GLOSSARY

Asset-backed security (ABS)	A security that is collateralized by the cash flows from a pool of underlying assets, such as loans, leases, and receivables. Often, when the cash flows are collateralized by real estate, an ABS is called a mortgage-backed security.
Auction rate security	Long-term debt or preferred stock for which the coupon or dividend is regularly reset via Dutch auction.
Basel II	An accord providing a comprehensive revision of the Basel capital adequacy standards issued by the Basel Committee on Banking Supervision. Pillar I of the accord covers the minimum capital adequacy standards for banks, Pillar II focuses on enhancing the supervisory review process, and Pillar III encourages market discipline through increased disclosure of banks' financial condition.
Book value per share	The value of a company's assets after deducting the value of its liabilities, divided by the number of outstanding shares.
Commercial mortgage-backed securities index (CMBX)	A series of indexes, each referencing 25 tranches of commercial mortgage-backed securities, with differing credit ratings.
Common equity	Shareholders' total equity minus preferred equity.
Credit default swap (CDS)	A credit derivative whose payout is triggered by a "credit event," often a default. CDS settlements can either be "physical"—whereby the protection seller buys a defaulted reference asset from the protection buyer at its face value—or in "cash"—whereby the protection seller pays the protection buyer and amount equal to the difference between the reference asset face value and the price of the defaulted asset.
Credit derivative	A financial contract under which an agent buys or sells risk protection against the credit risk associated with a specific reference entity (or specified range of entities). For a periodic fee, the protection seller agrees to make a contingent payment to the buyer on the occurrence of a credit event (usually default in the case of a credit default swap).
Credit spread	The spread between benchmark securities and other debt securities that are comparable in all respects except for credit quality (e.g., the difference between yields on U.S. treasuries and those on single A-rated corporate bonds of a certain term to maturity).
Derivative	A financial contract whose value derives from underlying securities prices, interest rates, foreign exchange rates, commodity prices, or market or other indices.

EMBIG	JPMorgan's Emerging Market Bond Index Global, which tracks the total returns for traded external debt instruments in 34 emerging market economies with weights roughly proportional to the market supply of debt.
Emerging markets	Developing countries' financial markets that are less than fully developed, but are nonetheless broadly accessible to foreign investors.
Government-sponsored enterprise (GSE)	A financial institution that provides credit to specific groups or areas of the economy, such as farmers or housing. Most enterprises maintain legal and/or financial ties to the government.
Hedge fund	An investment pool, typically organized as a private partnership and often resident offshore for tax and regulatory purposes. These funds face few restrictions on their portfolios and transactions. Consequently, they are free to use a variety of investment techniques—including short positions, transactions in derivatives, and leverage—to attempt to raise returns and manage risk.
Hedging	Offsetting an existing risk exposure by taking an opposite position in the same or a similar risk—for example, in related derivatives contracts.
Hybrid security	A broad group of securities that combine the elements of both debt and equity. They pay a fixed or floating rate coupon or dividend until a certain date, at which point the holder can have a number of options, including converting the securities into the underlying share. Therefore, unlike equity, the holder has a predetermined cash flow, and, unlike a fixed-income security, the holder has the option to gain when the issuer's equity price rises. Hybrids are typically subordinate to other debt obligations in the capital structure of the firm.
Implied volatility	The expected volatility of a security's price as implied by the price of options or swaptions (options to enter into swaps) traded on that security. Implied volatility is computed as the expected standard deviation that must be imputed to satisfy risk neutral arbitrage conditions, and is calculated with the use of an options pricing model such as Black-Scholes.
Impulse response function	An econometric technique typically used for vector autoregressions that traces the impact to the variable in question over time from a shock to another variable.
Institutional investor	A bank, insurance company, pension fund, mutual fund, hedge fund, brokerage, or other financial group that takes investments from clients or invests on its own behalf.

Intermediation	The process of transferring funds from the ultimate source to the ultimate user. A financial institution, such as a bank, intermediates when it obtains money from depositors or other lenders and onlends to borrowers.
Investment-grade obligation	A bond or loan is considered investment grade if it is assigned a credit rating in the top four categories. S&P and Fitch classify investment-grade obligations as BBB- or higher, and Moody's classifies investment-grade obligations as Baa3 or higher.
LCDX	An index referencing credit default swaps on loans of 100 individual companies that have unsecured debt trading in the secondary market.
Leverage	The proportion of debt to equity (also assets to equity and assets to capital). Leverage can be built up by borrowing (on-balance-sheet leverage, commonly measured by debt-to-equity ratios) or by using off-balance-sheet transactions.
Leveraged buyout (LBO)	The acquisition of a company using a significant level of borrowing (through bonds or loans) to meet the cost of acquisition. Usually, the assets of the company being acquired are used as collateral for the loans.
LIBOR	The London Interbank Offered Rate is an index of the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market.
Mortgage-backed security (MBS)	A security that derives its cash flows from principal and interest payments on pooled mortgage loans. MBSs can be backed by residential mortgage loans or loans on commercial properties.
Nonperforming loans	Loans that the bank foresees it will have difficulty in collecting. They include nonaccrual loans, reduced rate loans, renegotiated loans, and loans past due 90 days or more. They exclude assets acquired in foreclosures and repossessed personal property.
Originate-to-distribute model	A business model for financial intermediation, under which financial institutions originate loans such as mortgages, repackage them into securitized products, and then sell them to investors.
Overnight index swap (OIS)	An interest rate swap whereby the compounded overnight rate in the specified currency is exchanged for some fixed interest rate over a specified term.
Private equity	Shares in privately held companies that are not listed on a public stock exchange.
Private equity fund	Pool of capital invested by a private equity partnership, typically involving the purchase of majority stakes in companies and/or entire business units to restructure the capital, management, and organization.

Provision for loan loss	Losses that the bank expects to take as a result of uncollectible or troubled loans. Includes transfer to bad debt reserves and amortization of loans.
Regulatory arbitrage	Taking advantage of differences in regulatory treatment across countries or different financial sectors, as well as differences between the real (economic) risk and that as measured by regulatory guidelines, to reduce regulatory capital requirements.
Repurchase agreement (repo)	An agreement whereby the seller of securities agrees to buy them back at a specified time and price. The transaction is a means of borrowing cash collateralized by the securities "repo-ed" at an interest rate implied by the forward repurchase price.
Risk aversion	The degree to which an investor who, when faced with two investments with the same expected return but different risk, prefers the one with the lower risk. That is, it measures an investor's aversion to uncertain outcomes or payoffs.
Risk premium	The extra expected return on an asset that investors demand in exchange for accepting the higher risk associated with an asset.
ROA	Return on assets, which equals (net income before preferred dividends plus ((interest expense on debt minus interest capitalized) multiplied by (1 minus the tax rate))) divided by last year's total assets multiplied by 100.
ROE	Return on equity, which equals (total income minus preferred dividends) divided by total common equity multiplied by 100.
Securitization	The creation of securities from a pool of preexisting assets and receivables that are placed under the legal control of investors through a special intermediary created for this purpose (a "special purpose vehicle" [SPV] or "special purpose entity" [SPE]). In the case of "synthetic" securitizations, the securities are created from a portfolio of derivative instruments.
Short-term debt and current portfolio long-term debt	The portion of debt payable within one year, including the current portion of long-term debt and sinking fund requirements of preferred stock or debentures.
Spread	See "credit spread" above. Other definitions include (1) the gap between the market bid and ask price of a financial instrument; and (2) the difference between the price at which an underwriter buys an issue from the issuer and the price at which the underwriter sells it to investors.
Structured credit product	An instrument that pools and tranches credit risk exposure, including mortgage-backed securities and collateralized debt obligations.

Structured investment vehicle (SIV)	A legal entity whose assets consist of asset-backed securities and various types of loans and receivables. An SIV's funding liabilities are usually tranched and include short- and medium-term debt; the solvency of the SIV is put at risk if the value of the assets of the SIV falls below the value of the maturing liabilities.
Subprime mortgage	A mortgage loan to a borrower with an impaired or limited credit history, and who typically has a low credit score.
Swap	An agreement between counterparties to exchange periodic interest payments based on different reference financial instruments on a predetermined notional amount.
Tangible assets (TA)	Total assets less intangible assets (such as goodwill and deferred tax assets).
Tangible common equity (TCE)	Total balance sheet equity less preferred debt less intangible assets.
Tier 1 capital	The core capital supporting the lending and deposit activities of a bank. It consists primarily of common stock, retained earnings, and perpetual preferred stock.
Tier 2 capital	The supplemental capital supporting the lending and deposit activities of a bank. It includes limited life preferred stock, subordinated debt, and loan-loss reserves.
Total assets (banks)	The sum of cash on hand and due from banks, total investments, net loans, customer liability on acceptances, investment in unconsolidated subsidiaries, real estate assets, net property, plant and equipment, and other assets.
Total assets (insurance companies)	The sum of cash, total investments, premium balance receivables, investments in unconsolidated subsidiaries, net property, plant and equipment, and other assets.
Total assets (other financial companies)	The sum of cash and equivalents, receivables, securities inventory, custody securities, total investments, net loans, net property, plant and equipment, investments in unconsolidated subsidiaries, and other assets.
Total capital	The total investment in the company. It is the sum of common equity, preferred stock, minority interests, long-term debt, nonequity reserves, and deferred tax liability in untaxed reserves. For insurance companies, policyholders' equity is also included.
Total debt	All interest-bearing and capitalized lease obligations.
Total deposits	The value of money held by the bank or financial company on behalf of its customers.

Total loans	The total amount of money loaned to customers before reserves for loan losses but after unearned income. It includes lease financing and finance receivables.
Vector autoregression (VAR)	An econometric time series technique that models the dynamic interaction among the chosen set variables.
Yield curve	The relationship between the interest rates (or yields) and time to maturity for debt securities of equivalent credit risk.