Glossary[1]

Actual/360: the *day-count convention* applied for the calculation of interest on a credit, implying that the interest is calculated over the actual number of calendar days over which the credit is extended, on the basis of a 360-day year. This day-count convention is applied in *Eurosystem* monetary policy operations.
AIBOR: Amsterdam Interbank Offered Rate
American auction: see *multiple rate auctio*n.
Arbitrage: risk-free profiting from differences in price when the same security, currency or commodity is traded in two or more markets.
Asset-backed commercial paper (ABCP): commercial paper (CP) backed by a form of collateral provided by the issuer.
ATHIBOR: Athens Interbank Offered Rate.
Averaging provision: a provision allowing *counterparties* to fulfil their *reserve requirements* on the basis of their average *reserve holdings* over the *maintenance perio*d. The averaging provision contributes to the stabilization of money market interest rates by giving institutions an incentive to smooth the effects of temporary liquidity fluctuations. The *Eurosystem*'s minimum reserve system allows for averaging.

Bank certificates of deposit (CDs): short-term securities issued by banks.
Bank reserves: see *liquidity*.
BIBOR: Brussels Interbank Offered Rate.
Bid-ask spread: differential prevailing in the market between the bid price and the offered price.
Bilateral procedure: a procedure whereby the central bank deals directly with only one or a few *counterpartie*s, without making use of *tender procedure*s. Bilateral procedures include operations executed through stock exchanges or market agents.
BIS: Bank for International Settlements.
Bond market: the market for long-term debt securities (with original maturities of greater than one year).
Book-entry system: an accounting system that permits 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 *dematerializatio*n.

Broker: a firm that operates on a market on behalf of other participants to arrange transactions without being party to the transactions itself.

Cash reserve requirement: see *reserve requirement*.
CIBOR: Copenhagen Interbank Offered Rate.
Clearing: the process of transmitting, reconciling and, in some cases, confirming the payment order and the securities transfer prior to settlement. In the context of repos, this can have three separate aspects: confirmation/matching, netting and clearing with the central counterparty.
Collection of fixed-term deposits: a monetary policy instrument that may be used by the Eurosystem for fine-tuning purposes where the *Eurosystem* offers remuneration on *counterparties*' fixed-term deposits on accounts with the *national central banks* in order to absorb liquidity from the market.
Commercial paper (CP): short-term securities issued by corporations.
Counterparty: the opposite party in a financial transaction (e.g. any transaction with the central bank).
Credit risk: the risk that a counterparty will not settle an obligation at full value, either when due or at any time thereafter.
Cross-border settlement: a settlement that takes place in a country other than the country or countries in which one or both of the parties to the trade are located.
Currency risk: the risk that the operations of a business or the value of an investment will be affected by changes in exchange rates.

Day-count convention: the convention regulating the number of days included in the calculation of interest on credits. The *Eurosystem* applies the day-count convention *actual/360* in its monetary policy operations.
Dealer: a firm whose primary business is entering into transactions on both sides of wholesale financial markets and seeking profits by taking risks on these markets.
Debt market: the market for standardized debt contracts; the *bond market* and the *money market* put together.
Dematerialization: the elimination of physical certificates or documents of title that represent ownership of financial assets so that the financial assets exist only as accounting records.
Depo/repo spread: differential prevailing in the market between the interest rate of unsecured and secured transactions.
Deposit facility: a *standing facility* that *counterparties* may use to make overnight deposits at a *national central ban*k, which are typically remunerated at a prespecified interest rate.
Derivative: a financial contract, the value of which depends on the value of one or more underlying reference assets, rates or indices. For analytical

purposes, all derivative contracts can be divided into basic building blocks of forward contracts, options, or combinations thereof.
DIBOR: Dublin Interbank Offered Rate.
Discretionary operation: see *open market operation*.
Dutch auction: see *single rate auction*.

ECP: the Euro Commercial Paper market, on which the major dealers are international, mostly London-based, banks.
EEA (European Economic Area) countries: the EU Member States and Iceland, Liechtenstein and Norway.
EURIBOR: the euro area interbank offered rate for the euro, sponsored by the European Banking Federation (EBF) and the Association Cambiste Internationale (ACI). It is an index price source covering dealings from 57 prime banks.
Euro area: the term by which the EU member states that have adopted the euro as their single currency in accordance with the Treaty are collectively defined.
Euro overnight index average (EONIA): the overnight rate computed as the euro area interbank offered overnight rate for the euro. It is computed as a weighted average of all overnight unsecured lending transactions in the interbank market, initiated within the euro area by the contributing panel of 49 prime banks (August, 2002).
European System of Central Banks (ESCB): refers to the European Central Bank (ECB) and the national central banks of the EU member states. It should be noted that national central banks of member states that have not adopted the single currency in accordance with the Treaty retain their powers in the field of monetary policy according to national law and are thus not involved in the conduct of the monetary policy of the *Eurosystem*.
Eurosystem: comprises the European Central Bank (ECB) and the *national central banks* of the member states of the *euro area*. The decision-making bodies of the *Eurosystem* are the Governing Council and the Executive Board of the ECB.

FIBOR: Frankfurt Interbank Offered Rate.
Fine-tuning operation: a non-regular *open market operation* executed by a central bank mainly in order to deal with unexpected liquidity fluctuations in the market.
Fixed rate instrument: a financial instrument for which the coupon is fixed throughout the life of the instrument.
Fixed rate tender: a tender procedure where the interest rate is specified in advance by the central bank and participating *counterparties* bid the amount of money they want to transact at the fixed interest rate.

Floating rate instrument: a financial instrument for which the coupon is periodically reset relative to a reference index to reflect changes in short- or medium-term market interest rates. Floating rate instruments have either *pre-fixed coupons* or *post-fixed coupon*s.
Foreign currency swap: an agreement between two parties to exchange future payments in one currency for payment in another currency. These agreements are used to transform the currency denomination of assets or liabilities.
Foreign exchange swap: the simultaneous spot purchase/sale and forward sale/purchase of one currency against another. The *Eurosystem*, for instance, executes open market monetary policy operations in the form of foreign exchange swaps where the *national central banks* (or the ECB) buy (or sell) euro spot against a foreign currency and at the same time sell (or buy) it back in a forward transaction.
Forward rate agreement (FRA): cash-settled forward contract on a deposit.
Forwards: purchase or sale of a specific quantity of a commodity at the current price, with delivery and settlement at a specified future date.
Free reserves: excess liquid funds held by the banking system; see *liquidity*.
Futures: agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date.

General collateral: collateral that, owing to its homogeneous features, is broadly accepted.
Gensak: a yen repurchase agreement based on Japanese securities. The rates on gensak are set in line with the yen certificates of deposit market rate.

HELIBOR: Helsinki Interbank Offered Rate.

Interest rate swap (IRS): exchange between two parties of a fixed interest rate instrument for a floating interest rate instrument.
Investment obligation regulations: the requirement on financial institutions to invest certain amounts, or certain shares of their portfolios, in (typically low-yielding) government debt and/or in a similar way bearing the cost of subsidized credit to favored sectors in the economy.
Issuer: the entity that is obligated on a security or other financial instrument.

LIBOR: London Interbank Offered Rate.
Liquid (market): three aspects of liquidity are tightness in *bid-ask* spreads, depth and resiliency. It is characterized by the ability to transact in a market without significantly moving prices.

Liquidity: see *liquid (market)*, above. The term liquidity is also used with reference to bank reserves, i.e., banks' reserve holdings of liquid funds with the central bank, including deposits due to *reserve requirements*. The central bank's ability to pursue its monetary policy goals hinges on its ability to control this variable (see Chapter 4).
Liquidity quotas: see *investment obligation regulations*.

Main refinancing operation: a regular *open market operation* executed by the *Eurosystem* in the form of a *reverse transaction*. Main refinancing operations are conducted through weekly *standard tenders* and normally have a maturity of two weeks.
Maintenance period: the period over which compliance with *reserve requirements* is calculated.
Marginal interest rate: the interest rate at which the total tender allotment is exhausted.
Marginal lending facility: a *standing facility* that *counterparties* may use to receive overnight credit from a *national central bank* at a prespecified interest rate.
Market maker: a dealer obliged to quote buy and sell prices in return for certain privileges within a market (sometimes used to refer to any institution that provides quotes).
Maturity date: the date on which a monetary policy operation expires. In the case of a *repurchase agreement* or swap, the maturity date corresponds to the *repurchase date*.
Maximum bid rate: the upper limit to the interest rate at which *counterparties* may submit bids in *variable rate tenders*.
Minimum bid rate: the lower limit to the interest rates at which *counterparties* may submit bids in *variable rate tenders*.
Money market: the market for short-term debt securities, interbank deposits and loans, and derivative contracts based on short-term debt.
Money market fund (MMF): fund that invests in short-term securities.
Mortgage bond: bond issue secured by a mortgage on the issuer's property.
Multiple rate auction (American auction): an auction at which the allotment interest rate (or price/*swap* point) equals the interest rate offered in each individual bid.

National central bank (NCB): refers in the context of the EMU to a central bank of an EU member state that has adopted the single currency in accordance with the Treaty.
Netting: the process of offsetting cash or securities positions. Through netting, the gross positions are reduced. This is particularly true for the cash side, as all cash is fungible, whereas all assets are not.

NIBOR: Norway Interbank Offered Rate.

Open market operation: an operation executed on the initiative of the central bank in the financial market.
Options: the right to buy or sell a security in exchange for an agreed sum.
OTC (over-the-counter): OTC is a bilateral way of trading, where the buyer and seller contact each other directly, e.g. by telephone, without going through an organized exchange.
Outright transaction: a transaction whereby assets are bought or sold up to their maturity (spot or forward).

Post-fixed coupon: a coupon on *floating rate instruments* that is determined on the basis of the values taken by the reference index at a certain date (or dates) during the coupon accrual period.
Pre-fixed coupon: a coupon on *floating rate instruments* that is determined on the basis of the values taken by the reference index at a certain date (or dates) before the start of the coupon accrual period.
Primary dealer: selected credit institution authorized to buy and sell original issuance of government securities in direct dealing with the treasury.
Primary market: market for new issues of securities.

Quick tender: the *tender procedure* used by the *Eurosystem* for *fine-tuning operations* when it is deemed desirable to have a rapid impact on the liquidity situation in the market. Quick tenders are executed within a time frame of one hour and are restricted to a limited set of *counterparties*.

Real-time gross settlement (RTGS) system: a settlement system in which processing and settlement take place on an order-by-order basis (without netting) in real time (continuously).
Remunerated reserves: *bank reserves* earning interest. See also *liquidity*; *reserve requirement*.
Repo operation: a central bank operation based on a *repurchase agreement* (typically liquidity-providing).
Repurchase agreement (repo): financial instrument that serves to exchange cash temporarily for securities for a predetermined period. Various legal arrangements exist to perform this basic economic function (repurchase agreements, reverse repurchase agreements, sell/buybacks and securities lending). All forms of repos entail a change in ownership.
Repurchase date: the date on which the buyer is obliged to sell back assets to the seller in relation to a transaction under a *repurchase agreement*.
Repurchase price: the price at which the buyer is obliged to sell back assets to the seller in relation to a transaction under a *repurchase agreement*. The

repurchase price equals the sum of the purchase price and the price differential corresponding to the interest on the extended liquidity over the maturity of the operation.
Reserve base: the sum of the eligible balance sheet items that constitute the basis for calculating the *reserve requirement* of a credit institution.
Reserve holdings: banks' and other financial institutions' holdings of reserves deposited with the central bank. If reserve requirements are applied, the minimum amount of reserves to be held is determined by these requirements.
Reserve ratio: the ratio defined by the central bank for each category of eligible balance sheet items included in the *reserve base*. The ratios are used to calculate *reserve requirements*.
Reserve requirement (*cash reserve requirement*)**:** requirement for credit institutions to hold minimum reserves with the central bank.
Reverse transaction: an operation whereby the *national central bank* buys or sells assets under a *repurchase agreement* or conducts credit operations against collateral.

Secondary market: exchanges and over-the-counter markets where securities are bought and sold subsequent to the original issuance, which took place on the primary market.
Settlement: completion of a transaction by the exchange of instruments and funds.
Settlement date: the date on which a transaction is settled. The settlement might take place on the same day as the trade (same-day settlement) or one or several days after the trade (the settlement date is specified as the *trade date (T)* + the settlement lag).
Single rate auction (Dutch auction): an auction in which the allotment interest rate (or price/*swap* point) applied for all satisfied bids is equal to the *marginal interest rate*.
Solvency risk: the risk of loss owing to the failure (bankruptcy) of an *issuer* of a financial asset or to the insolvency of the *counterparty*.
Special collateral: collateral other than general collateral.
Standard tenders: a *tender procedure* used by the ESCB in its regular *open market operations*.
Standing facility: a central bank facility available to *counterparties* at their own initiative.
STIBOR: Stockholm Interbank Offered Rate.
Swap: an agreement for an exchange of payments between two counterparties at some point(s) in the future and according to a specified formula.

TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system: the real-time gross settlement system for the euro. It is a decentralized system consisting of 15 national *RTGS systems* and the ECB payment mechanism, which are interlinked so as to provide a uniform platform for the processing of cross-border payments.

Tender procedure: a procedure in which the central bank provides liquidity to or withdraws liquidity from the market on the basis of bids submitted by *counterparties* in competition with each other. The most competitive bids are satisfied with priority until the total amount of liquidity to be provided or withdrawn by the central bank is exhausted.

Trade date (T): the date on which a trade (i.e. an agreement on a financial transaction between two *counterparties*) is struck. The trade date might coincide with the *settlement date* for the transaction (same-day settlement) or precede the settlement date by a specified number of business days (the settlement date is specified as T + the settlement lag).

Treasury bill: short-term government debt instrument issued at discount with a maturity of one year or less.

Valuation date: the date on which the assets underlying credit operations are valued.

Variable rate tender: a *tender procedure* whereby the *counterparties* bid both the amount of money they want to transact with the central bank and the interest rate at which they want to enter into the transaction.

VIBOR: Vienna Interbank Offered Rate.

Volume tender: see *fixed rate tender*.

Zero coupon bond: a security paying only one cash flow during its life. Zero coupon bonds include securities issued at a discount and securities which deliver a single coupon at maturity.

NOTE

1. Adapted and extended from ECB (2002a, b) and from Santillán et al. (2000).