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capital

DEFINITION

The more permanent sources of funds used by a company, such as long-term debt, preferred stock, and common equity.

PART 1, CHAPTER 1



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disaster recovery

DEFINITION

The restoration of systems and communications after an event causes an outage.

PART 1, CHAPTER 1



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economies of scale

DEFINITION

A relationship that occurs when an increase in sales lowers the average cost per unit sold.

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financial planning

DEFINITION

An organizational function that involves determining the need for present and future funding to support operations. An important part of this function is the forecasting of revenues, income, and external financing required to support the company's planned growth.

PART 1, CHAPTER 1



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financial risk

PART 1, CHAPTER 1

DEFINITION

The risk that the overall value of an organization may change in response to a change in interest or foreign exchange rates.



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liquidity

PART 1, CHAPTER 1

DEFINITION

The ability of an organization to convert assets into cash quickly and without a significant risk of loss.



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operating cycle

PART 1, CHAPTER 1

DEFINITION

A representation of the flow of funds through a company from the acquisition of raw materials, through the production cycle and the sale of products or services, and finally to the collection of payments from customers.



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shared services center (SSC)

PART 1, CHAPTER 1

DEFINITION

A department or operation within a multiunit organization tasked with supplying multiple business units and their respective divisions and departments with specialized services, such as information technology, human resources, or accounts payable services.



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working capital

DEFINITION

The sum of a company's current asset accounts (primarily cash, accounts receivable, and inventory) less the sum of its current liability accounts (primarily payables and accrual accounts). Also known as net working capital.

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working capital gap

DEFINITION

The time gap between a cash outflow and a cash inflow.

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balance sheet

PART 2, CHAPTER 2

DEFINITION

A financial statement that reports a company's financial condition—including assets, liabilities, and stockholders' equity—at a point in time.



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bank capital requirements

PART 2, CHAPTER 2

DEFINITION

Rules or regulations that specify the amount of funds the owners of a bank must contribute to the business.



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Bank Secrecy Act of 1970 (BSA)

PART 2, CHAPTER 2

DEFINITION

A US legislative act under which US banks (and, in many cases, companies and individuals) are required to perform due diligence by determining a customer's identity and monitoring transactions for suspicious activity.



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capital adequacy

PART 2, CHAPTER 2

DEFINITION

A factor that measures whether the amount of more permanent sources of funds maintained relative to the nature and extent of an institution's risks is sufficient given management's ability to identify, measure, monitor, and control these risks.



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capital tax

PART 2, CHAPTER 2

DEFINITION

A type of levy assessed by some countries (particularly those experiencing an upsurge in economic growth) on multinational companies that are headquartered in another country.



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central bank

PART 2, CHAPTER 2

DEFINITION

An entity that is responsible for implementing and managing a country's monetary policy—in other words, the country's money supply and interest rates.



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Check Clearing for the 21st Century Act of 2003 (Check 21)

PART 2, CHAPTER 2

DEFINITION

A US law that provided the basis for electronic clearing of checks by allowing the substitution of a copy or image of a check for the original document in the clearing process.



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common equity

PART 2, CHAPTER 2

DEFINITION

The capital contributed by stockholders and earnings retained in the business.



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Consumer Financial Protection Bureau (CFPB)

PART 2, CHAPTER 2

DEFINITION

An independent consumer protection entity within the US Federal Reserve that was created as part of the Dodd-Frank Act. The primary aim of this entity is to consolidate and strengthen consumer protection responsibilities and oversee the enforcement of federal laws intended to ensure the fair, equitable, and nondiscriminatory access to credit for individuals and communities.



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credit transfer

PART 2, CHAPTER 2

DEFINITION

In an electronic payment system, this is the process of a payor pushing funds from its account to the account of the payee.



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deposit insurance (deposit guarantee)

PART 2, CHAPTER 2

DEFINITION

A regulatory safeguard that protects the assets of smaller deposit customers (typically consumers, although corporate accounts are also often covered up to a certain amount) who would be most harmed by a bank failure.



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Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA)

PART 2, CHAPTER 2

DEFINITION

A US legislative act that provided for a phase-out of interest rate ceilings for financial institutions, mandated that all depository institutions hold reserves at the Federal Reserve (Fed), and mandated that the Fed price or eliminate its float in the check-clearing system.



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Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

PART 2, CHAPTER 2

DEFINITION

Legislation enacted in the United States in response to concerns related to the financial services industry in the wake of the global financial crisis of 2007–2009. The act had a major impact on the regulation of banks and other financial institutions, and brought financial consumer protection under a single authority.



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Electronic Signatures in Global and National Commerce Act of 2000 (E-SIGN Act)

PART 2, CHAPTER 2

DEFINITION

US legislation that was enacted to support electronic commerce (e-commerce) initiatives and grant digital signatures the same legal status as handwritten ink signatures. It establishes the legal certainty of e-commerce transactions and provides a measure of confidence around the enforceability of electronic transactions.



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escheatment

PART 2, CHAPTER 2

DEFINITION

The process of turning over unclaimed assets to the government, in specific instances.



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European Central Bank (ECB)

PART 2, CHAPTER 2

DEFINITION

The central bank for the European Union (EU).



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European Payments Council (EPC)

DEFINITION

The coordination and decision-making body of the European banking industry in relation to payments.

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European Union (EU)

DEFINITION

A union of more than two dozen member countries that have organized to work toward common political, social, and economic interests.

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Federal Deposit Insurance Corporation (FDIC)

DEFINITION

An independent agency of the US federal government whose primary role is to protect depositors from losses caused by bank insolvency.

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Federal Reserve (the Fed)

DEFINITION

The central bank for the United States, from the perspective of monetary policy.

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Financial Action Task Force (FATF)

PART 2, CHAPTER 2

DEFINITION

An international, intergovernmental organization composed of members from more than 30 countries, whose primary purpose is the development and promotion of policies, at both national and international levels, to combat money laundering and terrorist financing.



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Financial Crimes Enforcement Network (FinCEN)

PART 2, CHAPTER 2

DEFINITION

The primary US government agency (operating as a bureau of the US Treasury) that oversees and implements policies to prevent and detect money laundering by criminal or terrorist organizations.



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Financial Stability Board (FSB)

PART 2, CHAPTER 2

DEFINITION

An entity established to provide international coordination of national financial authorities and international standard-setting bodies.



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Financial Stability Oversight Council (FSOC)

PART 2, CHAPTER 2

DEFINITION

A US agency created under the Dodd-Frank Act, whose primary responsibility is to prevent systemic risk from threatening the financial system by identifying threats to financial stability and gaps in regulations, and facilitating coordination across federal and state agencies.



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foreign tax credit

PART 2, CHAPTER 2

DEFINITION

A type of tax credit available to a company with foreign income that has already been taxed by the foreign jurisdiction.



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impairment of capital rule

PART 2, CHAPTER 2

DEFINITION

A regulatory restriction on the amount that a financial institution can lend or invest in a particular company or industry, based on the quality of the financial institution's existing loan portfolio.



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insolvency

PART 2, CHAPTER 2

DEFINITION

The inability to pay one's debts in a timely manner.



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layering

PART 2, CHAPTER 2

DEFINITION

The attempt to conceal the source of ownership of money by creating a complex series of transactions in order to provide anonymity.



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monetary policy

PART 2, CHAPTER 2

DEFINITION

Government policy related to monitoring and controlling a country's money supply and interest rates.



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money laundering

PART 2, CHAPTER 2

DEFINITION

Any financial transaction that generates an asset or a value as the result of an illegal act, which may involve actions such as tax evasion or false accounting.



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Office of Foreign Assets Control (OFAC)

PART 2, CHAPTER 2

DEFINITION

An office of the US Department of the Treasury that administers and enforces economic and trade sanctions based on US foreign policy and national security goals. Its objective is to identify and target threats to the national security, foreign policy, or economy of the United States.



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Office of the Comptroller of the Currency (OCC)

PART 2, CHAPTER 2

DEFINITION

A bureau of the US Treasury Department that was established by Congress in 1863 to regulate the national banking system. It is the primary chartering authority and regulator for national banks.



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over-the-counter (OTC) market

PART 2, CHAPTER 2

DEFINITION

A type of market that is more decentralized than a formal securities exchange. These markets also rely upon electronic communication to conduct trading activity in an auction-style market between participating brokers and dealers.



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par value

PART 2, CHAPTER 2

DEFINITION

An arbitrary amount (usually stated in the corporate charter) that indicates the minimum amount stockholders have put up (or must put up) in the event of bankruptcy.



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pension plan

PART 2, CHAPTER 2

DEFINITION

A type of retirement plan, usually tax-exempt, wherein an employer makes contributions toward a pool of funds set aside for an employee's future benefit. The pool of funds is then invested on the employee's behalf, allowing the employee to receive benefits upon retirement.



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Red Flags Rule

PART 2, CHAPTER 2

DEFINITION

US regulation requiring financial institutions and creditors to develop and implement written identity theft prevention programs that provide for the identification of, detection of, and response to patterns, practices, or specific activities that could indicate identity theft.



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reserve requirement

PART 2, CHAPTER 2

DEFINITION

A central bank requirement that establishes the minimum percentage of customer deposits that financial institutions must hold as reserves and not lend out to other customers.



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Sarbanes-Oxley Act of 2002 (SOX)

PART 2, CHAPTER 2

DEFINITION

US legislation that requires companies to evaluate and disclose their internal financial controls as they relate to financial reporting, and requires auditors to attest to, or confirm, the effectiveness of these controls. It further requires that chief executive officers and chief financial officers certify financial statements, and specifies fines and jail sentences for knowingly and willfully misstating information therein. The act also requires companies with publicly traded securities to maintain independent audit committees (of the board of directors) that can interact with the external auditor in an unfettered way.



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Securities and Exchange Commission (SEC)

PART 2, CHAPTER 2

DEFINITION

A US federal agency designed to maintain a fair and orderly market for investors by regulating and supervising securities sales.



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seigniorage

PART 2, CHAPTER 2

DEFINITION

Government revenue from the issuance of coin and currency, which is based on the difference between the value of the money and the cost to produce it.



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settlement risk

PART 2, CHAPTER 2

DEFINITION

A form of counterparty credit risk that is related to the probability that a party funding a particular transaction will default on the actual payment or settlement obligation.



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standby letter of credit (L/C)

PART 2, CHAPTER 2

DEFINITION

A bank issued letter that serves as a vehicle to ensure the financial performance of a bank's customer to a third-party beneficiary.



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stress test

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DEFINITION

An analytical exercise that assumes an adverse change in one or more of a firm's funding sources, or a major shock to a company's core business.



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systemic risk

PART 2, CHAPTER 2

DEFINITION

The risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual organization, group, or component of a system.



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tying

DEFINITION

The act of requiring a purchaser to buy one product or service in order to be allowed to buy a second, typically unrelated, product or service.

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unanimous consent procedure

DEFINITION

A type of procedure for formulating a reorganization plan in a US Chapter 11 bankruptcy filing. Under this procedure, all classes of creditors and equity holders must consent to the reorganization plan, with a two-thirds vote of all members in each class required.

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Uniform Commercial Code (UCC)

DEFINITION

A set of proposals adopted by US states as laws to ensure uniformity for commercial financial transactions in the United States. It defines the rights and duties of all parties in a commercial transaction and provides a statutory definition of commonly accepted business practices.

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use tax

DEFINITION

A type of tax that is imposed directly on the consumer of goods that were purchased without paying sales tax.

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DEFINITION

value-added tax (VAT)

A type of sales tax that involves charging a separate tax at each discrete stage of production and/or distribution based on the increased value occurring at that stage.

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DEFINITION

withholding tax

A tax that is deducted at the payment source and paid directly to the tax authorities where the payment originates.

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ask price

DEFINITION

The price or yield at which a dealer will sell a security.

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bid price

DEFINITION

The price or yield at which a dealer will purchase a security.

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brokerage firms

DEFINITION

Institutions/firms that specialize in the sale of securities to institutional and retail customers by executing the distribution, or selling, side of an investment bank's intermediation function.

PART 2, CHAPTER 3



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broker-dealer

DEFINITION

A company or other organization that serves as an intermediary in the purchase and sale of capital market securities.

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captive finance company

DEFINITION

A subsidiary of a large industrial corporation that finances purchases of the corporation's products.

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credit unions

DEFINITION

Member-owned, not-for-profit financial cooperatives. In the United States, they are chartered by either federal or state agencies and originally were intended to restrict membership to individuals with a common affiliation (e.g., an employer, association, community organization, or geographic location) but may now include businesses as members.

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demand deposit account (DDA)

DEFINITION

An account through which an account holder uses a bank to transfer funds to, and receive deposits from, a third party.

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discount brokerage

DEFINITION

A firm that lets investors make trades at reduced prices, but provides little or no investment advice.

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distribution

PART 2, CHAPTER 3

DEFINITION

An investment bank function that involves a securities sale to investors by an investment bank or syndicate of investment banks.



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fiduciary

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DEFINITION

An individual or institution to which certain property is given to hold in trust according to a trust agreement.



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foreign currency account

PART 2, CHAPTER 3

DEFINITION

A bank account where deposit balances may be held in a currency other than that of the country in which the bank is located.



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foreign exchange (FX)

PART 2, CHAPTER 3

DEFINITION

The conversion of one country's currency into that of another.



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forward market

DEFINITION

A financial market in which contracts for future delivery of currency or commodities are bought and sold.

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**industrial bank/industrial loan
company**

DEFINITION

An FI with a limited scope of services. They sell certificates that are labeled as investment shares and can also accept customer deposits, then invest the proceeds in installment loans for consumers and small businesses.

PART 2, CHAPTER 3



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insurance company

DEFINITION

A type of nonbank financial institution that sells insurance products.

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investment bank

DEFINITION

A financial intermediary that performs a variety of services, such as: (1) underwriting, by acting as an intermediary between an issuer of securities and the investing public; (2) facilitating mergers, acquisitions, divestitures, and other corporate reorganizations; and (3) acting as a broker/financial advisor for institutional clients.

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loan sales

DEFINITION

An offering of commercial banks that involves the structuring of lending facilities so that short-term loans can be sold to other banks and investors.

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municipal securities

DEFINITION

Types of debt (bonds or notes) issued by city, county, or state government entities that generally have some type of income tax exemption for any interest paid on them.

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nonbank financial institution/ intermediary

DEFINITION

A financial services firm that does not accept deposits from the general public but may offer a variety of financial services including leasing, factoring, payment services, pension funds, mutual funds, and insurance plans.

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private placement

DEFINITION

The practice of the direct sale of long-term loans to institutional investors, such as insurance companies and hedge funds.

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DEFINITION

universal bank

A bank that offers both commercial and investment banking services, with investment banking services offered through the investment banking arm of a commercial bank’s holding company.

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account-to-receiver transfer

PART 2, CHAPTER 4

DEFINITION

Under the FedGlobal ACH Payments system, this type of transfer allows funds from accounts at a US depository financial institution to be retrieved by any receiver either at a participating bank location or at a trusted, third-party provider in certain receiving countries.



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automated clearinghouse (ACH)

PART 2, CHAPTER 4

DEFINITION

An electronic network for low-value credit and debit financial transactions in the United States.



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available balance

PART 2, CHAPTER 4

DEFINITION

The available amount of funds available for withdrawal from an account, based on a bank's availability schedule and/or local regulations.



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certified check

PART 2, CHAPTER 4

DEFINITION

A payment instrument drawn on a depositor's checking account; funds are withdrawn from the depositor's account at the time of certification to assure payment with a certification or guarantee by the bank. It carries the signature of a bank officer certifying the check to be genuine and guaranteeing payment.



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charge-back

DEFINITION

The reversal of a prior outbound transfer of funds from a consumer's bank account, line of credit, or credit card.

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clearing

DEFINITION

The process in which financial institutions use the information contained in a payment instruction, such as a check or wire transfer, to transfer money between themselves on behalf of the payor and the beneficiary, either directly or through some external network.

PART 2, CHAPTER 4



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**Clearing House Interbank Payments
System (CHIPS)**

DEFINITION

A bank-owned, large-dollar funds transfer network operated by The Clearing House Payments Company.

PART 2, CHAPTER 4



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clearinghouse

DEFINITION

In a payment clearing process, this is a group of banks or other financial institutions that agree to exchange payment instruments (paper or electronic) drawn on the member participants.

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collected balance

PART 2, CHAPTER 4

DEFINITION

An aggregate of bank account balances that is calculated as the average ledger balance minus the deposit float.



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correspondent bank

PART 2, CHAPTER 4

DEFINITION

In a payment clearing process, this is one of two banks that have accounts with each other for the purpose of clearing and settlement of payment items between the banks.



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daylight overdraft

PART 2, CHAPTER 4

DEFINITION

A type of overdraft position that occurs when a financial institution permits a corporation to make payments that exceed the available balance on the corporation's account. These overdraft positions are usually eliminated by funds that arrive later in the day.



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debit card

PART 2, CHAPTER 4

DEFINITION

A card that allows access to funds directly from a cardholder's checking or savings deposit account and can be either signature-based or personal identification number (PIN)-based.



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debit transfer

PART 2, CHAPTER 4

DEFINITION

In an electronic payments system, this is the process of a payor authorizing payees to initiate value transfers from the payor's account to the account of the payee.



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departmental (unnamed) card

PART 2, CHAPTER 4

DEFINITION

A variation on the purchasing card in which each department is given its own purchasing card for general use by that department.



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deposit deadline

PART 2, CHAPTER 4

DEFINITION

The time within the banking day when an item must be ready for transit at the depository bank's processing center to qualify for the availability stated in the availability schedule.



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depository bank

PART 2, CHAPTER 4

DEFINITION

The bank or financial institution in which a check is deposited for processing and clearing.



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direct debit scheme

PART 2, CHAPTER 4

DEFINITION

The term used in the Single Euro Payments Area (SEPA) initiative to describe a pre-authorized debit program in which one person or company authorizes another to automatically debit its bank account for payments that are due.



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EMV

PART 2, CHAPTER 4

DEFINITION

An acronym that refers to a global standard for the use of smart cards (or chip cards) as either debit or credit cards.



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FedGlobal ACH Payments

PART 2, CHAPTER 4

DEFINITION

A service offered by the US Federal Reserve Bank to provide a framework for sending cross-border automated clearinghouse transactions to countries around the world (over 25 countries as of 2018).



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Fedwire

PART 2, CHAPTER 4

DEFINITION

A high-value, real-time gross settlement (RTGS) transfer system operated by the US Federal Reserve.



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finality

DEFINITION

In a payment system, this is the point in time when a payment can no longer be taken back or retracted by a payor or payor's bank, and the payee has full use of the funds.

PART 2, CHAPTER 4



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foreign check

DEFINITION

A check deposited at a bank in one country that is drawn on a bank in another country.

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ghost card

DEFINITION

A variation on the purchasing card that does not involve the use of an actual card. Also known as a virtual card.

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giro

DEFINITION

A method of transferring money by instructing a bank to directly transfer funds from one bank account to another without the use of checks.

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government warrant

PART 2, CHAPTER 4

DEFINITION

In government finance, this is an order to pay that instructs a treasurer to pay the holder on demand or after a maturity date.



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gross settlement

PART 2, CHAPTER 4

DEFINITION

A type of settlement in a payment system in which each transaction results in a separate value transfer between the payor and payee.



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image replacement document (IRD)

PART 2, CHAPTER 4

DEFINITION

In the United States, this is a paper reproduction of the original check that contains an image of the front and back of the original check and is the legal equivalent of the original check.



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interchange fees

PART 2, CHAPTER 4

DEFINITION

Fees established by the payment card brands that go directly to the issuing bank to cover its costs in issuing cards and in processing card transactions.



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ledger balance

DEFINITION

A bank balance that reflects all entries to a bank account, regardless of whether the deposited items have been collected and are available for withdrawal.

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**magnetic ink character recognition
(MICR)**

DEFINITION

A data capture process that translates the machine-readable information on a check into a digital data entry.

PART 2, CHAPTER 4



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merchant acquirer

DEFINITION

The financial institution that processes and settles payment card transactions on behalf of a merchant.

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merchant discount

DEFINITION

A type of bundled merchant card processing fee in which the merchant is charged one fee by its card processor that covers all of the cost components of the transaction.

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mobile wallet

PART 2, CHAPTER 4

DEFINITION

An emerging payment type that uses smartphones and tablets equipped with near field communication (NFC) chips or a bar code.



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near field communication (NFC)

PART 2, CHAPTER 4

DEFINITION

A short-range wireless connectivity standard that uses magnetic field induction to enable communication between devices when they are touched together or brought within a few centimeters of each other.



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on-us check clearing

PART 2, CHAPTER 4

DEFINITION

A type of clearing process that involves a single bank and occurs when a payee deposits a check in an account at the same bank on which it is drawn.



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on-we check clearing

PART 2, CHAPTER 4

DEFINITION

A type of clearing process that occurs when checks are deposited at a financial institution that are drawn on related financial institutions or on financial institutions that share a common check-processing system, thus eliminating the need to clear the checks through another bank.



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optical character recognition (OCR)

PART 2, CHAPTER 4

DEFINITION

A processing method for data entry that reads preprinted information on remittance documents and creates a digital data file.



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payable through draft (PTD)

PART 2, CHAPTER 4

DEFINITION

A payment instrument resembling a check that is drawn against the payor rather than the bank.



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payee

PART 2, CHAPTER 4

DEFINITION

In a payment system, the one receiving the payment.



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payment system

PART 2, CHAPTER 4

DEFINITION

A series of processes and technologies that transfer monetary value from one party to another.



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payor

DEFINITION

In a payment system, the one making the payment.

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pre-authorized draft

DEFINITION

A payment instrument that authorizes the payee to draw/draft against the payor's account.

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proof of deposit (POD)

DEFINITION

An availability assignment method used in banking in which availability is assigned to each check as it is processed.

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purchasing card

DEFINITION

A payment card, typically a credit card, used by a business for the purchase of supplies, inventory, equipment, and service contracts.

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real-time gross settlement (RTGS) system

PART 2, CHAPTER 4

DEFINITION

A type of payment system in which each transaction results in a separate value transfer between the payor and payee, and the payment to the payee is final and irrevocable at the time the receiving bank's account is credited or at the time the receiving bank is notified of the payment, whichever is earlier.



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reject item

PART 2, CHAPTER 4

DEFINITION

A check that is rejected by a bank's automated check-processing equipment.



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remote deposit capture (RDC)

PART 2, CHAPTER 4

DEFINITION

In an over-the-counter field deposit system, this is a process that allows an organization to scan and image checks, then transmit those images to its depository bank for posting and clearing, instead of having to deposit physical checks.



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settlement

PART 2, CHAPTER 4

DEFINITION

In a payment system, this is the actual movement of funds from the payor's account to the payee's account.



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sight draft

DEFINITION

A draft that is payable upon presentment, provided all of the terms of the draft have been met.

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single-use card

DEFINITION

A disposable credit card number that looks like a regular credit card number, but includes an embedded expiration date and security code, and will only work for one use.

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smart card

DEFINITION

A typical payment card with the addition of a computer chip with related circuitry that can be used to store information for security or transaction processing.

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**Society for Worldwide Interbank
Financial Telecommunication (SWIFT)**

DEFINITION

A financial industry-owned, cooperative, interbank telecommunication network that enables banks and corporations to send authenticated electronic messages in standard formats.

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stored-value card (SVC)

PART 2, CHAPTER 4

DEFINITION

A type of debit card that may be offered by financial institutions, retailers, and other service providers, and can be a branded, open-loop card (e.g., Visa or MasterCard), or a private-label, closed-loop card (e.g., Starbucks or other merchant gift card). Gift cards are one of the most commonly used card of this type.



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time draft

PART 2, CHAPTER 4

DEFINITION

A draft that is payable at some future date, provided all of the terms of the draft have been met.



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transit check

PART 2, CHAPTER 4

DEFINITION

A check deposited with a financial institution that is drawn on another financial institution.



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**value-dated automated clearinghouse
(ACH) transactions**

PART 2, CHAPTER 4

DEFINITION

ACH transactions where the payment instructions include settlement dates.



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DEFINITION

virtual currencies / cryptocurrencies

A type of unregulated, digital money that is issued and usually controlled by its developers, and is used and accepted among the members of a specific virtual community.



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asset-backed commercial paper (ABCP)

PART 2, CHAPTER 5

DEFINITION

An investment that has most of the features of standard commercial paper (CP), but is secured against specific assets—usually short-term trade receivables from a single company or a range of companies.



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bank obligation

PART 2, CHAPTER 5

DEFINITION

A debt instrument issued by a bank to raise funds.



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certificate of deposit (CD)

PART 2, CHAPTER 5

DEFINITION

A type of time deposit account that pays the bearer some stated rate of interest (either fixed or variable) over its maturity. It may be issued in any denomination, with maturities generally ranging from one month to five years.



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commercial paper (CP)

PART 2, CHAPTER 5

DEFINITION

Tradable promissory notes issued by companies, as opposed to banks. Companies raise funds in the short-term money market through these issuances. Maturity can range from overnight to 270 days in the publicly traded market and up to 397 days for private placement, but most of this instrument are issued with maturities of less than 45 days.



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default/credit risk

PART 2, CHAPTER 5

DEFINITION

A form of risk that is related to how a change in the credit quality of a company, including its ability to make payments in a timely manner, would affect the value of a security or portfolio of investments.



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Depository Trust & Clearing Corporation (DTCC)

PART 2, CHAPTER 5

DEFINITION

An investment-industry-owned corporation that works through its subsidiaries to provide clearing, settlement, and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments, and over-the-counter derivatives.



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Eurodollar

PART 2, CHAPTER 5

DEFINITION

A deposit denominated in US dollars held in a financial institution outside of the United States, typically in Europe.



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Federal Open Market Committee (FOMC)

PART 2, CHAPTER 5

DEFINITION

The committee of the US Federal Reserve that runs the open market operations that help to implement US monetary policy and control the money supply.



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floating-rate note (FRN)

PART 2, CHAPTER 5

DEFINITION

A note with a variable interest rate.



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government paper

PART 2, CHAPTER 5

DEFINITION

A range of short-term paper, generally referred to as treasury bills or government-issued promissory notes, issued by national, provincial, and local government agencies and authorities, as well as other government entities, in order to raise funds in the short-term money market.



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liquidity risk

PART 2, CHAPTER 5

DEFINITION

The risk that an organization's may falter in its ability to raise necessary cash to meet its obligations as they come due.



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mark to market

PART 2, CHAPTER 5

DEFINITION

The accounting act of recording the price or value of a security, portfolio, or account to reflect its current market value rather than its book value.



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money market

PART 2, CHAPTER 5

DEFINITION

That part of the global financial market that deals with financial instruments that are easily converted to cash (highly liquid) and have very short maturities, typically one year or less.



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money market fund (MMF)

PART 2, CHAPTER 5

DEFINITION

A commingled pool of money market instruments, typically held by banks or investment firms, in which fund investors have an ownership interest.



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mortgage-backed security (MBS)

PART 2, CHAPTER 5

DEFINITION

A type of asset-backed security that uses pools of mortgages (mainly residential) as the source of cash flows to the investors.



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mutual fund

PART 2, CHAPTER 5

DEFINITION

A company that brings together money from many people and invests it in stocks, bonds, or other assets. The combined holdings of stocks, bonds, or other assets the fund owns are known as its portfolio.



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net asset value (NAV)

PART 2, CHAPTER 5

DEFINITION

A value that represents the price per share of a mutual fund or an exchange-traded fund. It is generally calculated as the total value of all the securities or assets in the fund (less any liabilities), divided by the number of shares outstanding.



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repurchase agreement (repo)

PART 2, CHAPTER 5

DEFINITION

An agreement in which a bank or securities dealer sells government securities it owns to an investor and agrees to repurchase them at a later date and at a slightly higher price.



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spread

PART 2, CHAPTER 5

DEFINITION

The difference between the bid and ask price of a particular security or asset.



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Treasury bill (T-bill)

PART 2, CHAPTER 5

DEFINITION

A short-term debt obligation backed by the US government with a maturity of less than one year.



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DEFINITION

variable-rate demand obligation (VRDO)

A type of security issued as a long-term bond that carries a short-term liquidity feature, or put.

PART 2, CHAPTER 5



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DEFINITION

yield

The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value, or its face value.

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additional paid-in capital (APIC)

DEFINITION

An equity account that reflects the difference at the time of issue between the par value and the issuance price (less underwriting costs) of any new stock sold by a company.



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PART 2, CHAPTER 6

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bond

DEFINITION

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time, at a fixed or variable interest rate.



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PART 2, CHAPTER 6

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bond indenture

DEFINITION

A legal document that outlines the rights and obligations of the borrower and lender. It is a contract between the company and the debt holders, which includes various restrictive covenants that impose constraints on the actions of the company's management.



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book value per share

DEFINITION

Total common stockholders' equity divided by the number of shares outstanding.



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call premium

DEFINITION

Compensation to investors for early redemption of a debt instrument.

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call provision

DEFINITION

A provision that gives the issuing entity the right to call in a debt issue for redemption prior to the original maturity.

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capital investment

DEFINITION

Funds used by a business to purchase long-term, typically fixed assets, such as land, machinery, or buildings.

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capital market

DEFINITION

A structure in which individuals and institutions trade financial securities with maturities in excess of one year. Organizations/institutions in the public and private sectors also often sell long-term (debt and/or equity) securities on the capital markets in order to raise funds.

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collateral

DEFINITION

Assets used as security for a loan or bond issue. They may include physical assets (e.g., plant, equipment, and inventory) or financial assets (e.g., receivables and marketable securities).

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collateral trust bond

DEFINITION

A type of financial instrument backed by securities of other companies that are owned by the firm issuing the bond.

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comfort letter

DEFINITION

A letter from another party stating actions that it will or will not take on behalf of the borrower. This type of agreement is not legally enforceable.

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common stock

DEFINITION

A security that represents ownership in a company.

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convertible bond

PART 2, CHAPTER 6

DEFINITION

A type of corporate debt security that can be converted by the holder, or sometimes the issuer, into shares of common or preferred stock at a fixed ratio.



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cost of capital

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DEFINITION

A measure of the cost a company would incur to raise funds to make investments in assets.



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covenant

PART 2, CHAPTER 6

DEFINITION

An additional requirement that is placed on debt or bond issues and that imposes constraints on the actions of the company's management.



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credit enhancement

PART 2, CHAPTER 6

DEFINITION

An addition to a borrowing arrangement or debt securities issue meant to improve the overall credit rating on the loan or issue. It generally provides either a guarantee of payment in the event of default or an agreement to provide financing to roll over the debt issue.



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crowdfunding

PART 2, CHAPTER 6

DEFINITION

A private financing technique used, typically by start-up or smaller companies, to access equity finance. The process usually involves a relatively large number of investors who each pledges a relatively small amount of funding.



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cure period

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DEFINITION

A period of time, often specified in a loan agreement, in which an event of default may be corrected before the lender may pursue default remedies.



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custodian

PART 2, CHAPTER 6

DEFINITION

A third party that typically takes possession of securities, receives delivery or book entry of principal and interest payments, performs record keeping, and provides maintenance services for an investment portfolio.



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debentures

PART 2, CHAPTER 6

DEFINITION

Unsecured bonds that represent general claims against the issuer organization's assets and/or cash flows, and may carry a higher interest cost (to the issuer) than secured bonds.



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debt indenture

PART 2, CHAPTER 6

DEFINITION

The contract between the issuing entity of a bond and the bondholders.



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debt market

PART 2, CHAPTER 6

DEFINITION

A financial market in which participants can issue new debt, or buy and sell debt securities.



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defeasance of debt

PART 2, CHAPTER 6

DEFINITION

A financial management method that removes debt from an organization's balance sheet without actually retiring the debt issue. In this arrangement, the borrower places sufficient funds in escrow, usually in government securities, to pay for interest and principal on the debt issue. Because control of both the debt and escrow funds is relinquished, and payment and retirement of the debt issue is now guaranteed, this debt and the related securities can be removed from the balance sheet and do not need to be considered in relation to any restrictive covenants the organization may have regarding debt.



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depository receipt (DR)

PART 2, CHAPTER 6

DEFINITION

A type of negotiable financial instrument (typically equity securities) that trades on a local exchange but actually represents stock ownership in a foreign, publicly listed company.



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economic development bond

PART 2, CHAPTER 6

DEFINITION

A type of bond typically issued by a developing country or sponsoring organization, such as the World Bank or the International Monetary Fund, for the express purpose of fostering development of infrastructure and related projects.



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equipment trust certificate

PART 2, CHAPTER 6

DEFINITION

A type of bond that is secured by movable equipment (e.g., an aircraft, a fleet of trucks, or railroad equipment).



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equity market

PART 2, CHAPTER 6

DEFINITION

A market where shares are issued and traded.



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equity securities

PART 2, CHAPTER 6

DEFINITION

Stock (shares) that represents the ownership of publicly owned corporations.



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Eurobond

PART 2, CHAPTER 6

DEFINITION

A type of bond sold simultaneously in many countries outside the country of the borrower and denominated in a currency other than that of the country in which it is issued.



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event of default

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DEFINITION

An action or circumstance by which a borrower breaches or violates any term or condition under a debt agreement.



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floating-rate debt

PART 2, CHAPTER 6

DEFINITION

A type of debt issue that carries interest payments that reset periodically based on movement in a representative interest rate index.



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foreign bond

PART 2, CHAPTER 6

DEFINITION

A type of bond sold in a particular country by a foreign borrower, but usually denominated in the domestic currency of the country where issued.



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full guarantee

PART 2, CHAPTER 6

DEFINITION

A level of guarantee for a subsidiary in which the guaranteeing party (the parent organization or another party) fully guarantees any borrowing arrangement by the subsidiary and agrees to take over the loan if the subsidiary fails to make timely payments.



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government-sponsored enterprise (GSE)

PART 2, CHAPTER 6

DEFINITION

A company that is created by a national government in order to participate in or help support various commercial activities on the government's behalf.



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green bond

PART 2, CHAPTER 6

DEFINITION

A type of bond used by federally qualified organizations to raise funds to promote sustainability by developing underutilized or abandoned properties.



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high-yield bond

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DEFINITION

A high-paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds, and municipal bonds.



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hybrid security

DEFINITION

A type of security that is generally created by combining the elements of two or more different types of securities into one.

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income bond

DEFINITION

A type of bond that pays interest only if a company has profits, thus reducing some of the risk of issuing debt from a company's viewpoint.

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index bond

DEFINITION

A type of bond that has interest rates tied to an economic index. Index bonds are used most often when a high level of price inflation is present or possible.

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initial public offering (IPO)

DEFINITION

The first sale of stock by a private company to the public.

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intermediate-term note

PART 2, CHAPTER 6

DEFINITION

A note with a maturity of two to ten years.



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investment banker

PART 2, CHAPTER 6

DEFINITION

A professional who is responsible for assisting issuers in the design and placement of securities issuances.



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lead bank/institution

PART 2, CHAPTER 6

DEFINITION

The financial institution that is responsible for managing a syndicated loan or securities sale that is funded by multiple financial institutions.



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lien

PART 2, CHAPTER 6

DEFINITION

A legal claim on an asset or assets.



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DEFINITION

London Interbank Offered Rate (LIBOR)

An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

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DEFINITION

long-term bond

A bond with a maturity of 10 to 30 years.

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DEFINITION

material adverse change (MAC) clause

A clause in a loan agreement that allows a lender to refuse funding or declare a borrower to be in default, even if all agreements are in full compliance, if the lender believes a material change has occurred to the detriment of the borrower's condition.

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DEFINITION

maturity matching

A practice that involves pairing the life of a debt issue to the life of the specific assets financed or the maturity of an investment to the future need for funds.

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mortgage bond

PART 2, CHAPTER 6

DEFINITION

A type of bond used to finance specific assets, such as real estate, that are pledged as security against the issue.



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multicurrency bond

PART 2, CHAPTER 6

DEFINITION

A type of bond that is usually issued as (1) a currency option bond that allows investors to choose among several predetermined currencies, or (2) a currency cocktail bond that is denominated in a standard basket of several currencies.



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municipal bond (muni)

PART 2, CHAPTER 6

DEFINITION

A sub-sovereign bond issued by a municipality, typically in the United States and usually in the form of a general obligation or revenue bond.



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off-balance-sheet financing

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DEFINITION

A type of arrangement designed to provide financing that does not appear on the balance sheet.



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operating lease

DEFINITION

A type of lease that is established in such a way that the lessor may maintain the equipment and retain ownership thereof at the end of the lease.

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origination

DEFINITION

An investment bank function that involves consultation with a company raising funds about the characteristics of a securities issue and any underlying documents.

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origination desk

DEFINITION

A subset of trading professionals who are charged with evaluating, pricing, and managing the placement of new security issues.

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personal guarantee

DEFINITION

A type of guarantee in which a lender may require a pledge on the part of the owner or other principals in a business before granting a loan to the business.

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pledge

PART 2, CHAPTER 6

DEFINITION

A binding promise in which a borrower offers collateral to a lender as security, usually in return for a loan.



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political risk

PART 2, CHAPTER 6

DEFINITION

A term applied to a variety of actions that a government may take that negatively impact a company's operations and/or value.



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preferred stock

PART 2, CHAPTER 6

DEFINITION

An investment security that is a type of equity, but is different from common stock in terms of its stockholder rights and dividend payment streams. In terms of cash flows, it is more like debt than equity because of the fixed dividend payments.



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primary market

PART 2, CHAPTER 6

DEFINITION

A financial market that offers newly issued debt and equity securities to investors when firms or government units sell securities to raise funds.



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private market

PART 2, CHAPTER 6

DEFINITION

A financial market for direct placement, in which securities are offered and sold to a limited number of investors, and not offered to the general public. The investment banking firm, acting as a broker to bring the issuer and investors together, meets with prospective buyers and confirms the details of the offering.



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put provision

PART 2, CHAPTER 6

DEFINITION

A condition that allows a bondholder to resell a bond back to the issuer at a preestablished price on certain stipulated dates prior to maturity.



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rating agency/credit rating agency

PART 2, CHAPTER 6

DEFINITION

A company that assigns credit ratings that, in its opinion, rate a debtor's (1) ability to pay back debt by making timely interest payments and (2) likelihood of default.



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representations

PART 2, CHAPTER 6

DEFINITION

Along with warranties, these are the existing conditions at the time when a loan agreement is executed, as attested to by the borrower.



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seasoned equity offering (SEO)

PART 2, CHAPTER 6

DEFINITION

A type of stock offering in which new stock shares are sold by a company that has shares already trading on an exchange or in the over-the-counter market.



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secondary market

PART 2, CHAPTER 6

DEFINITION

A financial market that trades previously issued securities.



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securities exchange

PART 2, CHAPTER 6

DEFINITION

An organized stock exchange that facilitates the buying and selling of debt and equity securities.



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securitization

PART 2, CHAPTER 6

DEFINITION

The practice of pooling various debt contracts, such as consumer loans, credit card debt, and mortgages, and using them as a basis for issuing securities.



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sinking fund

PART 2, CHAPTER 6

DEFINITION

A fund that is the result of a provision that may be attached to a bond or preferred stock issue. It generally requires the issuer to set aside this pool of funds, which can be used to repay the bond's principal at maturity.



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SOFR: Secured Overnight Financing Rate

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DEFINITION

Published daily by the New York Federal Reserve, this rate is an indication of the cost of overnight cash collateralized by US Treasury securities.



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SONIA: Sterling Overnight Index Average

PART 2, CHAPTER 6

DEFINITION

Published by the Bank of England, this is seen as a market replacement for LIBOR for GBP-denominated transactions.



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sovereign bond

PART 2, CHAPTER 6

DEFINITION

A bond issued by a national government and typically denominated in the currency of the issuing government.



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special drawing right (SDR)

PART 2, CHAPTER 6

DEFINITION

An artificial currency, created by the International Monetary Fund, whose asset value is based on a basket of currencies consisting of the euro, Japanese yen, British pound sterling, and US dollar.



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specific-project guarantee

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DEFINITION

A type of loan guarantee in which the guaranteeing party guarantees only loans relating to specific projects of the subsidiary, rather than all loans.



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sub-sovereign bond

PART 2, CHAPTER 6

DEFINITION

A type of bond issued by a level of government below the national or central government, which includes regions, provinces, states, and municipalities.



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syndicate

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DEFINITION

A group of banks that work together, typically to underwrite a securities issue or arrange a loan.



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tender option bond

DEFINITION

A type of bond that allows the holder to redeem the bond either once during its life or on specified dates.

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term loan

DEFINITION

A type of loan with a fixed maturity, usually greater than one year, that can be repaid either in installments or in a single payment.

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term note

DEFINITION

A medium-term debt instrument, typically with terms from two to ten years, issued by an organization. In most cases, these notes pay interest at periodic intervals.

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tracking stock

DEFINITION

A special type of stock that is a separate stock created by a parent company to track the financial progress of a particular line of business.

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treasury stock

DEFINITION

Stock issued by a company and later reacquired.

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underwriting

DEFINITION

An investment bank function, this is the act of purchasing all or a part of a block of securities issued by a company and thereby becoming responsible for their ultimate distribution.

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warranties

DEFINITION

Along with representations, these are the existing conditions at the time when a loan agreement is executed, as attested to by the borrower.

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zero-coupon bond

DEFINITION

A debt security that does not pay interest (a coupon) but is traded at a deep discount, rendering a profit at maturity when the bond is redeemed for its full face value.

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account analysis

PART 2, CHAPTER 7

DEFINITION

Largely unique to the US banking system, this is a record of the services provided to the customers of a bank, along with detailed information on balances and credits earned for those balances.



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account resolution

PART 2, CHAPTER 7

DEFINITION

Usually made at the board of director's level, this is the basic account or service authorization empowering a representative of the business to enter into agreements for financial services. It usually specifies the functions that can be performed by specific individuals or job titles, the persons authorized to open and close accounts, and the entire scope and limitations of the relationship.



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blocked currencies

PART 2, CHAPTER 7

DEFINITION

A type of political risk, this is the practice of a government not allowing the conversion from the local currency into a major trading currency.



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board/corporate resolution

PART 2, CHAPTER 7

DEFINITION

A document usually approved by an enterprise's board of directors that gives a specific individual (or individuals) the authority to facilitate the business of the enterprise.



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certificate of incumbency

PART 2, CHAPTER 7

DEFINITION

A document (signed by an enterprise's corporate secretary) confirming the authority of a corporate officer to perform certain actions on behalf of the enterprise.



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counterparty risk

PART 2, CHAPTER 7

DEFINITION

The risk that the other party in a contract or financial transaction will not perform as promised.



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current account

PART 2, CHAPTER 7

DEFINITION

A bank depository account that is both a store of value (deposits) and, perhaps more importantly for treasury management purposes, a vehicle through which an account holder uses a bank to transfer funds to, and receive deposits from, a third party.



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customer identification program (CIP)

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DEFINITION

The processes used by a financial institution to verify and validate the stated identity of a customer.



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earnings credit allowance

DEFINITION

The total dollar value of imputed interest that can be used by a company to offset the bank service charges incurred during the account analysis period.

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excess balance

DEFINITION

A situation that occurs in an account when its average collected balance is greater than either the amount that the financial institution requires as a compensating balance or the target level that a company has chosen to maintain.

PART 2, CHAPTER 7



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expropriation

DEFINITION

A government takeover of property, with or without compensation.

PART 2, CHAPTER 7



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forced reinvestment

DEFINITION

A type of political risk in which funds cannot be transferred out of a country in any form, or the amount that can be transferred is limited.

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DEFINITION

Foreign Corrupt Practices Act (FCPA)

US legislation that specifically prohibits payments to foreign officials or their family members for the purpose of gaining any improper business advantage.

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DEFINITION

International Bank Account Number (IBAN)

An international standard for identifying bank accounts across national borders.

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DEFINITION

know your customer (KYC)

The due diligence procedures that a financial institution must follow to determine or verify the identity of its customers.

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DEFINITION

money market deposit account (MMDA)

A type of demand deposit account that pays an unregulated rate of interest determined by individual institutions.

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nationalization

PART 2, CHAPTER 7

DEFINITION

A government takeover of a company.



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nonresident account

PART 2, CHAPTER 7

DEFINITION

An account with a global financial institution that is owned by a nonresident of the country in which the global financial institution is chartered.



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request for information (RFI)

PART 2, CHAPTER 7

DEFINITION

A document requesting information about a vendor's interest in providing, and ability to provide, services. The requesting company provides a formal description of its needs and asks selected vendors to provide general information as to how they could meet the company's needs.



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request for proposal (RFP)

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DEFINITION

A formal document prepared by a sourcing company that outlines objectives, needs, and service requirements and may be used to obtain bids for anything ranging from one specific service to a company's entire relationship.



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request for quotation/quote (RFQ)

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DEFINITION

A document whose purpose is to invite suppliers into a bidding process on specific products or services.



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required majority ownership

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DEFINITION

A type of political risk in which a government requires that companies must be owned by resident nationals.



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scorecard

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DEFINITION

A management tool used to measure a service provider's performance in both a qualitative and quantitative method.



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service agreement

PART 2, CHAPTER 7

DEFINITION

A legal document (contract) that describes the requirements and expectations of both the purchaser and provider of a specific service or services.



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service level agreement (SLA)

PART 2, CHAPTER 7

DEFINITION

An agreement that specifies the level of service expected from a financial service provider, along with a description of any penalties for failure to comply with the requirements of the agreement.



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sovereign risk

PART 2, CHAPTER 7

DEFINITION

The risk that a government may default on its debt.



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statement of beneficial interest

PART 2, CHAPTER 7

DEFINITION

A document that specifies who has control over funds or accounts.



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time deposit account (TDA)

PART 2, CHAPTER 7

DEFINITION

A depository account that must be maintained at a financial institution for a contractually specified period of time.



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value dating

DEFINITION

A process whereby a bank sets a forward value date on which the value of funds credited to an account is determined, and establishes a back value date on which the value of funds debited from or credited to an account is determined.

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virtual bank accounts

DEFINITION

A set of internal ledgers with only the header account being a real account.

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accrual accounting

PART 3, CHAPTER 8

DEFINITION

The accounting approach under which expenses must be reported when the revenues with which they are associated are recognized. Long-lived or fixed assets are capitalized and depreciated over time because they produce revenues over many accounting periods. This practice matches an asset's cost to the revenues it produces. Under the revenue recognition and matching principles, sales are reported even though cash has not been received. Similarly, expenses are reported even though cash has not been paid out.



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accumulated depreciation

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DEFINITION

The total amount of wear and tear that reduces the value of a company's assets. It appears on the asset side of the balance sheet, but it is a source of funds when it increases.



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cash basis accounting

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DEFINITION

An accounting method that recognizes revenues and expenses at the time physical cash is actually received or disbursed.



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cost of goods sold (COGS)

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DEFINITION

The expense associated with providing the goods or services whose sale is recognized as revenues.



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derivative

DEFINITION

A financial product that acquires its value by inference through a formulaic connection to another asset. The other asset is termed the underlying asset, and can be a financial instrument (e.g., a stock or bond), currency, or commodity.

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earnings before interest and taxes (EBIT)

DEFINITION

A measure of operating income or profit that is calculated as gross profit less operating expenses, depreciation, and amortization.

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earnings before interest, taxes, depreciation, and amortization (EBITDA)

DEFINITION

A measure of operating profitability that is calculated as gross profit less operating expenses (but not subtracting depreciation and amortization).

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Electronic Data Gathering, Analysis, and Retrieval (EDGAR) database

DEFINITION

A database that contains a searchable listing of US Securities and Exchange Commission filings for public companies.

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fair value

DEFINITION

the value of an asset or liability that would be received in an asset sale or the price paid to transfer a liability.

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fair value hedge

DEFINITION

A type of hedge in which the risk being hedged is a change in the marketable value of an asset or a liability.

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Financial Accounting Standards Board (FASB)

DEFINITION

An independent, self-regulating US organization, made up of accounting professionals, that establishes financial accounting and reporting standards in the United States, collectively referred to as Generally Accepted Accounting Principles (GAAP).

PART 3, CHAPTER 8



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financial statements

DEFINITION

Accounting reports that summarize a company's operating results and financial position at a point in time.

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foreign currency translation

PART 3, CHAPTER 8

DEFINITION

A process used to convert the financial results of a parent company's foreign subsidiaries to its reporting currency.



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functional currency

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DEFINITION

For determining foreign exchange translation exposure, this is the currency of the primary economic environment in which the entity operates.



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Generally Accepted Accounting Principles (GAAP)

PART 3, CHAPTER 8

DEFINITION

A detailed set of rules that govern US accounting standards.



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goodwill

PART 3, CHAPTER 8

DEFINITION

A balance sheet account recorded in a situation in which the purchase price is higher than the sum of the fair value of all identifiable tangible and intangible assets purchased in the acquisition and the liabilities assumed in the process.



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home currency

DEFINITION

The currency of the country in which an entity's headquarters are located.

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income statement

DEFINITION

A financial statement that summarizes revenues earned, expenses incurred, and gains and losses arising from conversions of assets and liabilities over an accounting period.

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intangible assets

DEFINITION

Assets that lack physical substance and for which there is often a high degree of uncertainty concerning their future value. Examples are goodwill, trademarks, and patents.

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**International Accounting Standards
Board (IASB)**

DEFINITION

An international standards-setting body that determines general accounting standards and is made up of board members from around the world.

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International Financial Reporting Standards (IFRS)

PART 3, CHAPTER 8

DEFINITION

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements.



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net investment hedge

PART 3, CHAPTER 8

DEFINITION

A type of hedge designed to hedge currency risk associated with the translation of subsidiary (or other foreign operations) financial statements into the parent firm's functional currency.



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private equity

PART 3, CHAPTER 8

DEFINITION

An investment of either common or preferred stock in an operating company that is not publicly traded on an exchange. This investment sometimes involves the acquisition of an entire company.



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realized gains/losses

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DEFINITION

Currency gains or losses that are realized when a previously recorded transaction is completed.



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DEFINITION

retained earnings

A balance sheet account that represents the accumulated net earnings of a corporation since its inception, less dividends paid to shareholders.

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DEFINITION

statement of cash flows

A financial statement that provides a detailed picture of the sources of a company's cash flows and how these sources are used.

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DEFINITION

unrealized gains/losses

Currency gains or losses that are recorded in the financial statements without an associated cash flow.

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capital budgeting

PART 3, CHAPTER 9

DEFINITION

The process by which proposed large-dollar investments in long-term assets are evaluated.



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cash conversion efficiency

PART 3, CHAPTER 9

DEFINITION

An efficiency/asset management ratio that measures how effectively a company has converted sales (or revenues) into cash.



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common-size financial statement

PART 3, CHAPTER 9

DEFINITION

A financial statement that expresses every line item on the statement as a percentage of revenue or as a percentage of total assets.



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coverage ratio

PART 3, CHAPTER 9

DEFINITION

A type of financial ratio concerned primarily with measuring a company's ability to make payments on (i.e., service) its debt.



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current asset turnover ratio

PART 3, CHAPTER 9

DEFINITION

An efficiency/asset management ratio that measures how many times the firm has turned over the stock of its most liquid assets with the flow of revenue.



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debt management ratio

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DEFINITION

A type of ratio that measures the firm's degree of indebtedness and its ability to service its debt.



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debt to tangible net worth ratio

PART 3, CHAPTER 9

DEFINITION

A type of debt management ratio that reflects the impact of intangible assets (e.g., goodwill, patents, trademarks, and copyrights) on the balance sheet.



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DuPont approach

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DEFINITION

An integrated ratio analysis technique that looks at the return on equity (ROE) as a relationship among an organization's net profit margin, asset management, and financial leverage.



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EBITDA margin

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DEFINITION

A measure of operating profitability calculated by dividing EBITDA (earnings before interest, taxes, depreciation, and amortization) by total revenues.



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economic value added (EVA)

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DEFINITION

A performance measurement ratio that isolates the funds available to all suppliers of capital and then relates that total to the amount of capital supplied. It can be computed as earnings before interest and taxes (EBIT), times one minus the company's tax rate, and then subtracting the product of the weighted average cost of capital (WACC) and long-term debt and equity.



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efficiency/asset management ratio

PART 3, CHAPTER 9

DEFINITION

A type of ratio that measures how effectively assets are utilized.



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equity capital

PART 3, CHAPTER 9

DEFINITION

The invested capital of an organization (as contrasted with borrowed or debt capital).



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financial budget

PART 3, CHAPTER 9

DEFINITION

A component of a master budget, this budget addresses an organization's financing and investing activities.



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financial leverage

PART 3, CHAPTER 9

DEFINITION

A measure of a company's use of debt in its capital structure.



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fixed asset turnover ratio

PART 3, CHAPTER 9

DEFINITION

An efficiency/asset management ratio that measures how efficiently fixed assets (or property, plant, and equipment) are used. It is computed as revenues divided by net property, plant, and equipment.



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fixed cost

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DEFINITION

A type of cost that does not vary in total over a wide range of activity and is not immediately impacted by changes in business activities.



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fixed-charge coverage ratio

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DEFINITION

A measure computed as earnings before interest and taxes (EBIT) plus fixed charges, divided by interest expense plus fixed charges.



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flotation costs

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DEFINITION

The costs of issuing a security (usually the underwriting costs), not related to direct interest or equity costs.



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free cash flow (FCF)

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DEFINITION

The amount of effective cash generated and available to a company after all necessary investments have been accounted for.



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future value (FV)

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DEFINITION

For an investment made today, this is the expected value of the investment at a later date.



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gross profit margin

PART 3, CHAPTER 9

DEFINITION

A performance ratio that shows the percentage of revenues remaining after the cost of goods sold is deducted from revenue.



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indebtedness/debt ratio

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DEFINITION

A ratio used to measure the level of indebtedness or use of leverage by a company.



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internal rate of return (IRR)

PART 3, CHAPTER 9

DEFINITION

The discount rate that makes the net present value equal to zero or, equivalently, makes the present value (PV) of cash inflows equal to the PV of cash outflows.



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liquidity/working capital ratio

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DEFINITION

A type of ratio that measures a firm's ability to meet its payment obligations on short-term debt and helps ascertain whether cash is being used effectively.



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long-term debt to capital ratio

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DEFINITION

A type of debt management ratio that measures the percentage of a company's capital that is provided by long-term debt.



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master budget

PART 3, CHAPTER 9

DEFINITION

An annual budget for an entire organization.



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net present value (NPV)

PART 3, CHAPTER 9

DEFINITION

A type of financial analysis, this value is calculated by summing the present value of anticipated cash inflows and the present value of cash outflows.



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net profit margin

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DEFINITION

A performance ratio that shows the percentage of profits earned after all expenses and taxes are deducted from revenues.



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operating budget

DEFINITION

A component of a master budget, this budget focuses on day-to-day operations.

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operating leverage

DEFINITION

A concept that examines the responsiveness of operating profits to changes in sales by examining the extent to which fixed costs are used in a company's operating cost structure.

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operating profit margin

DEFINITION

A performance ratio that shows the percentage of revenue remaining after both the cost of goods sold and all operating expenses are deducted from revenue. It is computed as earnings before interest and taxes (EBIT) divided by revenues.

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opportunity cost

DEFINITION

The value of the best known alternative not taken when two or more mutually exclusive alternatives are available.

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payback period

DEFINITION

The number of years required to recover the initial investment in an asset or project.

PART 3, CHAPTER 9



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performance ratio

DEFINITION

A type of ratio that measures profit relative to the amount of revenue or the level of financing.

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present value (PV)

DEFINITION

The current value of anticipated future cash flows or payments.

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profitability index (PI)

DEFINITION

A cost/benefit measurement that is similar to net present value, this is ratio of the present value gained to the cost required to obtain that value.

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return on assets (ROA)

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DEFINITION

A performance ratio that measures net income in relation to the investment in assets.



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return on common equity (ROCE)

PART 3, CHAPTER 9

DEFINITION

A performance ratio that measures the amount of earnings available to common shareholders relative to the level of their investment in the company. It is computed as earnings available to common shareholders divided by common equity.



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return on invested capital (ROIC)

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DEFINITION

A performance measurement ratio that calculates profit per dollar of invested capital. It is computed by dividing net income by the sum of long-term debt and equity.



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risk-adjusted discount rate (RADR)

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DEFINITION

A type of cost/benefit analysis that essentially requires high-risk endeavors to earn a higher rate of return in order to justify the investment.



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risk-adjusted return on capital (RAROC)

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DEFINITION

A method of determining the economic value of a transaction or activity based upon the anticipated risk-adjusted performance of the activity.



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scenario analysis

PART 3, CHAPTER 9

DEFINITION

A method for assessing investment risk, this type of what-if analysis assesses possible outcomes under a range of circumstances. It is used frequently to establish the lower bound (i.e., worst case) and upper bound (i.e., best case) of outcomes.



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sensitivity analysis

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DEFINITION

A method of assessing investment risk, this type of analysis determines how a final outcome, such as net present value, is influenced by changes in the value of a single variable and how vulnerable the expected outcome is to changes in a specific assumption.



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simulation

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DEFINITION

A method of assessing investment risk, this method combines aspects of scenario and sensitivity analyses, allowing certain assumptions in a decision model to fluctuate simultaneously.



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step-up cost

PART 3, CHAPTER 9

DEFINITION

A type of cost that is fixed over a wide range of activity, but once output reaches a certain level, requires additional fixed costs to facilitate an increased level of output.



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time value of money

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DEFINITION

A fundamental finance principle that establishes the relationship between cash flows received at different times.



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times interest earned (TIE) ratio

PART 3, CHAPTER 9

DEFINITION

A coverage ratio that measures a firm's ability to service its debt through interest payments. It is computed as operating income divided by interest expense.



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total asset turnover ratio

PART 3, CHAPTER 9

DEFINITION

An efficiency/asset management ratio that measures how many times a firm's asset base was used in generating the flow of revenue during the period.



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total liabilities to total assets ratio

DEFINITION

A type of debt management ratio that measures the percentage of all liabilities to total investments or total assets. It is computed as total liabilities divided by total assets.

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variable cost

DEFINITION

A type of cost in a business whose total amount changes in direct proportion to the level of business activity.

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**weighted average cost of capital
(WACC)**

DEFINITION

Used in determining the overall cost of capital, this cost is computed as a weighted average of the effective cost of debt and the cost of equity.

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aggressive financing strategy

PART 4, CHAPTER 10

DEFINITION

A current asset financing strategy that involves a company financing all fixed assets with long-term debt and equity, but financing only a portion of permanent current assets with long-term financing. Short-term financing supports the remainder of the permanent current assets and all temporary current assets.



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asset-based lending

PART 4, CHAPTER 10

DEFINITION

A type of financing that involves commercial loans or lines of credit that are backed by liens on specific assets of the borrowing company.



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availability float

PART 4, CHAPTER 10

DEFINITION

The time interval or delay between the day when a payment is deposited into a bank account and the day when the payee's account is credited with collected funds.



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balance-forward system

PART 4, CHAPTER 10

DEFINITION

A cash application process (most commonly used in consumer transactions) in which payments are applied to the total outstanding balance on an accounts receivable account rather than to specific items. The remaining balance, if any, is then carried forward to the next billing cycle.



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bilateral netting system

PART 4, CHAPTER 10

DEFINITION

A type of arrangement in which purchases between two subsidiaries of the same company are netted against each other so that periodically only the difference is transferred.



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cash conversion cycle (CCC)

PART 4, CHAPTER 10

DEFINITION

This formula explains and calculates how much time elapses from when funds are disbursed in direct support of a revenue-generating activity until the time when funds are recovered from revenues. It is calculated as days receivables plus days inventory minus days payables.



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cash flow to total debt ratio

PART 4, CHAPTER 10

DEFINITION

A ratio that measures the liquidity of a company as a function of cash flow and the level of total debt. It is calculated as net income plus depreciation (and other noncash expenses, such as amortization and depreciation), divided by total long- and short-term debt.



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cash on delivery (COD)

PART 4, CHAPTER 10

DEFINITION

A term of sale whereby the seller ships the goods and the buyer pays upon receipt. If the buyer refuses to pay, the goods are returned and the seller must pay the shipping and handling costs.



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cash terms

PART 4, CHAPTER 10

DEFINITION

A term of sale whereby the buyer generally has 7 to 10 days to make payment.



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cash turnover ratio

PART 4, CHAPTER 10

DEFINITION

A ratio that indicates the number of cash cycles a firm experiences in one year, generally defined as the days in the year (365) divided by the cash conversion cycle.



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collateralized loan

PART 4, CHAPTER 10

DEFINITION

In inventory financing, this is a type of loan that is arranged using inventory as collateral for the loan, with the lender providing financing for some predetermined percentage of the inventory's value.



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collection float

PART 4, CHAPTER 10

DEFINITION

The time interval or delay between the time the buyer/payor initiates payment and the time the seller/payee receives good funds; it consists of mail float, processing float, and availability float.



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conditions

DEFINITION

As part of the five Cs of credit, this factor assesses the general, existing macroeconomic environment that impacts a borrower's ability to pay or the willingness of a lender to grant credit.

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DEFINITION

conservative financing strategy

A current asset financing strategy that involves using long-term financing (e.g., debt and equity) to finance fixed assets, permanent current assets, and some portion of fluctuating current assets. Short-term financing is used for the remainder of the fluctuating current assets.

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DEFINITION

consignment

A term of sale whereby the supplier ships goods to another party who has no obligation to pay until the goods have been sold.

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DEFINITION

current assets

A term that generally refers to holdings that are expected to be converted into cash within one year.

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current liabilities

PART 4, CHAPTER 10

DEFINITION

A term that generally refers to obligations that are required to be paid for within one year.



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current ratio

PART 4, CHAPTER 10

DEFINITION

A ratio defined as total current assets divided by total current liabilities. It is therefore the ratio of cash and assets expected to become cash in one year or less, to short-term liabilities that must be paid in one year or less.



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days inventory (DI)

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DEFINITION

In the cash conversion cycle, this is the average number of days that elapse from the purchase of raw materials until the sale of finished goods.



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days payables (DP)

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DEFINITION

In the cash conversion cycle, this is the average number of days between the purchase/receipt of materials or supplies and issuance of payment for them.



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days receivables (DR)

DEFINITION

In the cash conversion cycle, this is the average number of days required to collect on credit.

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disbursement float

DEFINITION

The time interval or delay between the day when a payment is initiated and the day when funds are debited from the payor's account.

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discount terms

DEFINITION

A term of sale whereby the seller offers a reduction on payments made prior to the net due date.

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export credit agency (ECA)

DEFINITION

The general term for an entity that is established by a government to support export activities through export loans, credit guarantees, or a combination of both.

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export financing

PART 4, CHAPTER 10

DEFINITION

Government support of export activities through export loans, credit guarantees, or a combination of both.



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Export-Import (EXIM) Bank of the United States

PART 4, CHAPTER 10

DEFINITION

The official export credit agency of the United States.



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factoring

PART 4, CHAPTER 10

DEFINITION

An accounts receivable (A/R) financing process that involves the outright sale of receivables to a company that specializes in the financing and management of receivables.



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finished goods

PART 4, CHAPTER 10

DEFINITION

A type of inventory that consists of completed items or materials available for sale.



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five Cs of credit

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DEFINITION

A credit analysis process that considers the character, capacity, capital, collateral, and conditions of the potential borrower.



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float

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DEFINITION

The time interval or delay between the start and the completion of a specific phase or process occurring along the cash flow timeline.



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floor planning

PART 4, CHAPTER 10

DEFINITION

In inventory financing, this is a type of asset-based lending used for high-value durable goods, such as automobiles, trucks, or heavy equipment. Loans are made against each individual item, recorded by serial number, and are not fully repaid until the item is sold.



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good funds

PART 4, CHAPTER 10

DEFINITION

Collected funds in an account that are immediately usable by the owner of the account.



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indirect purchases

PART 4, CHAPTER 10

DEFINITION

Purchases of stores and supplies inventories, which are not used directly in a manufacturing/production process. Rather, they support the production process.



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in-house banking

PART 4, CHAPTER 10

DEFINITION

The practice of having treasury become the main provider of banking services for all the company's operating entities.



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installment credit

PART 4, CHAPTER 10

DEFINITION

A form of credit extension that requires a customer to make equal periodic payments, each of which contains principal and interest components.



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invoice discounting

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DEFINITION

An accounts receivable (A/R) financing process that involves the sale of invoices to a discounter.



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invoicing float

PART 4, CHAPTER 10

DEFINITION

The time interval or delay between the day that a customer places an order and the day that the customer actually receives an invoice for that order that can be processed for payment.



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just-in-time (JIT) inventory

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DEFINITION

An inventory management approach that attempts to minimize inventory levels by reducing the costs or uncertainties that underlie the motives for holding inventory.



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lagging

PART 4, CHAPTER 10

DEFINITION

The executing of cross-border payments between subsidiaries after the scheduled payment date.



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leading

PART 4, CHAPTER 10

DEFINITION

The executing of cross-border payments between subsidiaries before the scheduled payment date.



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mail float

DEFINITION

The time interval or delay between the day a payment is mailed and the day it is received by a payee or at a payee's processing site.

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matching

DEFINITION

An internal control method that involves the pairing of an invoice to the original purchase order to help confirm that the order was placed and that the invoice complies with the agreed terms.

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multicurrency account

DEFINITION

A special arrangement between a bank and a company, in which the bank lets the customer receive or make payments in a range of currencies from a single account or multiple subsidiary accounts.

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multilateral netting system

DEFINITION

A type of netting system that involves more than two subsidiaries. Each subsidiary informs a central treasury management center of all planned cross-border payments through an electronic system.

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net terms

PART 4, CHAPTER 10

DEFINITION

A term of sale whereby the seller specifies a net due date by which the buyer must pay in full.



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netting

PART 4, CHAPTER 10

DEFINITION

An internal company payables system that is designed to reduce the number of cross-border payments among company units through the elimination or consolidation of funds denominated in different currencies.



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open account (open book credit)

PART 4, CHAPTER 10

DEFINITION

A form of credit extension where a seller issues an invoice as formal evidence of the obligation and records the sale as an account receivable. The buyer is billed for each transaction by an invoice and/or monthly statement. Full payment of invoiced amounts is expected within the specified credit terms unless certain discounts or deductions are available to the buyer. A buyer's creditworthiness is reviewed periodically, but the buyer does not need to apply for credit each time it places an order.



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open item system

PART 4, CHAPTER 10

DEFINITION

A cash application process most commonly used in business-to-business sales. Each invoice sent to a customer is recorded in the accounts receivable file. When a payment is received, it is matched with the specific invoices being paid. Any payment discrepancies are noted (e.g., discounts, allowances, adjustments, or returns).



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order-to-cash timeline

PART 4, CHAPTER 10

DEFINITION

The process or steps involved in converting orders or sales of goods into cash or good funds in the merchant's bank account.



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payment float

PART 4, CHAPTER 10

DEFINITION

The time interval or delay between the day that a bill or invoice is sent/received (depending on the perspective of the seller or buyer) and the day that payment is actually credited to the biller's bank account.



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processing float

PART 4, CHAPTER 10

DEFINITION

The time interval or delay between the time the payee or the payee's processing site receives the payment and the time the payment (typically a check) is deposited into the payee's account.



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quantitative credit analysis

PART 4, CHAPTER 10

DEFINITION

A type of credit analysis that begins with an analysis of the applicant's financial statements, usually using ratio analysis.



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recourse

DEFINITION

A term related to using a factoring arrangement. In this case, the seller is liable for any bad debts the factor cannot collect.

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re-invoicing

DEFINITION

An intracompany method of centralizing the responsibility for monitoring and collecting international accounts receivable to more effectively manage related foreign exchange exposures.

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**relaxed current asset
investment strategy**

DEFINITION

A current asset management strategy in which a company maintains high levels of current assets relative to sales.

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**restrictive current asset
investment strategy**

DEFINITION

A current asset management strategy in which a company maintains low levels of current assets relative to sales.

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revolving credit

PART 4, CHAPTER 10

DEFINITION

A form of credit extension whereby a company grants credit without requiring specific transaction approval, as long as the account remains current.



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revolving credit agreement

PART 4, CHAPTER 10

DEFINITION

A committed line of credit established for a specified period of time, often on a multiyear basis.



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seasonal dating

PART 4, CHAPTER 10

DEFINITION

A term of sale whereby the seller agrees to accept payment at the end of the buyer's selling season.



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short-term financing

PART 4, CHAPTER 10

DEFINITION

A financing strategy used to meet temporary cash needs for periods of one year or less.



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supplier-managed replenishment program

PART 4, CHAPTER 10

DEFINITION

An inventory management process whereby the supplier maintains and tracks the inventory of materials it provides to a customer. Title to the product is transferred at the shipping dock.



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supply chain finance

PART 4, CHAPTER 10

DEFINITION

A finance method that is effectively a form of reverse factoring, in which an organization uses its relatively stronger credit rating to allow its suppliers to finance their receivables.



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trade credit

PART 4, CHAPTER 10

DEFINITION

A form of credit that arises when a buyer receives goods but payment is not made to the supplier until some later date.



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without recourse (no recourse)

PART 4, CHAPTER 10

DEFINITION

A term related to using a factoring arrangement. In this case, the factor must absorb the loss if a customer fails to pay.



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DEFINITION

work in progress (WIP)

A type of inventory that represents items or materials that are in the process of being manufactured.

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accounts receivable (A/R) balance pattern

PART 4, CHAPTER 11

DEFINITION

A forecasting tool that specifies the percentage of credit sales during a time period (e.g., one month) that remain outstanding at the end of the current time period and each subsequent time period.



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aging schedule

PART 4, CHAPTER 11

DEFINITION

A schedule that separates accounts receivable (A/R) into current and past-due receivables using set periods (typically 30-day increments) and is used for measuring A/R.



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days cash held

PART 4, CHAPTER 11

DEFINITION

A measure of a firm's liquidity that shows how long a firm can continue to pay operating expenses without any additional revenue.



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days sales outstanding (DSO)

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DEFINITION

The average number of days required to convert a credit sale into a cash inflow.



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DEFINITION

net working capital (NWC)

A working capital metric that is defined as current assets less current liabilities.

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DEFINITION

quick ratio (acid test ratio)

A liquidity ratio that is calculated as cash plus short-term investments and accounts receivable, divided by total current liabilities.

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acceptance

DEFINITION

A drawee's signed agreement to pay a negotiable instrument as presented. This agreement acknowledges that all of the terms of the instrument, other than time, have been met and the instrument will be paid at the proper time.

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advising bank

DEFINITION

In a letter of credit (L/C) transaction, this is the bank that provides guidance to the seller of an L/C in its favor.

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bank overlay structure

DEFINITION

A type of pooling arrangement that combines both sweeping and pooling. It is typically used when a company's primary bank has branches in several countries, but the branches do not provide a full range of domestic banking services. A local bank is used to provide collection and disbursement transactions and accounts, and to sweep surplus funds to the primary bank.

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banker's acceptance (BA)

DEFINITION

A cross-border financing instrument that can be used to finance the import, export, or domestic shipment of goods, as well as the storage of properly titled goods. These instruments are used frequently in conjunction with letters of credit (L/Cs) requiring a time draft drawn on a bank.

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barter

DEFINITION

A trade payment method that involves the direct exchange of goods or services between two parties without the exchange of money. It is most frequently used when funds cannot be repatriated due to currency controls or other legal limitations.

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cash concentration system

DEFINITION

A system typically used to transfer funds from outlying depository locations (often at different banks) to a central bank account at a company's primary bank.

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check conversion

DEFINITION

The process of substituting an electronic transfer in place of paper negotiable instrument, typically an automated clearinghouse (ACH) debit.

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collection letter

DEFINITION

A document in a documentary collection process that specifies the exact procedures to be followed before shipping documents are released to the importer.

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DEFINITION

commercial letter of credit (L/C)

A type of letter that is issued by a bank as the intended mechanism of payment in relation to a trade transaction involving the domestic or international shipment of merchandise.

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DEFINITION

concentration account

An account used by an organization to receive funds from collection accounts or to provide funding for disbursement accounts.

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DEFINITION

controlled disbursement

A bank service (unique to the United States) that provides same-day notification to a company of the amount of checks that will clear against its disbursement account on a given day.

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DEFINITION

countertrade

A payment method used by companies that do not have access to sufficient hard currencies (i.e., internationally traded currencies) to pay for imports from other countries.

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documentary collection

PART 4, CHAPTER 12

DEFINITION

A trade payment mechanism that processes the collection of a draft and accompanying shipping documents through international correspondent banks.



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documents against payment

PART 4, CHAPTER 12

DEFINITION

A type of collection letter that uses a sight draft, which is a draft payable on demand, that requires the collecting bank to receive full and final payment of the amount owed prior to releasing the documents.



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dollar-days

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DEFINITION

A unit of measurement that reflects both a transaction's dollar amount and the number of days of float delay.



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draft/bill of lading

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DEFINITION

A term of sale whereby sellers collect payments through banking channels in what is known as a documentary collection.



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drawdown wire

PART 4, CHAPTER 12

DEFINITION

A type of wire transfer that is a request sent by a company's bank to a second bank requesting that the second bank initiate a wire transfer from either the company's account or another party's account at the second bank, sending the funds back to the first bank. The party being debited must pre-authorize the transfer.



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Electronic Federal Tax Payment System (EFTPS)

PART 4, CHAPTER 12

DEFINITION

A system that serves as the primary method for collecting and accounting for US federal taxes withheld by employers from individuals' salaries and wages, as well as corporate business, sales, and excise taxes.



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electronic invoice presentment and payment (EIPP)

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DEFINITION

A system for integrating the billing and payment processes, thereby enabling companies to send electronic statements and receive electronic remittances from customers.



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electronic lockbox

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DEFINITION

A single collection point for all automated clearinghouse (ACH) and wire payments for organizations with a large number of electronic funds transfer (EFT) collections.



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float-neutral terms

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DEFINITION

Sales terms offered for electronic payment in which either the timing (i.e., value date) of a payment is adjusted or a discount is offered so as to maintain whatever float the buyer was receiving with the paper payment.



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freight payment services

PART 4, CHAPTER 12

DEFINITION

An outsourced form of accounts payable wherein specialists pay all of a shipper's freight bills, audit bills for possible overcharges and duplicate payments, and provide reports that help a company compare costs for different routes and carriers.



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hybrid lockbox

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DEFINITION

A lockbox system that combines features of wholesale and retail lockboxes, and is configured, usually on a customized basis, to process both business-to-business and consumer-to-business payments.



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issuing bank

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DEFINITION

In a letter of credit (L/C) transaction, this is the buyer's bank that issues the L/C in favor of the seller.



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letter of credit (L/C)

DEFINITION

A promise by the issuing bank to pay a certain amount under specific circumstances.

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lockbox system

DEFINITION

A collection tool in which a financial institution or third-party vendor receives payments at specified post office box addresses, processes the remittances, and credits the payments into a payee's account.

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master account

DEFINITION

An account used by an organization to receive funds from collection accounts or to provide funding for disbursement accounts.

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merchant services

DEFINITION

The products offered by a bank, internet service provider, or other firm that processes credit and debit card transactions.

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negotiating bank

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DEFINITION

In a letter of credit (L/C) transaction, this is the bank that examines the documents presented by the beneficiary, receives payment from the issuing bank, and pays the beneficiary.



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DEFINITION

non-repetitive (free-form) wire

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A type of wire transfer where both the debit and credit parties can be changed for each transaction. As a result, additional security measures are typically required.



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DEFINITION

notional pooling

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A type of pooling that requires a company's subsidiaries to use branches of the same bank. All excess and deficit balances in the company's subsidiary accounts are summed each day to calculate the net interest earned or due. Funds are not actually transferred; rather, they are simply totaled for the purpose of calculating interest.



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DEFINITION

payee positive pay

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A positive pay service that matches against the payee field, in addition to the serial number and amount of a check, in an effort to detect attempted fraud.



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physical pooling

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DEFINITION

A type of pooling that requires the use of a single currency because balances are transferred out of subaccounts and into a main account on a daily basis. This type of pooling can be used in cross-border structures.



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pooling

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DEFINITION

A typical method of cash concentration in countries where banks can pay interest on excess demand deposit balances and charge interest on deficit balances.



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positive pay

PART 4, CHAPTER 12

DEFINITION

A disbursement service used to combat payment fraud, wherein a company transmits a file of payment information to the disbursement bank either at or before the time of the physical distribution of checks or anticipated ACH debits. The bank matches check serial numbers and dollar amounts of checks presented for payment against the issue database and pays only those checks or ACH transactions that match all relevant criteria. Any exceptions are conveyed to the company for its decision whether to pay or return the item.



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remitting bank

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DEFINITION

In a documentary collection process, this is the bank of the seller/exporter. It receives the collection documents from the seller.



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repetitive wire

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DEFINITION

A type of wire transfer used when a company makes frequent transfers to the same credit parties. Only the date and the dollar amount may be changed.



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retail lockbox

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DEFINITION

A lockbox system used primarily to process high-volume, small-dollar consumer remittances that frequently involve recurring, monthly installment payments.



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reverse positive pay

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DEFINITION

A process whereby a company's bank transmits a file of the checks presented for payment to the company on a daily or intraday basis. Within a specified time deadline, the company matches this file to a list of checks issued and notifies the bank of any items to be returned.



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segregation of duties

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DEFINITION

The concept of having more than one person required to complete a specific activity, such as making a vendor payment or collecting and posting revenue from customers.



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standing wire

DEFINITION

A type of wire transfer where a company establishes repetitive transfer instructions to move funds between two specified accounts automatically when previously determined criteria are met.

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sweep account

DEFINITION

An account used by a US organization that has its depository institution move any excess, end-of-day funds into an investment account.

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trade acceptance

DEFINITION

A financial instrument that is similar to a banker's acceptance (BA) except it is drawn on, and accepted by, a buyer (importer).

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trading companies

DEFINITION

A trade payment method whereby an exporter (seller) sells products at a discount to an export trading company, which then resells the products internationally.

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virtual vault services

DEFINITION

In an over-the-counter field deposit system, this type of vault service may be offered by banks or through third-party, nonbank companies, such as armored car services.

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wholesale lockbox

DEFINITION

A lockbox system that is used primarily to process low-volume, large-dollar business-to-business payments that, unlike consumer payments, must often be matched to specific invoices.

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zero balance account (ZBA)

DEFINITION

A type of bank account where the end-of-day balance in the account is maintained at zero.

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all-in rate

PART 4, CHAPTER 13

DEFINITION

An interest rate that consists of a base rate plus a spread that is added to, or occasionally subtracted from, the base rate.



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bond equivalent yield (BEY)

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DEFINITION

A calculation for restating semiannual, quarterly, or monthly discount bond or note yields into an annual yield. This type of yield is calculated on a 365-day year basis.



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cleanup period

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DEFINITION

In relation to a commercial line of credit, this is a fixed amount of time, usually occurring annually, during which the borrower must pay down all outstanding borrowings and reduce the balance of the loan to zero.



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commitment fee

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DEFINITION

A fee assessed based on the total amount or unused portion of a line of credit.



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default premium

DEFINITION

An adjustment to the base interest rate to account for possible default on an investment.

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discount (discount rate)

DEFINITION

Used in the valuation of investments such as US Treasury bills, commercial paper, and banker's acceptances, this is the rate used to determine the present value or purchase price of the instrument.

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dividend capture

DEFINITION

A tax-motivated, short-term investment strategy that is available to corporations that pay taxes in the United States. A corporation may exclude from its taxable income 70-80% of the dividends received from stock owned in another corporation, as long as it owns the stock for at least 46 days of the 91-day period starting 45 days prior to the ex-dividend date.

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dollar discount

DEFINITION

The difference between the purchase price and the par, or maturity, value on investment instruments, such as US Treasury bills, commercial paper, and banker's acceptances. This difference represents interest earned on the investment.

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euro short-term rate (ESTER/€STR)

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DEFINITION

The risk-free reference rate for the European Central Bank (ECB).



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holding period

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DEFINITION

The expected period of time that a particular investor will hold a given investment or asset.



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holding period yield

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DEFINITION

The yield computed for the time a security is held.



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inflation premium

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DEFINITION

An adjustment to the base interest rate to account for projected inflation over the investment period.



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issuer credit rating

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DEFINITION

A score that represents a rating agency's opinion on the obligor's overall capacity to meet its financial obligations.



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issue-specific credit rating

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DEFINITION

A score of a specific long- or short-term security that considers the attributes of the issuer, as well as the specific terms of the issue, the quality of the collateral, and the creditworthiness of the guarantors.



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liquidity premium

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DEFINITION

An adjustment to the base interest rate to account for the potential delay in sale of an investment.



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loan covenant

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DEFINITION

A requirement included in a loan agreement that serves to protect the lender.



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loan syndication

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DEFINITION

A type of lending arrangement in which multiple financial institutions share the funding of a single credit facility.



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maturity premium

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DEFINITION

An adjustment to the base interest rate of a longer-term security to account for the increased price risk created by the longer maturity.



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money market yield (MMY)

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DEFINITION

A calculation for restating semiannual, quarterly, or monthly discount bond or note yields into an annual yield. This type of yield is calculated on a 360-day year basis.



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real risk-free rate of interest

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DEFINITION

The rate demanded by savers (or investors) to compensate for delaying their use of the money today, in the absence of any risk or inflation, for a one-year maturity.



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reference interest rate

DEFINITION

A benchmark interest rate that is used to determine other interest rates.

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reinvestment risk

DEFINITION

The risk associated with the potential of lower interest rates when investing proceeds from maturing investments.

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risk/return trade-off

DEFINITION

The principle that potential return rises with an increase in risk. Low levels of uncertainty or risk are associated with low potential returns, whereas high levels of uncertainty or risk are associated with high potential returns.

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single payment note

DEFINITION

A type of note that is usually granted for a short period of time and specific purpose, with both the principal and interest amounts paid at maturity.

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DEFINITION

Treasury bond (T-bond)

A marketable, fixed-interest US government debt security with a maturity of more than 10 years.

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DEFINITION

year basis

The number of days in a year, when calculating the yield on an investment.

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DEFINITION

yield curve

A plot of the yields to maturity on the same investment instrument or class of instruments, but with varying maturities, as of a specific date.

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alpha

PART 4, CHAPTER 14

DEFINITION

In an exponential smoothing forecasting methodology, this is the weight assigned to the most recent actual value and the most recent forecasted value.



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correlation

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DEFINITION

As part of regression analysis involving the statistical identification of the degree of association between a cash flow and another variable.



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degree of certainty

PART 4, CHAPTER 14

DEFINITION

In the cash flow forecasting process, this is the practice of designating cash flows as known flows, predictable flows, less predictable flows, or volatile cash flows.



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disbursements schedule

PART 4, CHAPTER 14

DEFINITION

A schedule that involves forecasting the cash disbursements for purchases and other cash outflows, such as payroll, taxes, interest, dividends, rent, and debt repayments.



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exponential smoothing

PART 4, CHAPTER 14

DEFINITION

A statistical cash forecasting technique that produces a forecasted value based on the most recent actual value, the most recent forecasted value, and a number between zero and one that is used to weight these two values.



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extrapolation

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DEFINITION

One of the most general statistical methods, this process identifies past trends and predicts the pattern of future cash flows using these trends.



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forecasting horizon

PART 4, CHAPTER 14

DEFINITION

The time interval over which information is to be forecasted.



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money order

PART 4, CHAPTER 14

DEFINITION

A prepaid instrument issued by various third parties such as banks, postal services, or consumer outlets, where the purchaser is the instrument's payor and the instrument is the obligation of the issuer.



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ongoing validation

PART 4, CHAPTER 14

DEFINITION

In the selection and validation of a forecasting model, this process involves using continuing feedback from projected versus actual comparisons and allows continuous evaluation and improvement of the forecast.



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regression analysis

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DEFINITION

A statistical technique that uses historical data to identify the relationship between two variables.



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rolling forecast

PART 4, CHAPTER 14

DEFINITION

A type of forecast in which the period of the forecast assumptions are reviewed and the forecast is updated or “rolled” forward at the end of each period. Typically, the number of periods in the forecast (days, weeks, months, etc.) remains constant, but old periods are dropped and new periods are added as the forecast progresses.



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simple moving average

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DEFINITION

A statistical cash forecasting methodology that bases the forecast on a rolling average of past values for a series.



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application programming interface (API)

PART 4, CHAPTER 15

DEFINITION

A set of routines, protocols, and tools for building software applications that act as a software gateway between programs, allowing the use of data from one application to be used in another platform or service.



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authentication

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DEFINITION

In electronic payment security, this is the ability to know, with a reasonable amount of certainty, who is accessing information or initiating a transaction.



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blockchain

PART 4, CHAPTER 15

DEFINITION

A type of distributed ledger technology consisting of data structures that may contain data or programs, with each structure holding batches of individual transactions and the results of any executables. Each structure contains a time stamp and a link to a previous structure.



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cloud computing

PART 4, CHAPTER 15

DEFINITION

The storing and accessing of computer software and data through an internet browser rather than by running installed software on a local computer. The software and data are typically housed on a distributed network managed by a third-party vendor. The vendor is responsible for updating and maintaining the software, as well as providing for appropriate backup and disaster recovery.



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dashboard

DEFINITION

An easy-to-read, typically graphical, report or online display that shows the current status of key performance indicators.

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digital certificate

DEFINITION

An electronic commerce security product that ties the identity of the user (private key) to the user's public key and may also authenticate the devices used to create documents or transactions.

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digital signature

DEFINITION

A message encoded with the sender's secret, private key that the receiver can use to identify the source.

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digitized signature

DEFINITION

A scanned version of a signed name.

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electronic bank account management (eBAM)

PART 4, CHAPTER 15

DEFINITION

A type of bank account management process that attempts to replace the large amount of paper in the process with electronic messages and files exchanged between banks and their customers.



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electronic data interchange (EDI)

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DEFINITION

A traditional building block of electronic commerce that is based on an infrastructure using standardized communication formats to exchange business data between two trading partners.



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encryption

PART 4, CHAPTER 15

DEFINITION

The process of transforming information using some type of computer-based model to make it unreadable to anyone except those possessing special knowledge, similar to a password, usually referred to as a key.



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enterprise resource planning (ERP) system

PART 4, CHAPTER 15

DEFINITION

A sophisticated information management, production, and accounting software package that links different functional areas or operational divisions on a company-wide basis.



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eXtensible markup language (XML)

PART 4, CHAPTER 15

DEFINITION

A computer-based language that is an extension of hypertext markup language (HTML) that allows the content and structure of data to be defined.



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multifactor authentication

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DEFINITION

An identification method for information technology and network purposes requiring the presence of different factors of verification.



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non-repudiation

PART 4, CHAPTER 15

DEFINITION

The inability of the purported maker or originator of a statement, document, or payment to challenge the validity of the original item.



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public-key infrastructure (PKI)

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DEFINITION

A data encryption methodology designed to provide security over traditionally unsecure networks, such as the internet.



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single sign-on (SSO)

PART 4, CHAPTER 15

DEFINITION

A software technique that allows an individual to enter one username and password in order to access multiple applications on the same network or at the same host.



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software as a service (SaaS)

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DEFINITION

A distribution model in which software is run on a hosted computer and provided to the end user on an as-needed basis.



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straight-through processing (STP)

PART 4, CHAPTER 15

DEFINITION

An initiative used by companies in the financial industry to optimize the speed at which transactions are processed by eliminating all manual intervention so that a particular process is totally electronic from beginning to end.



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token

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DEFINITION

A security device that the owner uses to authorize access to a network or online service.



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DEFINITION

treasury management system (TMS)

A computer system that has software that gathers information from both internal and external sources for use by the treasury area of an organization.

PART 4, CHAPTER 15



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DEFINITION

workflow management system

Technology that enables a company to use software to implement, monitor, and enforce the specific processes and procedures that it wants used throughout the company.

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account takeover

PART 5, CHAPTER 16

DEFINITION

A type of fraud in which a hacker gains access to a company's bank account information and uses that information to remove funds from the account.



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cash flow at risk (CaR)

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DEFINITION

A type of calculation used to assess the risk of a cash shortfall over a longer period of time.



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casualty insurance

PART 5, CHAPTER 16

DEFINITION

A policy primarily concerned with the legal liability of losses caused by personal injury or property damage.



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commodity price risk

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DEFINITION

A type of risk related to the impact of changing commodity prices on the value of an organization.



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contractual transfer

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DEFINITION

A form of risk transfer in which the burden of the risks in question is transferred by agreement to another party.



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cyber risk

PART 5, CHAPTER 16

DEFINITION

A type of risk associated with security breaches involving employee, customer, and corporate data. These security breaches may come from both internal and external sources. Data may be corrupted, or stolen and sold to third parties.



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difference in conditions (DIC)

PART 5, CHAPTER 16

DEFINITION

A type of insurance that covers property for perils not covered by basic property insurance policies. It is often purchased to fill voids in policies purchased overseas and to insure property in transit.



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directors and officers (D&O) insurance

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DEFINITION

A type of insurance that covers situations in which a director or officer or an organization commits a negligent act or omission, or makes a misstatement or misleading statement, and a legal action is brought against the organization as a result.



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employee risk

PART 5, CHAPTER 16

DEFINITION

A type of risk that is related to actions taken by individuals employed by a firm, both inadvertent and intentional, that can cause harm to the organization.



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enterprise risk management (ERM)

PART 5, CHAPTER 16

DEFINITION

A comprehensive, organization-wide approach to identifying, measuring, and managing the various risks that threaten the achievement of an organization's strategic objectives and therefore its overall operations. It is characterized as having a viewpoint that encompasses all areas of the organization.



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equity price risk

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DEFINITION

A type of risk usually associated with volatility in stock prices.



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event risk

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DEFINITION

A type of risk associated with unexpected events related to a given organization.



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excess (umbrella) insurance

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DEFINITION

A type of insurance coverage that supplements basic or primary liability coverage. Policies generally pay after the primary policy's limits have been exhausted.



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external theft/fraud risk

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DEFINITION

The risk of theft or fraud involving individuals external to the targeted company.



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fidelity bond

PART 5, CHAPTER 16

DEFINITION

A type of insurance coverage that guarantees payment for money or other property lost through dishonest acts of bonded employees, either by name or position.



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financial institution risk

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DEFINITION

The risk of loss to an organization associated with the failure, either operational or financial, of a bank used by an organization.



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foreign exchange (FX) risk

PART 5, CHAPTER 16

DEFINITION

A type of risk that arises from the exposure an organization has as a result of transactions, assets, and liabilities that are denominated in a foreign currency.



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group captive

PART 5, CHAPTER 16

DEFINITION

An approach to risk retention in which a subsidiary is owned by multiple owners for the purpose of insuring the risk of the parent owners or their affiliates.



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insurance risk management

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DEFINITION

A risk management technique in which financial protection (or reimbursement) for possible loss is purchased from another party in the form of insurance. It is essentially a method of transferring risk from one party to another.



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interest rate risk

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DEFINITION

A type of risk that relates to changes in investment values and borrowing costs, and potentially to overall firm value, as interest rates change.



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legal risk

PART 5, CHAPTER 16

DEFINITION

A type of operational risk that relates to legal actions against a company.



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liability insurance

PART 5, CHAPTER 16

DEFINITION

Any type of insurance policy that protects against damage to other parties that can arise from product defects; business practices; accidents; actions of the organization's employees, officers, or board of directors; and general negligence in the operation of the organization.



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market risk

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DEFINITION

A type of risk that involves the possibility that fluctuations in financial market prices and rates will reduce the value of a security or a portfolio.



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Monte Carlo simulation

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DEFINITION

A type of analytical technique in which a large number of simulations are run using random quantities selected from a probability distribution of values for specified variables. The resulting probability distribution is analyzed to infer which values are most likely to occur.



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noninsurance

DEFINITION

An approach to risk retention, this technique involves relying on normal revenues to pay for small, normal losses as current expenses.

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operational risk

DEFINITION

The risk of direct and indirect losses resulting either from external events that impact an organization's operations or from inadequate and failed internal processes, people, and systems.

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phishing

DEFINITION

The use of deception to obtain access to confidential information.

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process risk

DEFINITION

A type of internal operational risk related to an organization's processes.

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property insurance

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DEFINITION

A type of insurance that provides for reimbursement in the event of a loss of or damage to some type of asset (e.g., buildings, equipment, or inventory).



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reinsurance

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DEFINITION

A process that allows the initial indemnifier (usually an insurance company) to reduce its exposure to a particular loss event by transferring some or all of a risk to other insurers.



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risk and control self-assessment (RCSA)

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DEFINITION

A risk profile analysis process that identifies the risks, classifies each risk into clearly defined categories, and quantifies the risks with respect to the probability of occurrence and the impact on value and/or cash flows.



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risk financing

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DEFINITION

The process of identifying and/or raising the funds needed to recover from a loss.



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risk profile

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DEFINITION

An assessment of how a company's overall value changes as the price of financial variables changes.



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risk retention

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DEFINITION

A risk-financing approach that involves the use of an organization's internal financial resources to provide funds to finance a recovery from losses.



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risk transfer

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DEFINITION

The shifting of responsibility for a risk from one party to another, often through insurance.



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self-insurance

PART 5, CHAPTER 16

DEFINITION

An approach used by some organizations as an alternative to purchasing insurance. This practice is not technically a form of insurance because it does not involve a transfer of risk to an insurer or another separate entity; instead, the organization will cover its own losses.



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DEFINITION

strategic risk

The risk of major investments for which there is a significant uncertainty about success or profitability.

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DEFINITION

value at risk (VaR)

A risk management measurement that is used to determine how changing financial variables will affect a company's value.

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DEFINITION

velocity

The speed at which a risk would materialize.

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American option

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DEFINITION

A type of option contract that can be executed or settled on or any time prior to the stated expiration date of the contract.



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arbitrage

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DEFINITION

The process by which an asset is purchased in one financial market and sold in another market to produce a riskless profit.



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Bermudan option

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DEFINITION

A type of option contract that is exercisable only on specified dates that are spaced evenly over the option's life.



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bid-offer quote

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DEFINITION

A price quote in which a dealer or other entity provides both the price at which it is willing to purchase and sell a specific commodity or security.



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call option

PART 5, CHAPTER 17

DEFINITION

A type of contract that gives the contract owner the right, but not the obligation, to buy the underlying asset from the contract writer at a fixed price through the delivery date.



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currency derivative

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DEFINITION

A financial instrument that allows trading partners to establish predetermined exchange rates for set periods, which effectively hedges against foreign exchange risk.



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economic risk (economic exposure)

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DEFINITION

A form of risk that represents the long-term effect of changes in exchange rates on the present value of future cash flows.



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European option

PART 5, CHAPTER 17

DEFINITION

A type of option contract that may only be executed (settled) on the actual option date specified in the contract.



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exotic currency

DEFINITION

A foreign exchange term used for a currency that is not widely traded.

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forward

DEFINITION

An agreement between two parties to buy or sell a fixed amount of an asset to be delivered at a future date and at a price agreed upon today.

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forward foreign exchange (FX) rate

DEFINITION

A price quoted for the delivery of currency beyond two business days following the date of the trade.

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forward rate agreement (FRA)

DEFINITION

A contract on interest rates in which two parties agree that a certain interest rate will apply to a certain principal during a specified, future period of time.

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futures

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DEFINITION

Similar to forwards, these are agreements between two parties to buy or sell a fixed amount of an asset to be delivered at a future date and at a price agreed upon today.



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hedging

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DEFINITION

The act of taking a financial position to reduce or offset the risk posed by another financial position.



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interest rate forward

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DEFINITION

A type of forward contract that allows its buyer to lock in today the future price of an asset, such as an interest-linked security.



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interest rate option

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DEFINITION

An option-type derivative where the payoff depends on the level of interest rates.



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International Swaps and Derivatives Association (ISDA)

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DEFINITION

A trade organization made up of companies, dealers, and service providers that participate in the market for over-the-counter derivative instruments.



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natural hedging

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DEFINITION

The practice of offsetting foreign asset exposures effectively by borrowing funds to finance the assets in the same currency. This approach reduces the net exposure of the parent company.



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notional principal

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DEFINITION

The base amount of a financial transaction, used to calculate interest payments.



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option

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DEFINITION

A contract giving the buyer of the contract the right, but not the obligation, to buy or sell a fixed amount of an underlying asset at a fixed price on or before a specified date.



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option premium

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DEFINITION

The price paid for the option contract.



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put option

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DEFINITION

A type of option contract that gives the contract owner the right, but not the obligation, to sell the underlying asset to the contract writer at a fixed price through the delivery date.



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speculation

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DEFINITION

A practice that involves taking a position on the direction of the market in order to make a profit.



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spot foreign exchange (FX) rate

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DEFINITION

A rate quoted for the delivery of currency one or two business days following the date of the trade.



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spot market

DEFINITION

The market for immediate trading of currency or commodities.

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swap

DEFINITION

An agreement between two parties to exchange a set of cash flows at a future point in time.

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transaction risk exposure

DEFINITION

A type of exposure that arises when a company creates future receivables and/or payables that are denominated in a currency other than its home, or functional, currency.

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translation risk exposure

DEFINITION

A type of exposure that is created when a foreign subsidiary's financial statements are converted into a parent company's home currency as part of the process of consolidating a company's financial statements.

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DEFINITION

Treasury note (T-note)

A marketable US government debt security with a fixed interest rate and a maturity between one and ten years.



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DEFINITION

external controls

Measures that affect a company’s operations, but which are enacted by the government or other organizations rather than by the company itself.

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asset allocation

PART 6, CHAPTER 19

DEFINITION

The mix between bonds and equities in a capital market investment portfolio. A careful analysis of the investor's risk tolerance is a starting point for determining the optimal asset allocation.



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beta

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DEFINITION

A measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.



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capital asset pricing model (CAPM)

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DEFINITION

A model that describes one possible relationship between risk and the required rate of return on a share of stock.



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capital preservation

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DEFINITION

An investment goal in which investors want to maintain the purchasing power of their investments while minimizing the risk of loss.



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covariance

DEFINITION

A measure of the degree to which returns on two assets/stocks move in tandem.

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diversification

DEFINITION

A method of managing risk by including a wide variety of investments with differing characteristics in a portfolio so that the risk of loss due to the failure of any one individual security is minimized.

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duration

DEFINITION

A measure of the number of years required to recover the true cost of a bond, considering the present value of all coupon and principal payments received in the future.

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fixed/floating ratio

DEFINITION

A measure of interest rate risk utilizing a debt portfolio's mix of fixed-rate obligations relative to floating-rate obligations.

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Gordon growth model

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DEFINITION

A common stock valuation model used to determine the intrinsic value of a stock based on a future series of dividends that grow at a constant rate.



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long-term investment

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DEFINITION

Any investment with a term greater than one year.



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risk-free asset

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DEFINITION

A type of asset that has a certain future return.



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yield to call (YTC)

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DEFINITION

The yield a bond would provide if the issuer calls it prior to maturity.



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DEFINITION

yield to maturity (YTM)

The rate of return anticipated on a bond if it is held until the maturity date.

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DEFINITION

yield to worst (YTW)

The lowest possible yield that can be received on a bond without the issuer actually defaulting.

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capital lease

DEFINITION

A type of lease that are essentially an alternative to borrowing the funds and purchasing the asset in question.

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capital structure

DEFINITION

The mix of long-term debt (in the form of term loans and various types of bonds) and equity (in the form of preferred stock, common stock, and retained earnings).

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cumulative voting

DEFINITION

A form of voting that allows a shareholder as many votes per share owned as there are open positions on the board in the same election.

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deemed dividend

DEFINITION

A situation that occurs when payments on loans, sales of stock, or other transactions are interpreted by tax authorities as an attempt by a company to avoid paying taxes on dividends.

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dividend declaration date

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DEFINITION

The date when the board of directors announces a dividend.



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dividend policy

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DEFINITION

A company's written strategy regarding whether to pay shareholders and, if so, how much and when to pay.



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dividend record date

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DEFINITION

The date when shareholders of record are entitled to receive a declared dividend.



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dividend reinvestment plan (DRIP)

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DEFINITION

A plan that enables existing shareholders to purchase additional shares directly from the company on a when-desired basis, normally with no commission or with only a small processing charge.



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dividend signaling

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DEFINITION

A theory that dividends have information that reveals management's intentions to investors and may provide information regarding expected future earnings.



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double-net lease

PART 6, CHAPTER 20

DEFINITION

A type of agreement in which the lessee pays the insurance costs, in addition to any rental payments to the property owner.



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ex-dividend date

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DEFINITION

The first date on which a stock is sold without entitlement to the upcoming dividend.



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firm value

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DEFINITION

An economic measure reflecting the market value of a business. It is a sum of claims by all claimants: creditors (secured and unsecured) and shareholders (preferred and common).



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intercompany dividend

PART 6, CHAPTER 20

DEFINITION

A type of dividend used in large companies with wholly owned subsidiaries to transfer profits from subsidiaries back to the parent company.



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leveraged buyout (LBO)

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DEFINITION

A type of transaction in which an entity buys or acquires a firm using a significant amount of borrowed funds in the process. In many cases, the assets of the acquired company may be used as collateral for the borrowed funds.



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optimal capital structure

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DEFINITION

The mix of long-term debt and equity that produces the lowest overall weighted average cost of capital for a firm.



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preemptive right

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DEFINITION

A shareholder right that provides existing shareholders the first right to purchase shares of any new stock issue on a pro rata basis and based on the proportion of shares owned.



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repatriation of capital

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DEFINITION

The transfer of funds from foreign subsidiaries back to the parent company in the home country.



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residual value

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DEFINITION

The amount of value remaining after all allowable depreciation charges have been subtracted from a depreciable asset or the estimated value of an asset at the end of a lease.



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reverse split

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DEFINITION

A process in which a company merges two or more existing shares of stock to create one share of new stock.



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special dividend

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DEFINITION

A one-time return of capital to shareholders.



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stock dividend

DEFINITION

A dividend that pays shareholders additional shares of stock rather than cash.

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stock repurchase

DEFINITION

A practice where a company uses some of its profits to purchase existing shares of its stock, either on the open market or directly from shareholders.

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stock split

DEFINITION

A process in which a company replaces one existing share of stock with multiple shares of new stock.

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thinly capitalized

DEFINITION

A description of a company that has a very small amount of capital or initial investment in relation to the amount of business the company conducts.

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DEFINITION

transfer pricing

The setting of the price that subsidiaries of a large corporation charge one another for components sold among them.

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DEFINITION

triple-net lease

A lease agreement in which the lessee pays all expenses of the underlying property, in addition to any rent payments to the property owner (lessor).

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