for any of a number of reasons.

blue chip Colloquial name for any of the ordinary shares in the most highly regarded (rated) companies traded on a stock market. Originating in the USA, the name comes from the colour of the highest value chip used in poker. Blue-chip companies have a well-known name, a good growth record, excellent record in management, conservative financial structure, regular dividend payments, and large assets. The main part of an investor's equity portfolio will consist of blue chips.

body corporate A corporation consisting of a body of persons legally authorised to act as one person (company), while being distinct from the person (company). For example, the shareholders of a company are separate from the company.

bonus shares Shares issued to existing shareholders as a result of capitalisation of reserves.

book value The value of an asset as recorded in the books of account of an organisation. This is normally the historical cost of the asset reduced by amounts written off for depreciation.

bottom line The profit figure used as the earnings figure in the earnings-per share calculation of a company.

BPO/ Call Centre A Business Process Outsourcing (BPO) organisation is responsible for performing a process or a part of a process of another business organisation. Such outsourcing is done to save on costs or gain in productivity. They use information technology in the processing and delivery of their services, through telecommunications/ data networks/ electronic media.

A Call Centre performs that part of a client's business which involves handling telephone calls. (E.g., Customer complaints coming in over a telephone.)

break-even Carrying on business so that neither profit nor loss is made.

break-even point The point at which total fixed and variable costs exactly equal revenues.

break-up value The value of an asset on the assumption that an organisation will not continue in business. On this assumption the assets are likely to be sold piecemeal and probably in haste (distress sale).

Bretton Woods The site where the World Bank and the International Monetary Fund were founded in 1944. Rules were developed there regarding fixed exchange rates.

Bretton Woods Agreement (1944) An international conference which met at Bretton Woods, New Hampshire, USA, in 1944 to consider the international monetary system to be operated after the end of the Second World War. Experience of restrictionist practices during the 1930s had clearly only led to a reduction of world trade, and therefore the conference condemned all such devices as multiple exchange rates, blocked accounts, bilateral trade agreements, and all forms of exchange control.

To achieve these objectives two new international institutions were proposed- the International Monetary Fund and International (or World) Bank.

Bretton Woods Conference A conference (the United Nations Monetary and Financial Conference) held in July 1944 at Bretton Woods, New Hampshire, in the USA, at which USA, UK and Canada established a system of international finance, resulting in the setting up of the International Monetary Fund and International Bank for Reconstruction and Development.

Bretton Woods System A system designed in 1944 at Bretton Woods to facilitate foreign exchange and stabilise exchange rates.

bridge loan Temporary finance provided to a project until long term arrangements are made.

broad money An informal name for M3.

brussels tariff nomenclature (BTN) This has been adopted by the International Customs Convention to which most of the free countries are signatories. All tariffs are imposed on the basis of this classification of goods. It runs into about one hundred chapters with each chapter classifying a group of items originating from a common raw material. The chapter is then subdivided upto two digits, e.g. 69-72 means the 72nd item in chapter 69.

buyer credit In export finance, a means whereby the overseas importer uses a loan to pay the exporter.

call money Money put into the money market that can be called at short notice.

call option A short-term instrument that gives the owner the right to buy a security at a fixed price until a stated future date.

CAMEL A mnemonic for the five principal areas examined by bank supervisory authorities.

C – capital adequacy

A – asset quality

M– management quality

E – earnings

L – liquidity

capital Capital refers to the funds (e.g., money, loans, equity) which are available to carry on a business, make an investment, and generate future revenue. Capital also refers to physical assets which can be used to generate future returns.

capital adequacy A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets.

An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent. For example, under BIS (Bank for International Settlements) rules, banks are required to maintain a certain level of capital against their risk-adjusted assets.

capital gains Gains arising from the sale of capital assets.

case law Legal principles enunciated and embodied in judicial decisions that are derived from the application of particular areas of law to the facts of individual cases. As opposed to statutes — legislative acts that proscribe certain conduct by demanding or prohibiting something or that declare the legality of particular acts — case law is a dynamic and constantly developing body of law."

case of need An endorsement written on a bill of exchange giving the name of someone to whom the holder may apply if the bill is not honoured at maturity.

cash conversion cycle The length of time required for a firm to move through the production cycle, from cash to purchasing and processing materials, through collecting accounts receivables, and back into cash.

cash flow The amount of cash being received and expended by a business, which is often analysed into its various components. A cash flow projection (or cash budget) sets out all the expected payments and receipts in a given period.

certificate of commencement of business A document issued by the Registrar of Companies to a public company on incorporation; it certifies that the nominal value of the company's allotted share capital is at least equal to authorised minimum. Until the certificate has been issued, the company cannot do business or exercise its borrowing powers.

certificate of deposit (CD) A formal receipt for funds left with a bank as a special deposit. Such deposits may bear interest, in which case they are payable at a definite date in future or after a specified minimum notice of withdrawal.

certificate of incorporation The certificate that brings a company into existence; it is issued to the company by the Registrar of Companies. It is issued when the Memorandum and Articles of Association have been submitted to the Registrar of Companies, together with other documents that disclose the proposed registered address of the company, details of the proposed directors and company secretary, the nominal and issued share capital. The statutory registration fee must also be submitted. Until the certificate is issued, the company has no legal existence.

certificate of origin A document issued to certify the country of origin for goods traded internationally.

cheque 1) A 'bill of exchange drawn on a banker payable on demand'. It is an order, written by the drawer, to a banker to pay on demand a specified sum of money to the person or persons named as payee on the cheque. Cheques have been exempted from stamp duty. The drawer completes the cheque by inserting the name of the payee, the amount he or she is to be paid, and then dating and signing it. The cheque may be made payable to the payee or order, or to the payee or bearer. It may be either open or crossed. If it is open it can be cashed at the branch of the bank on which it has been drawn, but if it has been crossed it must be paid into a banking account. In the case of a bearer cheque no endorsement is required, but endorsement of an order cheque is required unless it is paid directly in to the payee's own account. 2) In a crossed cheque two parallel lines across the face of the cheque indicate that it must be paid into a bank account and not cashed over the counter (a general crossing). A special crossing may be used in order to further restrict the negotiability of the cheque, for example adding the name of the payee's bank. An open cheque is an uncrossed cheque that can be cashed at the bank of origin. An order cheque is one made payable to a named recipient 'or order' enabling the payee to either deposit it in an account or endorse it to a third party, i.e. transfer the rights to the cheque by signing it on the reverse. 3) By endorsing an order cheque the payee can renounce his interest in it and use it to pay a debt of his own to another person. Restrictions can be placed on the negotiability of cheques by means of special crossings.

CHIPS Abbreviation for Clearing House Inter-Bank Payments System.

clean bill A bill without documents attached to it, in contrast to a Documentary Bill.

closed-end fund A fund set up by an investment company that issues a fixed number of shares to its investors.

commercial paper (CP) A relatively low-risk short-term unsecured form of borrowing. The main issuers are large creditworthy rated companies.

commitment fee An amount charged by a bank to keep open a line of credit or to continue to make unused loan facilities available to a potential borrower.

company A corporate enterprise that has a legal identity separate from that of its members; it operates as one single unit, in the success of which all the members participate.

An incorporated company is a legal person in its own right, able to own property and to sue and be sued in its own name. A company may have limited liability (a limited company), so that the liability of the members for the company's debts is limited.

A private company is any registered company that is not a public company. The shares of a private company not offered to the public for sale. The legal requirements for such a company are less strict.

conditional sale agreement A contract of sale under which the price is payable by instalments and ownership does not pass to the buyer (who is in possession of goods) until specified conditions relating to the payment have been fulfilled. The seller retains ownership of the goods as security until paid in full.

conditionality The terms under which the International Monetary Fund (IMF) provides balance-of-payments support to member states. The principle is the support will only be given on the condition that it is accompanied by steps to solve the underlying problem. Programmes of economic reform are agreed with the member; these emphasise the attainment of a sustainable balance-of-payments position and boosting the supply side of the economy.

confirmed letter of credit A letter of credit issued by the local bank of an importer and confirmed by another bank, usually located in the exporter's country. The second bank's irrevocable obligation is added to the obligation of the issuing bank to honour drafts and documents presented in accordance with the terms of credit.

consideration A promise by one party to a contract that constitutes the price for buying a promise from the other party to the contract. A consideration is essential if a contract, is to be valid.

consular invoice An invoice for merchandise shipped from one country to another, prepared by the shipper and certified at the shipping point by a consul of the country of destination. The consul's certification applies to the value of the merchandise, port of shipment, destination, and, in certain cases, place of origin of the merchandise.

consumer credit Short-term loan to the public for the purchase of goods. The most common forms of consumer credit are credit accounts at retail outlets, personal loans from banks, hire purchase and credit cards.

contingent liability 1) A liability that, at a balance sheet date, can be anticipated to arise if a particular event occurs. Typical examples include a court case pending against the company, the outcome of which is uncertain, or loss of earnings as a result of a customer invoking a penalty clause in a contract that may not be completed on time. Such liabilities must be explained by a note on the company balance sheet. 2) The obligation of a person or business that guarantees a payment. 3) A liability that will only exist if a specific event occurs. (Letters of Credit and Bank Guarantees are two examples of Contingent Liability for the banks).

continuing guarantee A guarantee of one party's debts by another party that is not limited to a specific loan but may also be applicable to the later debts.

contribution margin The difference between revenue and variable cost. Unit contribution margin is the difference between unit selling price and unit variable cost. Total contribution margin is the difference between total revenue and total variable costs.

convertibility The extent of which one currency can be freely exchanged for another.

convertible bond A bond giving the investor the option to convert the bond into equity at a fixed conversion price or as per a pre-determined pricing formula.

convertible security Bond or preferred stock which is convertible into equity shares at the option of the holder.

corporate seal A company's official seal (an emblem or a device that imprints that emblem). The corporate seal is usually required for authentication of legal documents.

corporation A business organisation that is treated as a single legal entity and is owned by its share holders, whose liability is generally limited to the extent of their investment. The ownership of a corporation is represented by shares that are issued to people or to other companies in exchange for cash, physical assets, services, and good will. The share holders elect the board of directors, which then directs the management of the corporation's affairs.

correspondent bank A bank in foreign country that offers banking facilities to the customers of a bank in another country. These arrangements are usually the result of agreements, often reciprocal, between the two banks. The most frequent correspondent banking facilities used are those of money transactions.

counter trade The practice in international trading of paying for goods in a form other than by currency. For example, a South American country wishing to buy aircraft may countertrade by paying in coffee beans.

country risk The possibility that a foreign government will either prevent the fulfilment of a contract entered into by a company or take over control of the management of overseas subsidiaries.

coupon The stated rate of interest on a bond. One of a series of actual certificates, attached to the bond, each evidencing interest owed from time to time.

coupon rate The stated interest rate on a bond.

covenant 1) A promise by a definite provision in a loan agreement by one party to another regarding the performance or non-performance of certain acts, or a promise that certain conditions do or do not exist. 2) Agreement by a borrower contained in the documents, legally binding upon the Borrower over the life of the loan, unless otherwise stated, to perform certain acts such as the timely provision of financial statements or to refrain from certain acts such as incurring further indebtedness beyond an agreed level.

credit card A plastic card issued by a bank or finance organisation to enable holders to obtain credit in shops, hotels, restaurants, petrol stations, etc. The retailer or trader receives periodical payments from the credit-card company equal to its total sales in the period by means of their credit cards. Customers also receive monthly statements from the credit-card company, which may be paid in full within a certain number of days with no interest charged, or they may make a specified minimum payment and pay interest on the outstanding balance.

credit rating An assessment of the creditworthiness of an individual or a firm, i.e. the extent to which they can safely be granted credit. Traditionally, banks have provided confidential trade references (status reports).

crossing This means drawing two parallel lines across the face of a cheque, the effect of which is to make it necessary to pay it into a banking account. There are several types of general and special crossing which can be used to place restrictions on the negotiability of a cheque.

cumulative preference shares If in a previous year the interest on these shares has not been paid the holders are entitled to receive it in a later year before any dividend is paid on the ordinary shares, if profit is available.

currency swap A transaction in which specified amounts of one currency are exchanged for another currency at a fixed rate.

currency, foreign exchange position A bank's net holdings in foreign exchange in any particular currency at any given time.

D/P Abbreviation for documents against payment.

dated security A stock that has a fixed redemption date.

days of grace The extra time allowed for payment of a bill of exchange after the actual due date. With bills of exchange the usual custom is to allow 3 days of grace (not including Sundays and Bank holidays)

debenture The most common form of long-term loan taken by a company. It is usually a loan repayable at a fixed date, although some debentures are irredeemable securities; these are sometimes called perpetual debentures. Most debentures also pay a fixed rate of interest, and this interest must be paid before a dividend is paid to shareholders. Most debentures are also secured on the borrower's assets. If debentures are issued to a large number of people trustees may be appointed to act on behalf of the debenture holders. There may be a premium on redemption and some debentures are convertible, i.e. they can be converted into ordinary shares on a specified date, usually at a specified price. The advantage of debentures to companies is that they carry lower interest rate than, say, institutional loans and are usually repayable a long time into the future. For an investor, they are usually saleable on a stock exchange and involve less risk than equities.

debit card A plastic card issued by a bank to enable its customers with accounts to pay for goods or services at certain retail outlets by using the telephone network to debit their accounts directly.

debt service coverage ratio (DSCR) In corporate finance, it is the amount of cash flow available to meet annual interest and principal payments on debt.

DSCR = Net Operating Income ÷ Total Debt Service or

= (Net Profit (after Tax) + Interest on TL) ÷ Instalments of and Interest on TL

A DSCR of less than 1 would mean a negative cash flow. A DSCR of less than 1, say .95, would mean that there is only enough net operating income to cover 95% of annual debt payments. For example, in the context of personal finance, this would mean that the borrower would have to delve into his or her personal funds every month to keep the project afloat. Generally, lenders frown on a negative cash flow, but some allow it if the borrower has strong outside income.

degree of operating leverage The percentage change in earnings before interest and taxes as a result of one percent change in sales.

depreciation An amount charged to the profit and loss account of an organisation to represent the wearing out or diminution in value of an asset (fixed assets, such as buildings, machinery, and equipment). The amount charged is normally based on a percentage of the value of the asset as shown in the books; however, the way in which the percentage is used reflects different views of depreciation. Straight-line depreciation allocates a given percentage of the cost of the asset each year, thus suggesting an even spread of the cost of the asset over its useful life. Reducing (or diminishing) (written down) balance depreciation applies a constant percentage reduction first to the cost of the asset and subsequently to the cost as reduced (net) by previous depreciations. In this way reducing amounts are charged periodically to the profit and loss account; by this method the depreciated value of the asset in the balance sheet may approximate more closely to its true value. The accumulated depreciation provides funds to replace the assets when they are no longer usable.

derivative A financial instrument, the price of which has a strong correlation with a related or underlying commodity, currency, or financial instrument. The most common derivatives are futures, options, forwards and swaps. For example, a forward contract can be derived from the spot currency market and the spot markets for borrowing and lending. In the past, derivative instruments tended to be restricted only to those products which could be derived from spot markets. However, today the term seems to be used for any product that can be derived from any other.

direct quotation An exchange rate expressed in fixed units of a foreign currency and variable amounts of a domestic currency. (\$1=Rs.43/-)

discount A deduction from a bill of exchange when it is discounted before its maturity date. The party that purchases (discounts) the bill pays less than its face value and therefore makes a profit when it matures. The amount of the discount consists of interest calculated for the length of time that the bill has to run.

discounted cash flow (DCF) A method of capital budgeting or capital expenditure appraisal that predicts the stream of cash flows, both inflows and outflows, over the estimated life of a project and discount them, using a cost of capital or hurdle rate, to present values or discounted values in order to determine whether the project is likely to be financially feasible. A number of appraisal approaches use the DCF principle, namely the net present value, the internal rate of return, and the profitability index. Most computer spreadsheet programmes now include a DCF appraisal routine.

dishonour To fail to accept a bill of exchange (dishonour by non-acceptance) or to fail to pay a bill of exchange (dishonoured by non-payment.) A dishonoured foreign bill must be protested.

documentary bill A bill of exchange attached to the shipping documents of a consignment of goods. These documents include the bill of lading, insurance policy, packing list, invoice, etc.

documents (international) Documents presented with a letter of credit, which may include a draft; bill of lading, commercial invoice; marine insurance policy or certificate; certificate of origin; weight list; packing list; and the inspection certificate (or certificate of analysis). These documents must be examined and their contents verified before a draft is paid under a letter of credit.

documents against acceptance (D/A) draft A time draft to which title documents are attached. The documents are surrendered to the drawee when the drawee has accepted the corresponding draft, thereby acknowledging his or her obligation to pay the draft when it matures.

documents against payment (D/P) draft A sight draft to which title documents are attached. The documents are surrendered to the drawee only when the drawee has paid the corresponding draft.

dormant/inoperative accounts An account which has little or no activity for a period of time. Generally speaking, dormant accounts are construed as being owned by depositors who have moved from the address known to the bank without serving notice of relocation, or depositors who are deceased without the bank's knowledge. For this reason, banks usually place these accounts in a separate controlled ledger accessible only to an authorised officer of the bank.

draft (bill of exchange) A signed order by one party (the drawer) addressed to another (the drawee) directing the drawee to pay at sight or at a definable time in the future a specified sum of money to the order of a third person (the payee). A draft is the basic financial instrument.

drawback (duty draw back) A return of previously collected customs duties, when the imported goods are subsequently exported.

drawee 1) The person on whom a bill of exchange is drawn (i.e. to whom it is addressed). The drawee will accept it and pay it on maturity. 2) The bank on whom a cheque is drawn, i.e. the bank holding the account of the individual or company that wrote it. 3) The bank named in a bank draft.

drawer 1) A person who signs a bill of exchange ordering the drawee to pay the specified sum at the specified time. 2) A person who signs a cheque ordering the drawee bank to pay a specified sum of money on demand. 3) In the case of a bill of exchange he is the creditor, whereas for a cheque the drawer is the debtor.

due diligence 1) An internal analysis by a lender, such as a bank, of existing debts owed by a borrower in order to identify or re-evaluate the risk. 2) An independent analysis of the current financial state and future prospects of a company in anticipation of a major investment of venture capital or a share issue. 3) Detailed review of a borrower's overall position, conducted by representative of the lead manager, often with the assistance of legal counsel. Due diligence is normally performed in conjunction with the preparation of the documentation for a new issue.

earning assets The loans and investments that together represent the source of most bank revenue. Earning assets should be distinguished from non-earning assets such as cash.

earnings per share (EPS) The most common method of expressing a company's profit. Earning per share equals the net income divided by the number of outstanding shares.

eCheque The electronic cheque (eCheque) is a new payment instrument combining the security, speed and processing efficiencies of all electronic transactions with the familiar and well developed legal infrastructure and business processes associated with paper cheques. eCheque leverages the cheque payment system, a core competency of banking industry. It fits within current business practices, eliminating the need for expensive reengineering. It works like a paper cheque, but it does so in a purely electronic form, requiring less manual process.

economic order quantity (EOQ) The quantity of goods ordered which minimises the sum of inventory ordering cost and inventory carrying cost.

electronic funds transfer system (EFTS) A system designed to facilitate the exchange of monetary value by electronic means. Objectives include expanding the times when, and places where, basic financial reserves are available and reducing the present growth in the volume of paper (cash and cheques).

EMS European Monetary System

EMU European Monetary Union

encumbered Property against which some claim, such as a mortgage/lien, has been given.

endorsement (indorsement) 1) A signature on the back of a bill of exchange or cheque, making it payable to the person who signed it. A bill can be endorsed any number of times, the presumption being that the endorsements were made in the order in which they appear; the last named being the holder to receive the payment. If the bill is blank endorsed, i.e. no endorsee is named, it is payable to the bearer. In case of restrictive endorsement of the form 'Pay X only', it ceases to be a negotiable instrument. A special endorsement, when the endorsee is specified, becomes payable to order, which in short for 'in obedience to the order of'. 2) The signature, placed on the back of a negotiable instrument that transfers the instrument to another party and legally implies that the endorser has the right to transfer the instrument.

endorsement in blank The signature of an authorised person on the back of a negotiable instrument, which is not accompanied by the specific name of the party to whom the instrument is being transferred. Endorsement in blank makes the instrument as transferable as if it were in bearer form.

endorsement qualified An endorsement containing the words 'without recourse' or similar language intended to limit the endorser's liability if the debtor fails to honour the instrument.

endorsement restrictive An endorsement that restricts the negotiability of the instrument, for example, 'for deposit only'.

endorsement special An endorsement that designates the party to whom the instrument will be transferred.

equitable charge A charge on property imposed by and enforceable in a court of law. A conveyance of real property, absolute on its face but intended only as security for a loan, may constitute an equitable charge on the property.

equitable mortgage Where a person delivers to a creditor or his agent documents of title to immovable property, with intent to create a security thereon, the transaction is called a mortgage by deposit of title-deeds (Equitable Mortgage).

equities Securities that represent owned rather than borrowed capital. The value of the shareholder's ownership of a company, which equals the difference between the company's total assets and its total liabilities. Equity includes shares (preference and ordinary), retained earnings, and other surplus reserves.

escrow An agency service offered by trust departments to individuals and corporations. The escrow agent provides safekeeping for cash, securities, or documents until certain conditions, required by an escrow agreement between two parties, are met. The escrow agent then surrenders the assets, as required by the agreement. The subject matter of the transaction (the money, securities, instruments, or other property) is the escrow.

escrow agreement A document, agreed to by two or more parties, that appoints and authorises an agent to perform certain acts on their behalf. An escrow agreement authorises the disbursement of funds on the satisfaction of certain requirements.

executor A party, named in a will to carry out its terms. The executor gathers the assets of the creator of the will. Pays all taxes, debts and expenses, and distributes the net estate as ordered in the will.

export credit guarantee corporation of india limited (ECGC) The two main functions of this organisation are to insure the export proceeds against potential insolvency of the foreign buyer, etc., and to guarantee advances by Commercial Banks to exporters against orders (both fund and non-fund based).

face value 1) The nominal value printed on the face of a security. This is known also as the par value. It may be more, or less, than the market value. 2) The principal of a security, insurance policy, or unit of currency, expressed in a monetary sum and marked on the item. For securities, the face value and market value are usually different until the point of maturity, that difference being called the premium or discount.

factoring 1) The buying of the trade debts of a business, assuming the task of debt collection and accepting the credit risk, thus providing the manufacturer with working capital. A firm that engages in factoring is called a factor. 'With service' factoring involves collecting the debts, assuming the credit risk, and passing on the funds as they are paid by the buyer. 'With service plus finance' factoring involves paying the manufacturer up to 90% of the invoice value immediately after delivery of the goods, with the balance paid after the money has been collected. This form of factoring is clearly more expensive than 'with service' factoring. In either case the

factor, which may be a bank or finance house, has the right to select its debtors. 2) A financial method in which the borrower assigns or sells his receivables as collateral to a firm, called a factor, which normally assumes responsibility for collection.

factoring company A firm which will take over the collection of trade debts on behalf of others. The factoring company buys up its clients' invoices and then itself claim payment. A firm employing a factoring company will thus have more capital at its disposal, an important consideration in times credit restriction.

fidelity guarantee An insurance policy covering employees of an employer for any financial losses an organisation may sustain as a result of the dishonesty of the employees. Policies can be arranged to cover all employees or specific named persons. Because of the nature of the cover, insurers require full details of the procedure adopted by the organisation in recruiting and vetting new employees and they usually reserve the right to refuse to cover a particular person without giving a reason.

fiduciary 1) Denoting a person who holds property in trust or as an executor. Persons acting in a fiduciary capacity do so not for their own profit but to safeguard the interests of some other person or persons. 2) A fiduciary relationship between two parties with regard to a business contract, or piece of property, requires that each party place trust and confidence in the other and exercise a corresponding degree of fairness and good faith. 3) The relationship between a guardian and ward, an agent and principal, an attorney and client, one partner and another, a trustee and beneficiary, each is an example of a fiduciary relationship.

fiduciary account A customer account involving fiduciary relations.

financial futures Contracts traded that call for the future transfer of financial instruments on a given date at a specified price. Financial futures may be used to hedge or speculate. (E.g. Foreign currency futures, interest rate futures).

financial intermediary A financial institution that transfers funds from savers to investors, by issuing its own liabilities to savers and using the funds thus acquired to make loans and investments for its own account. For example, a commercial bank assumes deposit liabilities and uses the funds to make loans and investments.

financial statement 1) A written record of financial status of a business. Financial statements include income statements, balance sheets, and statements of changes in a firm's financial condition, Funds Flow. 2) Any statement made by an individual, a proprietorship, corporation, organisation, or association, regarding the financial status of the 'legal entity'. The financial statement of an individual would be a simple listing of what he owns (his assets), what he owes (his liabilities), his net worth, and his sources of annual income. 3) The financial statement of a large corporation or business firm may include many subsidiary financial statements prepared by a chartered accountant. As an example, the profit and loss statement may be supported by several subsidiary financial statements called 'exhibits'. listing a detailed analysis of the cost of goods sold, selling expenses, administrative expenses, and an analysis of sales. The balance sheet may be supported by subsidiary exhibits of fixed assets, 'ageing of receivables', etc. The schedule of reconciliation of accounts is also shown as a part of the financial statement. 4) The balance sheet is a static report of the financial picture of a business at a given moment, a profit and loss statement is a 'moving' report in that it reflects the

continuous operations of a business over a period of time. Financial statements are used principally for perpetual histories of businesses; as a basis for the extension of credit; and for the computation of income tax and other statutory requirements.

first in, first out (FIFO) A system of inventory valuation that assumes that a business operations will use first those items purchased earlier. Thus, on the organisation's financial statements, the cost of the items purchased most recently is assigned to the inventory. In a period of rising prices, FIFO accounting overstates earnings.

fixed assets Those items of a permanent nature required for the normal conduct of a business and not converted into cash during a normal production cycle. Fixed assets include furniture, buildings, and machinery.

fixed costs The costs which do not vary with every change of output. For example once a business has built a factory and installed the necessary machinery the fixed costs remain the same whether the firm is working at full or less than full capacity. In either case the same amount will have to be expended in rent or taxes.

fixed exchange rate A fixed rate, relative to other currencies, at which a government supports the price of its currency.

fixed expenses The operating expenses of a company that do not change in relation to the volume of sales, production, or inventory.

fixed rate loan A loan whose rate does not vary with market conditions but is constant over the life of the loan.

fixed-income mutual funds A mutual fund whose portfolio consists of bonds and preferred shares, thus providing a set amount of income to the fund.

flexible exchange rates Rates of exchange between currencies that are permitted to fluctuate in response to supply and demand for the currencies. Also called floating exchange rates.

float Funds represented by cheques which have been issued but have not yet been paid.

floating rate 1) An interest rate that is not a fixed percentage of principal but fluctuates with market conditions. Generally lender, 'pegs' the future rate (PLR) and moves small stated percentage above that rate. 2) An exchange rate that is not pegged by its government. Instead, the rate floats against other currencies.

force majeure (French : superior force) An event outside the control of either party of a contract (such as a strike, riot, war, act of God) that may excuse either party from fulfilling his contractual obligations in certain circumstances, provided that the contract contains a force majeure clause.

foreign currency futures Contracts for future delivery of a fixed amount of a specific foreign currency. These contracts are used for hedging as well as speculation.

foreign exchange 1) The currency of another nation. 2) Trading in or exchange of foreign currencies for home currency or other foreign currencies.

foreign exchange futures Contracts for the delivery of a specified amount of foreign currency at a specified price on a specified date.

foreign exchange markets The market in which foreign exchange is traded. It is an informal worldwide market, linked by various kinds of direct and rapid communications equipment.

foreign exchange rate The price of one currency relative to another currency.

foreign exchange trading The buying and selling of foreign currencies.

forfeiting A form of debt discounting for exporters in which a forfeiter accepts at a discount, and without recourse, a promissory note, bill of exchange, letter of credit, etc., received from a foreign buyer by an exporter. Maturities are normally from one to three years. Thus the exporter receives payment without risk at a cost (discount).

forward cover An arrangement protecting a buyer or seller of foreign currency from fluctuations in exchange rates.

forward discount The amount by which the spot exchange price of a currency exceeds its forward price.

forward exchange contract An arrangement to purchase foreign exchange at a specified date in the future at an agreed exchange rate. In international trade, with floating rates of exchange, the forward-exchange market provides an important way of eliminating risk on future transactions that will require foreign exchange. There are also active options and futures markets in forward foreign exchange rates.

forward exchange rate The price of one currency in terms of another currency, sold for delivery on a specified future date.

forward market The market in which participants agree to deliver an asset (for example, a currency or a commodity) at a specified price on a specified date.

free alongside (F.A.S) A shipping term indicating that the quoted price of goods includes the cost of delivering the goods alongside the vessel and within reach for loading.

free on board (F.O.B) The quoted price includes only cost not insurance and freight charges.

freely convertible currency A currency that may be converted into other currencies and used by citizens and foreign nationals of the country concerned without restriction.

freely fluctuating exchange rate An exchange rate not controlled by government, but allowed to fluctuate in a free market.

fully-paid shares Shares where their value has been paid up in full either on their issue or at some later date, as distinct from shares which are only partly paid up, the company in such a case being able to call for the balance if it wishes to increase its

capital. The advantage of fully-paid shares is that no further calls can be made on the holder. It is rarer now than formerly for shares not to be fully-paid up.

funds flow statements A statement showing the flow of funds through a business over a period of time.

funds management 1) The continual rearrangement of a bank's balance sheet to maximise profits, to maintain adequate rate spreads and liquidity, and to make safe investments. 2) The management and control of all items on a balance sheet, including assets, liabilities, and capital, in order to optimise a bank's earnings without taking excessive risk or liquidity exposure. Also called balance sheet management.

futures contract A standardised, negotiable, binding contract to purchase or sell commodities, securities, or financial instruments at a specified price on a future date.

futures exchange An organised market for trading futures contracts.

futures market The market for trading contracts for the future delivery of foreign exchange, commodities, or financial instruments.

gap management The control of maturities of liabilities and assets to maintain the desired relationship between them. Although objectives can change over time, gap management may involve gap filling or an attempt to maintain a balanced maturity position.

garnishee order An order made by a judge on behalf of a judgement creditor restraining a third party (often a bank), called a garnishee, from paying money to the judgement debtor until sanctioned to do so by the court. The order may also specify that the garnishee must pay a stated sum to the judgement creditor, or to the court, from the funds belonging to the judgement debtor.

gearing (capital gearing, equity gearing, financial gearing; leverage) 1) The ratio of the long-term funds with a fixed interest charge, such as debentures and preference shares, making up a company's capital to its ordinary share capital. A company is said to be high geared when its capital is predominantly in ordinary shares, especially in relation to other similar companies. A high-g geared company is considered to be a speculative investment for the ordinary shareholder. 2) The relationship between capital funds and liabilities.

general agreement on tariffs and trade (GATT) A trade treaty that operated from 1948 until 1995, when it was replaced by the World Trade Organisation (WTO).

general average In marine insurance, if one shipper's goods are jettisoned to save the ship, the other shippers must share the loss.

general ledger The most important record in the bank is the general ledger. Every transaction that takes place in the bank during the business day, reflected through various subsidiary records, are posted to the general ledger. Some entries are posted directly. Every transaction within a bank will effect either an asset (resources) account, a liability account, a capital account, an expense account, or an income account. As these accounts are posted, the new financial status develops. After all

postings have been made a trail balance of the general ledger is taken, reflecting the daily statement of condition for the bank.

generalised scheme of preferences (GSP) A unilateral system of preferences extended by developed countries in the matter of import of manufactures and semi-manufactures from developing countries. It seeks to lower and, even, do away with tariffs on import of certain goods from developing countries with the special objective of promoting industrialisation.

gold clause A statement in a financial agreement linking payment to the value of gold.

gold exchange standard A monetary standard in which a nation will redeem its currency at a stated value in terms of a second currency that in turn will redeem its currency in gold. Thus, the first currency is redeemable in exchange for another currency that is itself redeemable in gold.

gold standard A monetary agreement under which national currencies are backed by gold and gold is utilised for international payments.

good faith A standard of conduct between parties, meaning honesty in fact, in the conduct of a transaction. As an element of a defense to violations under several statutes, a good faith effort to comply, means that the defendant did not know about the violation and took reasonable care to avoid it.

goodwill An intangible asset that is the present value of expected future income in excess of a normal return on an investment. This amount is not recorded unless it is paid for. Goodwill arises from such considerations as firm's strong reputation, favourable location, and good relations with its customers.

grey market The Secondary Market in a new bond issue prior to formal offering.

gross domestic product (GDP) The monetary value of all goods and services produced by an economy over a specified period. It is measured in three ways: 1) on the basis of expenditure, i.e., the value of all goods and services bought, including consumption, capital expenditure, increase in the value of stocks, government expenditure, and exports less imports; 2) on the basis of the value added by the industry, i.e. the value of sales less the cost of raw materials

gross national product (GNP) The gross domestic product (GDP) with the additions of interest, profits, and dividends received from abroad by residents. The GNP better reflects the welfare of the population in monetary terms, although it is not as accurate a guide as to the productive performance of the economy as the GDPs.

gross profit (gross margin) Sales revenues less the cost of goods sold, excluding selling, general, and administrative expenses.

guarantee 1) To give assurance that something is as represented. 2) To pledge to make good a debt, a note or security in case of default by the borrower.

guarantee bond A bond for which a person other than the debtor has undertaken the responsibility to repay. The guarantee can appear as an endorsement, or a contract with the creditors.

guarantor A person who guarantees to pay a debt incurred by someone else if that person fails to repay it. A person who acts as a guarantor for a bank loan, for example, must repay the loan if the borrower fails to repay it when it becomes due.

hedge 1) A transaction undertaken to reduce risk. In futures markets, a hedge is the purchase or sale of a futures contract to offset an undesired short or long position. Usually a hedge involves equal and opposite positions in the cash market and the futures market at the same time (that is, a long position in one market and a short position in the other). 2) Taking action to neutralise risk. Investors, dealers, and bankers hedge in various markets, including the stock, option, foreign exchange, and commodity markets. Hedging entails controlling the risk of one transaction by engaging in an offsetting transaction. For example, a bank can hedge a large holding of a foreign currency by selling the same amount of the currency for future delivery at a fixed price.

high low method A method of determining fixed and variable costs based on highest and lowest levels of output and costs associated with them.

hire purchase (HP) A method of buying goods in which the purchaser takes possession of them as soon as an initial instalment of the price (down payment) has been paid; ownership is obtained when all the agreed number of subsequent instalments have been completely paid.

historical cost A method of valuing units of assets based on the original cost incurred by the organisation. The charging of depreciation to the profit and loss account, based on the original cost of an asset, is writing off the historical cost of the asset against profits. An alternative approach is the use of current cost accounting.

holder The person in possession of a bill of exchange or promissory note. This person may be the payee, the endorsee, or the bearer. When value has, at any time, been given for a bill, the holder is a holder for value, as regards the acceptor and all who have taken a bill of exchange in good faith and for value, before it was overdue, and without notice of previous dishonour or of any defect in the title of the person who negotiated or transferred the bill. This person holds the bill free from any defect of title of prior parties and may enforce payment against all parties liable on the bill.

holder in due course A party who accepts an instrument in good faith, for value, and without notice that it has been dishonoured, it is overdue, or there is any claim against it.

holding company A company that owns shares in other corporations and influences the management decisions of those companies in which it owns funds (invested capital).

hybrid debt capital instruments In this category, fall a number of capital instruments, which combine certain characteristics of equity and certain characteristics of debt. Each has a particular feature, which can be considered to affect its quality as capital. Where these instruments have close similarities to equity,

in particular when they are able to support losses on an ongoing basis without triggering liquidation, they may be included in Tier II capital.

hypothecation An authority given to a banker, usually as a letter of hypothecation, to enable the bank to sell goods that have been charged to them as security for a loan, it is a floating charge which crystallises on taking possession of the hypothecated goods. Book-debts also can be hypothecated.

IFCI (industrial finance corporation of india) An all India term lending Financial Institution which seeks to primarily provide medium and long term credit to industries.

implied contract A contractual agreement that can be assumed by the nature of the actions of the parties but is not evidenced by an express written agreement.

in loco parentis Literally, in the place of a parent. A phrase referring to a person who takes the place of a child's parent, usually someone who is not legally appointed guardian.

indian financial system code (IFSC) IFSC is a unique code for a branch which is used as the addressing code in user-to-user message transmission through Structured Financial Messaging System (SFMS). Various payment system applications like Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), etc., also use the IFSC for routing purposes. Banks to print the IFSC of their branch just above the MICR band on the cheques, preferably, above the serial number of the cheque. The MICR code line would, however, continue to be used for cheque processing.

indirect liability 1) The liability of the endorser or guarantor of an instrument. Although the endorser is indirectly liable and is not responsible for the interest or instalment payments, this person becomes directly liable if the maker defaults (e.g. guarantee to a loan). 2) A party who endorses the (D.P.) note of a maker for a bank, or who guarantees a note as guarantor for a maker is said to have indirect liability on the note. The bank looks to the maker for payment of the note at maturity, the maker having direct liability on the note. In case of default or dishonour of the note by the maker, then the indirect liability of the guarantor or the endorser becomes a direct liability, and the bank can require the guarantor or endorser to pay the note. many banks set up the indirect liability 'line' party-wise (limits) as well as the direct liability. Auditors are vigilant in their examination of the total indirect liability of some individuals, who have taken upon themselves a contingent obligation. If the indirect liability of an individual becomes too high, they may request the bank to get new guarantors or endorsers to 'back up' the notes/liabilities involved.

indirect quotation An exchange rate expressed in fixed units of a domestic currency and variable amount of a foreign currency. (Rs.100/-=US\$ 2.10).

industrial credit and investment corporation of india (ICICI) An all India term lending Financial Institution which seeks to provide assistance to units in private sector, particularly to meet their foreign exchange requirements. (Now under reverse merger with ICICI Bank Ltd.)

industrial development bank of india (IDBI) The apex term lending Financial Institution of India. (Now being converted as a bank).

inflation A continuing increase in the general level of prices in an economy, which results from increases in total spending relative to the supply of goods on the market. Inflation is also associated with increase in wages and production costs, and a decrease in purchasing power.

initial public offer (IPO) Flotation of shares to public first time by a company.

injunction The order of a court that instructs a defendant to refrain from performing an act injurious to the plaintiff.

insider trading/ inside trading Purchases or sales of a company's shares by officers, directors, or principal owners. This concept has broadened to include trading by anyone with inside knowledge of a company.

insolvency The inability to pay one's debt as they mature. Even though the total assets of a business might exceed its total liabilities by a wide margin, the business is said to be insolvent should the nature of the assets be such that they cannot be readily converted into cash to meet the current obligations of the business as they mature.

institutional investor A firm that specialises in investments for its own account or the accounts of others; examples include banks, trusts, investment companies, insurance companies.

insurable interest The legal right to enter into an insurance contract. A person is said to have an insurable interest if the event insured against could cause that person a financial loss. For example, anyone may insure their own property as they would incur a loss if an item was lost, destroyed, or damaged. If no financial loss would occur, no insurance can be arranged. For example, a person cannot insure a next-door neighbour's property. The limit of an insurable interest is the value of the item concerned, although there is no limit on the amount of life assurance a person can take out, because the financial effects of death cannot be accurately measured.

insurance A contract whereby for a fee (premium) one party agrees to pay a sum to another party if the latter suffers a particular loss. The party who undertakes the risk is the insurer. The party who wishes to be protected from loss is the insured party.

intangible property Property that cannot be perceived by the senses, such as a legally enforceable right. The right possessed by the holder of a promissory note or a bond is intangible property, the paper writing being only the evidence of that right.

inter bank offered rate (IBOR) The rate of interest at which banks lend to one another. Many of the world's financial centres have such a rate, for example London has the London Inter Bank Offered Rate (LIBOR).

internal rate of return (IRR) An interest that gives a net present value of zero when applied to a projected cash flow. This interest rate, where the present values of the cash inflows and outflows are equal, is the internal rate of return for a project under consideration.

international bank for reconstruction and development (IBRD) A specialised agency working in coordination with the United Nations, founded at the economic

conference held at Bretton Woods, established in 1945, commencing operations in 1946, to help finance post-war reconstruction and to help raise standards of living in developing countries, by making loans to governments or guaranteeing outside loans, when private funds are unavailable. It lends on broadly commercial terms, at slightly below conventional terms, either for specific projects of high economic priority or for more general social purposes; funds are raised on the international capital markets. The Bank and its affiliates, the International Development Association and the International Finance Corporation, are often known as the World Bank; it is owned by the governments of member countries. Members must also be the members of the International Monetary Fund. The headquarters of the Bank are in Washington.

international chamber of commerce (ICC) An organisation of business, with members from many countries, that meet periodically to resolve international business disputes and to establish mutually agreed rules of international commerce.

international depository receipt (IDR) A certificate of ownership of stock that is held outside the country. The stock, or other securities, will be held by the issuing bank.

international development association (IDA) An affiliate of the International Bank for Reconstruction and Development (World Bank), that provides funds to less developed countries whose ability to make effective use of capital is greater than their capacity to assume and repay debts in conventional terms. Principles similar to those of the World Bank are followed by IDA in appraising projects and in negotiating credits, but it lends money for a wider range of projects than the Bank does, including, for instance, educational projects.

international finance corporation (IFC) An affiliate established in 1956 of the World Bank, it assists the Industrial Development of its developing member countries by investing in productive private enterprises without Government guarantees. Its purposes are to promote the international flow of private capital, to stimulate the development of capital within its member countries and to promote the establishment and growth of private enterprises and the development of private investment opportunities. Although the IFC and IBRD are separate entities, both legally and financially, the IFC is able to borrow from the IBRD and reloan to private investors. The headquarters of the IFC are in Washington.

international monetary fund (IMF) Founded at the economic conference at Bretton Woods in 1944, a United Nations specialised agency to promote international monetary cooperation and expand international trade, stabilise exchange rates, and help countries experiencing short-term balance of payments difficulties to maintain their exchange rates. The objectives of the fund include supervising exchange market intervention of member countries, providing the financing needed by members to overcome short term payments imbalances, and encouraging monetary cooperation and international trade among nations. The fund assists members by supplying the amount of foreign currency it wishes to purchase in exchange for the equivalent amount of its own currency. The member repay this amount by buying back its own currency in a currency acceptable to the Fund, usually within three to five years. The Fund is financed by subscriptions from its members, the amount determined by an estimate of their means. Voting power is related to the amount of the subscription – the higher the contribution the higher the voting rights. The head office of IMF is in Washington.

internet banking/ITeS Refer Section-B

inventory The materials owned and held by a business, such as raw materials, semi-finished and finished goods, intended either for internal consumption or sale.

investment banker An agent for an issue of company shares, etc. Responsibilities of the investment banker include determining the type and terms of a new issue and whether it should be a public or private placement; organise to market the issue; and the maintenance of an orderly and fair trading market in the early days of a new issue.

invisible balance The balance of payments between countries that arises as a result of transactions involving services, such as insurance, banking, shipping, and tourism (often known as invisibles), rather than the sale and purchase of goods. Invisibles can play an important part in a nation's current account, although they are often difficult to quantify.

invisible trade International transactions in intangible items, such as insurance, banking, interest, dividends, travel and transportation.

joint account 1) An account carrying the names of two or more people. 2) Any investment, bank account, or other account that lists two or more people who share equally in the rights and liabilities of the account.

joint and several account (with Right of Survivorship) (Either or Survivor(s)) A jointly held account that can be drawn against using a cheque or withdrawal slip having the signature of either of the account holders. On the death of one, the survivor(s) have the right to the account's funds.

joint and several liability A liability that is entered into by a group, on the understanding that if any of the group fail in their undertaking, the liability must be shared by the remainder. Thus, if two people enter into a joint and several guarantee for a bank loan, if one becomes bankrupt the other is liable for repayment of the whole loan.

joint-stock company A company in which the members pool their stock and trade on the basis of their joint stock.

judgement creditor The person in whose favour a court decides, ordering the judgement debtor to pay the sum owed.

judgement debt A debt for which the court has awarded a judgement favouring a creditor.

judgement debtor The debtor against whom a creditor has obtained judgement.

junk bond A bond that offers a high rate of interest because it carries a higher than usual probability of default (high risk).

key men insurance Insurance for people considered crucial to the effective operation of a business. Creditors sometimes require such insurance when lending if

they feel that the death of these people would hurt the business's ability to meet its obligations.

key-person insurance An insurance policy on the life of a key person (male or female) of a business, especially the life of a senior executive in a small company, whose death would be a serious loss to the company. In the event of the key person dying, the benefit is paid to the organisation. In order that there should be an insurable interest, a loss of profit must be direct result of the death of the key person.

kite 1) A term used in banking circles to describe the malpractice of individuals in taking advantage of the time element of cheque collections by the bank. The individual either has an accomplice in a distant city, or another account in another city himself. He deposits a cheque drawn on a bank in a distant city, and then draws from this uncollected balance while the cheque is in the process of collection. The same individual also sends a cheque drawn upon this bank, and deposits it in the other bank, where he also draws against uncollected funds by issuing cheques against this out-of-town bank. In this manner he uses both bank accounts to his advantage to draw against 'non-existent' balances. 2) An informal name for an accommodation bill. Kite-flying is the discounting of an accommodation bill at a bank, knowing that the person on whom it is drawn will dishonour it.

laissez faire A French expression meaning literally 'allow (them) to do'. It connotes a policy of non-intervention by government in economic affairs.

last in, first out (LIFO) A method of charging homogeneous items of stock to production when the cost of the items has changed. It is assumed, both for costing and stock valuation purposes, that the latest items taken into stock are those used first in production although this may not necessarily correspond with the physical movement of the goods. (Under the more common FIFO (First in, First out) system it is assumed that whenever an item is used/sold it was the first to be purchased. In a time of rising prices the FIFO method will give a large profit than LIFO, the position being reversed when prices are falling.)

last will and testament The will last executed by a person. Since all former wills ordinarily are revoked by the last one, the term emphasises that the will in question is the latest and, therefore, the effective will of the maker. A legally enforceable declaration of a person's wishes regarding matters to be attended to after, but not operative until, his or her death. A last will and testament usually but not always relates to property and is revocable (or amendable by means of a codicil) up to the time of the person's death or loss of mental capacity to make a valid will. Originally, 'will' related to real property and 'testament' to personal property. But today 'will' applies equally to real and personal property.

laundering money Processing money acquired illegally (as by theft, drug dealing, etc.) so that it appears to have come from a legitimate source. This is often achieved by paying the illegal cash into a foreign bank and transferring its equivalent to a bank with a good name at a desired location.

leading and lagging Techniques often used at the end of a financial year to enhance a cash position and reduce borrowing. This is achieved by arranging for the settlement of outstanding obligations to be accelerated (leading) or delayed (lagging).

lease financing A specialised area of finance dealing with renting property by a lender, financing the leases of a company engaged in rentals, and financing the purchase of an item to be leased out by a borrower.

leasing Hiring equipment, such as a car or a piece of machinery, to avoid the capital cost involved in owning it. In some companies it is advantages to use capital for other purposes and to lease some equipment, paying for hire, out of income. Sometimes a case can be made for leasing rather than purchasing, on the grounds that some equipment quickly becomes obsolete.

ledger A record of final entry in bookkeeping. An account is maintained for every type of customer/head, and a ledger account is posted with every transaction affecting this particular account. The term 'ledger' also applies to a group of accounts, all of a similar nature, such as Savings Bank accounts ledger, Current accounts ledger, etc. When accounts of a similar nature become too large, they are taken from the general ledger and placed in a (subsidiary) ledger, with a control (consolidated) account in the general ledger. The control account contains the total balances of the entire ledger that it represents. Subsidiary ledgers are established for control, and to facilitate more than one person posting whenever the volume becomes more.

legal entity A thing, other than a person, that exists, and can sue, be sued, and be otherwise dealt with as if it were a natural person. In this sense, a company, city or state is a legal entity.

legal tender Money that must be accepted in discharge of a debt.

letter of administration 1) When a deceased person has not made a will, or if he has failed to appoint an executor of his will, his estate cannot be administered on his death until Letters of Administration have been granted. 2) The administrator distributes the property of a deceased person, in accordance with the deceased's will, or the rules of intestacy in the absence of a will. 3) It is a certificate of authority to settle a particular estate issued to an administrator by the appointing court.

letter of comfort A letter to a bank from the parent company of a subsidiary that is trying to borrow money from the bank. The letter gives no guarantee for the repayment of the loan but offers the bank the comfort of knowing that the subsidiary has made the parent company aware of its intention to borrow; the parent company also usually supports the application, giving, at least, an assurance that it intends that the subsidiary should remain in business and that it will give notice of any relevant change of ownership.

letter of credit An instrument or document issued by a bank on another bank or banks, foreign or domestic, or upon itself. The letter of credit gives the buyer (probably not well known to the seller) the prestige and the financial backing of the bank who issues the letter of credit in his behalf. The acceptance by the bank of drafts drawn under the letter of credit satisfies the seller and his bank in the handling of the transaction. The buyer and the accepting bank also have an agreement as to payment for the drafts as they are presented. It adds a good and well known (Bank's) name to a good (applicant's) name.

letter of credit (documentary credit) 1) A letter from the banker to another authorising the payment of a specified sum to the person named in the letter on certain specified conditions. Commercially, letters of credit are widely used in the international import and export trade as a means of payment. In an export contract, the exporter may require the foreign importer to open a letter of credit by the importer's local bank (the issuing bank) for the amount of the goods. This will state that it is to be negotiable at a bank (the negotiating bank) in the exporter's country in favour of the exporter; often, the exporter (who is called the beneficiary of the credit) will give the name of the negotiating bank. On presentation of the shipping documents (which are listed in the letter of credit) the beneficiary will receive payment from the negotiating bank. All letters of credit have an expiry date, after which they can only be negotiated by the consent of all the parties. 2) A financial instrument, issued for a company or person by a bank, that substitutes the bank's credit for the company's credit. 3) Although the term 'letter of credit' is still widely used, in 1983 the International Chamber of Commerce recommended documentary credit as the preferred term for these instruments. 4) A circular letter of credit is an instruction from a bank to its correspondent bank to pay the beneficiary a stated sum on presentation of a means of identification. It has now been replaced by traveller's cheques.

letter of credit, back-to-back (countervailing credit) 1) Two letters of credit requiring identical documentation except for a difference in the price of the merchandise shown by the invoice and draft. One of the letters of credit is issued in favour of the buyer's agent and the other in favour of the seller. The difference in price serves as the agent's commission for arranging the purchase for the buyer. 2) A method used to conceal the identity of the seller from the buyer in a Letter of Credit arrangement. When the credit is arranged by an exporter, acting as an intermediary, issues its own documents to the buyer, omitting the seller's name and so concealing the seller's identity. The reason for not revealing the seller's identity is to prevent buyer and seller dealing direct in future transactions and thus cutting out the middle man.

letter of credit, confirmed In a confirmed letter of credit the advising (named) bank guarantees to pay the beneficiary, even if the issuing bank fails to honour its commitments (in an unconfirmed letter of credit this guarantee is not given). A confirmed irrevocable letter of credit therefore provides the most reliable means of being paid for exported goods.

letter of credit, irrevocable A letter of credit that must be honoured by the Issuing Bank without exception. An irrevocable letter of credit cannot be cancelled by the person who opens it or by the issuing bank without the beneficiary's consent.

letter of credit, irrevocable documentary acceptance credit A form of irrevocable letter of credit in which a foreign importer of goods opens a credit with a bank. The bank then issues an irrevocable letter of credit to the exporter, guaranteeing to accept bills of exchange drawn on it on presentation of the shipping documents. Once the letter of credit has been drawn up, the importer has to 'accept' that he or she will pay by signing the acceptance.

letter of credit, red clause A letter of credit that provides for advances of payments to the beneficiary or to an agent prior to the presentation of documents, to enable him or her to process/procure the goods or to arrange for goods to be shipped (Anticipatory Credit).

letter of credit, reimbursement Letter of Credit issued under an arrangement whereby a foreign correspondent bank is reimbursed for payments made according to the instructions of the bank issuing credit by drawing on another correspondent bank.

letter of credit, revocable A letter of credit that may be cancelled at any time by the issuing bank.

letter of credit, revolving A letter of credit that covers a whole series of commercial transactions on payment of the previous (drawings) drafts.

letter of credit, standby A letter of credit against which funds can be drawn only if another business transaction is not performed. (like Bank Guarantee).

letter of credit, transferable A letter of credit in favour of the beneficiary, enabling the beneficiary to transfer the credit to another party.

letter of credit, unconfirmed A letter of credit for which credit has been established but for which the correspondent (advising) bank does not guarantee payment of drafts against it.

letter of indemnity A letter stating that the person issuing it will compensate the person to whom it is addressed for a specific loss.

liabilities 1) Amounts owed. 2) Sources of a firm's funds. 3) In banking parlance, the liabilities are the funds a bank owes. By far the largest item on the liability side of a bank's financial statement is the deposits. The current indebtedness of a bank to those other than depositors is usually small in total, and represents current obligations that are to be paid on a certain future date. The capital structure (capital, surplus, and Reserves, etc.,) are listed in bank statements as liabilities, but these accounts are the net worth of the bank, and represent the liability owing to the shareholders of the bank.

liabilities, current Amount owed by a business to other organisations and individuals that should be paid within one year from the balance-sheet date, or within the normal operating cycle of the business, whichever is longer. These generally consist of trade creditors.

Any long-term loans repayable within one year from the balance-sheet date should also be included. Current liabilities are distinguished from long-term liabilities on the balance sheet.

liability ledger One of the most important records of the bank is the liability ledger. In this ledger is the record of all outstanding loans made by the bank to every borrower. Each borrower has an individual Account, wherein recorded each loan the borrower may have with the bank, and the total of all outstanding loans made to each borrower. The aggregate of all outstanding loans makes up the liability ledger, which is the record of the bank's largest 'earning asset' account.

liability management The management of a bank's deposits, especially by increasing deposits from customers, attracting funds from institutional investors through certificates of deposit, hedging liabilities against interest-rate movements, and ensuring that no gap exists between the maturity of its assets and liabilities that

the bank must pay out. It can also be achieved by the purchase or sale of funds on the interbank market.

lien The right of one person to retain possession of goods owned by another until the possessor's claims against the owner have been satisfied. The lien may be general, when the goods are held as security for all outstanding debts of the owner, or particular, when only the claims of the possessor in respect of the goods held must be satisfied. A banker's lien applied to certain financial documents held by a bank on behalf of a customer who owes money to the bank.

limited company A company in which the liability of the members in respect of the company's debts is limited. It may be limited by shares, in which case the liability of the members on a winding-up is limited to the amount (if any) unpaid on their shares.

liquidator A person appointed (by a court), to regularise the company's affairs on a liquidation (winding-up). The liquidator can only exercise his or her powers with the consent of the court. After a winding-up petition has been filed; and an order has been granted, the court appoints the official receiver as liquidator.

The liquidator is in a relationship of trust with the company and the creditors as a body; a liquidator appointed in a compulsory liquidation is an officer of the court, is under statutory obligations, and may not profit from the position.

On appointment, the liquidator assumes control of the company, collects the assets, pays the debts, and distributes any surplus to shareholders according to their rights.

liquidity The extent to which an organisation's assets are liquid enabling it to pay its debts when they fall due and also to move into new investment opportunities.

listed securities Bonds or shares that have been accepted for trading on a Stock Exchange. Unlisted securities are not normally traded.

loan loss reserve A reserve account set up by a bank, based on its past experience with loan losses. As losses subsequently occur, they are absorbed (debited) against this reserve.

M1 The narrowest definition of the nation's money supply. It includes currency (Notes and Coins) in circulation plus demand deposits (current accounts) at commercial banks.

M2 A definition of the nation's money supply that includes M1 plus interest bearing deposits at commercial banks.

M3 A definition of nation's money supply that includes M2 plus the average of the (beginning and end-of-month) deposits in non-bank thrift institutions (postal savings bank, etc).

magnetic ink character recognition (MICR) Magnetic codes on the bottom of a cheque that allow a machine to read, automatically sort and feed into a computer. MICR encoding can include the amount of the cheque, the account number, the bank's number, and the serial number of the cheque.

management information system (MIS) A specific data processing (reporting) system that is designed to furnish management and supervisory personnel with current information with real time speed. In the communication process, data is recorded and processed for operational purposes. The problems are isolated for referral to top management for decision making, and information is fed back to top management to reflect the progress in achieving major objectives.

mandate A written authority given by one person (the mandator) to another (the mandatory) giving the mandatory the power to act on behalf of the mandator. It comes to an end on the death, mental illness, or bankruptcy of the mandator. They are, generally, used for specific purposes for short durations.

maturity The date upon which a (usance) bill of exchange, bond, or other negotiable instruments become due and payable. Bills of exchange drawn for a future date, have a maturity date which is set, starting with the specific date or acceptance, and running the specified number of days from date of loan or acceptance to maturity. Presentation and request for payment of the instrument is made on the maturity date. The starting dates may be 'so many days after date/sight/acceptance'.

memorandum of association An official document setting out the details of a company's existence. It must be signed by the first subscribers and must, generally, contain the following information (as it applies to the company in question); the company name; a statement that the company is a public/private company; the address or the registered office; the objectives of the company (called the objects clause); a statement of limited liability; and the amount of authorised share capital and its division.

minimum balance The amount of money that a depositor must have in a specific account to qualify for special services or to waive a service charge.

minimum subscription The minimum sum of money, stated in the prospectus of a new company, that the directors consider must be raised if the company is to be viable.

minor A person under legal age, that is, under the age at which he or she is accorded full civil rights.

misfeasance 1) The negligent or otherwise improper performance of a lawful act. 2) An act by an officer of a company in the nature of a breach of trust or breach of duty, particularly if it relates to the company's assets.

money-market instruments Financial products, usually with a short-term life, such as certificates of deposit, that are traded on the money markets.

moratorium An agreement between a creditor and a debtor to allow additional time for the settlement of a debt.

mortgage A mortgage is an instrument of conveyance (generally of real estate) from a borrower, called the mortgagor, to the lender, called the mortgagee. The mortgage is only a 'conditional' conveyance, in that the property remains with the use and occupancy of the mortgagor as long as the mortgagor lives up to the conditions of the mortgage. The major conditions are the continual payment of interest and principal as set forth in the wording of the mortgage deed. The

mortgagee has the right to foreclose the mortgage, or exercise his right to take over the property, in case the mortgagor fails to meet his obligations under the terms of the mortgage, subject to certain conditions and legal formalities. The interest created in the property gets reverted on payment of the dues to the mortgagee.

mortgage-backed security A bond-type security in which the collateral is provided by a pool of mortgages. Income from the underlying mortgages is used to meet interest and principal repayments.

multinational corporation (MNC) A business that has production facilities or other fixed assets in at least one foreign country and makes its major management decisions in a global context.

multiple exchange rate An exchange rate quoted by a country that has more than one value, depending on the use to which the currency is put. For example, some countries quote a specially favourable rate for tourists or for importers of desirable goods.

mutual fund Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. A fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments.

negative cash flow A cash flow in which the outflows exceed the inflows.

negative net worth The value of an organisation that has liabilities in excess of its assets (capital eroded).

negative pledge A covenant in a loan agreement in which the borrower promises that no secured borrowings will be made during the life of the loan or will ensure that the loan is secured equally and ratably with any new borrowings as specifically defined.

negotiability The ability of a document to change hands thereby entitling its owner (holder) to some benefit, so that legal ownership of the benefit passes by delivery or endorsement of the document. For a document to be negotiable it must also entitle the holder to bring an action in law if necessary.

negotiable Transferable by endorsement. Title to a negotiable instrument can be transferred by (endorsement as and where necessary and) delivery, without need for further certification. Bearer securities are automatically negotiable by nature. Registered securities can only be rendered negotiable by the completion of (a power of assignment) registration.

negotiable certificate of deposit A transferable receipt issued by a commercial bank in return for a customer's deposit of funds. The bank agrees to pay the amount deposited plus interest to the bearer on a specific future date.

negotiable instrument A document of title that can be freely negotiated. An instrument, to be 'negotiable', must conform to the following requirements: 1) It must be in writing and signed by the maker or drawer; 2) It must contain an

unconditional promise or order to pay a sum certain in money; 3) It must be payable on demand, or at a fixed or determinable future time; 4) It must be payable to order or to bearer; 5) Where the instrument is addressed to a drawee, he must be named or otherwise indicated therein with reasonable certainty. If instruments, such as cheques, drafts, bills of exchange, acceptances, promissory notes, etc., meet the above requirements they may be transferred by (endorsement as and where necessary and) delivery to another person in good faith for a consideration. The new holder, called the transferee, is called a 'holder in due course'. (b) An instrument can be negotiated by either inserting the name of a different payee or by making the document 'open' by endorsing it (signing one's name), usually on the reverse. Bill of exchange, including cheques, in which the payee is named or that bears a restrictive endorsement, such as 'not negotiable', are non-negotiable instruments. (c) A negotiable instrument is transferred by endorsement and delivery or by delivery alone as the case may be.

net asset value (NAV) The value of a share (unit of a Mutual Fund) in a company calculated by dividing the amount for the net assets of the company by the number of shares in issue. The asset value is frequently below the market price of a share because financial statements do not reflect the present values of all assets because of the monetary measurement convention and the historical cost accounting convention, whereas the market price may reflect them.

net assets The assets of an organisation less its current liabilities. The resultant figure is equal to the capital of the organisation. Opinion varies as to whether long-term liabilities should be treated as part of the capital and are therefore not deductible in arriving at net assets, or whether they are part of the liabilities and therefore deductible. The latter view is probably technically preferable.

net book value (NBV) The value of an asset which appears in the books of an organisation (usually as at the date of the last balance sheet) less any depreciation that has been applied since its purchase or its last revaluation.

net current assets Current assets less current liabilities. The resultant figure is also known as working (or circulating) capital, as it represents the amount of the organisation's capital that is constantly being turned over in the course of its trade.

net profit 1) (net profit before taxation) The profit of an organisation when all receipts and expenses have been taken into account. Net profit is arrived at by deducting from the gross profit all the expenses not already taken into account in arriving at the gross profit, except tax. 2) (net profit after taxation) The final profit of an organisation, after all appropriate taxes have been deducted from the net profit before taxation. 3) The income remaining from all sources after the deduction of all expenses, including interest and tax payments when applicable and available for dividend payment/plough-back.

net tangible assets The tangible assets of an organisation less its current liabilities. In analysing the affairs of an organisation the net tangible assets indicate its financial strength in terms of being solvent, without having to resort to such nebulous (and less easy-to-value) assets as goodwill.

net worth The value of an organisation when its liabilities have been deducted from the value of its tangible assets. In order to arrive at the true net worth it would

normally be necessary to assess the true market values of the assets rather than their book values.

no protest A term used in banks whereby one bank can instruct another collecting bank not to protest Bills in case of non-payment. If it cannot be collected, the collecting bank will return without protesting it. This will save the notary public's protest fees against the instrument.

nostro account A term meaning 'our account with you' that designates an account maintained by a bank with a foreign correspondent.

not negotiable Words marked on a bill of exchange indicating that it ceases to be a negotiable instrument, i.e., although it can still be (transferred) negotiated, the holder cannot obtain a better title to it than the person from whom it was obtained, thus providing a safeguard if it is stolen. A cheque is the only form of bill that can be crossed 'not negotiable'; other forms must have it inscribed on their faces.

notary public A public officer who takes acknowledgement of or otherwise attests or certifies deeds and other writings or copies of them, usually under his or her official seal to make them authentic. A notary public also takes affidavits, dispositions, and noting/protests of negotiable instruments.

noting The procedure adopted if a bill of exchange has been dishonoured by non-acceptance or by non-payment. Not later than the next business day after the day on which it was dishonoured, the holder has to hand it to a notary public to be noted. The notary re-presents the bill; if it is still unaccepted or unpaid, the notary notes the circumstances in a register and also a notarial ticket, which has to be attached to the bill. The noting can then, if necessary, be extended to a protest.

official receiver A person appointed to act as a receiver in bankruptcy and winding-up cases. The Court that has jurisdiction over insolvency/winding-up matters has an official receiver, who is an officer of the court. The official receiver commonly acts as the liquidator of a company being wound up by the court.

offset The right that enables a bank to seize any bank-account balances of a guarantor or debtor if a loan has been defaulted upon.

offshore banking The practice of offering financial services in locations that have attractive tax advantages to non-residents.

offshore banking unit A banking unit that conducts business in other countries but is not allowed to do business in the country where it is located.

offshore financial centres Centres that provide advantageous deposit and lending rates to non-residents because of low taxation, liberal exchange controls, and low reserve requirements for banks. Some countries have made a lucrative business out of offshore banking. Many countries established domestic offshore facilities enabling non-residents to conduct their business under more liberal regulations than domestic transactions. Their objective is to stop funds moving outside the country.

on demand Denoting a bill of exchange that is payable on presentation. An uncrossed cheque is an example of such a bill.

opportunity cost The income or benefit foregone as the result of carrying out a particular decision, when resources are limited or when mutually exclusive projects are involved.

option 1) The right to buy or sell a fixed quantity of a commodity, currency, or security at a particular date at a particular price (the exercise price). Unlike futures, the purchaser of an option is not obliged to buy or sell at the exercise price and will only do so if it is profitable; if the option is allowed to lapse, the purchaser loses only the initial purchase price of the option (the option money). 2) An option to buy is known as a 'call option' and is usually purchased in the expectation of a rising price; an option to sell is called a 'put' option and is bought in the expectation of a falling price or to protect a profit on an investment. Options, like futures, allow individuals and firms to hedge against the risk of wide fluctuations in prices; they also allow speculators to gamble for large profits with limited liquidity.

over-the-counter market (OTC markets) A market in which shares are bought and sold outside the jurisdiction of a recognised stock exchange.

pari passu (Latin: with equal step) Ranking equally. When a new issue of shares is said to rank pari passu with existing shares, the new shares carry the same dividend rights and winding-up rights as the existing shares. A pari passu bank loan is a new loan that ranks on level par with older loans.

partly paid shares Shares on which the full par value has not been paid. They could always call on their shareholders for further funds if necessary.

paying banker The bank on which a bill of exchange (including a cheque) has been drawn and which is responsible for paying it if it is correctly drawn and correctly endorsed (if necessary).

per pro (per proc; p.p) Abbreviation for per procuracionem (Latin: by procurator); denoting an act by an agent, acting on the authority of a principal (Power of Attorney holder).

period of grace The time, usually three days, allowed for payment of a usance bill of exchange (except those payable at sight or on demand) after it matures (in some countries).

personal identification number (PIN) A number memorised by the holder of a credit/ATM card, and used in automated teller machines.

portfolio management 1) The list of holdings in shares and securities owned by an investor or institution. In building up an investment portfolio an institution will have its own investment analysts, while an individual may make use of the services of a merchant bank that offers portfolio management. The choice of portfolio will depend on the mix of income and capital growth its owner expects, some investments providing good income prospects while others provide good prospects for capital growth. 2) A list of the loans made by an organisation. Banks, for example, attempt to balance their portfolio of loans to limit the risks.

post-date To insert a date on a document that is later than the date on which it is signed, thus making it effective only from the later date. A post-dated (or forward-

dated) cheque cannot be negotiated/paid before the date written-on it, irrespective of when it was signed.

power of attorney (PA) 1) A document, witnessed and acknowledged, authorising the person named in it to act as attorney in fact for the person signing the document. 2) The authority to act as an Agent. If the Agent is authorised to act for the principal in all matters, he or she has a general power of attorney. If he has authority to do only certain specified things, he or she has a special power of attorney. Generally, these are registered. An attorney can not delegate these powers unless specifically authorised to do so.

preference share A share in a company yielding a fixed rate of interest rather than a variable dividend. The fixed rate being payable on them before any sum is allotted to the ordinary shares of a company. A preference share is an intermediate form of security between an ordinary share and a debenture. Preference shares, like ordinary shares but unlike debentures, usually confer some degree of ownership of the company. However, in the event of liquidation, they are paid off after debt (including debentures) but before ordinary share capital. Preference shares may be redeemable at a fixed or variable date; alternatively they may be undated. Sometimes they are convertible. The rights of preference shareholders vary from company to company and are set out in the articles of association. Voting rights are normally restricted, often only being available if the interest payments are in arrears.

price-earnings ratio (P/E ratio) The current market price of a company share divided by the earnings per share (EPS) of the company. The P/E ratio is one of the main indicators used by analysts to decide whether the shares in a company are expensive or cheap, relative to the market.

prime rate A benchmark that a bank establishes from time to time and uses in computing an appropriate rate of interest for a particular loan. The benchmark is generally based on numerous considerations, including the bank's supply of funds, cost of funds, and administrative costs, and the competition from others. Factors used in setting the prime rate and the circumstances in which it applies vary from bank to bank. This benchmark however, is only one factor among several that banks use in pricing loans. For any specific loan, the interest rate actually charged may be above or below a bank's benchmark rate (Prime lending Rate-PLR). The actual rate will be determined on the basis of several variables. including perceived risks, nature of collateral. length and size of loan, competition, and the overall relationship with, and the track record of the customer.

private company A corporate entity which: i) limits the number of its members to 50, ii) does not invite public to subscribe to its capital and iii) restricts the members' right to transfer shares.

probate A certificate issued by the Court, on the application of executors appointed by a will, to the effect that the will is valid (last will and testament) and that the executors are authorised to administer the deceased's estate. When there is no apparent doubt about the will's validity, probate is granted in common form on the executors filing an affidavit. Probate granted in common form can be revoked by the court at any time on the application of an interested party who proves that the will is invalid.

profit and loss account (P&L account) An account in the books of an organisation showing the profits (or losses) made on its business activities with the deduction of the appropriate expenses.

profitability The capacity or potential of a project or an organisation to make a profit. Measures of profitability include return on capital employed, positive net cash flows, and the ratio of net profit to sales.

promissory note A negotiable instrument that contains a promise to pay a certain sum of money to a named person, to that person's order, or to the bearer. It must be unconditional, signed by the maker, and delivered to the payee or bearer.

proprietorship A business entity owned and operated by a single individual. The owner is personally and fully liable for all debts incurred by the business.

protest A certificate signed by a notary public at the request of the holder of a bill of exchange that has been refused payment/acceptance stating that it was presented for payment/acceptance and payment/acceptance was refused. A protest states whether a notice of dishonour/non-acceptance has been given to the secondary parties. It is a legal requirement after noting the bill. The same procedure can also be used for a promissory note that has been dishonoured.

proximate cause The dominant and effective cause of an event or chain of events that result in a claim on an insurance policy. The loss must be caused directly, or as a result of a chain of events initiated, by an insured peril. For example, a policy covering storm damage would also pay for items in a freezer that deteriorate because of a power cut caused by the storm, which is the proximate cause of the deterioration of the frozen food.

public company A corporate body other than a private company. In a Public Company there is no upper limit on the number of shareholders and there is no restriction on transfer of shares.

put option An option to sell an asset within a specified time at a specified price.

quantitative trade restriction (Quota) A limitation on the number of units of a commodity that may enter a country during a period. The mechanisms, which are many, may be progressive tariffs, or absolute volume limits, or import licensing.

quick assets Those assets of a business, exclusive of inventories, that could be converted into cash within a short period, usually less than 1 year.

quid pro quo (Latin: something for something) Something given as compensation for something received. Contracts require a quid pro quo; without a consideration they would become unilateral agreements, and not valid.

rate of exchange The price of one currency in terms of another. It is usually expressed in terms of how many units of the home country's currency are needed to buy one unit of the foreign currency (Direct Rate). However, in some cases, it is expressed as the number of units of foreign currency that one unit of the home currency will buy (Indirect Rate). Two rates are usually given, the buying and selling rate the difference is the profit or commission charged by the organisation carrying out the exchange.

rate of return The annual amount of income from an investment, expressed as a percentage of the original investment. This rate is very important in assessing the relative merits of different investments. It is therefore important to note whether a quoted rate is before or after tax, since with most investments, the after-tax rate of return is most relevant. Also, because some rates are payable more frequently than annually. It may be important, in order to make true comparisons, to consider the annual percentage rate (APR), which most investment institutions are required to state.

rating agency An organisation that monitors the credit backing of bond issues and other forms of public borrowings. It may also give a rating of the risks involved in holding specific stocks. The two best known are Standard & Poor and Moody, both of which have been in existence for over 100 years.

ratio This term refers to the various analyses, made by a money or credit lending agency, of the financial statements of the borrowing company, to determine the feasibility of granting the requested credit. Some ratios used are: 1) Current Assets to Current Liabilities, or Working Capital Ratio. (Current Ratio), 2) 'Acid Test' Ratio, 3) Fixed Assets to Fixed Liabilities, 4) Owned Capital to Borrowed Capital, 5) Capital to Fixed Assets, 6) Trade Creditors to Purchases, 7) Raw Material to Cost of production, and 8) Finished Goods to the Cost of (Goods Sold) Sale. The ratios are one of the many tools used in the credit decision and the type of credit considered best. Many other factors also are given consideration.

ratio analysis The use of ratios to evaluate a company's operating performance and financial stability. A technique for analysing a financial statement that examines the relationship among certain key values reported in the statement. Ratios, such as return on capital employed, can be used to assess profitability. The current ratio can be used to examine solvency and gearing ratios to examine the financial structure of the company. In conducting an analysis comparisons will be made with other companies and with industry averages over a period of time.

ratio, acid test Used to describe the ability of a firm to meet its obligations in the short-run, the only items taken into account in calculating this ratio being easily realised assets such as cash in hand, payments due from customers, and Current Liabilities.

$$\frac{\text{Current Assets (-) minus Inventory}}{\text{Current Liabilities}}$$

Also called Quick ratio.

ratio, current (working-capital) The ratio of the current assets of a business to the current liabilities, and used as a test of liquidity.

ratio, debt-asset A leverage measure defined as total debt divided by total assets.

ratio, debt-equity A ratio used to examine the financial structure or gearing of a business. The long-term debt, normally including preference shares, of a business is expressed as a percentage of its equity. A business may have entered into an agreement with a bank that it will maintain a certain debt-equity ratio; if it breaches this agreement the loan may have to be repaid. A highly geared company is one in which the debt is higher than the equity, compared to companies in a similar

industry. A highly geared company offers higher returns to shareholders when it is performing well but should be regarded as a speculative investment.

ratio, financial leverage The ratio of debt to assets (or to equity).

ratio, leverage 1) In financial analysis, leverage represents the influence of one financial variable over some other related financial variable. 2) Relationships among balance sheet values that measure the extent to which owners rather than creditors finance a business.

ratio, margin of safety The balance of income remaining after payment of fixed charges, expressed as a percentage of gross revenue. This calculation is used to approximate the percentage by which gross revenues can decline or operating expenses can increase before viability is endangered.

ratio, net-profit The proportion that net profit bears to the total sales of an organisation. This ratio is used in analysing the profitability of organisations and is an indicator of the extent to which sales have been profitable.

ratio, receivables turnover The ratio is net sales to current value of receivables calculated to evaluate the quality of a firm's receivables. The resulting figure indicates the average length of time that the firm's receivables remain outstanding.

ratio, return on assets (ROA) A profitability ratio. Return on assets is net income divided by total assets. Return on assets indicate how efficiently assets are employed.

ratio, return on equity (ROE) A profitability ratio. Return on equity is net income divided by total equity. Return on equity indicates how efficiently equity capital is invested.

ratio, return on investment (ROI) The rate of profit earned relative to the value of a capital investment. The return on investment is usually expressed as a percentage of comparability with the return on other investments.

ratio, sales-to-inventory A turnover ratio (sales divided by inventory) that approximates how many times per year a firm sells the equivalent of a complete inventory.

ratio, sales-to-net-worth A turnover ratio (sales divided by net worth) that determines the owner's investment in the business to generate sales.

ratio, sales-to-total-assets A turnover ratio (sales divided by total assets) that indicates whether a business is generating an acceptable volume of sales, given its investment in assets.

ratio, turnover 1) An accounting ratio showing the number of times an item of working capital has been replaced by others of the same class within a financial period. 2) Also referred to as activity ratios or asset management ratios, to measure how efficiently the assets are employed by the firm.

reasonable care The care expected of a bank when dealing with bills of exchange, letters of credit, etc., to ensure that all the relevant documents called for are

produced and are authentic before payment is authorised. This legal requirement includes a responsibility on the part of the bank to inform the parties concerned if the documents are not produced or are not in order.

recourse The right of the holder (endorsee or payee) in possession of a negotiable instrument to compel a prior endorser or other party to pay the amount of the instrument if it is dishonoured.

red clause An amendment to a letter of credit granting full payment to the exporter, often before the goods being bought have been delivered.

red herring Trade term for a preliminary prospectus (so called because of the red print around its borders) giving details of an expected share offering but subject to change, the definitive offering document being the final prospectus.

redeemable shares Shares (either ordinary shares or preference shares) that the issuing company has the right to redeem, under terms specified in the issue.

rediscounting The discounting (usually by a discount house) of a bill of exchange or promissory note that has already been discounted by someone else.

reimbursement An arrangement by which a correspondent bank is repaid for payments made to other parties, according to another bank's instructions.

reimbursement arrangements An arrangement whereby a foreign correspondent bank is reimbursed for payment made according to the instructions of the bank issuing credit/instructions.

reimbursement bank A bank used when there is no account relationship between the ordering and paying bankers. A reimbursement bank provides the cover (that is, replenishes the account) for the transactions.

reimbursement method In funds transfers, instructions specifying how the other is to obtain reimbursement for the payment to be made. When previously agreed upon, these instructions may specify the reimbursement party.

reinsurance The passing of all or part of an insurance risk that has been covered by an insurer to another insurer for a premium.

relationship banking The establishment of a long-term relationship between a bank and its corporate customers, often in the form of a bilateral bank agreement. The main advantage is that it enables the bank to develop in-depth knowledge of the company's business, which improves its ability to make informed decisions regarding loans to the company. The company expects to benefit by increased support during difficult times.

repurchase agreement (Repo) A sale of securities with a simultaneous agreement to buy back the same securities at a stated price on a stated date.

resolution A formal document expressing the intention of a company's board of directors.

retained earnings (retained profits; ploughed-back profits; retentions) The net profit available, less any dividends paid, i.e., the amount kept within the company. Retained earnings are recorded in the profit and loss reserve (ploug-back).

retiring bill The act of withdrawing a bill of exchange from circulation when it has been paid on or before its due date.

revaluation of assets Either because they have increased in value since they were acquired or because inflation has made the balance-sheet values unrealistic.

reverse mortgage A type of mortgage in which a homeowners can borrow money against the value of his or her home. No repayment of the mortgage (principal or interest) is required until the borrower dies or the home is sold. After accounting for the initial mortgage amount, the rate at which interest accrues, the length of the loan and rate of home price appreciation, the transaction is structured so that the loan amount will not exceed the value of the home over the life of the loan.

Often, the lender will require that there can be no other liens against the home. Any existing liens must be paid off with the proceeds of the reverse mortgage.

A reverse mortgage provides income that people can tap into for their retirement. The advantage of a reverse mortgage is that the borrower's credit is not relevant, and is often unchecked, because the borrower does not need to make any payments. Because the home serves as collateral, it must be sold in order to repay the mortgage when the borrower dies (in some cases, the heirs have the option of repaying the mortgage without selling the home). These types of mortgages have large origination costs relative to other types of mortgages. These costs become part of the initial loan balance and accrue interest. Senior citizen borrowers with good credit should carefully analyze the options of a more traditional mortgage, such as a home equity loan, against a reverse mortgage.

risk asset As used by security analysts, all assets of a bank except cash, dues from banks.

risk capital (venture capital) Capital invested in a project in which there is a substantial element of risk, especially money invested in a new venture or an expanding business.

risk management The control of an individual's or company's chances of losing on an investment. Managing the risk can involve taking out insurance against a loss, hedging a loan against interest-rate rises, and protecting an investment against a fall in interest rates. A bank will always try to manage the risks involved in lending by increasing the security and interest rates to compensate for a percentage of losses.

safe custody A service offered by most commercial banks, in which the bank holds valuable items belonging to its customers in its strong room. These items are usually documents, such as house deeds and bearer bonds, but they may also include jewellery, etc. The bank is a bailee for these items and its liability will depend on whether or not it has charged the customer for the service.

safe deposit articles A service provided by a bank whereby customers' valuables, including those too large for safe deposit lockers, are protected in the bank's vaults

for a fee. The provision of safe deposit lockers and the custody of valuables are two important forms of safekeeping.

safe deposit locker A metal container owned by a bank, kept in the vault, and rented to customers for their use. The bank usually charges the customer an annual fee. The safe deposit locker has two keys, one held by the customer and the other by the bank, both of which are needed to open the locker.

second mortgage A second mortgage may be taken out on the same property, provided that the value of the property is greater than the amount of the previous mortgage.

secondary market A market in which existing securities are traded, as opposed to a primary market, in which securities are sold for the first time. In most cases a stock exchange largely fulfils the role of a secondary market, with the flotation of new issues representing only a small proportion of its total business. However, it is the existence of a flourishing secondary market, providing liquidity and the spreading of risks, that creates the conditions for a healthy primary market.

securities 1) Literally, things given, deposited, or pledged to assure the fulfilment of an obligation. In this narrow sense, a mortgage is a security. 2) Generally, in a broader sense, securities now include stocks, bonds, notes and other evidences of indebtedness.

securitisation The process whereby similar debt instruments/ assets are pooled together and repackaged into marketable securities which can be sold to investors. The process of loan securitisation is used by banks to move their assets off the balance sheet in order to improve their capital asset ratios.

semi-variable cost A cost which is partly fixed and partly variable.

sensitivity analysis A technique of risk analysis which studies the responsiveness of a criterion of merit like net present value or internal rate of return to variations in underlying factors like selling price, quantity sold, etc.

setoff An agreement between the parties involved to set off one debt against another or one loss against a gain. A banker is empowered to set off a credit balance on one account against a debit balance on another if the accounts are in the same name.

sight draft Any bill of exchange that is payable on sight, i.e. on presentation, irrespective of when it was drawn.

small and medium enterprises The size of the unit and technology employed for firms to be globally competitive is now of a higher order. The definition of Small Scale Sector is revisited and the policy considered inclusion of services and trade sectors within its ambit. In keeping with global practice, the current concept of the sector broadened and the medium enterprises are included in a composite sector of Small and Medium Enterprises (SMEs).

smart card A plastic card that contains electronically stored information enabling its user, usually for obtaining cash from an automated teller machine. It can also be

used as an identification card that gains the bearer access to a computer system, hotel room, office, etc.

society for worldwide interbank financial telecommunication (SWIFT) A non-profit, cooperative organisation of international banks formed to provide an international telecommunication system for the exchange of computer processable information among banks world-wide. Based in Brussels, the SWIFT network of terminals links several banks world-wide. It is not a payment system, but an information and instruction network. It began operations in 1977.

sole proprietorship A business owned and operated by one person.

solvency 1) The financial state of a person or company that is able to pay all debts as they fall due. 2) The amount by which the assets of a bank exceed its liabilities.

sovereign risk 1) The risk to a lender that the servicing of its loans to a foreign borrower may be abridged, frozen, or denied by acts of, or conditions in the nation where the borrower is located. This risk, sometimes referred to as 'country risk,' is unrelated to the actual borrower's capacity to repay. 2) In a more limited sense, the term 'sovereign risk' refers to the risk that a foreign government (as distinct from a business in that country) may default on its borrowings.

special crossing A crossing on a cheque in which the name of a bank is written between the crossing lines. A cheque so crossed can only be paid into the named bank.

special drawing rights (SDRs) An international reserve asset created by the International Monetary Fund (IMF). Its value is based since 1974 on a basket of currencies. In 1970 members of the IMF were allocated SDRs in proportion to the quotas of currency that they had subscribed to the fund on its formation. There have since been further allocations. SDRs can be used to settle international trade balances and to repay debts to the IMF itself. The value of SDRs was originally expressed in terms of gold (hence their former name paper gold). SDRs provide a credit facility for IMF members in addition to their existing credit facilities (hence the name).

spot currency market A market in which currencies are traded for delivery within two days, as opposed to the forward dealing exchange market in which deliveries are arranged for named months in the future. The rate of exchange for spot currency is the spot rate.

spot rate Exchange rate which applies to on the sport delivery of the currency; in practice it means delivery two days after the day of trade.

spread The difference between the buying and selling price (rates).

stale cheque A cheque that has not been presented for payment within six months of its date. The bank will return it marked 'out of date'/'stale'.

standby credit A letter of credit that guarantees a loan or other form of credit facility. The bank that issues it promises to refund the amount borrowed if the borrower defaults on repayment. It calls for a certificate of default by the applicant.

A standby credit is third-party guarantee to honour an investor promise who may have a low credit rating.

state financial corporations State level financial institutions catering mainly to the needs of the small and medium scale industries.

statute of limitation Statute that bars suits upon valid claims after the expiration of a specified period.

stock exchange 1) An organised, regulated marketplace, where officials of brokerage firms meet physically to buy and sell shares/securities as directed by their customers, the investors. 2) The association of brokerage firms and broker-dealers that provides such a marketplace and whose officials trade in it.

stock option A document that gives the bearer the right to buy a specific stock at a stated price during a specified period, regardless of the prevailing market price. Stock options are traded in the same manner as other securities.

subordinated debt Debt obligations not in the first (senior) (secured) tier of obligations. In the event of default, subordinated debt holders are paid after all senior obligations have been discharged.

subpoena (Latin: under penalty) An order made by a court instructing a person to appear in court on a specific date to give evidence, or to produce specified documents. The party calling for the witness must pay any reasonable expenses. Failure to comply with a subpoena is contempt of court.

subsidy A payment by a government to producers of certain goods to enable them to sell the goods to the public at a low price, to compete with foreign competition, to avoid making redundancies and creating unemployment, making available to the consumer cheaper, etc. In general, subsidies distort trade and are unpopular.

sunk capital The amount of an organisation's funds that has been spent and is therefore no longer available to the organisation, frequently because it has been spent on either unrealisable or valueless assets.

surrender value The amount of a life insurance policy paid to a policy holder when he or she surrenders the policy. The surrender value is also the maximum amount of loan that will be given against the policy.

SWAP The purchase of foreign exchange for spot delivery, with the simultaneous sale of the equivalent exchange for forward delivery, vice versa.

syndicated loan A very large loan made to one borrower by a group of banks headed by one lead bank, which usually takes a percentage of the loan itself, syndicating the rest to other banks and financial institutions.

take-out finance take-out finance structure is essentially a mechanism designed to enable to avoid asset-liability maturity mismatches that may arise out of extending long tenor loans to infrastructure projects. Under the arrangements, banks financing the infrastructure projects will have an arrangement with any other financial institution for transferring to the latter the outstandings in their books on a pre-determined basis.

tangible net worth Ordinarily, the total capital (owned capital) less intangibles. (Total Net Worth).

tax haven A country or independent area that has a low rate of tax and therefore offers advantages to retired wealthy individuals or to companies that can arrange their affairs so that their tax liability falls at least partly in the low-tax haven. In the case of individuals, the cost of the tax saving is usually residence in the tax haven for a major part of the year.

telegraphic transfer (TT) A method of transmitting money overseas by means of a transfer between banks by cable or telephone. The transfer is usually made in the currency of the payee and may be credited to the payee's account at a specific bank or paid to the payee on application and identification.

telephone banking A facility enabling customers to use banking services by means of telephoning rather than by visiting the bank's premises. Enquiries and certain transactions can be made this way, often on a 24-hour, 7 day service. Oral instructions for payments, account movements, and other operations can be made using a personal identification number (PIN).

teller Who actually handles reasonable cash transactions of depositors and other bank customers. The teller receives deposits, pays out withdrawals, issues drafts, etc., within specified limits.

term liabilities The liabilities that will not mature during the next accounting period.

term loan Usually a long-term loan with a tenure running up to ten years. These loans are made generally by financial institutions, commercial banks and insurance companies to well-established business enterprise for capital expenditures such as plant, equipment, etc. An amortisation programme is worked out in the loan agreement for the liquidation of the loan over its tenure, based on the cash profits and the debt/service coverage be maintained at an agreed-upon level.

test key A code customarily established between banks and affixed, authenticating for transferring funds by cable, telex, or telephone so that the recipient may authenticate the message and act.

testate Having made and left a valid will. Compare with Intestate.

testator A person who makes a will. The feminine form is testatrix.

tom next Literally, tomorrow next, Banks use this term for foreign exchange transactions to mean delivery on the next business day.

trading profit The profit of an organisation before deductions for such items as interest, directors' fees, auditors' remuneration, etc.

transferable Denoting a deed or other document the ownership of which can be transferred freely, e.g. a negotiable instrument.

traveller's cheque A special fixed amount cheque issued by a well-known bank, travel agent, etc., and sold at many franchise locations. It enables travellers to carry

money without threat of loss or theft. The purchaser of these cheques pays a fee for the convenience of guaranteed rapid replacement in the event of loss or theft. They may be encashed at banks, exchange bureaux, authorised restaurants, hotels, shops, on proof of identity. The traveller has to sign the cheque twice, once in presence of the issuer and again in the presence of the paying bank, agent, etc.

trust 1) An arrangement enabling property to be held by a person or persons (the trustees) in a fiduciary capacity for the benefit of some other person or persons (the beneficiaries). The trustee is the legal owner of the property but the beneficiary has an equitable interest in it. A trust may be intentionally created or it may be imposed by law. Trusts are commonly used to provide for the families, philanthropy and in commercial situations (e.g. pensions trusts). 2) A trustee is subject to an obligation, enforceable in a court, to keep or use the property for the benefit of the beneficiary. Trustees may be personally liable to beneficiaries for loss of trust property.

trust deed The document creating and setting out the terms of a trust, it will usually contain the names of the trustees, the identity of the beneficiaries, and the nature of the trust property, as well as the powers and duties of the trustees.

trustee investments Investments in which trustees are authorised to invest the trust property. The Indian Trust Act, 1882, regulate the investments of trust property that may be made by trustees. The Act applies unless excluded by a trust deed executed after the Act was passed.

ultra vires (Latin: beyond the powers) Denoting an act of an official or a company for which there is no authority. The powers of officials exercising administrative duties and of companies are limited by the instrument from which their powers are derived. If they act outside these powers, their action is *ultra vires*, may be challenged in the courts. A company's powers are limited by the objects clause in its memorandum of association. If it enters into an agreement outside these objects, the agreement may be unenforceable, although a third party may have a legal remedy, if acted in good faith.

unclaimed balances Account balances that have not been legally debited or credited for a specific period.

under writer A financial institution, usually merchant bank, that guarantees to buy a proportion of any unsold shares when a new issue is offered to the public. Underwriters usually work for a commission.

uniform customs and practice for documentary credits A standard code issued by the International Chamber of Commerce. This code is the primary guide used in handling documentary letters of credit.

unincorporated business A privately owned business, that is not legally registered or recognised as a company. The owner has unlimited liability for any debts he or she may incur.

unit trust A trust formed to manage a portfolio of stock exchange securities, in which small investors can buy units. This gives the small investor access to a diversified portfolio of securities, chosen and managed by professional fund managers, who seek either high capital gains or high yields, within the parameters of reasonable security. Unit trusts are called mutual funds.

unit trust of india (UTI) An investment company, UTI aims at mobilising the savings of the public and channelises them into productive corporate investments. Now it stands split into two.

unlisted security Security/share which is not listed on a recognised Stock Exchange.

unquoted securities Securities/shares that are not dealt in on any stock exchange.

usury 1) An excessively higher rate of interest than is allowed by law. 2) The act of charging a higher rate of interest for the use of funds than is legally allowed.

utmost good faith (uberrima fides) The fundamental principal of insurance practice, requiring that a person wishing to take out an insurance cover must provide all the information the insurer needs to calculate the correct premium for the risk involved. Nothing must be withheld from the insurers, even if they do not actually ask for the information on an application form. The principle is essential because an insurer usually has no knowledge of the facts involved in the risk they are being asked to cover; the only source of information is the person requiring the insurance. If an insured person is found to have withheld information or given false information, the insurer can treat the policy as void.

value date 1) The date on which specified funds become available for use. 2) The date on which a transaction actually takes place. 3) The date on which foreign exchange is due to be delivered.

visibles Earnings from exports and payments for imports of goods, as opposed to services (such as banking and insurance). The balance of trade is made up of visibles and is sometimes called the visible balance.

warranty A statement made clearly in a contract (express warranty) or, if not stated clearly, understood between the parties to the contract (implied warranty). An unfulfilled warranty does not invalidate the contract (as it would in the case of an unfulfilled condition) but could lead to the payment of damages.

weighed average (weighed mean) An arithmetic average that takes into account the importance of the items making up the average. For example, if a person buys a commodity on three occasions, 100 tonnes at Rs.70/- per tonne, 300 tonnes at Rs.80/- per tonne, and 50 tonnes at Rs.95/- per tonne, he purchases total 450 tonnes; the simple average price would be $(70+80+95)/3 = \text{Rs.}81.70$. The weighted average taking into account the amount purchased on each occasion, would be $[(100 \times 70) + (300 \times 80) + (50 \times 95)]/450 = \text{Rs.}79.40$ per tonne.

will A legally enforceable document in writing giving directions as to the disposal of, usually, but not always, a person's property after death. It has no effect until death and may be altered many times (by means of codocil) as the person (the testator) wishes until, the testator's death and applies to the situation that exists when the death of the testator. To be binding, it must be executed in accordance with statutory formalities. It must be in writing, signed by the testator or at the testator's direction and in the testator's presence. It must appear that the signature was intended to give effect to the will (usually it is signed close to the last words dealing

with the property). The will must be witnessed by two persons, who must also sign the will. The witnesses must not be beneficiaries.

window dressing An attempt to improve the appearance of a company's financial position or operating results by using such techniques as not accounting for all expenses, anticipating sales, concealing liabilities, delaying write-offs, or under providing for depreciation. In a bank, window dressing might also include soliciting deposits just before year end.

with recourse A bill of exchange that does not have a without recourse endorsement or that specifically states that it is 'with recourse'. Such a bill gives the bank a right to claim the full value of the bill from the customer who has asked the bank to discount it, if it is not paid.

withholding tax A tax collected by the source originating the income as opposed to one paid by the recipient of the income after the funds are received. Thus a withholding tax on interest payments to foreigners means that the tax proceeds are deducted from the payment made and collected by the source on behalf of the tax authorities.

without recourse (sans recours) Words that appear on a bill of exchange to indicate that the holder has no recourse to the person from whom it was bought, if it is not paid. It may be written on the face of the bill or as an endorsement. If these words do not appear, the holder does have recourse to the drawer or endorser if the bill is dishonoured.

work in progress (WIP) Partly manufactured goods (goods-in-process/semi-finished goods) or partly completed contracts. For accounting purposes, work in progress is normally valued at its cost (cost of the materials and labour), together with some estimated percentage of overheads.

working capital The difference between a firm's current assets and current liabilities. Working capital represents the amount of money available for operating the firm. The ability of a firm to meet its obligations, expand its volume, and take advantage of favourable business opportunities depends partially on its volume of working capital.

working capital loan A short-term loan to provide money to purchase income-generating assets, such as inventory.

world trade organisation (WTO) The world trading system founded at the Uruguay round of the General Agreement on Tariffs and Trade (GATT) in 1994, to supersede GATT and to implement the measures agreed at the Uruguay round. WTO's aims are to continue the work of GATT in agreeing international trading rules and furthering the liberalisation of international trade. WTO has wider and more permanent powers than GATT and extends its jurisdiction into such aspects of trading as intellectual property rights. The highest authority of WTO is Ministerial Conference, held at least every two years. Almost all the major countries are members.

write-off The removal of a bad debt or worthless asset from the books by reducing its value to zero. A write-off is usually debited to a reserve for bad debts or written-off from earned profit.

yield to maturity The rate of return, including all interest payments and the difference between current market price and the face value of an asset, on a loan or a debt security if held to maturity. Yield to maturity is the discounted present value of the sum of future interest payments and capital gains by holding a debt security. In other words, the yield earned on a bond at a given price if held to maturity.

zero coupons Securities (Bonds) with no interest payments. Zero coupons are offered initially by the issuer at a deep discount from face value. The final repayment at maturity covers principal and all interest payments for the life of the security. The discount is taxable as though it were explicit interest payments.

zero-based budgeting A budgeting procedure whereby all expenditures are justified annually before being included in a budget. Zero-base budgeting strives to eliminate annual budget increases made habitually without considering whether a program, should be continued. Budgeting in which figures are developed from scratch every year.

SECTION-B GLOSSARY - INTERNET BANKING

Access Products - products that allow consumers to access traditional payment instruments electronically, generally from remote locations.

American National Standards Institute (ANSI) - a standard-setting organization; it is the U.S. representative to the International Standards Organization (ISO).

American Standard Code for Information Interchange (ASCII) - a standard code for representing characters and numbers that is used on most microcomputers, computer terminals, and printers.

Applet - a small application program that is designed to do a small, specific job.

Application - a computer program or set of programs that perform the processing of records for a specific function.

Asynchronous Transfer Mode (ATM) - method of transmitting bits of data one after another with a start bit and a stop bit to mark the beginning and end of each data unit.

Auditability - the degree to which transactions can be traced and audited through a system.

Authentication - the process of proving the claimed identity of an individual user, machine, software component or any other entity.

Authorization - the process of determining what types of activities are permitted. Usually, authorization is in the context of authentication: once you have authenticated a user, they may be authorized different types of access or activity.

Bandwidth - the transmission capacity of a computer channel or communications line

Bastion Host - a system that has been hardened to resist attack, and which is installed on a network in such a way that it is expected to potentially come under attack. Bastion hosts are often components of firewalls, or may be "outside" web servers or public access systems.

Biometrics - a method of verifying an individual's identity by analyzing a unique physical attribute.

Browser - a computer program that enables the user to retrieve information that has been made publicly available on the Internet; also permits multimedia (graphics) applications on the World Wide Web.

Chip - an electronic device consisting of circuit elements on a single silicon chip. The most complex circuits are microprocessors, which are single chips that contain the complete arithmetic and logic units of computers.

Chip Card - also known as an integrated circuit (IC) card. A card containing one or more computer chips or integrated circuits for identification, data storage or special-purpose processing used to validate personal identification numbers, authorize purchases, verify account balances and store personal records.

Client-Server Network - a method of allocating resources in a local area network so that computing power is distributed among computer workstations in the network but some shared resources are centralized in a file server.

Closed Network - a telecommunications network that is used for a specific purpose, such as a payment system, and to which access is restricted (also referred to as a private network).

Closed Stored Value System - a system in which value is issued and accepted by either a relatively small group of merchants, or in which the system is limited geographically (i.e., university programs and fare cards for mass transit systems).

Code - computer programs, written in machine language (object code) or programming language (source code).

Computer Emergency Response Team (CERT) - located at Carnegie-Mellon University, this incident response team offers advisories, which contain enormous amounts of useful, specific security information.

Cracker - a computer operator who breaks through a system's security. This can be legitimate activity, such as to test system security measures.

Cryptography - the principles, means, and methods for rendering information unintelligible and for restoring encrypted information to intelligible form (i.e., scrambling a message).

Cyber Mall - a set of electronic or digital storefronts linked through a common web site.

Database Administrator (DBA) - the individual with authority to control the data base management system.

Data Encryption Standard (DES) - U.S. government standard for data encryption method published by the National Institute of Standards and Technology for the encryption of sensitive U.S. government data which does not fall under the category of national security related information. The DES uses a 64-bit key.

Data Integrity - the property that data meet with a priority expectation of quality.

Dedicated - assigned to only one function.

Dial-up - the ability of a remote user to access a system by using private or common carrier telephone lines.

Digital - referring to communications processors, techniques, and equipment where information is encoded as a binary "1" or "0".

Digital Certification - a process to authenticate (or certify) a party's digital signature; carried out by trusted third parties.

Digital Signatures - a mathematical encryption technique that associates a specific person with a given computer file and indicates that the file has not been altered since that person signed it; should not be confused with making an electronic representation of a written signature.

Distributed Transaction Processing - application processing that involves multiple users requiring concurrent access to a single shared resource.

Domain Name - an alphanumeric name for a web site that includes both the online address and online name.

Download - to transmit a file or program from a central computer to a smaller computer or a remote site.

Electronic Cash - the digital equivalent of dollars and cents (also referred to as digital cash).

Electronic Data Interchange (EDI) - the transfer of information between organizations in machine-readable form.

Electronic Document - the digital or computer equivalent of paper documents.

Electronic Money - monetary value measured in currency units stored in electronic form on an electronic device in the consumer's possession. This electronic value can be purchased and held on the device until reduced through purchase or transfer.

Electronic Purse - a stored value device that can be used to make purchases from more than one vendor.

E-mail - messages people send to one another electronically from one computer to another.

Encryption (Cryptography) - the process of scrambling data by a device or encoding principle (mathematical algorithms) so that the data cannot be read without the proper codes for unscrambling the data.

End-to-end Encryption - the protection of information passed in a telecommunications system by cryptographic means, from point of origin to point of destination.

Ethernet - a type of local area network originally developed by Xerox, communication takes place by means of radio frequency signals carried over coaxial cable.

File Transfer Protocol (FTP) - a standard way of transferring files from one computer to another on the Internet.

Firewall - a system or combination of hardware and software solutions that enforces a boundary between two or more networks.

Flowchart - a programming tool to graphically present a procedure by using symbols to designate the logic of how a problem is solved.

Gateway - a computer that performs protocol conversion between different types of networks or applications.

Graphical User Interface (GUI) - a way of communicating with a computer by manipulating icons (pictures) and windows with a mouse.

Groupware - software that allows a group of people to work on the same data through a network, by facilitating file sharing and other forms of communication.

Hacker - a computer operator who breaks into a computer without authorization, either for malicious reasons or just to prove it can be done.

Home Banking - banking services that allow a customer to interact with a financial institution from a remote location by using a telephone, television set, terminal, personal computer, or other device to access a telecommunication system which links to the institution's computer center.

Home Page - a screen of information made available to users through the Internet or a private intranet; it is the "main page" that users are expected to read first in order to access the other pages that comprise the web site.

Host - also known as a host computer that is the primary or controlling computer in a computer network, generally involving data communications or a local area network.

Hypertext - electronic documents that present information that can be connected together in many different ways, instead of sequentially.

Hypertext Markup Language (HTML) - a set of codes that can be inserted into text files to indicate special typefaces, inserted images, and links to other hypertext documents.

Hypertext Transfer Protocol (HTTP) - a standard method of publishing information as hypertext in HTML format on the Internet.

Incident Response Team - a team of computer experts (internal or external) organized to protect an organization's data, systems, and other assets from attack by hackers, viruses, or other compromise.

Integrated Circuit Card (IC Card) - a plastic card in which one or more integrated circuits are embedded (also called a chip card).

Integrated Services Digital Network (ISDN) - a type of all-digital telephone service. ISDN lines provide a connection that can transmit digital data as well as voice, without a modem.

International Organization for Standardization/Open Systems Interconnection (ISO/OSI) - an international standard-setting organization. ANSI is the U.S. representative.

Internet - a worldwide network of computer networks (commonly referred to as the Information Superhighway).

Internet Service Provider (ISP) - an entity that provides access to the Internet and related services, generally for a fee.

Interoperability - the compatibility of distinct applications, networks, or systems.

Intranet - a private network that uses the infrastructure and standards of the Internet and World Wide Web, but is cordoned off from the public Internet through firewall barriers.

Issuer - in a stored value or similar prepaid electronic money system, the entity which receives payment in exchange for value distributed in the system and which is obligated to pay or redeem transactions or balances presented to it.

Key - A secret value or code used in an encrypting algorithm known by one or both of the communicating parties.

Local Area Network (LAN) - a network that connects several computers that are located nearby (in the same room or building), allowing them to share files and devices such as printers.

Lock and Key Protection System - a protection system that involves matching a key or password with a specific access requirement.

Logging - the storing of information about events that occurred on the firewall or network.

Magnetic Stripe - used on debit, credit, and identification cards to store encoded information read by card readers; less secure than computer chip cards.

Memory Card - an integrated circuit (IC) card capable of storing information only.

Middleware - facilitates the client/server connections over a network and allows client applications to access and update remote databases and mainframe files.

National Institute for Standards and Technology (NIST) - an established US agency, within the Department of Commerce to develop technical, management, physical and administrative standards and guidelines for the cost effective security and privacy of sensitive information in Federal computer systems. NIST issues the Federal Information Processing Standards (FIPS).

Navigation - moving through a complex system of menus or help files.

Network - a group of computers connected by cables or other means and using software that enables them to share equipment and exchange information. A system of software and hardware connected in a manner to support data transmission.

Node - any device, including servers and workstations, connected to a network. Also, the point where devices are connected.

Non-repudiable Transactions - transactions that cannot be denied after the fact.

Offline - equipment or devices that are not in direct communication with the central processor of a computer system, or connected only intermittently.

Online - equipment or devices that communicate with a computer network. Connections can be direct (as in a LAN using dedicated connections) or indirect (as in using the Internet).

Online Scrip - debit accounts on the Internet or other major computer network.

Online Service Providers (OSP) - closed network services that provide access to various computer sites or networks for a fee.

Open Network - a telecommunications network to which access is not restricted.

Open Stored Value System - a system that may be comprised of one or more electronic cash issuers of stored value that is accepted by multiple merchants or entities.

Operating System - a program that controls a computer and makes it possible for users to enter and run their own programs.

Packet Switching - a data transmission method that routes packets along the most efficient path and allows a communication channel to be shared by multiple connections.

Password - a unique word or string of characters that a programmer, computer operator, or user must supply to satisfy security requirements before gaining access to the system or data.

Password Cracker - a software program designed to conduct an automated brute force attack on the password security controls of an information system by "guessing" user passwords.

Password Sniffer - a software program that is illicitly inserted somewhere on a network to capture user passwords as they pass through the system.

Payment System - a financial system that establishes the means for transferring money between suppliers and users of funds, usually by exchanging debits or credits between financial institutions.

Personal Identification Number (PIN) - a sequence of digits used to verify the identity of a device holder.

Piggyback (Between-the-lines Entry) - a means of gaining unauthorized access to a system via another user's legitimate connection.

Point of Sale (POS) - a system of terminals that debits or charges a customer's account and credits or pays a merchant's account to effect payment for purchases at retail establishments.

Prepaid Card - a card on which value is stored, and for which the holder has paid the issuer in advance.

Privacy - in the context of a payment system, the property that no information which might permit determination of transactions may be collected without the consent of the counterparties involved.

Protocols - a standardized set of rules that define how computers communicate with each other.

Proximity Cards - cards that can be read from a short distance; mainly used for security and vehicle identification.

Public Key Cryptography - type of cryptography in which the encryption process is publicly available and unprotected, but in which a part of the decryption key is protected so that only a party with knowledge of both parts of the decryption process can decrypt the cipher text.

Remote Payment - a payment carried out through the sending of payment orders or payment instruments.

Repudiation - the denial by one of the parties to a transaction of participation in all or part of that transaction or of the content of the communication.

Router - a computer system in a network that stores and forwards data packets between local area networks and wide area networks.

Scattering - the process of mixing the integrated circuit (IC) chip components so that they cannot be analyzed easily.

Search Engines - software programs that are capable of locating specified information or web sites on the Internet.

Secure Electronic Transaction (SET) - a set of standards jointly developed by Visa, MasterCard, and several technologies companies to facilitate secure credit card transactions over the Internet.

Secure Hypertext Transfer Protocol (SHTTP) - provides secure communication mechanisms between an HTTP client-server pair.

Secure Socket Layer (SSL) - a protocol for providing data security during transmission using data encryption, server authentication, and message integrity.

Server - a computer that provides services to another computer (the client).

Settlement - an act that discharges obligations with respect to funds or securities transfers between two or more parties.

Settlement system - a system used to facilitate the settlement of transfers of funds.

Simple Mail Transfer Protocol (SMTP) - a protocol used to transfer electronic mail between computers on the Internet.

Smart Card - a card with a computer chip embedded, on which financial, health, educational, and security information can be stored and processed.

Specification - documents that contain basic detailed data.

Spoofing - an attempt to gain access to a system by posing as an authorized user.

Standards - the rules under which analysts, programmers, operators, and other personnel in an information service organization work.

Stored Value Card - a card that stores prepaid value via magnetic stripe or computer chip.

Structured Query Language (SQL) - a query language used to manipulate large databases.

System Integrity - the quality that a system has when it performs its intended function in an unimpaired manner, free from deliberate or inadvertent manipulation of the system.

System Specification - a baseline specification containing all the essential computer-based business system documentation. It is completed at the end of the Development Phase.

Systemic Risk - the risk that the failure of one participant in a funds transfer system, or in financial markets generally, to meet its required obligations will cause other participants or financial institutions to be unable to meet their obligations when due.

Systems Analysis - the performance, management, and documentation of the four phases of the life cycle of a business system: study, design, development, and operation.

Tamper-evident - the capacity of devices to show evidence of physical attack.

Tamper-proof - the proven capacity of devices to resist all attacks.

Tamper resistant - the capacity of devices to resist physical attack up to a certain point.

Telecommunications - data transmission between a computing system and remotely located devices via telephone lines, cable, or wireless technology.

Telnet - a protocol that permits users to access a remote terminal or another computer through a network; widely used on the Internet.

Threat Monitoring - the analysis, assessment, and review of audit trails and other data collected for the purpose of searching out system events that may constitute violations or attempted violations of system security.

Throughput - the total amount of useful work performed by a data processing system during a given period of time.

Topology - the arrangement of nodes usually forming a star, ring, tree, or bus pattern.

Traceability - the degree to which transactions can be traced to the originator or recipient (also referred to as auditability).

Transferability - in electronic money systems, the degree to which an electronic balance can be transferred between devices without interaction with a central authority.

Transmission Control Protocol/Internet Protocol (TCP/IP) - a standard format for transmitting data in packets from one computer to another, on the Internet and within other networks. TCP deals with the construction of the data packets while IP routes them from machine to machine.

Trap Door - a concealed and unauthorized entrance into a computer operating system, designed by the programmer.

Trojan Horse - a program that appears to perform a useful function and sometimes does so quite well but also includes an unadvertised feature, which is usually malicious in nature.

Truncation - dropping off part of a character string either to conserve space or because of limited space.

Trusted Computer System - a system that employs sufficient assurance measures to allow its use for simultaneous processing of a range of sensitive or classified information.

Trusted Third Party - a reputable entity that authenticates one or more parties to an electronic transaction. The authentication process generally involves the issuance and administration of digital certificates.

Uniform Resource Locator or Universal Resource Locator (URL) - a way of specifying the location of available information on the Internet.

Upload - to transmit a file to a central computer from a smaller computer or a remote location.

Usenet - a set of many newsgroups distributed via the Internet.

Virtual Corporations - corporations that have no official physical site presence and are made up of diverse geographically dispersed or mobile employees.

Virus - a program with the ability to reproduce by modifying other programs to include a copy of itself. It may contain destructive code that can move into multiple programs, data files, or devices on a system and spread through multiple systems in a network.

Vulnerability - a weakness in system security procedures, system design, implementation, internal controls, etc., that could be exploited to violate system security.

Web Page - a screen of information supporting the home page of a web site.

Web Site - the collection of an entity's home page and other proprietary pages located on the World Wide Web.

Wide Area Network (WAN) - a communications network that covers a wide geographic area, such as state or country, using high speed long distance lines or satellites provided by a common carrier.

World Wide Web (web, www) - a sub network of the Internet through which information is exchanged via text, graphics, audio, and video.

Worm - a program that scans a system or an entire network for available, unused space in which to run. Worms tend to tie up all computing resources in a system or on a network and effectively shut it down.