



EUROPEAN CENTRAL BANK

EUROSYSTEM

1 January 2009

COMMENTS BY EACH

GLOSSARY OF TERMS RELATED TO PAYMENT, CLEARING AND SETTLEMENT SYSTEMS¹

Term	Definition
Acceptance	This term has two meanings: <ol style="list-style-type: none">1) in the field of transfer systems, it refers to the inclusion of a funds or securities transfer order in the system's operations for further processing, possibly after various checks regarding – for example – technical standards or the availability of funds, as specified in the rules of the system.2) in the field of cards, it refers to the process whereby a particular brand of card is accepted by a terminal, a merchant or any other entity.
Acceptor	Any merchant or other entity that accepts a payment instrument presented by a client in order to transfer funds in the merchant's favour.
ACH	See <i>Automated clearing house (ACH)</i> .
Account Type	Type of account in which a trade is executed. A name or code given to an account that indicates the account's purpose. For example, the account type could be linked to a brokerage account, checking account or savings account.
Acquirer	In POS transactions: The entity (usually a credit institution) to which the acceptor (usually a merchant) transmits the information necessary to process the card payment. In ATM transactions: The entity (usually a credit institution) which makes banknotes available to the cardholder (directly or via the use of third party providers).
Advisory netting	See <i>Position netting</i> .
Agency relationship	A contractual relationship whereby one party, the agent, acts on behalf of another party, the principal.
Aggregation on Order Level	Grouping of partial executions of an order to one trade.
Allocation Process	The process by which for example holders of long futures positions in contracts requiring physical delivery are chosen – e.g., at random. Also applies to assignment of option exercises.
American- style Option	An option which can be exercised at any time before expiration. See <i>European Option</i> .
Ancillary	A system in which payments or securities are exchanged and/or cleared, while the

¹ These definitions are definitions of concepts used by market participants, not legal definitions.

RESTRICTED

Term	Definition
system	ensuing monetary obligations are settled in another system, typically an RTGS system.
Assignment	The receipt of an exercise notice by an option writer that requires him/her to sell the security in the case of a call option, or to buy the security in the case of a put option, at the specified strike price.
Asset servicing	Services provided by a CSD or a custodian in connection with the custody and/or safekeeping of financial instruments such as corporate actions, events, redemption, etc. See also <i>Central securities depository (CSD)</i> , <i>Custodian</i> .
ATM	See <i>Automated teller machine (ATM)</i> .
Authentication	The methods used to verify the origin of a message or the identity of a system participant and to confirm that a message has not been modified in transit.
Auto-collateralisation	See self-collateralisation.
Automated clearing house (ACH)	An electronic clearing system in which payment orders are exchanged among participants, primarily via electronic media, and handled by a data processing centre. See also <i>Clearing</i> , <i>Clearing house</i> .
Automated teller machine (ATM)	An electromechanical device that allows authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access to other services, such as balance enquiries, transfer of funds or acceptance of deposits. See also <i>Cash dispenser</i> .
Automatic Linking	Process whereby trading member may initiate the automatic linking of buy and sell trades by marking the respective securities trades. See <i>Linked Trade</i>
Authorisation	The consent given by a participant (or a third party on his behalf) in order to transfer funds or securities.
Back month(s)	All delivery months of a specific futures contract other than the spot (front) month.
Backup system	A system designed to replace the primary system in case the latter cannot function for whatever reason. See also <i>Business continuity</i> .
Bank identifier code (BIC)	See <i>BIC</i> .
Batch	A group of orders (payment orders and/or securities transfer orders) to be processed together.
Beneficial ownership/interest	The entitlement to receive some or all of the rights deriving from ownership of a security or financial instrument (e.g. income, voting rights etc).
Beneficiary	The recipient of funds or securities. Depending on the context, it can be a direct participant in a payment system, as well as the final recipient. Also sometimes called a "payee".
BIC	Bank Identifier Code. An International Standardisation Organisation technical code that uniquely identifies a financial institution. SWIFT is the registration authority for BICs. The BIC consists of eight or eleven characters, comprising a financial institution code (four characters), a country code (two characters), a location code (two characters) and, optionally, a branch code (three characters).
Bilateral exposure	See <i>Exposure</i> .

RESTRICTED

Term	Definition
Bilateral net settlement system	A settlement system in which participants' bilateral net settlement positions are settled between every bilateral combination of participants.
Bilateral netting	An arrangement between two parties to net their bilateral obligations. See also <i>Multilateral netting, Netting, Net settlement system.</i>
Bill of exchange	A written order from one party (the drawer) to another (the drawee) to pay a specified sum on demand or on a specified date to the drawer or to a third party specified by the drawer. Widely used to finance trade and, when discounted with a financial institution, to obtain credit.
Blocking	Marking a cash equities trade to indicate that, from a member's point of view, settlement is not possible or not desired currently.
Bonus	Special distribution of funds to a company's shareholders. A company will distribute a bonus in addition to the dividend if it has been especially prosperous during the financial year, or generates extraordinary profits. For companies that pursue a dividend policy in which the amount of the dividend remains constant over a long period of time, a bonus payment will enable shareholders to benefit from positive fluctuations in earnings.
Book-entry system	An accounting system which enables the transfer of securities and other financial assets without the physical movement of paper documents or certificates (e.g. the electronic transfer of securities) See also <i>Dematerialisation, Immobilisation.</i>
Book-entry transaction	This term has two meanings: <ul style="list-style-type: none"> 1) in the field of securities, the term refers to a transaction which is processed without the movement of physical certificates, by way of a credit or debit entry; 2) in the field of payments, the term refers to a credit or debit entry made by a credit institution on the account of a customer in accordance with general instruction by the customer (e.g. dividend payment, bank fees).
Brand	The identity of a particular payment product (especially card) that has been licensed by the owner of the brand for use in a given territory.
Broker's Open Transaction	A trade for which a broker is listed as the counterparty. When the trade is closed, a CCP relevant trade is formed.
Bulk payments	See <i>Batch.</i>
Business continuity	Arrangements aimed at ensuring that a system meets agreed service levels even if one or more components of the system fail or if it is affected by an abnormal event.
Cap	Quantitative limit on the funds or securities transfer activity of participants in a system; limits may be set by each participant or imposed by the body managing the system. Limits can be placed on the net debit position and/or net credit position of system participants. Also called a "limit".
Card (payment card)	A device that can be used by its holder to pay for goods and services or to withdraw money.
Card acquirer	See <i>Acquirer.</i>
Cardholder	A person to whom a payment card is issued and who is authorised to use the card.
Card issuer	The financial institution that makes payment cards available to cardholders, authorises

RESTRICTED

Term	Definition
	transactions at POS terminals or ATMs and guarantees payment to the acquirer for transactions that are in conformity with the rules of the relevant scheme.
Card scheme	A technical and commercial arrangement set up to serve one or more card brands and which provides the organisational, legal and operational framework rules necessary for the services marketed by the brand to function. <i>See also Three-party scheme, Four-party scheme.</i>
Card with a cash function	A card enabling the cardholder to withdraw cash from a cash dispenser and/or to deposit cash. The cash function is usually combined with a payment function. <i>See also Cash card.</i>
Card with a credit function	<i>See Credit card.</i>
Card with a debit function	<i>See Debit card.</i>
Cash card	A card which provides only a cash function. <i>See also Card with a cash function.</i>
Cash Deferral	In gross delivery management, cash settlement does not take place for blocked trades contained in the offsetting block. The cash settlement only takes place once the trades have been released. Thus, the participant is not required to maintain a differences account.
Cash dispenser	Electromechanical device that permits authorised users, typically using machine-readable plastic cards, to withdraw banknotes. <i>See also Automated teller machine (ATM).</i>
Cash settlement agent	The entity whose assets or liabilities are used to settle the payment obligations arising from funds transfer systems or from securities transfers within a CSD. Commercial banks, central banks and CSDs can act as cash settlement agents.
Central bank money	Liabilities of a central bank that take the form of banknotes or of bank deposits at a central bank and which can be used for settlement purposes.
Central counterparty (CCP)	An entity that interposes itself between the counterparties to the contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer.
Central counterparty (CCP) link	An arrangement between two CCPs that provides central counterparty services for trades performed between the participants of the two CCPs involved, without obliging those participants to become members of both CCPs.
Central securities depository (CSD)	An entity that: 1) enables securities transactions to be processed and settled by book entry and; 2) plays an active role in ensuring the integrity of securities issues. Securities can be held in a physical (but immobilised) or dematerialised form (i.e. so that they exist only as electronic records).
Chaining	A method used in certain transfer systems for processing orders. It involves altering the sequence in which transfer orders are processed in order to increase the number or value of transfers that may be settled with available funds and/or securities balances (or available credit or securities lending lines). <i>See also Optimisation routine.</i>
Charge card	<i>See Delayed debit card.</i>
Cheque	A written order from one party (the drawer) to another (the drawee; normally a credit institution) requiring the drawee to pay a specified sum on demand to the drawer or to

RESTRICTED

Term	Definition
	a third party specified by the drawer.
Chip card	A card with an embedded microprocessor (chip) loaded with the necessary information to enable payment transactions.
Clearing	The process of transmitting, reconciling and, in some cases, confirming payment or transfer orders prior to settlement, possibly including the netting of orders and the establishment of final positions for settlement. Sometimes the term is used (imprecisely) to include settlement. For futures and options clearing, in particular, it refers to duties encompassing the daily balancing of profits and losses, the daily calculation of collateral requirements and final settlement once the contract has expired.
Clearing fund	A fund composed of assets contributed by participants in a CCP, or by providers of guarantee arrangements, that may be used to meet the obligations of a defaulting CCP participant and/or in certain circumstances to settle transactions and cover losses and liquidity pressures resulting from such defaults. A Clearing Fund serves as insurance against unusual price movements not covered by the margin calculation in case of a member default. Each Clearing Member typically has to contribute to the Clearing Fund. It may consist of Clearing Members' directly-deposited capital, or securities or third-party bank guarantees. It is used for securing the counterparty risk not covered by margin deposits.
Clearing house	A common entity (or common processing mechanism) through which participants agree to exchange transfer instructions for funds, securities or other instruments. In some cases, the clearing house may act as central counterparty for the participants and therefore assume significant financial risks. <i>See also Clearing, Clearing system, Automated clearing house (ACH).</i>
Clearing member	A member of a clearing house. In a CCP context, a general clearing member clears on its own behalf, for its customers and on behalf of other market participants. Direct/individual clearing members clear on their own behalf and on behalf of their customers. Non-clearing members are members of an exchange or other trading facility, not the CCP, and use general clearing members to access the CCP's services. All trades must be cleared through a clearing member. A Clearing Member is entitled to perform the clearing of securities, futures and options transactions. In addition, Clearing Members are responsible for the timely fulfillment of all payment and delivery obligations resulting from transactions.
Clearing system	A set of rules and procedures whereby participants present and exchange data and/or documents relating to funds, securities transfers or other instruments to other participants at a single location (e.g. clearing house). The procedures often also include a mechanism for calculating participants' mutual positions, possibly on a net basis, with a view to facilitating the settlement of their obligations in the clearing or settlement system. <i>See also Clearing, Netting, Clearing house.</i>
Close-out netting	A special form of netting, which follows certain contractually agreed events (such as the opening of insolvency proceedings etc), whereby all existing obligations are accelerated so to become immediately due. <i>See also Netting, Default.</i>
Collateral	An asset or third-party commitment (Cash or securities, such as bonds and shares) that is used by the collateral provider to secure an obligation vis-à-vis the collateral taker.

RESTRICTED

Term	Definition
Collateral Management	Collateral management comprises the administration of collateral.
Collateral pool	A collateralisation technique that enables institutions to deposit their available collateral in one account in order to obtain credit from a counterparty. By contrast with an earmarking system, this technique enables an institution to make collateral available to a counterparty without allocating it to a specific transaction.
Commercial bank money	Commercial bank liability that takes the form of deposits at a commercial bank which can be used for settlement purposes. <i>See Loro, Nostro account</i>
Committed facilities	Facilities (e.g. credit lines or repo facilities) whereby the provider is contractually committed to advance funds in specified circumstances. <i>See also Collateral pool, Loss-sharing agreement.</i>
Common depository	An entity, usually a credit institution, that provides the two ICSDs with safekeeping and asset servicing for physical papers (“global notes”) that cover all or part of the issue of international debt instruments (e.g. Eurobonds). <i>See also Specialised depository.</i>
Confirmation	The process whereby the terms of a trade are verified either by directly involved market participants or by a central entity.
Contractual settlement date accounting	A contractual commitment by a custodian to credit and debit a customer’s cash and securities accounts, as appropriate, on the date on which the customer’s contract with its counterparty is due for settlement (the contractual settlement date), regardless of whether settlement has actually occurred. Such crediting and debiting is normally provisional and does not become final if settlement does not occur within an interval established by the custodian.
Core Principles for Systemically Important Payment Systems (CPSIPS)	International standards for systemically important payment systems developed by the G10 central banks as guidance for the oversight activities of central banks with regard to payment systems of systemic importance. <i>For details, see the report entitled “Core Principles for Systemically Important Payment Systems”, BIS, January 2001.</i>
Corporate action	Action or event decided by the issuer of a security which has an impact on the holders. Such an event can be optional if there is a choice for the holders (example: exercise the right to purchase more shares with conditions specified by the issuer) or mandatory if there is no choice for the holders (example: dividend payment, stock split). Corporate actions can refer to cash payments (dividends or bonuses) or to the booking of rights (subscription rights, partial rights, splits, mergers).
Correspondent banking	An arrangement whereby one bank (the settlement or service-providing bank) makes or receives payments (and possibly performs other banking services) on behalf of another bank (customer or user bank). <i>See also Loro account, Nostro account, Tiering arrangement.</i>
Correspondent central banking model (CCBM)	A mechanism established by the European System of Central Banks with the aim of enabling counterparties to use eligible collateral in a cross-border context. In the CCBM, national central banks act as custodians for one another. This means that each national central bank has a securities account in its securities administration for each of the other national central banks and the ECB.
CCBM 2	The Collateral Central Bank Management (CCBM2) is a common platform for Eurosystem collateral management, establishing efficient collateral mobilisation and management procedures for both domestic and cross-border collateral.

RESTRICTED

Term	Definition
Counterparty risk	The risk that between the time of the agreement on a transaction and the time of actual settlement the counterparty to the transaction fails to fulfil its obligations.
Credit card	A credit card enables cardholders to make purchases and/or withdraw cash up to a prearranged ceiling. The credit granted may be settled in full by the end of a specified period or may be settled in part, with the balance taken as extended credit on which interest is usually charged.
Credit institution	(i) An undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account, or (ii) an electronic money institution within the meaning of EU law.
Credit limit	The limit on the credit exposure which a payment system 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 which have not yet been settled. Also referred to as credit cap.
Credit line	A commitment to grant credit on demand that one entity has given to another entity in advance on agreed terms.
Credit risk	The risk that a counterparty will not settle an obligation for full value, either when due or at any time thereafter. Credit risk includes replacement cost risk and principal risk. It also includes the risk of the failure of the settlement bank. <i>See also Replacement cost risk, Principal risk.</i>
Credit transfer	A payment instrument allowing the payer to instruct its account-holding institution to transfer funds to the beneficiary.
Cross-border settlement	Settlement that takes place in a country other than the country in which one or both parties to the transaction are located. <i>Antonym: Domestic settlement.</i>
Cross-border transaction	Transaction where the payer's and the payee's financial institutions are located in different countries.
Cross-currency settlement risk	<i>See Foreign exchange settlement risk.</i>
Cross-margining agreement	An agreement between two CCPs which makes it possible to limit the margin requirements for institutions participating in both CCPs by considering the positions and collateral of such participants as one portfolio.
Cross-system settlement	Settlement of a trade through a link between two separate payment systems or securities settlement systems.
CSD	<i>See Central securities depository (CSD).</i>
CSD link	A set of technical and legal arrangements between two CSDs, most notably an investor CSD and an issuer CSD, for the cross-system transfer of securities. <i>See also Investor CSD, Issuer-CSD, relayed link, direct link, indirect link.</i>
Custodian	An entity, often a credit institution, which provides custody services to its customers. <i>To be distinguished from depository</i>
Custody	The holding and administration of securities and other financial instruments on behalf of others. <i>See also Safekeeping services.</i>
Custody risk	The risk of loss on securities in custody as a result of the custodian's insolvency, negligence, misuse of assets, fraud, poor administration or inadequate record-keeping.

RESTRICTED

Term	Definition
Cut-off time	The deadline defined by a system (or an agent bank) to accept transfer orders for a defined settlement cycle.
Daily processing	The complete cycle of processing tasks which needs to be completed in a typical business day, from start-of-day procedures to end-of-day procedures; sometimes includes the backing-up of data.
Daylight (credit, overdraft, exposure...)	Synonym for intraday.
Daylight credit	See <i>Intraday credit</i> .
Debit card	A card enabling cardholders to have their purchases directly and immediately charged to their accounts, whether held with the card issuer or not. See also <i>Card (payment card)</i> and <i>Delayed debit card</i> .
Default	An event stipulated in an agreement as constituting a default. Generally, the failure to complete a funds or securities transfer in accordance with the terms and rules of the system. A failure to pay or deliver on the due date, breach of agreement and the opening of insolvency proceedings all constitute events of default. See also <i>Fail, failed transaction</i> .
“Defaulter pays”	A loss-sharing arrangement whereby each participant is required to collateralise any exposures it creates for other participants. As a result, losses resulting from a party’s default are borne by the defaulting party. Antonym: “ <i>Survivors pay</i> ”.
Deferred net settlement system	A system which settles on a net basis at the end of a predefined settlement cycle (typically at the end of, but sometimes during, the business day).
Delayed debit card	A card enabling cardholders to have their purchases charged to an account with the card issuer, up to an authorised limit. The balance in this account is then settled in full at the end of a predefined period. Also called a “charge card”. See also <i>Card (payment card)</i> .
Delivery	Transfer of financial instruments or commodities by book entry or by physical exchange; the action by which an underlying commodity, security, cash value, or delivery instrument covering a contract is tendered and received by the contract holder
Delivery Release File	A data file generated within the scope of Gross Delivery Management for the settlement of cash securities. This file is sent by a member and contains a list of all trades released for delivery by the settlement agent.
Delivery versus delivery (DvD)	A mechanism which links two securities transfers in such a way as to ensure that delivery of securities in the one transfer occurs if, and only if, securities in the other transfer are delivered.
Delivery versus payment (DvP)	A mechanism which links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if, and only if, payment occurs.
Dematerialisation	The elimination of physical certificates or documents of title which represent ownership of financial assets, so that the financial assets exist only as accounting records.
Deposit facility	A standing facility of the Eurosystem which counterparties may use to make overnight deposits at a national central bank and which are remunerated at a pre-specified interest rate.

RESTRICTED

Term	Definition
	See <i>standing facility</i>
Depository	An agent with the primary role of recording the (direct or indirect) holding of securities. A depository may also act as registrar. <i>To be distinguished from “custodian”.</i>
Derivative	A financial contract whose value depends on the value of one or more underlying reference assets, rates, indices or measure of economic value or on factual occurrences
Designated system	A system governed by the law of an EEA member state and designated to the European Commission by the competent national authorities in accordance with Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems.
Differences Report	In Gross Delivery Management, the settlement for blocked trades in the offsetting block on the level CCP-Clearing Member can differ from settlement on the level Clearing Member-Customer. These differences are documented per value in the Differences Report and serve as reconciliation basis for member internal bookings.
Direct Clearing Member (DCM)	A clearing member that may clear its own transactions and those of its customers, but not for NCMs. For example it may be allowed to clear for 100 percent affiliated group companies that are not clearing members. Also Individual Clearing Member (ICM). See <i>GCM</i> .
Direct debit	Payment instrument for debiting a payer’s payment account where a payment transaction is initiated by the payee on the basis of an authorisation given by the payer
Direct holding system	An arrangement for registering ownership of securities (or similar interests) whereby each and every final investor in the security is registered by a single body, which can be the issuer itself, a CSD or a registry. In some countries the direct holding system is mandatory by law. <i>Antonym: Indirect holding system</i>
Direct link	An omnibus account opened by a CSD, referred to as the investor CSD, in the books of another CSD, referred to as the issuer CSD, in order to facilitate the transfer of securities from participants in the issuer CSD to participants in the investor CSD. In some cases the link may be operated by an intermediary that acts only as a technical service provider, without affecting securities ownership or legal issues; in such cases the link is known as an “operated direct link”. See also <i>Omnibus account, Investor CSD, relayed link</i> .
Direct participant	A participant in a system that can perform all activities allowed in the system without using an intermediary, including in particular the direct input of orders in the system and the performance of settlement operations. <i>Antonym: Indirect participant.</i>
Domestic settlement	A settlement which takes place in the country (or in the currency area) in which both parties to the transaction are located. <i>Antonym: Cross-border settlement</i>
Double-entry bookkeeping	An accounting principle whereby, for each credit/debit made on one account, there exists a corresponding entry on another account.
Due Trade	A due trade is a cash securities trade whose settlement day corresponds to the current business day.
DvD	See <i>Delivery versus delivery (DvD)</i> .

RESTRICTED

Term	Definition
DvP	See <i>Delivery versus payment (DvP)</i> .
Earmarking	A technique for identifying collateral whereby assets provided as collateral are attributed to individual transactions. <i>Antonym: Collateral pool.</i>
EBPP	See <i>Electronic Bill Presentment and Payment (EBPP), e-invoicing</i> .
EDI	See <i>Electronic data interchange (EDI)</i> .
EFTPOS terminal	Terminal which captures payment information by electronic means and transmits such information either online or offline. See also <i>Point of sale (POS) terminal</i> .
Electronic Bill Presentment and Payment (EBPP), e-invoicing	Services which enable the electronic transmission, browsing and payment of invoices.
Electronic data interchange (EDI)	The electronic exchange between commercial entities (in some cases also public administrations), in a standard format, of data relating to a number of message categories, such as orders, invoices, customs documents, remittance advices and payments. EDI messages are sent through public data transmission networks or banking system channels. Any movement of funds initiated by EDI is reflected in payment instructions flowing through the banking system. UN/CEFACT, a United Nations body, has established a set of standards for electronic data interchange for administration, commerce and transport (EDIFACT).
Electronic money	A monetary value, as represented by a claim on the issuer, which is: (i) stored on an electronic device (e.g. a card, a computer) (ii) issued upon receipt of funds in an amount not less in value than the monetary value issued (iii) accepted as a means of payment by undertakings other than the issuer.
Electronic money institution (ELMI)	A term used in EU legislation to designate credit institutions which are governed by a simplified regulatory regime because their activity is limited to the issue of electronic money and the provision of financial and non-financial services closely related to the issue of electronic money.
Electronic purse	See <i>Multi-purpose prepaid card</i> .
Electronic signature	A string of data, generated by a cryptographic method, which is attached to a message in order to ensure its authenticity and protect the recipient against repudiation by the sender.
Eligible assets, eligible collateral	Assets which can be used as collateral in order to obtain credit from the Eurosystem
EMV	Acronym for the (set of) specifications developed by the consortium EMVCo which promote the new global standardisation of electronic financial transactions and in particular the global interoperability of chip cards.
European –style Option	An option that can only be exercised on the Last Trading Day.
Exercise	The option holder's declaration to either buy (for a call) or sell (for a put) the underlyings at the conditions set in the option contract.
Exchange-for-value settlement	A general term to refer to systems which simultaneously exchange the two assets involved in a foreign exchange transaction or in a securities transaction.

RESTRICTED

Term	Definition
system	See also <i>Delivery versus delivery (DvD)</i> , <i>Delivery versus payment (DvP)</i> , <i>Payment versus payment (PvP)</i> .
Exit criteria	Criteria for an existing participant in a system to cease participation. Exit may be voluntary or compulsory (e.g. following the opening of insolvency proceedings).
Exposure	The loss that would be incurred if a certain risk materialised.
Face-to-face payment	A payment carried out between the payer and the payee in the same physical location. Antonym: <i>Remote payment</i> .
Fail, failed transaction	A transaction that does not settle on the contractual settlement date, but may be retained and may settle thereafter.
Final settlement, final transfer	A settlement or a transfer is final when it is unconditional, enforceable and irrevocable, even in the framework of insolvency proceedings against a participant (except in case of criminal offences or fraudulent acts, as decided by a competent court). In the European context, it can be distinguished between: - the enforceability of a transfer order which is binding on third parties and protected from insolvency risks, provided that the transfer order was entered into the system, as defined by the rules of that system, before the opening of insolvency proceedings (transfer orders entered into a system after the moment of opening of insolvency proceedings are legally enforceable only in exceptional circumstances); and - the irrevocability of a transfer order which cannot be revoked by the participant from the moment defined by the rules of that system. A reference may also be made to the finality of transfer, whereby entitlement to the asset (be it cash or securities) is legally transferred to the receiving entity
Foreign exchange settlement risk	The risk that one party to a foreign exchange transaction will pay the currency it sold but not receive the currency it bought. This is a form of principal risk, which is also called cross-currency settlement risk. See also <i>Principal risk</i> , <i>Payment versus payment (PvP)</i> .
Four-party scheme	Card scheme where the stakeholders involved are 1) the issuer, 2) the acquirer, 3) the cardholder and 4) the card acceptor (in the case of ATM transactions, it is usually the acquirer that offers his services via the ATM). This compares to a three-party scheme where the issuer and the acquirer are always the same entity.
Free-of-payment (FOP) delivery	A delivery of securities which is not linked to a corresponding payment of funds.
Funds transfer system (FTS)	A formal arrangement based on private contract or law, with multiple membership, common rules and standardised arrangements, for the transmission, clearing, netting and/or settlement of monetary obligations arising between the members. See also <i>Interbank funds transfer system (IFTS)</i> .
General Clearing Member (GCM)	A General Clearing Member may clear its own transactions, those of customers, and those of market participants not holding a clearing license.
Global certificate/note	A single physical certificate that covers all or part of an issue of securities. For fixed income instruments, such as bonds, the term used is “global note”.
Global custodian	A custodian that provides its customers with custody services in respect of securities traded and settled in several countries around the world.

RESTRICTED

Term	Definition
Governance	Procedures through which the objectives of a legal entity are set, the means of achieving them are identified and the performance of the entity is measured. This refers, in particular, to the set of relationships between the entity's owners, board of directors, management, users, regulators and other stakeholders that influence these outcomes.
Gridlock	A situation that can arise in a funds or securities transfer system in which the failure to execute one or more transfer orders prevents the execution of a substantial number of orders from other participants. See also <i>Queuing, Systemic risk</i> .
Gross margining	A system in which the margin posted in a CCP by a participant for its customers' positions is the sum of the requirements for individual customers.
Gross settlement	The settlement of transfer orders one by one.
Gross settlement system	A transfer system in which transfer orders are settled one by one. See also <i>Real-time gross settlement (RTGS) system</i> .
Guarantee fund	A fund which compensates non-defaulting participants for losses which they suffer in the event that one or more participants default on their obligations. See also <i>Clearing fund, Collateral pool</i> .
Haircut	A risk control measure applied to underlying assets implying that the value of underlying assets is calculated as the market value of the assets reduced by a certain percentage (haircut). Haircuts are applied by the collateral taker in order to protect itself from losses owing to declines in the market value of the security in case it should need to liquidate the collateral.
Hybrid system	A system that combines characteristics of RTGS systems (e.g. the continuous processing and clearing of transfer orders) and net settlement systems (e.g. several settlement cycles per day, some form of netting procedure for transfer orders).
Home banking	Banking services which retail customers of credit institutions can access using various kinds of telecommunication device, such as telephones, mobile phones, television sets, terminals or personal computers.
IBAN	An expanded version of the basic bank account number (BBAN), intended for use internationally, which uniquely identifies an individual account at a specific financial institution in a particular country. The IBAN also includes the bank identifier of the financial institution servicing that account.
IFTS	See <i>Interbank funds transfer system (IFTS)</i> .
Immobilisation	Placement of physical certificates for securities and financial instruments in a (common or central securities) depository so that subsequent transfers can be made by book entry – that is, by debits from and credits to holders' accounts at the depository.
Indirect holding system	A multi-tiered arrangement for the custody and transfer of ownership (or similar interests) of securities in which investors are only identified at the level of their custodian. Antonym: <i>Direct holding system</i> .
Indirect link	A link between two CSDs through an intermediary, whereby the two CSDs do not have any direct contractual or technical arrangement. See also <i>Relayed link</i> .

RESTRICTED

Term	Definition
Indirect participant	A participant in a funds or securities transfer system with tiering arrangement using a direct participant as intermediary to perform some of the activities allowed in the system (particularly settlement). See also <i>Tiering arrangement</i> .
Initial margin	For instruments cleared by a CCP, the amount of collateral required from each participant to be provided to the CCP (or to the clearing member) in order to provide cover for potential default losses. The initial margin is calculated based on a formula set by the CCP.
Instruction	Specific settlement or other instructions issued by or on behalf of a CCP or participant to control the handling of cash securities.
Integrity	In the context of data, the quality of being protected against accidental or fraudulent alteration in transmission or in storage. Alternatively, the quality of indicating whether or not alteration has occurred.
Integrity of a securities issue	The result of legal requirements and securities accounting procedures which ensures that the number of securities issued (i.e. booked in the issuer account at the CSD) is equal to the total number of securities in circulation (i.e. validly booked in investors' accounts) at any time.
Interbank funds transfer system (IFTS)	A funds transfer system in which all (or almost all) participants are credit institutions.
Interchange fee	Transaction fee payable between the payment services providers involved in a transaction.
Internal settlement	Settlement that is effected through transfers of securities and/or funds on the books of a bank or investment firm, as opposed to settlement via an interbank funds transfer system or a CSD.
International central securities depository (ICSD)	A central securities depository (CSD) which was originally set up to settle Eurobonds trades and which is now also active in the settlement of internationally traded securities from various domestic markets, typically across currency areas. At present, there are two ICSDs located in EU countries: Clearstream Banking Luxembourg and Euroclear Bank Brussels.
Interoperability	The set of arrangements/procedures that allows participants in different systems to exchange and settle payments, securities or derivatives transactions.
Intraday credit	Credit extended and reimbursed within a single business day. Also called "daylight credit".
Intraday finality	Final settlement achieved continuously or at several times during the settlement day. Intraday finality can be provided through real-time settlement procedures and/or the settlement of the results of batch processing during the settlement day.
Intraday liquidity	Funds which are available or can be borrowed during the business day in order to enable financial institutions to effect payments/settlements. Repayment of the borrowed funds should take place before the end of the business day. See also <i>Intraday credit, Same-day funds</i> .
Investment firm	Any entity whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis.
Investor CSD	A term used in the context of CSD links. The investor CSD – or a third party acting on

RESTRICTED

Term	Definition
	behalf of the investor CSD – opens an omnibus account in another CSD (the issuer CSD), so as to enable the cross-system settlement of securities transactions. <i>See also Direct link, Issuer-CSD (issuing CSD), relayed link.</i>
Issuer-CSD (issuing CSD)	In the context of links between CSDs, designates the CSD in which securities are issued (or immobilised). The issuer CSD has an omnibus account in its books in the name of the investor CSD(s) for the transfer of securities to the investor CSD(s) (or to a third party, e.g. an intermediating CSD, acting on behalf of the investor CSD and its clients). <i>See also Direct link, Investor CSD, relayed link.</i>
L/C	<i>See Letter of credit (L/C).</i>
Lamfalussy standards (minimum standards of the Lamfalussy report)	The six minimum standards for the design and operation of cross-border and multi-currency netting schemes or systems. For details, see the “Report of the Committee on Interbank Netting Schemes of the central banks of the Group of Ten countries (Lamfalussy Report)”, BIS, November 1990. <i>See also Core Principles for Systemically Important Payment Systems (CPSIPS).</i>
Large-value funds transfer system	A funds transfer system through which large-value and/or high priority funds transfers are made between participants in the system for their own account or on behalf of their customers. Although, as a rule, no minimum value is set for payments made in such systems, the average size of such payments is usually relatively large. Large-value funds transfer systems are sometimes known as “wholesale funds transfer systems”.
Large-value payments	Payments which are generally for very large amounts, are exchanged mainly between banks or between participants in the financial markets, and usually require urgent and timely settlement. <i>Antonym: Retail payment.</i>
Legal risk	The risk of loss on account of the unexpected application of a law or regulation, or because a contract cannot be enforced.
Letter of credit (L/C)	A promise by a bank or other issuer to a third party to make payment on behalf of a customer in accordance with specified conditions. Frequently used in international trade to secure the payment obligation of an importing entity.
Linked Trade	A linked trade is released for delivery in Gross Delivery Management only if the securities that have to be delivered are available through the fulfilment of another trade.
Limit	<i>See Cap.</i>
Liquidity risk	The risk that a counterparty will not settle an obligation in full when due. Liquidity risk does not imply that a counterparty or participant is insolvent, since it may be able to effect the required settlement at some unspecified time thereafter.
Loro account	A “loro account” is the term used in correspondent banking to describe an account held by one bank on behalf of another bank (the “customer bank”); the customer bank regards this account as its “nostro account”. Sometimes also called a “vostro account”. <i>Antonym: Nostro account.</i>
Loss-sharing agreement	An agreement among participants in a clearing or settlement system regarding the allocation of any losses arising from the default of a participant in the system or of the system itself.
Loss-sharing pool	<i>See Clearing fund, Collateral pool.</i>
Loss-sharing rule	The rule or formula stipulating the way in which losses arising from the default of a participant in the system or of the system itself are to be shared among the parties in

RESTRICTED

Term	Definition
	the event that a loss-sharing agreement is activated. <i>See Loss-sharing agreement.</i>
Mandate (for direct debits)	The authorisation given by the payer to the payee and/or to its own account holding institution to debit his/her account.
Margin	An amount for which highly liquid collateral is required in order to cover adverse market price movements. Margin is collateral which has to be deposited by the Clearing Member for contract fulfilment (e.g. Additional Margin, Futures Spread Margin, Premium Margin) and serves to cover the risk exposure of the CCP. CCP margin is calculated based on formulas defined by the CCP.
Margin Call	A process whereby a market participant will be called upon to provide collateral if the collateral that has been deposited is no longer sufficient, (indicating a shortfall in margin coverage).
Marginal lending facility	A standing facility of the Eurosystem which counterparties may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets . <i>See also Standing facility.</i>
Market infrastructure	Generic term used to designate systems used for the trading, clearing and settling of payments, securities or derivatives.
Market risk	The risk of losses (in both on and off-balance sheet positions) arising from movements in market prices. <i>See also Replacement cost risk.</i>
Marking to market	The practice of revaluing securities and financial instruments using current market prices. <i>See also Haircut, variation margin.</i>
Matching	The process used for comparing the settlement details provided by the buyer and the seller of securities or financial instruments in order to ensure that they agree on the terms of the transaction.
Means of payment	Assets or claims on assets that are accepted by a payee as discharging a payment obligation on the part of a payer vis-à-vis the payee. <i>See also Payment instrument.</i>
Member	A participant in a system which also owns a stake in the system.
Merchant Service Charge (MSC)	A fee paid by the acceptor/merchant to the acquirer.
Money order	An instrument used to transfer money remotely, often used in case the payer and/or the payee do(es) not have a current account with a financial institution.
Money remitter	A payment service provider that accepts funds from a payer for the purpose of making them available to a payee, without necessarily maintaining an account relationship with the payer or payee.
M-payment	A payment where a mobile device (e.g. phone, PDA) is used at least for initiating the payment order and also possibly for the transfer of funds.
Multilateral net settlement system	A settlement system in which each settling participant settles its multilateral net settlement position (typically by means of a single payment or receipt). <i>See also Multilateral netting, Net settlement system.</i>
Multilateral	An arrangement among three or more parties for the netting of obligations and the

RESTRICTED

Term	Definition
netting	settling of multilateral net settlement positions.
Multiple batch processing	See <i>Batch</i> .
Multi-purpose prepaid card	A prepaid card which can be used at the outlets of several service providers for a wide range of purposes. See also <i>Prepaid card</i> .
Negative Release Method	In Gross Delivery Management, a method whereby all cash securities trades are included as "released" and can be blocked individually by a member (also refer to Release Method, Positive Release Method).
Net credit cap	A limit placed on the credit exposure which a participant is allowed, or willing, to run vis-à-vis the other participants or a participant in the system as a result of sending/receiving payments which have not been settled. See also <i>Cap</i> .
Net margining	A mechanism whereby the margin posted in a CCP by a participant for its customers' positions is the net total of the requirements for the individual customers.
Net settlement	The settlement of transfer orders on a net basis.
Net settlement system	A funds or securities transfer system which settles net settlement positions during one or more discrete periods, usually at pre-specified times during the business day.
Netting	In the context of clearing or settlement systems, an agreed offsetting of mutual obligations by participants in a system. The process involves the calculation of net settlement positions and their legal reduction to a (bilateral or multilateral) net amount. Netting may take several legal forms. See also <i>Bilateral netting, Multilateral netting, Position netting, Netting by novation, Unwind</i> .
Netting by novation	An agreement where obligations from individual transfer orders are netted and replaced by new obligations. The parties to the new obligations may be the same as those to the existing obligations or, in the context of some clearing house arrangements, there may also be some substitution of parties. Antonym: <i>Position netting</i> .
Nominee	A person or entity named by another to act on its behalf. A nominee is commonly used in a securities transaction to obtain registration and legal ownership of a security.
Non-Clearing Member (NCM)	An exchange participant that is not a clearing member. Such a participant must have a clearing agreement in effect with a General Clearing Member or in some cases a company-affiliated Direct Clearing Member
Non-repudiation	Mechanisms providing evidence both of the identity of the sender of a payment message and of the integrity of that message. These are sufficient to prevent the sender of the message from successfully denying the submission of the payment message or the integrity of its contents.
Nostro account	The term used in correspondent banking to describe an account held by a customer bank on the books of another bank acting as service provider. The other bank regards this account as a "loro account". Antonym: <i>Loro account</i> .
Notification	The process of giving notice of delivery against an allocated position (see Allocation)
Novation	See <i>Netting by novation</i> .
Off-line card transaction	A card transaction which is authorised without contacting the issuer at the time of the transaction.

RESTRICTED

Term	Definition
Omnibus account	An account in which the securities of multiple parties are recorded together. For example, a participant in a clearing or settlement system often maintains an omnibus account in the system for all its clients.
Online card transaction	A card transaction which is authorised after explicit approval of the issuer at the time of the transaction. <i>Antonym: Offline card transaction.</i>
Operational risk	The risk that deficiencies in information systems or internal controls, human error or management failures will result in unexpected losses (internal and external events).
Optimisation routine	A procedure to determine the order in which transfer orders are to be processed and settled in a transfer system in order to increase settlement efficiency. <i>See also Queue management, Chaining.</i>
Option	The right (but not the obligation) to buy ("call") or to sell ("put") a specific quantity of a specific underlying, at a fixed price, on, or up to, a specified date.
OTC (Over - the –Counter) Trades	Nearly all securities, currencies or precious metals can be traded over-the-counter by banks, investors and Exchange Broker. OTC prices are quoted in separate price lists. OTC trading is governed by the regulations pertaining to securities transactions; however, it is not subject to statutory supervisory or monitoring regulations. Generally accepted exchange customs serve as a guideline for OTC trading.
Oversight	Oversight of payment systems is a typical central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against the applicable standards and principles, whenever possible, and, where necessary, inducing change. <i>The concept is increasingly used also for securities clearing and settlement systems.</i>
Partial Release	Marking a cash securities trade to indicate that a partial settlement of a trade at customer level is possible, from a member's point of view.
Participant	An entity which is identified/recognised by the transfer system and which is allowed to send, and is capable of receiving, transfer orders to/from the system, either directly or indirectly. <i>See also Direct participant, Indirect participant, Remote participant.</i>
Payee	<i>See Beneficiary.</i>
Payer	The party to a payment transaction which issues the payment order or agrees to the transfer of funds to a payee.
Payment	In a strict sense, a payment is a transfer of funds which discharges an obligation on the part of a payer vis-à-vis a payee. However, in a technical or statistical sense, it is often used as a synonym for “transfer order”.
Payment card	<i>See Card (payment card).</i>
Payment instrument	A tool or a set of procedures enabling the transfer of funds from the payer to the payee. The payer and the payee can be one and the same person.
Payment lag	<i>See Settlement lag.</i>
Payment order	Any instruction by a payer or payee to a payment service provider requesting the execution of a payment transaction.
Payment system	This expression has two meanings. In some cases, it refers to the set of instruments, banking procedures and interbank funds transfer systems which facilitate the circulation of money in a country or in a currency area. In most cases the expression is used as a synonym of funds transfer system.

RESTRICTED

Term	Definition
	See also <i>Funds transfer system (FTS)</i> .
Payment versus payment (PvP)	A mechanism which 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. See also <i>Exchange-for-value settlement system</i> .
PE-ACH	Pan-European automated clearing house. A business platform for the processing of euro payment instruments which is made up of governance rules and payment practices and supported by the necessary technical platform(s).
Pending Delivery Report	A report containing the cash securities trades that have to be fulfilled and the individual trades (marked for gross processing) that are contained therein.
Personal identification number (PIN)	A personal and confidential numerical code which the user of a payment instrument may need to use to verify its identity. In electronic transactions, it is seen as the equivalent of a signature.
Physical Delivery	Settlement of a transaction through delivery of the physical underlying against payment.
Physically settled	A derivative instrument is physically settled if the product underlying is to be physically delivered in exchange for a specified payment.
Pledge	The delivery of assets to secure the performance of an obligation by one party (the debtor) vis-à-vis another (the secured party). For the secured party, a pledge creates a security interest (lien) in the assets delivered, while leaving ownership of the assets with the debtor.
Point of sale (POS) terminal	Device allowing the use of payment cards at a physical (not virtual) point of sale. The payment information is captured either manually on paper vouchers or by electronic means. See also <i>EFTPOS terminal</i> .
Position Management	A term comprising delivery management as well as risk management from the viewpoint of the CCP.
Position netting	Netting of orders in respect of obligations between two or more parties which neither satisfies nor discharges those original individual obligations. Also referred to as “payment netting” in the case of payment orders, or “advisory netting”. Antonym: <i>Netting by novation</i> .
Postal order	Money order in which the drawee is a postal institution.
Prenotification	The advance notification provided by the creditor to the debtor in the field of direct debits as regards: (1) the amount of the next direct debit; and (2) the date of collection.
Prepaid card	A card on which a monetary value is stored or that enables its holder to use funds loaded in advance on a dedicated account. See also <i>Multi-purpose prepaid card</i>
Price Difference	When orders on a stock exchange floor can be executed via one or more brokers, it is possible that the price for the seller of a given security is different from the price that the buyer pays. The difference in prices and the respective difference in the settlement amount, which results in a profit or loss for the broker(s) involved, results in a cash risk position that has to be taken into account in risk management.
Primary site	The place where systems operators locate the infrastructure and/or staff necessary to run their normal daily business operations.
Principal	An entity that acts on its own behalf, with its own funds and at its own risk.

RESTRICTED

Term	Definition
	Antonym: <i>Agent</i> .
Principal risk	The risk that the seller of a financial asset (e.g. securities, currency) will deliver but not receive payment, or that the buyer will pay but not receive delivery. In such a situation, the full value of the securities or funds transferred is at risk. See also <i>Delivery versus payment (DvP)</i> , <i>Payment versus payment (PvP)</i> .
Processing	The performance of all the actions required in accordance with the rules of a system for handling a transfer order from the point of acceptance by the system to the point of discharge from the system. Processing may include clearing, sorting, netting and/or settlement.
Provisional settlement	The discharging of an obligation by means of a transfer of funds and/or a transfer of securities which is dependent on the fulfilment of certain conditions and can therefore be rescinded by one or more parties. See also <i>Settlement</i> . Antonym: <i>Final settlement</i> , <i>final transfer</i> .
Provisional transfer	A transfer order is provisional as long as it can be revoked by the originator or as long as it can be reversed subject to certain conditions. Antonym: <i>Final settlement</i> , <i>final transfer</i> .
PvP	See <i>Payment versus payment (PvP)</i> .
Queue management	Rules and procedures that determine the order in which transfer orders are released from the queue and processed, e.g. first in first out (FIFO). Optimisation routines may or may not be used. See also <i>Queuing</i> , <i>Optimisation routine</i> .
Queuing	An arrangement whereby transfer orders are held in a queue by the sending participant or by the system until they can be processed according to the rules of the system. In an RTGS system, payments are typically “queued” because of a lack of funds or insufficient access to intraday credit. In netting systems, payments are “queued” in order to prevent caps from being exceeded. See also <i>Cap</i> .
Quote Request	A request by traders for quotes for a specific securities, futures or option contract.
Reachability	A credit institution is “reachable” if it can execute a credit transfer order and/or a direct debit instruction sent by any other bank in a particular currency area.
Real-time gross settlement (RTGS) system	A settlement system in which processing and settlement takes place on a transaction-by-transaction basis in real time.
Realignment	The transfer of assets from the account of one CSD to the account of another, so as to create a direct relationship with the issuer CSD.
Reconciliation	A procedure to verify that two sets of records issued by two different entities match.
Refunds	In the field of direct debits, refunds are claims by the debtor for reimbursement of debits on its account (with or without specific reason raised by the debtor).
Refusals	In the field of direct debits, refusals are instructions issued by the debtor prior to settlement, for whatever reason, to the effect that the debtor bank should not to make a direct debit payment.
Registry	An entity that records the ownership of securities on behalf of the issuer.
Registration	The documenting of the ownership of securities in the records of the issuer, in a registry or a CSD.
Rejects	In the field of direct debits, rejects are direct debit requests which are diverted from normal execution by the debtor’s bank prior to settlement.

RESTRICTED

Term	Definition
Relayed link	A contractual and technical arrangement that allows central securities depositories (CSDs) (issuer and investor CSDs) to hold and transfer securities through an account with a third CSD (middle CSD) acting as an intermediary.
Release	Marking of a cash securities trade for further processing (within the scope of settlement netting). Trades are released if there are no obstacles to settlement at a customer level.
Release Method	A different release methods for cash securities trades: e.g. the "Positive Release Method" and the "Negative Release Method"
Remote access	Direct access by an institution established in one country to a system (e.g. payment system, securities settlement system or CCP) established in another country.
Remote participant	A participant in a system which operates from a country other than the country in which the system is located.
Remote payment	A payment made from a distance, without the payer and payee being present at the same physical location. <i>Antonym: Face-to-face payment.</i>
Replacement cost risk	The risk that, owing to a counterparty to a transaction failing to meet its obligation on the settlement date, the other counterparty to the trade may have to replace, at current market prices, the original transaction ("replacement cost"). Also called "market risk" or "price risk".
Repurchase agreement	An arrangement whereby an asset is sold while the seller simultaneously obtains the right and obligation to repurchase it at a specific price on a future date or on demand. Such an agreement is similar to collateralised borrowing, with the difference that ownership of the securities is not retained by the seller
Reserve requirement	The minimum amount of reserves a credit institution is required to hold with the Eurosystem. Compliance is determined on the basis of the average of the daily balances over an maintenance period.
Retail funds transfer system	A funds transfer system which typically handles a large volume of payments of relatively low value in such forms as cheques, credit transfers, direct debits
Retail payment	A non-time-critical payment of relatively low value. Typically, these payments are made outside of the financial markets and are both initiated by and made to individuals and non-financial institutions. <i>Antonym: Large-value payments.</i>
Retailer card	A card issued by a merchant for use at specified merchant outlets.
Returns	Direct debit collections that are diverted from normal execution after inter-bank settlement claims initiated by the debtor bank.
Risk Based Margining	Specific calculation methodology used to determine collateral to cover the risks taken. Risk based margining comprises the entire process of valuation, calculation and settlement of collateral to be deposited for open securities positions that are in the CCP scope for covering potentially developing risks. The collateral should guarantee that all open positions of a Clearing Member can be closed within a short period of time The Risk Positions of participants are separated e.g. according to agent and proprietary trades per Clearing Member or Non Clearing Member and are compared with the deposited collateral Risk parameters ("margin parameters") – which are based on historical volatility – are used to calculate the margin interval. The margin parameters are adjusted from time to time.

RESTRICTED

Term	Definition
RTGS system	See <i>Real-time gross settlement (RTGS) system</i> .
Safekeeping services	The holding of physical securities on behalf of other parties.
Same-day funds	Funds which the recipient is entitled to transfer or withdraw from an account on the day of receipt. See also <i>Intraday liquidity</i> .
Scheduling	Technique for managing payment queues by determining the order in which payments are accepted for settlement. See also <i>Queuing</i> .
Secondary site	A location other than the primary site, which systems can use to resume their business operations and other functions in the event of a disaster.
Securities settlement system (SSS)	A system which permits the transfer of securities, either free of payment (FOP) or against payment (delivery versus payment)
Segregation	A method of protecting client assets by holding them separately from those of the custodian (or other clients, as the case may be).
Self-collateralisation	An arrangement whereby securities being transferred can be used as collateral to secure credit granted in order to settle the transfer.
SEPA	Single Euro Payments Area. A process initiated by European banks supported by the Eurosystem and the European Commission, in order to integrate retail payment systems, in view of transforming the euro area in a true domestic market for the payment industry.
Settlement	The completion of a transaction or of processing in a transfer system, such that participants meet their obligations through the transfer of securities and/or funds. A settlement may be final or provisional. With the exception of a zero net balance, settlement requires the opening of accounts by competent institutions (see settlement account). See also <i>Final settlement, final transfer; Provisional settlement; Gross settlement; Net settlement</i> .
Settlement account	An account held at a central bank or a central securities depository, or with a central counterparty or any other institution acting as a settlement agent, which is used to settle transactions between participants in a system.
Settlement agent (settlement institution)	The institution across whose books transfers between participants take place in order to achieve settlement within a settlement system. See also <i>Bilateral net settlement system, Multilateral net settlement system, Settling participant (settling member, settlement bank)</i> .
Settlement asset	Assets or claims on assets that are accepted by the beneficiary to discharge a payment obligation.
Settlement cycle	In the field of securities, the time period that elapses between the trade date and the settlement date. It is also referred to as “settlement interval”.
Settlement day (or date)	The day on which settlement actually takes place.
Settlement failure	The inability of a participant to meet its settlement obligations in a system. This inability may be temporary or permanent. See also <i>Fail, failed transaction; Default</i> .
Settlement interval	See <i>Settlement cycle</i> .

RESTRICTED

Term	Definition
Settlement lag	In a transfer system, the time lag between the acceptance of the transfer order by the system and its final settlement. In an exchange-for-value system, the time lag between entering into a trade/bargain and the final exchange of a financial asset for payment.
Settlement obligation	The requirement, as a result of the settlement process, that a settlement system participant effect payment or deliver assets.
Settlement risk	The risk that settlement in a transfer system will not take place as expected, usually owing to a party defaulting on one or more settlement obligations. This risk comprises, in particular, operational risks, credit risks and liquidity risks.
Settlement system	A system used to facilitate the settlement of transfers of funds, assets or financial instruments. See also <i>Funds transfer system, Securities settlement system</i>
Settling participant (settling member, settlement bank)	A participant which maintains one or more accounts with a settlement agent in order to settle funds or securities transfers on its own behalf or, potentially, for other market participants. See also <i>Tiering arrangement, Settlement agent (settlement institution)</i> .
Smart card	A payment card containing a chip.
Specialised depository	An entity, usually a credit institution, that provides ICSDs with safekeeping and asset servicing for physical certificates (“individual notes”) that represent shares in international debt instruments (e.g. Eurobonds). See also <i>Common depository</i> .
Standing facility	A central bank credit facility available to counterparties at their own initiative. The Eurosystem offers two overnight standing facilities: the marginal lending facility and the deposit facility.
Standing order	An instruction from a customer to its bank to make a regular payment of a fixed amount to a named beneficiary.
Stored value card	See <i>Multi-purpose prepaid card, Prepaid card</i> .
Straight-through processing (STP)	The automated end-to-end processing of trades/payment transfers, including, where relevant, the automated completion of confirmation, matching, generation, clearing and settlement of orders.
Substitution (of securities)	A situation in which an institution which has lent securities (or has deposited them as collateral) recalls them and replaces them with other securities of equivalent market value.
“Survivors pay”	A loss-sharing arrangement which, in the event of a participant’s inability to settle, requires losses to be borne by the other (non-defaulting) participants in accordance with a predetermined formula. Antonym: “ <i>Defaulter pays</i> ”.
Systemic risk	The risk that the inability of one participant to meet its obligations in a system will cause other participants to be unable to meet their obligations when due, with possible spillover effects such as significant liquidity or credit problems that may threaten the stability of or confidence in the financial system. The inability can be caused by operational or financial problems. In investment terms, risk associated with factors which influence the market as a whole and which cannot be reduced or eliminated by portfolio diversification.
Systemically	A payment system which has the potential to trigger systemic risks, in the event of it

RESTRICTED

Term	Definition
important payment system	being insufficiently protected against the risks to which it is potentially exposed.
Three-party scheme	Card scheme involving the following stakeholders: (1) the card scheme itself, acting as issuer and acquirer; (2) the cardholder; and (3) the accepting party. This compares to a four-party scheme where the issuer and the acquirer are separate entities and are also separate from the card scheme itself. <i>See also Card scheme, Four-party scheme.</i>
Tiering arrangement	An arrangement whereby indirect participants in a system require the services of direct participants in order to carry out their transactions. <i>See also Indirect participant, Settling participant (settling member, settlement bank).</i>
Transaction reference number (TRN)	A unique reference number used to identify each payment instruction.
Transfer order	An order or message requesting the transfer of funds or securities from the debtor to the creditor. [Could this definition be extended to include derivatives trades, i.e. where there is no pre-defined transfer? And also commodities? If not, some of the earlier definitions may need to be changed to include these. The document often uses "transfer orders" to mean what are generally termed "trades" in clearing]
Transfer system	A set of legal, technical and procedural arrangements which concern the transfer of assets such as money or securities.
Tri-party repo	Repo in which a third party (e.g. a custodian bank, a clearing house or a CSD) is responsible for the management of collateral during the life of the transaction.
Truncation	A procedure in which a paper-based transfer order or other financial instrument is replaced, in whole or in part, by an electronic record of the content of that instrument for further processing and transmission.
Underlying	The financial instrument or security upon which a derivatives contract is based.
Unwind	The process of recalculating 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 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. <i>See zero hour rule</i>
Value date	A reference date used for the calculation of interest on the funds held on an account.
Variation margin	Profits and losses derived from the daily marking to market of open derivatives contracts and paid by, or received from, the counterparty to a bilateral trade or the CCP involved. Also applied to adjustments to collateral requirements derived from the marking to market of securities and certain derivatives where no cash payment is made.
Vostro account	<i>See Loro account.</i>
Wholesale funds transfer system	<i>See Large-value funds transfer system.</i>
Zero-hour rule	A provision in the insolvency law of some countries whereby the transactions of an insolvent institution that have taken place after midnight on the date the institution is declared insolvent are automatically ineffective by operation of law. <i>See also Unwind.</i>