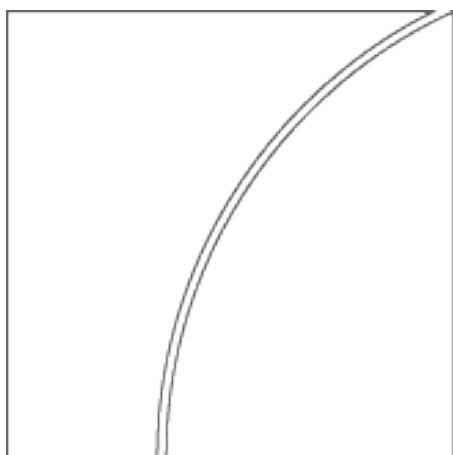


# Committee on Payment and Settlement Systems



## **A glossary of terms used in payments and settlement systems**



BANK FOR INTERNATIONAL SETTLEMENTS

## Glossary

Term	Definition	Related terms
<b>acceptance for settlement</b>	The stage in the processing of a payment at which it has passed all risk management and other tests and can be settled under the system's rules and procedures.	
<b>access (to an FMI)</b>	The ability to use an FMI's services including the direct use of the FMI's services by participants, other market infrastructures and, where relevant, service providers (for example, matching and portfolio compression service providers).	
<b>access criteria (participation requirements in an FMI)</b>	Conditions for participation/membership in an FMI.	direct participant (in an FMI), indirect participant (in an FMI)
<b>advisory netting</b>	See <i>position netting</i> .	position netting
<b>affiliate</b>	A company that controls, or is controlled by, or is under common control with the participant. Control of a company is defined as (a) ownership, control, or holding with power to vote 20% or more of a class of voting securities of the company; or (b) consolidation of the company for financial reporting purposes.	
<b>aggregator (payment aggregator)</b>	A payment service provider through which e-commerce merchants can process their payment transactions. An aggregator allows merchants to accept different payment instruments such as credit card, bank transfers, e-money without having to setup a merchant account with a bank, card association etc. The aggregator provides the means for facilitating payment from the consumer to the merchant.	
<b>authentication</b>	Methods used to verify the origin of a message or to verify the identity of a participant connected to a system and to confirm that a message has not been modified or replaced in transit.	
<b>authorisation (of a transaction)</b>	The approval or consent given by an FMI participant (or a third party acting on behalf of that participant) in order to conduct a transaction, for example, transfer funds or securities.	
<b>backtesting</b>	An ex post comparison of observed outcomes with expected outcomes derived from the use of margin models.	reverse stress testing, stress testing
<b>batch settlement</b>	The settlement of groups of payments, transfer instructions or other obligations together at one or more discrete, often pre-specified times during the processing day.	
<b>beneficial owner</b>	A person or entity that is entitled to receive some or all of the rights deriving from ownership of a security or financial instrument (for example, income, voting rights, and power to transfer).	
<b>bilateral netting</b>	The offsetting of obligations between two parties thereby reducing the number and value of payments or deliveries needed to settle a set of transactions.	

Term	Definition	Related terms
<b>book entry</b>	The transfer of securities and other financial assets which does not involve the physical movement of paper documents or certificates (for example, the electronic transfer of securities).	book-entry system, dematerialisation, immobilisation, securities settlement system (SSS)
<b>book-entry system</b>	A mechanism that enables market participants to transfer assets (for example, securities) without the physical movement of paper documents or certificates.	book entry, dematerialisation, global note, immobilisation
<b>business continuity</b>	A state of uninterrupted business operations. This term also refers to all of the organisational, technical and staffing measures used to ensure the continuation of operations following a disruption to a service, including in the event of a wide-scale or major disruption.	
<b>caps</b>	Quantitative limits on the funds transfer activity of individual participants in a system; limits may be set by each individual participant or may be imposed by the body managing the system; limits can be placed on the net debit position or net credit position of participants in the system.	debit caps
<b>central bank money</b>	A liability of a central bank, in this case in the form of deposits held at the central bank, which can be used for settlement purposes.	commercial bank money
<b>central counterparty (CCP)</b>	An entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the performance of open contracts.	clearing fund, clearing house, cross-margining agreement, financial market infrastructure (FMI), financial resources (of an FMI), novation, open offer, participant link (between CCPs)
<b>central securities depository (CSD)</b>	An entity that provides securities accounts, central safekeeping services and asset services, which may include the administration of corporate actions and redemptions, and plays an important role in helping to ensure the integrity of securities issues (that is, ensure that securities are not accidentally or fraudulently created or destroyed or their details changed).	financial market infrastructure (FMI), international central securities depository (ICSD)
<b>certificate</b>	A physical document that evidences an ownership claim in, indebtedness of, or other outstanding financial obligations of the issuer.	
<b>choice of law</b>	A contractual provision by which parties choose the law that will govern their contract or relationship. Choice of law may also refer to the question of what law should govern in the case of a conflict of laws.	

Term	Definition	Related terms
<b>clearing</b>	The process of transmitting, reconciling and, in some cases, confirming transactions prior to settlement, potentially including the netting of transactions and the establishment of final positions for settlement. Sometimes this term is also used (imprecisely) to cover settlement. For the clearing of futures and options, this term also refers to the daily balancing of profits and losses and the daily calculation of collateral requirements.	netting, reconciliation
<b>clearing fund</b>	A prefunded default arrangement that is composed of assets contributed by a CCP's participants that may be used by the CCP in certain circumstances to cover losses or withstand liquidity pressures resulting from participant defaults.	central counterparty (CCP), default waterfall, financial resources (of an FMI), prefunded default arrangement
<b>clearing house</b>	A multilateral system or arrangement that provides its participants with clearing services for payment instructions, securities transactions, derivatives transactions, and in some cases, settlement services. See also FMI.	central counterparty (CCP), financial market infrastructure (FMI), net settlement system
<b>client/customer (of an FMI participant)</b>	See <i>indirect participant</i> .	indirect participant (in an FMI)
<b>close out</b>	The act of terminating and liquidating a contract or position.	close-out period
<b>close-out horizon</b>	See <i>close-out period</i> .	close-out period
<b>close-out period</b>	The time period from the last exchange of variation margin with a defaulted counterparty until the defaulted counterparty's positions are closed out.	close out, close-out horizon, initial margin, liquidation period
<b>collateral</b>	An asset or third-party commitment that is used by a collateral provider to secure an obligation vis-à-vis a collateral taker.	
<b>collateral arrangement</b>	An arrangement between a collateral provider and a collateral taker to use collateral to secure an obligation. Collateral arrangements may include criteria for the eligibility of assets and haircuts and may take different legal forms such as by title transfer or pledge arrangements.	collateral management service
<b>collateral concentration limit</b>	A specified threshold established by an FMI beyond which the FMI's participants are not allowed to provide certain collateral assets.	
<b>collateral liquidation /collateral enforcement (in a collateral arrangement)</b>	The act of realising collateral value in a predefined manner in the event of a default of the collateral provider (cash-taker) in order to cover its exposures.	
<b>collateral management service</b>	A centralised service that may handle any of a variety of collateral-related functions, including but not limited to, information on collateral holdings, the optimisation or allocation of collateral, and collateral transformation services.	collateral arrangement

Term	Definition	Related terms
<b>collateral mismatch</b>	Mismatches between the location in which liquidity needs arise and those in which available collateral assets are held.	
<b>commercial bank money</b>	A liability of a commercial bank, in the form of deposits held at the commercial bank, which can be used for settlement purposes.	central bank money
<b>committed facilities</b>	Facilities (for example, lines of credit or repo facilities) under which the provider is contractually committed to advance funds in defined circumstances.	reverse repo
<b>confirmation</b>	A process whereby the terms of a trade are verified either by directly involved market participants or by a central entity.	
<b>conflict of laws</b>	An inconsistency or difference in the laws of jurisdictions that have a potential interest in a transaction.	legal risk
<b>cooperative arrangement (domestic /international, with respect to FMI(s))</b>	A formal or informal arrangement organised by central banks, market regulators, and other relevant authorities to cooperate with each other, domestically and/or internationally (that is, on a cross-border basis), in order to support each other in fulfilling their respective regulatory, supervisory, or oversight mandates with respect to FMIs.	
<b>counterparty</b>	A party to a trade.	
<b>counterparty credit limits</b>	A specified threshold by a trading party, which restricts its credit exposures to a counterparty.	
<b>credit cap</b>	See <i>credit limit</i> .	credit limit
<b>credit limit</b>	A limit on the credit exposure a party is willing to face. For example, in the context of payment systems, a limit on the credit exposure a participant incurs vis-à-vis another participant (bilateral credit limit) or vis-à-vis all other participants (multilateral credit limit) as a result of receiving payments that have not yet been settled.	credit cap
<b>credit risk</b>	The risk that a counterparty, whether a participant or other entity, will be unable to meet fully its financial obligations when due, or at any time in the future.	principal risk, replacement-cost risk, settlement risk
<b>critical service providers (CSP)</b>	Third-party service providers that are essential to an FMI's operations, such as information technology and messaging providers.	
<b>cross-border collateral</b>	The assets accepted as collateral, when at least one of the following is foreign: (a) the currency of denomination, (b) the jurisdiction in which the assets are located, or (c) the jurisdiction in which the issuer is established.	foreign collateral
<b>cross-border netting scheme</b>	An arrangement to net positions or obligations between or among parties in more than one jurisdiction.	
<b>cross-border payment</b>	A payment in which the financial institutions of the payer and the payee are located in different jurisdictions.	
<b>cross-border settlement</b>	A settlement that takes place in a jurisdiction other than the jurisdiction in which one or both counterparties to a trade are located.	
<b>cross-margining agreement</b>	An agreement among CCPs to consider positions and supporting collateral at their respective organisations as a common portfolio for participants that are members of two or more of the organisations.	central counterparty (CCP), cross-margining arrangement

Term	Definition	Related terms
<b>cross-margining arrangement</b>	See <i>cross-margining agreement</i> .	cross-margining agreement
<b>current exposure</b>	The loss that an FMI (or, in some cases, its participants) would face immediately if a participant were to default. Current exposure is technically defined as the larger of zero or the market value (or replacement cost) of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty.	mark to market, potential future exposure, variation margin
<b>custodian</b>	An entity, usually a bank, that safekeeps and administers securities or other assets for its customers and that may provide various other services, including clearing and settlement, cash management, foreign exchange transactions, securities lending and collateral management.	custody, global custodian
<b>custody</b>	The safekeeping and administration of securities or other assets on behalf of others.	custodian, custody risk, global custodian
<b>custody risk</b>	The risk of loss on assets held in custody in the event of a custodian's (or subcustodian's) insolvency, negligence, fraud, poor administration or inadequate recordkeeping.	custody
<b>cut-off time (for an FMI)</b>	The deadline set by a FMI for the acceptance of transfer instructions for a given settlement cycle or for matching and/or clearing instruction.	
<b>debit balance</b>	See <i>net credit (or debit) position</i> .	net credit (or debit) position
<b>debit caps</b>	Quantitative limits on the funds transfer activity of individual participants in a system; limits may be set by each individual participant or may be imposed by the body managing the system; limits can be placed on the net debit position or net credit position of participants in the system.	caps
<b>default</b>	An event stipulated in an agreement as constituting a default. Generally, such events relate to a failure to complete a transfer of funds or securities in accordance with the terms and rules of the system in question.	
<b>default fund</b>	A fund, comprising pre-funded financial resources provided by participants, to allocate any losses arising in the event that one or more participants defaults on their obligations to the FMI and resources provided by the defaulting party (or parties) are not sufficient to cover such losses.	
<b>default waterfall</b>	The sequence for applying an FMI's financial resources to losses resulting from a participant default.	clearing fund, waterfall
<b>defaulter pays approach</b>	An arrangement whereby each participant (for example, FMI participants, or parties in bilateral trades) is required to cover exposures it has vis-à-vis other participants in the arrangement. As a result, losses from a party's default are borne by the defaulting party through the non-defaulter's liquidation/enforcement of the collateral posted by the defaulting party.	

Term	Definition	Related terms
<b>deferred net settlement (DNS)</b>	A net settlement mechanism which settles on a net basis at the end of a predefined settlement cycle.	hybrid system, real-time gross settlement (RTGS), retail payment system
<b>delivery versus delivery (DvD)</b>	A securities settlement mechanism that links two securities transfers in such a way as to ensure that delivery of one security occurs if and only if the corresponding delivery of the other security occurs.	DvP model 1, DvP model 2, DvP model 3, delivery versus payment (DvP), payment versus payment (PvP)
<b>delivery versus payment (DvP)</b>	A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs.	DvP model 1, DvP model 2, DvP model 3, delivery versus delivery (DvD), payment versus payment (PvP)
<b>dematerialisation</b>	The elimination of physical certificates or documents of title that represent ownership of securities so that securities exist only as accounting records.	book entry, book-entry system, immobilisation
<b>derivative</b>	A financial contract whose value depends on the value of one or more underlying reference assets, rates or indices, on a measure of economic value or on factual events.	
<b>direct holding system</b>	An arrangement for registering ownership of securities (or similar interests) whereby each and every final investor in the security is registered with a single entity (for example, the issuer itself, a CSD or a registry). In some countries, the use of a direct holding system is required by law.	
<b>direct participant (in an FMI)</b>	An FMI may have different classes of participants related to specific characteristics or obligations.	access criteria (participation requirements in an FMI), indirect participant (in an FMI)
<b>DvP model 1</b>	A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs. DvP model 1 typically settles securities and funds on a gross and obligation-by-obligation basis, with final (irrevocable and unconditional) transfer of securities from the seller to the buyer (delivery) if and only if final transfer of funds from the buyer to the seller (payment) occurs.	DvP model 2, DvP model 3, delivery versus delivery (DvD), delivery versus payment (DvP)
<b>DvP model 2</b>	A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs. DvP model 2 typically settles securities on a gross basis, with final transfer of securities from the seller to the buyer occurring throughout the processing cycle, but settles funds on a net basis, with final transfer of funds from the buyer to the seller occurring at the end of the processing cycle	DvP model 1, DvP model 3, delivery versus delivery (DvD), delivery versus payment (DvP)

Term	Definition	Related terms
<b>DvP model 3</b>	A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs. DvP model 3 typically settles both securities and funds on a net basis, with final transfers of both securities and funds occurring at the end of the processing cycle.	DvP model 1, DvP model 2, delivery versus delivery (DvD), delivery versus payment (DvP)
<b>eligible collateral (for central bank credit operations)</b>	Assets that a central bank will accept to satisfy its collateral requirements for intraday and overnight credit operations on a routine or an emergency basis.	
<b>end user (payment services)</b>	A customer of a financial institution (or a payment institution) to which the financial institution (or the payment institution) provides payment instruments and services to facilitate the completion of its transactions.	
<b>exchange-of-value settlement system</b>	A system that settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions).	real-time gross settlement (RTGS)
<b>exit criteria (of an FMI)</b>	Criteria for an existing participant in an FMI to voluntarily or involuntarily end its participation.	
<b>failed transaction</b>	A transaction that does not settle on the contractual settlement date due to financial, operational or legal reasons.	settlement fail
<b>fellow-customer risk</b>	The risk that another customer of the same participant will default and create a loss that exceeds both the amount of available collateral supporting the defaulting customer's positions and the available resources of the participant.	omnibus account
<b>final settlement</b>	The irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of an obligation by the FMI or its participants in accordance with the terms of the underlying contract. Final settlement is a legally defined moment.	
<b>financial market infrastructure (FMI)</b>	A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions.	central counterparty (CCP), central securities depository (CSD), clearing house, payment system, securities settlement system (SSS), trade repository (TR)
<b>financial resources (of an FMI)</b>	The combination of assets that is available to an FMI to cover both financial and/or non-financial risks.	central counterparty (CCP), clearing fund
<b>foreign collateral</b>	See <i>cross-border collateral</i> .	cross-border collateral
<b>free of payment (FoP)</b>	A transfer of securities without a corresponding transfer of funds.	free of transfer (FoT)
<b>free of transfer (FoT)</b>	A transfer of funds without a corresponding transfer of securities.	free of payment (FoP)
<b>funds settlement</b>	See <i>money settlement</i> .	money settlement



Term	Definition	Related terms
<b>funds transfer system (FTS)</b>	A formal arrangement based on private contract or statute law, with multiple membership, common rules and standardised arrangements, for the settlement of money obligations arising between the members.	
<b>general business risk</b>	Any potential impairment of the FMI's financial position (as a business concern) as a consequence of a decline in its revenues or an increase in its expenses, such that expenses exceed revenues and result in a loss that must be charged against capital.	
<b>global custodian</b>	An entity that provides its customers with custody services in respect of securities or other financial assets traded and settled not only in the jurisdiction in which the custodian is located but also in other jurisdictions.	custodian, custody, global custodian agent
<b>global custodian agent</b>	See <i>global custodian</i> .	global custodian
<b>global note</b>	In the context of the immobilisation of securities, a certificate held in a book-entry system that represents all or part of the physical securities of a particular issue.	book-entry system, immobilisation
<b>governance</b>	The set of relationships between an FMI's owners, board of directors (or equivalent), management and other relevant parties, including participants, authorities and other stakeholders (such as participants' customers, other interdependent FMIs and the broader market).	
<b>gross settlement</b>	The settlement of transfer instructions or other obligations individually on a transaction-by-transaction basis for full value.	
<b>gross settlement system</b>	A transfer system in which the settlement of payments, transfer instructions, or other obligations occurs individually on a transaction-by-transaction basis for full value.	
<b>haircut</b>	A risk control measure applied to underlying assets whereby the value of those underlying assets is calculated as the market value of the assets reduced by a certain percentage (the "haircut"). Haircuts are applied by a collateral taker in order to protect itself from losses resulting from declines in the market value of a security in the event that it needs to liquidate that collateral.	
<b>hybrid system</b>	A system that combines the characteristics of RTGS and deferred net settlement systems.	deferred net settlement (DNS), real-time gross settlement (RTGS)
<b>immobilisation</b>	The act of concentrating the location of securities in a depository and transferring ownership by book entry.	book entry, book-entry system, dematerialisation, global note
<b>indirect holding system</b>	A multi-tiered arrangement for the custody and transfer of ownership of securities (or the transfer of similar interests therein) in which holders are identified only at the level of their custodian or intermediary.	

<b>Term</b>	<b>Definition</b>	<b>Related terms</b>
<b>indirect participant (in an FMI)</b>	An entity that does not have direct access to the FMI's services, and is typically not directly bound by the rules of the FMI, but whose transactions are cleared, settled, or recorded by the FMI through a direct participant. An indirect participant has a bilateral agreement with a direct participant.	access criteria (participation requirements in an FMI), client /customer (of an FMI participant), direct participant (in an FMI), tiered participation arrangement
<b>individual account</b>	An account structure where assets or cash belonging to a customer of a direct FMI participant are held in a separate, segregated account at the level of the direct participant or the FMI.	segregated individual account
<b>initial margin</b>	Collateral that is collected to cover potential changes in the value of each participant's position (that is, potential future exposure) over the appropriate closeout period in the event the participant defaults.	close-out period, margin, portfolio margining, potential future exposure, variation margin
<b>interdependency</b>	Interconnections among payment, clearing and settlement systems based on direct relationships between the systems, indirect relationships arising from the activities of large financial institutions in multiple systems and broader commonalities. The smooth functioning of one system can be dependent on that of another system and the smooth functioning of two or more systems may be dependent on a third party or factor (for example, common participants or service providers).	
<b>international central securities depository (ICSD)</b>	A central securities depository (CSD) that settles domestic and international securities transactions and typically offers additional services such as securities lending and collateral management. ICSDs are usually run on direct or indirect (through correspondent banks) links to local CSDs.	central securities depository (CSD)
<b>interoperability</b>	The technical or legal compatibility that enables a system or mechanism to be used in conjunction with other systems or mechanisms. Interoperability allows participants in different systems to conduct clear and settle payments or financial transactions across systems without participating in multiple systems.	
<b>intraday liquidity</b>	Funds which can be accessed during the business day, usually to enable financial institutions to make payments in real time.	settlement bank
<b>investment risk</b>	The risk of loss faced by an FMI when it invests its own or its participants' resources, such as collateral.	
<b>investor CSD</b>	A term used in the context of CSD links. An investor CSD - or a third party acting on behalf of the investor CSD - opens an account in another CSD (the issuer CSD) so as to enable the cross-system settlement of securities transactions.	issuer CSD

Term	Definition	Related terms
<b>issuer CSD</b>	A CSD in which securities are issued (or immobilised). The issuer CSD opens accounts allowing investors (in a direct holding system) and intermediaries (including investor CSDs) to hold these securities.	investor CSD
<b>jump-to-default risk</b>	The risk that a financial product, whose value directly depends on the credit quality of one or more entities, may experience sudden price changes due to an unexpected default of one of these entities.	
<b>large-value payment system (LVPS)</b>	A funds transfer system that typically handles large-value and high-priority payments.	payment system, retail payment system, systemically important payment system (SIPS)
<b>legal ownership</b>	Recognition in law as the owner of a security or other assets. It is usually represented by holding "legal title" and sometimes distinguished from beneficial ownership/interest.	
<b>legal risk</b>	The risk of the unexpected application of a law or regulation, usually resulting in a loss.	conflict of laws
<b>link (FMI links)</b>	A set of contractual and operational arrangements between two or more FMIs that connect the FMIs directly or through an intermediary.	
<b>liquidation period</b>	See <i>close-out period</i> .	close-out period
<b>liquidity facility</b>	A facility that can be drawn upon by certain eligible entities. In some cases, the facility can be used automatically at the initiative of the account holder, while in other cases the liquidity provider may decide explicitly on each single request. The loans typically take the form of either advances or overdrafts on an account holder's current account, which is typically secured by a pledge of securities, of repos or of traditional rediscounting of bills.	
<b>liquidity risk</b>	The risk that a counterparty, whether a participant or other entity, will have insufficient funds to meet its financial obligations as and when expected, although it may be able to do so in the future.	settlement risk
<b>liquidity saving features</b>	The features/mechanisms which include frequent netting or offsetting of transactions (payments and/or securities) in the course of the operating day. A typical approach is to hold transactions in a central queue and to net or offset those transactions on a bilateral or multilateral basis at frequent intervals.	liquidity saving mechanisms, net settlement system, real-time gross settlement (RTGS)
<b>liquidity saving mechanisms</b>	See <i>liquidity saving features</i> .	liquidity saving features
<b>loss-sharing arrangement (for an FMI)</b>	Rules or other arrangements to allocate losses from a participant default or other causes.	
<b>loss-sharing rule</b>	See <i>loss-sharing arrangement (in an FMI)</i> .	
<b>margin</b>	In the context of clearing activity, collateral that is collected to protect against current or potential future exposures resulting from market price changes or in the event of a counterparty default. See also initial margin and variation margin.	initial margin, portfolio margining, variation margin

<b>Term</b>	<b>Definition</b>	<b>Related terms</b>
<b>mark to market</b>	The practice of revaluing securities and financial instruments using current market prices.	current exposure, variation margin
<b>master agreement</b>	An agreement that sets forth the standard terms and conditions between two parties that apply to all or a defined subset of transactions that the parties to the agreement may enter into from time to time. Each time that a transaction is entered into, the terms of the master agreement do not need to be re-negotiated and apply automatically.	
<b>model risk</b>	The risk connected with using a model to make financial or risk management decisions. Risks may be realised, for example, as losses from incorrect underlying assumptions, errors in model implementation or incorrect model use.	
<b>money settlement</b>	An act between two or more parties for the discharge of monetary obligations.	funds settlement
<b>multilateral netting</b>	The offsetting of obligations between or among multiple participants to result in a single net position per participant.	
<b>net credit (or debit) position</b>	A participant's net credit or net debit position in a netting system is the sum of the value of all the transfers it has received up to a particular point in time less the value of all transfers it has sent. If the difference is positive, the participant is in a net credit position; if the difference is negative, the participant is in a net debit position. Depending on the circumstance, these net positions may be calculated on a bilateral or multilateral basis.	debit balance, net settlement system
<b>net settlement system</b>	A funds or securities settlement system in which final settlement of transfer instructions occurs on a net basis at one or more discrete, pre-specified times during the processing day.	clearing house, liquidity saving features, net credit (or debit) position, payment netting
<b>netting</b>	The offsetting of obligations between or among participants in the netting arrangement, thereby reducing the number and value of payments or deliveries needed to settle a set of transactions.	clearing
<b>novation</b>	A process through which the original obligation between a buyer and a seller is discharged through the substitution of the CCP as seller to the buyer and buyer to the seller, creating two new contracts.	central counterparty (CCP), open offer, substitution
<b>offshore system</b>	An FMI for the processing of payments or securities denominated in a currency different from the one of the jurisdiction in which the FMI is located. It could also cover a CCP.	
<b>omnibus account</b>	An account structure where securities or collateral belonging to some or all customers of a particular participant is commingled and held in a single account segregated from that of the participant.	fellow-customer risk
<b>open offer</b>	A process through which a CCP extends an "open offer" to act as counterparty to market participants and thereby is interposed between participants at the time a trade is executed.	central counterparty (CCP), novation, substitution
<b>open position</b>	An unsettled or unhedged position in derivatives or other financial products.	

Term	Definition	Related terms
<b>operational risk</b>	The risk that deficiencies in information systems or internal processes, human errors, management failures or disruptions from external events will result in the reduction, deterioration or breakdown of services provided by an FMI.	
<b>overnight credit (overnight money)</b>	Credit extended by the lender with a maturity of one business day either with or without collateral. Also called overnight money or day-to-day money.	
<b>oversight</b>	A central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned payment, clearing, settlement and related arrangements, assessing them against these objectives and, where necessary, inducing change. These arrangements include financial market infrastructures and other payment, clearing, settlement and reporting arrangements and activities, both within and across jurisdictions (encompassing systems and activities involving large-value and retail payments, foreign exchange settlement, securities and derivatives clearing and settlement, multilateral netting and collateral management) as well as retail payment instruments or schemes. The scope of oversight differs between central banks but usually includes FMIs, with oversight being conducted domestically and through cross-border cooperation.	
<b>participant link (between CCPs)</b>	A type of CCP-CCP link in which a CCP is a participant in another CCP (the host CCP) and is subject to the host CCP's normal participant rules. In such cases, the host CCP maintains an account for the participant CCP and would typically require the participant CCP to provide margin, as would be the case for a participant that is not a CCP. See <i>peer-to-peer link</i> .	central counterparty (CCP), peer-to-peer link (between CCPs)
<b>payment (funds transfer)</b>	The payer's transfer of a monetary claim on a party acceptable to the payee. Typically, claims take the form of cash or deposit balances held at a financial institution or at a central bank.	
<b>payment netting</b>	Settling payments due on the same date and in the same currency on a net basis.	net settlement system
<b>payment order (instruction) message</b>	An order or instruction sent by a payer - or, in some systems, a payee - ordering the execution of a payment transaction.	
<b>payment system</b>	A set of instruments, procedures, and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement.	financial market infrastructure (FMI), large-value payment system (LVPS), retail payment system
<b>payment versus payment (PvP)</b>	A settlement mechanism that ensures that the final transfer of a payment in one currency occurs if and only if the final transfer of a payment in another currency or currencies takes place.	delivery versus delivery (DvD), delivery versus payment (DvP)

Term	Definition	Related terms
<b>peer-to-peer link (between CCPs)</b>	A type of CCP-CCP link in which a CCP maintains special arrangements with another CCP and is not subject to normal participant rules. Typically, however, the CCPs exchange margin and other financial resources on a reciprocal basis. The linked CCPs face current and potential future exposures to each other as a result of the process whereby they each net the trades cleared between their participants so as to create novated (net) positions between the CCPs. Risk management between the CCPs is based on a bilaterally approved framework, which is different from that applied to a normal participant. See also <i>participant link</i> .	participant link (between CCPs)
<b>physical delivery</b>	The delivery of an asset, such as an instrument or commodity, in physical form.	
<b>pledge</b>	The delivery of assets to secure the performance of an obligation by one party (the debtor, or pledgor) vis-à-vis another (the secured party or pledgee). For the secured party, a pledge creates a security interest in the assets delivered, while ownership of the assets remains with the debtor (however, in certain jurisdictions irregular pledge arrangements include the transfer of ownership).	
<b>portability</b>	The operational aspects of the transfer of contractual positions, funds or securities from one party to another party.	
<b>portfolio margining</b>	The practice of determining the margin requirement for a portfolio as a whole rather than product by product.	initial margin, margin, variation margin
<b>position netting</b>	The netting of instructions, transactions or contracts in respect of obligations between two or more parties which neither satisfies nor discharges the original individual obligations. Position netting does not typically result in legally binding net obligations. Also referred to as payment netting in the case of payment instructions.	advisory netting
<b>potential future exposure</b>	Any potential credit exposure that an FMI could face at a future point in time. Potential future exposure is technically defined as the maximum exposure estimated to occur at a future point in time at a high level of statistical confidence. Potential future exposure arises from potential fluctuations in the market value of a participant's open positions between the time they are incurred or reset to the current market price, and the time they are liquidated or effectively hedged.	current exposure, initial margin
<b>pre-settlement risk</b>	The risks which may arise prior to the beginning of the settlement process.	
<b>prefunded default arrangement</b>	See <i>clearing fund</i> .	clearing fund
<b>principal risk</b>	The risk that a counterparty will lose the full value involved in a transaction - for example, the risk that a seller of a financial asset will irrevocably deliver the asset, but not receive payment.	credit risk
<b>procyclicality</b>	The changes in risk management requirements or practices that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability.	

Term	Definition	Related terms
<b>provisional transfer</b>	A conditional transfer in which one or more parties retain the right by law or agreement to revoke the transfer.	
<b>re-hypothecation</b>	A particular form of re-use (see re-use) of client assets by a financial intermediary. In a re-hypothecation transaction, securities that serve as collateral for a secured borrowing (eg a margin loan extended to a hedge fund) are further utilised by the intermediary making the loan. When the reused collateral is in the form of securities that have been obtained as collateral by a party to a collateral agreement taking the legal form of a pledge, this practice is generally referred as re-hypothecation.	
<b>real-time gross settlement (RTGS)</b>	The real-time settlement of payments, transfer instructions or other obligations individually on a transaction-by-transaction basis.	deferred net settlement (DNS), exchange-of-value settlement system, hybrid system, liquidity saving features
<b>reconciliation</b>	A procedure to verify that two sets of records issued by two different entities match.	clearing
<b>recovery (of an FMI)</b>	The actions of an FMI, consistent with its rules, procedures and other ex ante contractual arrangements, to address any uncovered credit loss, liquidity shortfall or capital inadequacy, whether arising from participant default or other causes (such as business, operational or other structural weakness), including actions to replenish any depleted prefunded financial resources and liquidity arrangements, as necessary to maintain the FMI as a going concern and the continued provision of critical services.	
<b>replacement cost</b>	The unrealised gain on the unsettled contract or the cost of replacing the original contract at market prices that may be changing rapidly during periods of stress.	replacement-cost risk
<b>replacement-cost risk</b>	The risk of loss of unrealised gains on unsettled transactions with a counterparty. The resulting exposure is the cost of replacing the original transaction at current market prices.	credit risk, replacement cost
<b>repurchase agreement (repo)</b>	A contract to sell and subsequently repurchase securities at a specified date and price.	reverse repo
<b>retail payment system</b>	A funds transfer system that typically handles a large volume of relatively low-value payments in such forms as cheques, credit transfers, direct debits and card payment transactions.	deferred net settlement (DNS), large-value payment system (LVPS), payment system
<b>reuse of collateral</b>	Any reuse of assets, which is already delivered as collateral in a transaction.	
<b>reverse repo</b>	A contract with a counterparty to buy and subsequently resell securities at a specified date and price - the mirror image of a repo.	committed facilities, repurchase agreement (repo)

Term	Definition	Related terms
<b>reverse stress testing</b>	Stress tests aimed at identifying the scenarios (including in terms of market conditions, number of defaults and concentration of positions) that would exhaust an institution's financial and liquid resources.	backtesting, stress testing
<b>rolling settlement</b>	A procedure in which settlement takes place (at least once a day) in a given number of business days after the trade date, thereby limiting the number of outstanding trades and reducing aggregate market exposure. This is in contrast to account period procedures in which the settlement of trades takes place only on a certain day, for example, a certain day of the week or month, for all trades that occurred within the account period.	
<b>securities registrar</b>	An entity that provides the service of preparing and recording accurate, current and complete securities registers for securities issuers.	
<b>securities settlement system (SSS)</b>	An entity that enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules. Such systems allow transfers of securities either free of payment or against payment.	book entry, financial market infrastructure (FMI)
<b>segregated individual account</b>	See <i>individual account</i> .	individual account
<b>segregation</b>	A method of protecting customer collateral and contractual positions by holding or accounting for them separately from those of the direct participant (such as a carrying firm or broker).	
<b>sender limit</b>	A limit, set either by a participant or by the FMI, is sometimes used as an additional condition for settlement, to restrict credit exposures. It has also become a feature in some FMIs providing continuous intraday finality to control the outflow of settlement funds by setting sender limits.	
<b>settlement</b>	The discharge of an obligation in accordance with the terms of the underlying contract.	
<b>settlement agent</b>	An entity that manages the settlement process for transfer systems or other arrangements that require settlement. Settlement agent sometimes differs from the owner or settlement institution of the system.	
<b>settlement asset</b>	An asset used for the discharge of obligations as specified by the rules, regulations or customary practice for an FMI.	
<b>settlement bank</b>	Either a central bank or a commercial bank used to effect funds settlements. An FMI typically maintains an account at one or more settlement banks in order to conduct funds settlements between or among its participants.	intraday liquidity
<b>settlement cycle</b>	The amount of time between the trade date (T) and the settlement date (S), in reference to securities transfers. Typically measured relative to the trade date, eg if two days elapse, the settlement cycle is T+2.	
<b>settlement fail</b>	See <i>failed transaction</i> .	failed transaction
<b>settlement lag (payment lag)</b>	In a transfer system, the time lag between the acceptance of the transfer order by the system and its final settlement.	



<b>Term</b>	<b>Definition</b>	<b>Related terms</b>
<b>settlement obligation</b>	An amount due to be settled as a result of the clearing of payments, securities or other financial instruments.	
<b>settlement risk</b>	The general term used to designate the risk that settlement in a funds or securities transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.	credit risk, liquidity risk
<b>settlement system</b>	An arrangement used to facilitate the settlement of transfers of funds or financial instruments.	
<b>single point of failure</b>	Any point in a system, whether a service, activity, or process, that, if it fails to work correctly, leads to the failure of the entire system.	
<b>specific wrong-way risk</b>	The risk that an exposure to a counterparty is highly likely to increase when the creditworthiness of that counterparty is deteriorating.	
<b>straight through processing (STP)</b>	The automated end-to-end processing of trades and/or payment transfers, including the automated completion of confirmation, matching, generation, clearing and settlement of instructions, without the need for re-keying or reformatting data.	
<b>stress testing</b>	The estimation of credit and liquidity exposures that would result from the realisation of extreme price changes.	backtesting, reverse stress testing
<b>substitution</b>	The substitution of one party for another in respect of an obligation. In a netting and settlement context, the term typically refers to the process of amending a contract between two parties so that a third party is interposed as counterparty to each of the two parties and the original contract between the two parties is satisfied and discharged. See also novation.	novation, open offer
<b>survivors pay</b>	An approach to loss-sharing arrangement in which losses arising from a defaulting participant are borne by non-defaulting participants according to a pre-agreed rules.	
<b>systemic disruption</b>	Impact of one or a series of events that have the potential to threaten the stability of the financial system, with contagion effects among FMIs, financial institutions, financial markets and others.	
<b>systemic risk</b>	The risk that the inability of one or more participants to perform as expected will cause other participants to be unable to meet their obligations when due.	
<b>systemically important payment system (SIPS)</b>	A payment system which has the potential to trigger or transmit systemic disruptions; this includes, among other things, systems that are the sole payment system in a jurisdiction or the principal system in terms of the aggregate value of payments, and systems that mainly handle time-critical, high-value payments or settle payments used to effect settlement in other FMIs.	large-value payment system (LVPS)
<b>third-party service provider to an FMI</b>	An unaffiliated entity that provides services to an FMI. This can be a utility such as electricity companies and network providers, or an entity which the FMI "outsources" part of its operations, such as IT infrastructure.	
<b>tiered participation arrangement</b>	Arrangements that occur when some indirect participants rely on the services provided by direct participants to use the FMI's central payment, clearing, settlement, or recording facilities.	indirect participant (in an FMI)

Term	Definition	Related terms
<b>trade repository (TR)</b>	An entity that maintains a centralised electronic record (database) of transaction data.	financial market infrastructure (FMI)
<b>transfer</b>	The sending of assets such as funds, securities or of a right relating to assets, funds or securities from one party to another party by (i) conveyance of physical instruments/funds; (ii) accounting entries on the books of a financial intermediary; or (iii) accounting entries processed through a funds transfer system, securities settlement system and/or central securities depository securities transfer system. The act of transfer affects the legal rights of the transferor, transferee and possibly third parties in relation to the balance, security or other financial instrument being transferred.	
<b>unwind</b>	The process used to recalculate obligations in some net settlement systems where transfers between the accounts of participants are provisional until all of them have finally discharged their settlement obligations. If a particular participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations of the remaining participants are recalculated.	
<b>value date</b>	The day on which the payment, transfer instruction or other obligation is due and the associated funds and securities are typically available to the receiving participant.	
<b>variation margin</b>	Funds that are collected and paid out to reflect current exposures resulting from actual changes in market prices.	current exposure, initial margin, margin, mark to market, portfolio margining
<b>waterfall</b>	See <i>default waterfall</i>	default waterfall
<b>wind down</b>	The orderly discontinuation of one or more of an FMI's services in a situation where it no longer continues providing its critical operations and services to participants.	
<b>zero hour rule</b>	A provision in the insolvency law of some countries whereby the transactions conducted by an insolvent institution after midnight on the date the institution is declared insolvent are automatically ineffective by operation of law.	