Glossar, um mit der spezifischen Terminologie des Anleihen-Marktes vertraut zu werden

**AAU**
Agreement Among Underwriters

**Account**
1. The entire group of underwriters in any one offering
2. Any retail customer

**Accretion**
The addition of principal to a fund over a period of time as the result of a plan of accumulation. Similar to amortization, except that accretion results in an increase of accounting worth, while amortization results in a decrease. In portfolio accounting, discount bonds are accreted to par while premium bonds are amortized to par.

**Accrued Interest**
The interest accumulated on a bond since issue date of the last coupon payment. The buyer of the bond pays the market price and accrued interest, which is payable to the seller.

**Accumulator**
An investor whose goal is to acquire as much of a specific sinking fund issue as possible in order to control the floating supply of the issue and affect its market value.

**Active**
1. Refers to a market, customer or security that trades frequently.
2. In reference to sinking funds, those which are currently operating.

**Active Management**
A portfolio strategy of aggressively managing assets by continually repositioning portfolios to take advantage of the most favorable opportunities.

**Activities**
Event level used in describing the work flow; detailed further by Tasks and preceded by Processes. Activities describe "what" is done. Tasks describe "how" the activity is done.

**Adjusted Rate Mortgage (ARM)**
Mortgage agreement between a financial institution and a real estate buyer stipulating predetermined adjustments of the interest rate at specified intervals, usually one, three, or five years. Payments are tied to some index outside the control of the bank or savings and loan institution, such as the interest rates on U.S. Treasury bills or the average national mortgage rate. Borrowers get lower rates at the beginning of the ARM than they would if they took out a fixed rate mortgage covering the same term.

**ADR**
American Depository Receipt

**ADRs**
American Depository Receipts. A depository receipt issued against foreign securities by an American bank that holds those securities. In September 1988, the French Treasury announced that two OATs will be traded on the New York Stock Exchange through ADRs. Several other countries are expected to follow suit.
**After-Tax Yield**
The net return a bond earns after income taxes are paid on interest income and capital gains taxes are assessed on changes in book value. It is common practice to disregard any long-term capital losses in calculating after-tax yield.

**Agency**
The debt of an agency of the U.S. Government. Payment of principal and interest are sometimes guaranteed by the government itself.

**Agency Trade**
A trade in which the executing dealer acts as an agent for the seller or buyer and is paid an agreed commission which is specifically identified on the customer's confirmation.

**Agent**
A person who acts on behalf of another (the principal) and is subject to his control and authority.

**Agreement Among Underwriters (AAU)**
The legal document that binds underwriters together into a syndicate and grants the managing underwriters the power to act on behalf of the group.

**AGY**
Agency

**AI**
Accrued Interest

**AL**
Average Life

**All or None (AON)**
A requirement that the total amount of a given order be executed at the specified price - no lesser amount will be acceptable.

**Alternative Mortgage Instrument (AMI)**
A non-traditional mortgage; a mortgage with terms varying from those of traditional mortgages in one or more ways. Among the AMIs in use today are:

- **Variable Rate Mortgage (VRM)**: characterized by interest rates that vary according to a formula tied to the lender's cost of money or other index.

- **Graduated Payment Mortgage (GPM)**: characterized by a fixed interest rate and term to maturity, but payments that are at first relatively small and which rise by a fixed percentage per year for a fixed number of years.

- **Flexible Loan Insurance Program Mortgage (FLIP)**: a mortgage similar to a GPM from the borrower's standpoint, but in which a portion of the down payment is used to create a pledged savings account which is used to subsidize the mortgage payment. The lender receives level payments comprised of loan payments plus savings accounts withdrawals.

- **Rollover Mortgage (ROM)**: a Series of short-term loans periodically renegotiated as to interest rate in order to provide long-term financing. The interest rate on each individual loan is fixed and principal is amortized over the entire term of all loans.

- **Shared Appreciation Mortgage (SAM)**: a mortgage in which the lender receives some percentage of any appreciation in the value of the property upon sale or maturity of the loan in return for offering the borrower a lower interest rate than prevailing traditional mortgage rates.
**Reverse Annuity Mortgage (RAM):** a means of receiving fixed annuity payments for some fixed period of time using the equity value of the property as collateral.

**Amortization**
A reduction of debt by means of periodic payments sufficient to meet current interest and liquidate the debt at maturity.

**Amount**
Value given/received when security was bought or sold.

**Analyst**
Securities department staff member responsible for analyzing current market securities, as well as strategies for buying and selling them.

**Annual Return**
The total return of a security over a specified period, expressed as an annual rate of interest.

**Annualized**
A figure (as in a percentage) calculated by a formula to find the "average" performance per year for a period greater than one year.

**AON**
All or None

**Applied Proceeds Swap**
The sale of one block of securities, using the proceeds or monies of that sale to purchase as large a block of another security as possible.

**Arbitrage**
Technically, the purchase of a security in one market and the simultaneous sale of it or its equivalent in the same market or other markets for the differential or spread prevailing, at least temporarily, because of conditions peculiar to each market. Commonly refers to a swap done between two similar issues based upon an anticipated change in price spreads.

**ARM**
Adjusted Rate Mortgage

**ASE**
American Stock Exchange

**Asked**
The price at which securities are offered to a potential buyer; the price sellers offer to take.

**Assets**
All stocks, bonds, cash, interest earned, etc., owned by a given account.

**Assets Under Management**
The sum total of the market value of all assets for which PIMCO (or any given company) acts as Investment Manager.

**Assumption**
In any market, refers to the takeover of a seller's mortgage loan by the buyer of the home. The buyer "assumes" responsibility for making the mortgage payments.

**At or Better**
In connection with a buy order, it means to purchase at the price specified or under; in a sell order, to sell at the price specified above.
**Average Life**
The arithmetic weighted average life of a bond where the weights are the proportion of the principal amount being redeemed.

**AVG**
Average

**Away**
Refers to a trade, quote or market which does not originate with the dealer in question, i.e., "the market is 100 1/4-1/2 away (from me)."

**Axe**
Short for "axe to grind". Refers to a trading position or preference.

**BA**
Banker’s Acceptance

**Baby Bond**
A bond issued in a denomination of less than $1000 issued as a means of reaching small investors and thus widening the possible market and permitting increased diversification for small investors.

**Back Months**
Those futures contract months which are beyond 12 months of the current date.

**Balanced Account**
An account which holds both fixed income or debt securities (bonds) as well as equities (stocks), or bonds and international bonds.

**Balloon**
A principal amount retired at maturity on a sinking fund issue which is substantially larger than any sinking fund payment. For example, an issue might have 12 payments of 5 percent of the issue followed by a balloon of 40 percent at maturity.

**Bankers’ Acceptance (BA)**
A money market instrument representing time drafts drawn on and accepted by a banking institution, which in effect adds its credit to that of the importer or holder of merchandise.

**Barbell**
Portfolio structuring technique using a mix of short and long-term securities to achieve a targeted average maturity or duration.

**Basis**
1. Yield to maturity
2. Discount basis
3. The difference in price or yield between a futures position and the financial instrument being hedged: a difference that can change during the hedge period to produce a basis gain or a basis loss.

**Basis Points**
One one-hundredth of one percent. One hundred basis points equal one percent.

**Basis Risk**
1. The risk of a change in yield to maturity.
2. The risk of an unfavorable basis change resulting in a futures gain less than a cash market or a futures loss greater than a cash market gain.
Bear Market
A market characterized by a trend of falling prices.

Bear Spread
A simultaneous sale of a nearby delivery month and purchase at a deferred delivery month fixed income future in expectation of short-term interest rates rising, thereby increasing the relative attractiveness of the back month contract.

Bearer Bond
A bond presumed to be owned by its holder, who collects interest by presenting one of the detachable interest coupons to the issuer's agent or bank.

Bear Duration
A proprietary measurement developed by PIMCO that estimates the price change in a security or portfolio in the event of a rapid, 50 basis-point rise in interest rates over the entire yield curve. This tool measures the effect that mortgages and callable bonds will have on the lengthening (or extending) of the portfolio's duration.

Bearish
Pessimistic about the market; anticipating a decline in prices

Benchmark
A bond, frequently the most recent, sizable issue, whose terms set a standard for the market. The benchmark bond usually has the greatest liquidity, the highest turnover, and is the most frequently quoted. In certain markets (e.g., the Japanese), there is a seasoning period during which the bond is not the benchmark.

Best Effort
An offering which is not underwritten and not purchased as a whole from the issuer, but is sold by securities dealers on a "sell what can be sold" basis.

Bid
1. The price someone will pay for a given security.
2. To submit a price willing to be paid for a security.

Bid and Asked/Bid and Offer
The price at which an owner offers to sell (asked of offer) and the price at which a prospective buyer offers to purchase (bid).

Bid Wanted (BW)
Refers to a security being offered for sale and prospective buyers being requested to submit a bid for it. The inference is that the security will be sold to the highest bidder.

Blind Broker System
A mechanism for inter-dealer transactions which maintains the anonymity of both parties to the trade. The broker serves as the agent to the principals' transactions.

Block
An amount of bonds, usually substantially larger that what would be considered a normal round lot of a given issue.

Blow-Out
A new issue deal which sells out immediately.

Blue List
Generally refers to a daily list of dealer offerings of municipal bonds. Also includes corporate bond offerings, job advertisements, etc.
**Blue Sky**
Laws designed to protect the public from securities frauds. Each state has its own securities distribution restrictions and guidelines which must be met by each issue offered therein. Blue sky rules relate to state approval or disapproval of distribution within each state.

**Bogey**
Performance indices by which an account performance is measured.

**Bond**
An instrument of debt issued by a corporation or government to raise capital. Bonds are interest bearing and promise to pay the holder a specified sum of money at its maturity plus interest at given intervals.

**Bond Characteristics**
- **Par value**: Principal value at maturity. Not necessarily the current market price.
- **Coupon**: Annual yield, generally paid semi-annually. Stated as % of par.
- **Maturity**: Date principal is to be repaid.
- **Yield To Maturity**: Implicit rate of return assuming no change in market interest rates.
- **Quality**: Rating assigned to issue based upon issuer's credit worthiness. Investment grade issues are BAA-AAA (Moody's).
- **Call Provisions**: Most corporate bonds can be called, or redeemed, prior to maturity. This shortens the maturity and affects pricing.
- **Prepayment Terms**: Mortgages can generally be prepaid. Like call provisions, prepayments shorten maturity and affect pricing.
- **Collateral**: Mortgages and other asset-backed securities have houses, cars, airplanes, receivables, or other assets collateralizing them.

**Bond House**
A firm primarily engaged in underwriting, distributing and dealing in bonds.

**Bond Returns**
Consist of two components,

1) **current yield** (see description below) and
2) **price performance**.

**Current Yield** is the amount of coupon income received, expressed as a percentage of the current market value of the bond or portfolio.

**Price Performance** of bonds is determined by changes in interest rates. If rates rise, bond prices fall. If rates fall, bond prices rise.

**Bond-Years**
For a block of bonds, the sum of the products of the years to maturity times the number of bonds retired on each maturity.

**Book**
A preliminary indication of interest in a new issue deal.

**Book Loss**
The difference between the original cost or book value and the proceeds from the sale of a security if sold at a loss.
**Book Value**  
The amount at which an asset is carried on the books of the owner or manager.

**Book Yield**  
The yield (current to maturity) of a security calculated using book value as the price. Alternatively, the yield at which a security was acquired.

**BP**  
Basis Point(s)

**BPA**  
Business Process Automation

**BPR**  
Business Process Reengineering

**Bracket**  
The groupings determined by underwriting amounts of various firms in a syndicate. Tombstone advertising is normally in bracket order, with each firm appearing alphabetically within a given bracket.

**Brady Bond**  
Securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with debt restructurings under a debt restructuring plan introduced by former U.S. Secretary of the Treasury, Nicholas F. Brady.

**BRE (Bond Reinvestment Equivalent) Yield**  
A method for analyzing the value of discounts or premiums and reinvestment potential in (current) yield to maturity terms. BRE yield allows the investor to compare relative values under uniform reinvestment assumptions.

**Break**  
The term used to indicate that the price and trading restrictions of the Agreement Among Underwriters contract have been terminated and that security is trading or expected to trade at a discount from its initial offering price.

**Breakeven Analysis**  
A method of analyzing investments to determine under what circumstances the returns of different securities would be equal. Commonly used in reference to the calculation of how much yield change is needed to produce identical returns among securities.

**Broker**  
A middleman who brings buyers and sellers together and handles their orders, generally charging a commission for his services.

**Bucketing**  
Holding a firm customer order at market levels which can be executed immediately while attempting to get execution at a better price away, i.e., "holding the order in a bucket."

**Builder Operative Loan**  
A loan that is given to a home builder and insured by FHA pursuant to section 203 of the Housing and Urban Development Act. Such loan may be assumed by the eventual home buyer. If not assumed, the loan is repaid by the builder with the proceeds of the sale of the home.
Bull Duration
A proprietary measurement estimates the price change in a security or portfolio in the event of a rapid, 50 basis-point drop in interest rates over the entire yield curve. This tool measures the effect that mortgages and callable bonds will have on shortening (or contracting) the portfolio’s duration.

Bull Market
A market characterized by a trend of rising prices.

Bull Spread
A simultaneous purchase of a nearby delivery month and sale of a deferred delivery month fixed income future in expectation of short-term interest rates falling, thereby increasing the relative attractiveness of the front month contract.

Bullet
1. An issue of securities with no amortization or sinking fund features.
2. Portfolio structuring technique focusing on a particular maturity or duration.

Bullet Maturity
A bond whose principal is paid only on the final maturity date.

Bullish
Optimistic about the market; anticipating a rise in prices.

Busted Convertible
A convertible issue whose conversion privilege has no value because the underlying conversion price on the equity is significantly above the market level for the stock.

Buy-In
A procedure, detailed in the Uniform Practice Code, for the closing of a contract by the buyer purchasing securities for the account and liability of the party in default if the seller does not complete the contract according to terms.

Buying Ahead
Refers to the purchasing of bonds in the open market by a sinking fund, either in excess of current requirements or before the sinking fund due date. The purchasing of excess bonds because of an option to double is not considered buying ahead.

BVA
Business Value Added

BW
Bid Wanted

Calendar
The list of new issues scheduled to come to market in the near future, usually 30 days. Also called the *visible supply*. Usually qualified so as to refer to a specific area of the market e.g., stock, debt, etc.

Call
1. The exercise of the right of a corporation to prepay its debt and demand surrender of its bonds for redemption, refunding or sinking fund purposes on a specific date at a specified price.
2. An option contract which for a consideration, gives the holder the right to purchase from the writer of the call a specified price, good for a specified period of time.
Call Date
The date on which a bond may be redeemed prior to maturity at the option of the issuer.

Call Provision
The call provision describes the details by which a bond may be redeemable by the issuer in whole or in part prior to the maturity.

Callable
A feature of a bond whereby it may be redeemed by the issuer prior to maturity under terms designated prior to issuance.

Called Bonds
Bonds drawn for redemption prior to maturity.

Canadian Type Sinking Fund
A sinking fund that obligates the issuer to set aside in cash a specified percentage of the principal amount outstanding of an issue. This cash may be used to purchase either the given issue or another approved security, as defined in the original indenture.

Cancel
To withdraw an order before execution or to withdraw a new issue before it is officially brought to market.

Cap
Maximum rate of interest payable on a adjusted rate security of mortgage loan.

Capital Gain/Capital Loss
A realized gain or loss calculated at the time of sale or maturity of any capital asset or security. Refers to the profit or loss attributable to the difference between the purchase and sale prices.

Capital Spending
Nonresidential fixed investment in the GNP; consists of business outlays on long-lived productive facilities (plant and equipment) including office building and shopping center construction, as well as purchases of such long-lived items as trucks, office and farm equipment.

Capital Structure
The division of a company's capitalization among bonds, debentures, preferred and common stock, earned surplus and retained income.

Carry
The cost of financing positions; the rate of interest earned from the securities held less the cost of funds borrowed to purchase them.

Cash Equivalents
Any kind of savings account, short-term bank account, commercial paper, or other type of converted to cash.

Cash Flow
Money that the client is contributing to or withdrawing from an account during a specific period, including bank and manager (PIMCO) fees.

**Cash Settlement**
A delivery made and settled on the day of the transaction for government securities.

**CBO**
Collateralized Bond Obligation

**CBOE**
Chicago Board of Options Exchange

**CBOT**
Chicago Board of Trade

**CD**
1. Certificate of Deposit
2. Certificate of Delivery

**CDR (Collateralized Depository Receipt)**
A futures contract traded on the CBOT, representing $100,000 face amount of 8% yield maintenance GNMA's.

**Cedel**
Centrale de Livraison de Baleurs Mobilieres; a clearing system for Euro-currency and international bonds. Cedel is located in Luxembourg and is jointly owned by a large number of European banks.

**Certificate of Deposit (CD)**
An interest-bearing negotiable time deposit of fixed maturity at a commercial bank. CD’s trade on a yield basis with interest computed for the actual number of days held on the basis of a 360-day year.

**CFA**
Chartered Financial Analyst

**CFTC**
Commodity Futures Trading Commission

**Cheap**
Inexpensive; having a price perceived to be undervalued.

**Churning**
Excessively trading a portfolio.

**Circle**
An industry practice whereby a customer indicates an interest in purchasing, and an underwriter agrees to provide, a stated quantity of a new issue security, subject to final pricing.

**Clean**
Describes a pot in which there are no further securities available with the full selling credit from
the manager.

**Clean Price**
The clean price of a bond does not include accrued interest (see Dirty Price).

**Clear**
To consummate a trade by delivering securities in proper form to the buyer and funds in the proper form to the seller. Trades that are not cleared are said to fail.

**Clearing Bank**
Any commercial bank that settles corporate and government securities for customers and dealers. The clearing bank agrees to deliver and receive securities, taking cash against delivery. The bank is usually part of the Federal Reserve so as to be able to utilize the Federal Reserve Bank book entry system for government securities.

**Clearing House Bank**
A member of a clearing house; usually one of the 11 members of the New York Clearing House.

**Clearing House Funds**
Funds represented by checks drawn on a clearing house bank, which if deposited on one day will be Federal funds on the next day.

**Clearing System**
A system established to facilitate the transfer of ownership for securities.

**CLO**
Collateralized Loan Obligation

**Closed**
Refers to a pot in which there are no further securities available and no further bonds can be run through it.

**Closed Book Period**
A period, usually the two or three weeks before each coupon due date. The coupon is paid to the person holding the bond prior to the closed-book period. If this person sells the bond during this period, he must compensate the buyer for any accrued interest.

**Closed-End Fund**
A mutual fund in which the shares owned, representing an interest in the mutual fund's portfolio, are fixed in number. New shares are not issued regularly and old shares cannot be redeemed. Instead, shares are traded on the open market and may differ from the underlying net asset value per share.

**Collateral**
Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan.

**Collateralized Mortgage Obligation (CMO)**
CMOs are bonds that are collateralized by whole loan mortgages or mortgage pass-through securities. A key difference between traditional pass-throughs and CMOs is the mechanics of the
principal payment process. In a pass-through, each investor receives a pro rata distribution of any principal and interest payments made by the homeowner. Because mortgages are self-amortizing assets, pass-through holder receives return of principal each month. Complete return of principal and the final maturity of the pass-through do not occur until the final mortgage in the pool is retired.

The CMO structure substitutes sequential retirement of bonds for the pro rata principal return process of pass-throughs. All principal payments go first to the “fastest-pay” tranche of bonds. Following retirement of this class, the next tranche in the sequence then becomes the exclusive recipient of principal. This process continues until the last tranche of bonds is retired.

The effect of the CMO innovation is to utilize cash flows of long maturity, monthly-pay collateral to create securities with short, intermediate and long final maturities. This broadens the range of investors for mortgage securities and ultimately forces more competitive mortgage rates for homebuyers.

**Collateral Loan**
A loan backed by a pledge of securities or other properties.

**Collateral Trust Certificate**
A bond backed by securities placed with a trustee by the issuing corporation.

**Co-Manager**
A term used when there is more than one manager in a securities offering. Usually "co-manager" refers to a manager not running the books. The manager running the books is the only one who directly controls distribution of securities through the syndicate.

**Coming To Me (CTM)**
Indicates that the market quoted by the trader is not his own, but is being made by another trader.

**Commercial Bank**
An institution legally authorized to issue demand deposit accounts as opposed to thrift institutions or investment banks, which are not so empowered. Thrift institutions offering demand deposit facsimile accounts in certain states are not considered to be commercial banks.

**Commercial Paper**
Financial instruments which can be bought and settled on the same day with a minimum of complication, which have a short-term maturity, and pay interest maturity. They are cash equivalents.

**Commission**
Fee charged by a broker for negotiating security or real estate transactions.

**Commission Give-up**
The practice of directing a portion of NYSE commissions, paid by the customer to an executing broker, to another firm not involved in the execution of the trade. This practice was largely limited
to stocks and was usually in payment for research. It is now prohibited by the SEC.

**Commodity Futures Trading Commission (CFTC)**
A commission created by an act of Congress in 1974 which is directly responsible to the Federal Government for supervisory and enforcement functions in the futures industry.

**Common Stock**
Ordinary capital stock (representing ownership) in a company. Common stock does not enjoy the special privileges of preferred stock, but has voting rights.

**Compensation Bid**
A form of competitive bid for securities whereby the price to be paid by the underwriters equals the reoffer price to the public. Each bid specifies the dividend or coupon rate along with the amount to be paid by the issuer as compensation to the underwriters.

**Competitive Bid**
A method of selling securities employed by public utilities and railroads whereby the issuer invites bids from two or more syndicates. The syndicate bid which provides the lowest borrowing cost (in the case of a debt or preferred offering) or the highest price for a common stock offering will be awarded the business.

**Confirmation**
Form received from broker confirming a trade transaction was made for an account.

**ConnieMac**
A conventional mortgage pass-through security issued by a private corporation (i.e. not GNMA or FHLMC)

**Consistency**
In reference to pass-through securities, refers to the historical regularity of prepayments. Low consistency means prepayments were infrequent and of relatively large size; high consistency implies more frequent payments of relatively similar size.

**Consumer Price Index (CPI)**
The U.S. consumer price index. It measures price changes at the retail level and is reported monthly by the government’s Bureau of Labor Statistics. **TIPS** base their inflation adjustment on changes in the non-seasonally adjusted CPI-U (All Urban Consumers). In December 2001, the year-over-year percentage change in the CPI was 1.9%.

**Consumer Spending**
The sum of personal outlays on new (as opposed to used) goods and services other than housing.

**Contributions**
Additional funds allotted to an account from the client.

**Conventional Loan**
A mortgage loan neither insured by FHA nor guaranteed by VA.
**Conventional Security**
A security that does not adjust to compensate for inflation, like a traditional U.S. Treasury bond.

**Conversion Factor**
The number for a particular security which must be multiplied by the price of the futures contract to arrive at the delivery price of the security.

**Convertible**
A feature of certain bonds, debentures, or preferred stocks which allows them to be exchanged by the owner for another class of securities, in accordance with the terms of issue.

**Convertible Bond**
A bond which, at the option of the holder, is convertible into other securities of the by one corporation convertible into the equity of another. Also, some securities have been issued which are convertible into a specified amount of an underlying commodity.

**Convertible Preferred Stock**
A preferred stock which, in addition to having preference over common stock, can also be converted into common stock according to a pre-stated formula.

**Convexity**
The second derivative of a bond's price with respect to its yield, divided by its price. This number, used in conjunction with modified duration provides a more accurate approximation of the percentage price change resulting from a specified change in a bond's yield than does modified duration alone. Convexity is the price measure of how much a bond's price/yield curve deviates from a straight line (measure of the degree of curvature of the price/yield relationship).

**Core-Holding**
That portion of a portfolio which is regarded as a long-term holding.

**Corporate Bond Equivalent (CBE) Yield**
The yield that a corporate bond must offer in order to produce the same rate of return as a given investment. Corporate bonds pay interest semi-annually and their yields are assumed to be compounded semi-annually therefore, corporate bond equivalent yield is ordinarily computed for those instruments which pay interest other than semi-annually, or for which compounding is assumed to be other than semi-annually.

**Corporate Bonds**
Debt instrument issued by a private corporation, as distinct from one issued by a government agency or municipality.

**Corporate Tax Equivalent (CTE) Yield**
The rate of return required on a par bond to produce the same after-tax yield to maturity as a given bond.

**Cost**
The purchase price of a security, including fees, commissions, etc.
**Cost Amount**
This is the original cost of a position. When a position consists of several "lots" purchased at different prices it is the total cost of the lots. Any expenses associated with an acquisition (i.e., postage, insurance, commissions) are included.

**Coupon**
The rate of interest to be paid on a bond, most often it is paid semi-annually. Refers to the interest payment of par, or face value. Expressed as a percentage of par.

**Coupon Issue**
In the Treasury market, a bond or note (i.e., an issue paying semi-annual coupons) as opposed to a Treasury bill. May be collectively referred to as simply "coupons."

**Covenant**
A pledge by the issuer in the Bond Resolution or Indenture to do something that will presumably benefit the bondholders, or to refrain from doing something that might be disadvantageous to them.

**Cover**
1. To eliminate a short position by buying the securities.
2. To avoid competitive bidding ties at even yields or dollar prices by "fine-tuning" the bid or offer price (or yield), e.g., offering bonds at 99.480 instead of 991/2.

**Cover Bid/Cover Offer**
The second-best bid or offer, usually in a competitive bid-wanted or offer-wanted situation.

**Coverage**
The margin of safety for payment of debt service, calculated as the ratio of operating income plus interest expense to long and short-term interest requirements over a period. May be calculated before or after taxes.

**CP**
Commercial Paper

**CPI**
Consumer Price Index

**CPN**
Coupon or (COUP)

**Credit Risk**
The risk that an issuer may default on its securities. Relative degrees of credit risk are delineated by the ratings of the rating agencies.

**Cross**
To trade securities directly from the seller to the buyer.

**Cross Hedge**
A futures purchase or sale intended to reduce price-level risk for a financial instrument similar to, but different from, one that is futures-deliverable.
CTE
Corporate Tax Equivalent

CTM
Coming to Me

Cumulative Experience
The average rate of prepayment since the time that a pass-through security was issued.

Cumulative Preferred
A stock which has the provision that if one or more dividends are omitted, the omitted dividends will be paid before any dividend can be paid on any junior security (e.g., common stock) of the issuing company.

Current Coupon
Describes securities selling in price most nearly to par (100). In reference to pass-throughs, the nominal rate (coupon rate) at which an issuer sells securities currently. The rate usually depends on the rates of the underlying mortgages.

Current Yield
Amount of coupon income received, expressed as a percentage of the current market value of the bond or portfolio.

Cushion Bond
A high coupon bond selling at prices above its call price.

Cusip Number
Special computer identification for each security. Stands for Committee on Uniform Securities Identification Procedures.

Custodial Bank
Trustees or “caretakers” for all securities in an account. Executes all trades as directed by the investment manager (PIMCO) and warehouses all securities.

Cut-off Date
In reference to pass-through securities, the last day of the month on which a prepayment received by the issuer will be remitted to a security holder in the forthcoming payment.

CVT
Convertible or (CONV)

Dailies
Transaction journals, similar to receipts, that mirror all trading and accounting activity that the custodial bank has performed on a given account.

Dates
There are some important dates that one must keep in mind when describing bond markets. It is important to note that date terms are not used consistently across markets. The following
definitions allow for a consistent comparison and are used in the government bond outlines.

**Announcement date (or Launch date):** The day most of the terms of the bond are made public such as the issue size and maturity date.

**Bad Days:** Refers to days delayed in the receipt of redemption proceeds because the maturity date falls on a weekend or a holiday.

**Call Date:** The date on which a call option may be exercised.

**Cutting Date:** The day on which the coupon is physically "cut" from the bond.

**Dated Date:** The day interest starts accruing on a new issue or tap, frequently the issue date.

**Ex-Dividend Date:** The ex-dividend date determines who, from a trading perspective, receives the next coupon payment. Transactions settled on or after the ex-dividend date are deemed to be "ex-coupon" and therefore the buyer does not receive the next coupon. The seller must compensate the buyer with negative accrued interest. In some markets such as Germany, the trade date rather than settlement date determines custody.

**Issue Date (or Payment Date or Primary Date):** The day the issuer receives payment for a new issue of tap.

**Market Day:** A day when the domestic bond market is open.

**Nominal Day:** Any calendar day without regard to whether the bond market is open or not.

**Nominal Payment Dates (or Coupon Dates or Coupon Due Dates):** The dates on which coupons are scheduled to be paid. This day is used to calculate the accrued interest due to the holder. If the nominal payment date falls on a non-market day, the actual coupon payment is usually on the next market day.

**Non-Market Day:** a day when the domestic bond market is closed.

**Record Date (or Cutting Date):** The record date determines, from a custodial perspective, who actually receives the next coupon payment. This is usually the market day preceding the coupon due date (or ex-dividend date). Ownership of the next coupon payment is determined by who holds the securities after close of business on the Record Date.

**Secondary Date:** The first day that the bond is available for trading in the secondary market.

**Settlement Date:** The day on which settlement is scheduled to take place. In the Eurobond market, this is referred to as "value date"

**Subscription Period:** The period during which investors place their bids for a new issue with a syndicate.

**Value Date:** The day the buyer begins to earn interest on his investment, often referred to as the interest bought/sold date. In many markets this is the same as the settlement date. Value dates may fall on non-market days.

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**Day Count Basis**
Following is a list of conventions used to count the appropriate number of days between two dates in order to calculate accrued interest, yields and odd coupon amounts. For each rule, the
numerator indicates the number of days between the dates and determines what happens if one of the dates falls on the 31st of a month. The denominator indicates how many days are considered in a year.

**Numerator**: The actual number of days between two dates.

**Denominator**: The actual number of days in the coupon period times the coupon frequency resulting in values ranging from 362 to 368 for semi-annual bonds.

**Actual/360**
Numerator: The actual number of days between two dates.
Denominator: 360

**Actual/365**
Numerator: the actual number of days between two dates.
Denominator: 365

**Actual/365L**
This rule is used for some Sterling Flat rate notes (FRNs).
Numerator: The actual number of days between two dates.
Denominator: If the next coupon payment date falls within a leap year use 366, otherwise use 365.

**Day Order**
An order to buy or sell securities which must be executed by the end of the trading day on which it was entered, otherwise it expires.

**DD**
Delayed Delivery

**Dealer**
A person or firm acting as a principal in buying and selling securities, usually compensated by the spread.

**Dear**
Expensive; perceived to be overvalued

**DEB**
Debenture

**Debenture**
An obligation secured by the general credit of the issuer rather than being backed by a specific lien on property.

**Debt Service**
A series of payments comprised of principal and interest that are calculated to extinguish a debt over a specified period of time. For level debt service these payments would be equal. Specifically, the periodic payment of principal and interest earned on mortgage loans.

**Deep Discount Bond**
A bond issued at a very low issue price. Deep discounts have low coupons offering an investor high principal return and low interest income. An extreme example is a zero coupon bond which pays all of its return in principal on the redemption date.

**Default**
Failure to pay principal or interest promptly when due. If caused by a minor omission which is remedied quickly, it is known as a technical default.
Deferred Purchase Note (DPN)
A new issue whose terms call for payment of a percentage (for example 25%) of the issue price on the normal closing date with the remaining percentage paid at a future date, usually six months to one year later. Failure to make the second payment results in forfeiture of the initial payment.

Deficiency Judgment
A court order to pay the balance owed on a loan if the proceeds from the sale of the security are insufficient to pay off the loan.

Deficiency Payment
On a FHLMC GMC issue, a principal amount guaranteed and paid to bondholders in excess of actual principal collections on the underlying mortgages. All deficiency payments on a given issue must be repaid to FHLMC bondholders may receive any payments of principal in excess of the guaranteed amounts.

Deficit
The amount by which expenditures exceed revenues.

Deflation
A progressive reduction in the price level, which would make real interest rates greater than nominal rates.

Delayed Delivery
1. An arrangement that may be made with the underwriters of a new issue that permits certain persons or institutions to pay for and take delivery of certain amounts of the new securities on specified dates after the original offering.
2. Trades arranged to settle after scheduled settlement date (i.e. Mortgage securities, see PSA for scheduled Settlement dates.)

Deliverable
Describes securities which meet standards of futures contracts as to quality, maturity, principal amount and coupon rate and which may be physically delivered to satisfy the contract.

Delivery
There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt.

Delivery versus payment: Delivery of securities to a designated point (bank or broker) upon receipt of payment for the securities; can be in the form of a bank-wire or a check.

Delivery versus receipt: Delivery of securities with an exchange of a signed receipt for the securities.

Denomination
The minimum purchase amount, or multiples thereof, of a new issue when it is priced.

Depository Trust Company (DTC)
A central securities certificate depository through which members effect security deliveries among one another via computerized bookkeeping entries, thereby reducing the physical movement of securities.

Depression
A severe recession.

Derivative
A security which derives its value from movements in an underlying security.
**Designation**
The portion of an order allocated to an underwriter by an investor through the manager of the offering.

**Difference Check**
A check issued when the same securities have been both bought and sold for delivery on the same date; the check is for an amount which equals the difference between the purchase and sale prices.

**Direct Hedge**
A futures purchase or sale intended to reduce price-level risk for a deliverable financial instrument.

**Directive**
A letter officially directing the custodial bank to release funds for a buy to an account, or to accept funds for a sale.

**Dirty Price**
The price of a bond which includes accrued interest (see Clean Price).

**Dis-intermediation**
The withdrawal of interest-bearing deposits for reinvestment that tends to occur when interest rates on Treasury bills and other market instruments rise significantly above those paid on funds deposits.

**Discount**
The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale is also considered at be at a discount.

**Discount Basis**
A method for quoting non-coupon securities (which always sell at a discount) in which the discount from par is annualized based on a 360-day year.

**Discount Bonds**
Those bonds selling below par.

**Discount Rate**
The interest rate, fixed by the Federal Reserve, which must be paid by a financial institution when it borrows from its regional Federal Reserve Bank.

**Discretionary Consumer Spending**
Consists of purchases deemed postponable rather that routine- i.e., "luxuries" vs. "necessities."

**Disinflation**
A declining rate of inflation. Analysts are predicting modest disinflation in the U.S. in 2002.

**Dividend**
A cash or other distribution to preferred or common stockholders.

**Dividend Receivable**
When a stock goes ex-dividend, we show the dividend as receivable. It is automatically posted to cash on the dividend payment date.

**Dividend Rate**
In the case of bonds, it is the coupon rate on the bonds. In the case of stocks, it is the current annual dividend amount per share expressed in dollars. In the case of cash equivalents, it is the
annualized yield.

**Dividend Yield**
The percentage obtained by dividing the dividend by the market price of a stock.

**DJIA**
Dow Jones Industrial Average

**DK**
Don't know; a street term used whenever parties do not agree on a transaction.

**Dollar Repo**
A method of borrowing versus securities owned which is similar to a repurchase agreement but different in the following respects:

1. Unlike an ordinary repo, in which the securities are used to collateralize a loan, the securities are actually sold and subsequently repurchased in the dollar repo. This means that the seller loses possession of the securities during the dollar repo period.

2. The sale and repurchase prices are agreed upon at the time of the dollar repo, and both confirms are printed simultaneously. In each transaction, the buyer pays the seller accrued interest, and the buyer keeps any coupon income.

3. The securities repurchased need not be the same physical securities sold - an equal par amount of the same issue may be acceptable.

Also known as Dollar Repurchase Agreement or Dollar Price Repo.

**Done**
A binding term used to signify the completion of a transaction.

**Downgrade**
1. The changing of a rating by a rating agency to a lower (less credit worthy) rating

2. The sale of one block of bonds and the purchase of another block with a lower rating.

**Draft Attached**
The delivery of securities to another city through a corresponding bank. Securities are financed at the current rate of interest until paid for in the city of delivery.

**Drop Lock**
A provision on certain floating rate securities assuring that, should rates drop on the instrument to which the floater is tied, the coupon will become fixed ("locked") until maturity.

**DTC**
Depository Trust Company

**Due Bill**
An assignment or other instrument employed for the purpose of evidencing the transfer of title to any dividend, interest or rights pertaining to securities contracted for, or evidencing the obligation of a seller to deliver such dividend, interest or rights to a subsequent owner.

**Due Bill Check**
A due bill in the form of a check payable on the date of payment of a cash dividend which, prior to such date, shall be considered as a due bill for the amount of such dividend.

**Due from Broker**
This aggregates items which have been sold, including short sales (forward pass-through sales). They are removed from the inventory as of the Trade Date, but posting to cash does not occur until
Settlement Date.

**Dumbbell**
Refers to a fixed income portfolio strategy in which assets are concentrated only in the very short or very long maturity issues.

**Duration**
A measure of average maturity that incorporates a bond's yield, coupon, final maturity and call features into one measurement. Duration measures the sensitivity of a bond's, or portfolio's, price to changes in interest rates.

A two year duration portfolio will rise (fall) 2% if rates fall (rise) 1%.
A five year duration portfolio will rise or fall 5%

If the outlook on bonds is "bullish", i.e., we expect the interest rates to fall, the duration is then extended.
If the outlook on bonds is "bearish", i.e., we expect the interest rates to rise, the duration is then reduced.

**Bear Duration**: a proprietary measurement that estimates the price change in a security or portfolio in the event of a rapid, 50 basis-point rise in interest rates over the entire yield curve. This tool measures the effect that mortgages and callable bonds will have on the lengthening (or extending) of the portfolio’s duration.

**Bull Duration**: a proprietary measurement that estimates the price change in a security or portfolio in the event of a rapid, 50 basis-point drop in interest rates over the entire yield curve. This tool measures the effect that mortgages and callable bonds will have on shortening (or contracting) the portfolio’s duration.

**Curve Duration**: a measurement of a portfolio’s price sensitivity to changes in the shape of the yield curve (i.e., steepening or flattening). A portfolio’s curve duration is considered positive if it has more exposure to the 2- to 10-year part of the curve. A portfolio with positive curve duration will perform well as the yield curve steepens, but will perform poorly as the yield curve flattens. A portfolio with negative curve duration has greater exposure to the 10- to 30-year portion of the curve. It will be a poor performer as the yield curve steepens and a strong performer as the yield curve flattens.

**Effective Duration**: the standard measurement that estimates the price change in a security or a portfolio when the interest rates movements are fairly small.

**Spread Duration**: a measurement that estimates the price sensitivity of a specific sector or asset class to a 100 basis-point movement (either widening or narrowing) in its spread relative to Treasuries.

1. Corporate spread duration: applies primarily to the widening or narrowing of the spread over LIBOR in floating-rate notes. The spread duration for fixed-rate corporates is the same as standard duration.
2. Mortgage spread duration: applies to the widening or narrowing of the option-adjusted spread (OAS) that takes into account the prepayment risk.

**Total Curve Duration**: a measurement that shows a portfolio’s price sensitivity to changes in the shape of the yield curve relative to its benchmark’s sensitivity to those same changes. [See Curve Duration above for characteristics of positive vs. negative portfolios].

**Dutch Auction**
A competitive bidding technique in which the lowest price necessary to sell the entire amount of securities offered becomes the price at which all securities are sold.

**Earnings Yield**
The percentage found by dividing the earnings per share by the market price of a stock.

**EBY**
Equivalent Bond Yield

**Effective**
An offering is said to be effective once the SEC has released the issue for offering.

**Effective Yield**
The rate of return realized by an investor who buys a security and subsequently sells it. It reflects coupon, interest on interest, principal payments and capital gains or losses in comparison to the original purchase price.

**Employees Retirement Income Security Act**
A law enacted in 1974 covering private pension plans, setting standards for fiduciary conduct and making fiduciaries personally liable for breaches of responsibility. (Erisa)

**Equipment Trust Certificate**
Form of borrowing secured by property, generally issued by railroads, to pay for new equipment. Title to the equipment is held in trust until the notes are paid off. It is usually secured by a first claim on the equipment.

**Equity**
Ownership or proprietary rights and interests in a company. Synonymous with common stock. Investments: ownership interest possessed by shareholders in a corporation - stock as opposed to bonds.

**Equivalent Bond Yield (EBY)**
A measurement of the rate of return on a security sold on a discount basis that assumes actual days to maturity and a 365-day year.

**Equivalent Life**
The arithmetic weighted average maturity of a bond where the weights are the present value of the redemption payments discounted by the internal rate of return.

**ERISA**
Employees Retirement Income Securities Act

**ETC**
Equipment Trust Certificate

**Eurobond**
A bond denominated in a currency of a European country.

**Euroclear**
An international clearing system for Euro-currency and foreign securities. Euroclear is based in Brussels and managed by Morgan Guaranty Trust Company.

**Eurocurrency**
Created when a banking office in one country accepts a deposit (or other evidence of debt) denominated in the currency of another. When the deposit is denominated in U.S. dollars, it is a
Eurodollar deposit. In addition to bank deposits, Eurocurrency instruments may take the form of bankers' acceptances, letters of credit, certificates of deposit and loans of various maturities. Hence the terms Eurodollar CD, Eurodollar Bond, etc.

**Eurodollar Issues**
Dollar denomination securities of U.S. issuers traded in foreign markets.

**Even Par Swap**
The sale of one block of bonds and the simultaneous purchase of the same principal amount of another block of bonds.

**Events**
Functions, Processes, Activities and Tasks.

**Excess Reserves**
Any excess of bank balances at the Fed above the amount required as reserves.

**Exchange**
1. Any place where business is carried on by brokers. Generally refers to one of the major stock exchanges, those being the New York Stock Exchange (NYSE) and the American Stock Exchange (ASE). Other exchanges include the Philadelphia-Baltimore-Washington (PBW), Boston, Cincinnati, Detroit, Midwest, Chicago Board of Options Exchange (CBOE) and the Pacific Exchange.
2. The money or currency of a country.
3. A physical facility for futures order execution, market making, trade reporting, trade clearing, and market surveillance.
4. A self-regulating body to assure fair and orderly trading designated by the CFTC.

**Exchange Rate**
The relative value of one currency in terms of another.

**Exempt**
Instruments exempt from registration requirements of the Securities Act of 1933 and the margin requirements of the Securities and Exchange Act of 1934. Exempt securities include debt of the U.S. Treasury, U.S. Government agencies and municipalities, private placements, commercial paper, Title XI, and equipment trust certificates.

**Experience**
In the pass-through market, refers to a rate of prepayments, usually measured in terms of some "norm". For example, "200% FHA-experience" means prepayments at twice the rate predicted by the FHA model.

**Extendible Bond (or Retractable)**
A bond with a call provision that gives the issuer the option to extend the maturity date (if the call is not exercised) and reset the coupon at any rate. The investor then may choose to put the bond at the call price or accept the new coupon.

**Face Value (Amount)**
The par value of a bond that appears on the face. This is the amount that the issuer promises to pay at maturity as well as the amount on which interest is computed.

**Factor**
The multiple or original face outstanding at the time of purchase or sale.

**Fail**
A trade that does not settle properly, as the seller failed to deliver security as contracted or the buyer does not have money to pay.

**Fast-Pay**
Referred to a pass-through security with a relatively high rate of prepayment.

**FC**
Final Confirmation

**FED**
Federal Reserve

**Federal Funds**
Deposit balances at the Federal Reserve, most of which represent legal reserves. Transactions that involve the sale of immediately available funds for one business day are "Federal Funds" transactions.

**Federal Funds Rate**
The interest rate at which federal funds are traded. It is monitored by the Fed in the process of regulating the growth of bank reserves and money supply in the execution of its monetary policy. As such, it is closely watched by market participants.

**Federal Home Loan Mortgage Corporation (FHLMC)**
A corporate instrumentality of the United States, created by an act of Congress on July 24, 1970 in order to increase the availability of mortgage credit for the financing of housing. FHLMC raises funds by issuing securities backed by pools of conventional mortgages, either Participation Certificates (PCs) or Guaranteed Mortgage Certificates (GMCs). Freddie Mac.

**Federal National Mortgage Association (FNMA)**
A government-sponsored corporation owned entirely by private stockholders. It is subject to regulation by the Secretary of Housing and Urban Development. It purchases and sells residential mortgages insured by FHA or guaranteed by VA, as well as conventional home mortgages. Purchases of mortgages are financed by the sale of corporate obligations to private investors. Fannie Mae.

**Federal Reserve Open Market Committee (FOMC)**
The Fed's arm for establishing and executing monetary policy. This committee is composed of the seven Governors of the Federal Reserve Board, the president of the Federal Reserve Bank of New York and four of the presidents of regional Federal Reserve Banks. It normally meets on the third Tuesday of each month to issue guidelines to its trading desk at the Federal Reserve Bank of New York. A summary report of each meeting is released the Friday after the subsequent meeting.

**Federal Reserve Open Market Operations**
All of the Fed's activities in the marketplace. When the Fed is a buyer of securities, the quantity of bank reserves is increased. When the Fed sells securities, banks lose reserves. The purpose of most open market operations is merely to offset changes in the quantity of bank reserves arising from other factors, most notably changes in the Treasury's balance at the Federal Reserve.

**Federal Reserve System**
Established in 1913, it is the central banking system of the U.S. There are 12 regional Federal Reserve Banks but virtually all the policy-making powers are lodged in the Board of Governors of the Federal Reserve System in Washington. This has seven members appointed by the President of
the U.S. for 14-year terms. The president chooses one of these to be chairman for a 4-year term. All depository institutions must hold reserves at the Fed or in vault cash.

**FF**
Federal Funds

**FHA**
Federal Housing Authority

**FHA- Experience**
A statistical study done by the Actuarial Division of the Department of Housing and Urban Development describing the probability of a mortgage prepaying or defaulting in a given year of its life. The data, which date back to 1957, are updated annually and are compiled for each state as well as for the nation as a whole.

**FHLB**
Stands for Federal Home Loan Bank. One of the federal agencies that guarantees mortgages for home loans.

**FHLMC**
Stands for Federal Home Loan Mortgage Corporation, another federal agency guaranteeing home mortgages. Freddie Mac.

**Fiduciary**
An individual, corporation, or association, to whom certain property is given to hold in trust, according to the trust agreement under which the property is held.

**Fill or Kill (FOK)**
A request to execute an order immediately at the specified price or cancel it.

**FIN**
Finance

**Financial Futures**
We view futures contracts as substitutes for cash market securities: Treasury Bond futures, for instance, can be an attractive substitute for Treasury Bonds when priced "cheap". That is we can earn a higher rate of return on the future with virtually no additional risk.

**Firm**
Refers to an order to buy or sell a security that can be executed without confirmation for a stated period of time.

**First Mortgage Bond**
A debt instrument secured by a first mortgage deed of trust containing a pledge of real property.

**Fiscal Policy**
Federal Government policies affecting government spending, taxation, and deficits (or surpluses), viewed from a macroeconomics standpoint.

**Five Percent Policy**
The NASD guide in establishment of mark-ups and commissions. As a practice, dealer mark-ups and commissions on a security should not exceed 5% of the price of such security.

**Fixed Income**
Securities/Investments in which the income during ownership is fixed or constant. Generally refers to any type of bond investment.

**Flat**
1. Excluding any accrued interest (so that only the dollar price is figured in the settling contract). Preferred stock, income bonds and bonds in default are quoted and sold flat.

2. Describes transactions executed for no profit.

**FLIP**
Flexible Loan Insurance Program Mortgage

**Flip**
To sell securities shortly after purchase for a trading profit.

**Float**
1. Credits on the Fed's books to bank accounts during process of check clearing without corresponding debits to other banks' accounts; a result of delays in the check clearing process. This is also called Federal Reserve Float.

2. The portion of an issue expected to trade actively in the secondary market.

3. Colloquially, to issue a security.

4. To allow the exchange rate of a foreign currency to be determined by supply and demand, free of official intervention.

**Floating Rate Note (FRN)**
A fixed income security which has variable coupon rates, periodically changed according to the rise and fall of a certain interest rate index or a specific fixed income security which is used as a benchmark. Also known as a "floater".

**Floor**
The trading floor of the central marketplace where a security or a commodity is traded, such as the Bond Room of the New York Stock Exchange.

**Floor Broker**
A member of the New York Stock Exchange who executes orders received from member firms or for his own account on the floor of the exchange.

**Flow of Funds Accounts**
A quarterly set of statistics compiled by the Federal Reserve estimating the sources and uses of funds for the major economic sectors and classes of financial institutions. They also show changes in holdings of various types of loans and securities they have bought or sold.

**Flower Bonds**
U.S. Treasury bonds that can be applied to the payment of federal estate taxes at par when held by and included in the estate of a deceased.

**FMB**
First Mortgage Bonds

**FNMA**
Stands for Federal National Mortgage Association or "Fannie Mae". This publicly owned government sponsored corporation backs mortgage loans, which are packaged together and sold to investors as "FNMAs".

**FOK**
Fill or Kill

**FOMC**
Federal Reserve Open Market Committee (or FOMC)
Foreclosure
An authorized procedure taken by a mortgage or lender, under the terms of a mortgage or deed of trust, for the purpose of having the property applied to the payment of a defaulted debt.

Form
Allotment letter: the issuer sends the buyer a letter representing ownership of the bond.

Bearer Form: the holder of the bond is the owner. Physical certificates exist.

Book Entry Form (or Inscribed Form): the issuer or agent records the ownership of the bond, usually in computerized records. There are no bond certificates.

Registered Form: the issuer or agent records bond ownership and occasionally bond certificates are allotted.

Forward
(trade) a principal-to-principal non-transferable agreement which stipulates that delivery and payment for securities will take place on a date in the future at a price agreed to at the time of the transaction.

 market) current bids and offers maintained by GNMA dealers for various issues with monthly settlements in each of the next six months (or more).

Fractional Reserve System
A reserve system similar to that of the United States in which reserves required by the Federal Reserve and only a fraction of deposits, allowing deposits to expand by several times any change in the quantity of reserves.

FRB
Federal Reserve Bank

Free Reserve System
Excess reserves minus depository institutions' borrowings at the Fed.

Front Months
Those futures contracts that are within twelve months of the current date.

FTE
Full Time Equivalent based on a 40 hour work week. Refers to a portfolio that has no assets in the form of cash or cash equivalents.

Function
Event level used in describing the work flow at the highest level; detailed further by Processes.

Funnel Sinking Fund
A sinking fund in which the trustee may purchase bonds of any series outstanding under a mortgage in order to satisfy a sinking fund requirement. The requirement is stated as a percentage of the total debt outstanding in a year.

Future
A contract to buy or sell a specific amount of securities or commodities for a specific amount of securities or commodities for a specific price or yield on a specified future date.

Future Value
The assumed amount of cash at a future point in time. A present value becomes a future value through the process of reinvestment.

Futures Contract
Agreement to buy or sell a specific amount of a commodity or financial instrument at a particular
price and a stipulated future date.

**Futures Delivery**
The process of meeting an obligation to deliver or receive securities or commodities on a date, in a location as specified by the terms of the contract.

**Futures Long/Futures Short**
Refers to aggregate market value positions in financial futures contracts either held for future delivery into account (Futures Long) or the future delivery of financial instruments from account (Futures Short).

**FYI**
For Your Information

**GDP**
Gross Domestic Product

**General Mortgage Bond**
A bond which is secured by a blanket mortgage on the issuer's property, but may be subordinate to one or more other mortgages.

**General Obligation Bond (GO)**
A federal tax-exempt bond backed by the "full faith, credit and taxing power" of the issuing municipality.

**Give-up**
(of yield) results from the sale of bonds at one yield and the purchase of an equivalent amount of bonds at a lower yield.

(of a name) the standard practice, involving NYSE bond trades only, whereby a broker upon execution notifies the seller of the buyer’s identity so that delivery can be effected via the Stock Clearing Corporation.

**GMC**
Guaranteed Mortgage Certificate

**GNMA**
Stands for Government National Mortgage Association or "Ginnie Mae". This is a federal agency which backs home loan mortgages. A wholly-owned U.S. Government cooperation within the Department of Housing and Urban Development, established in 1968 as a spin-off from the Federal National Mortgage Association (FNMA). GNMA took over the assets and liabilities and operations of the Special Assistance Functions and the Management and Liquidating functions of FNMA. GNMA can raise funds by issuing securities backed by pools of mortgages. Primary functions of GNMA are the purchase and sale of certain FHA and VA mortgages pursuant to various programs for support of the housing market, and the guaranteeing of mortgage-backed securities issued against pools of FHA and VA mortgages.

**GNP**
Gross National Product

**Good Delivery**
A delivery with everything in order; certificates must be properly endorsed and any necessary legal papers attached before the transfer agent will accept delivery.
Good Faith Deposit
A cash deposit required on a competitive bid. Deposits usually range from one to five percent of the value of an issue, and are due at the time of the bid.

Good Till Canceled (GTC)
An open order to buy or sell securities which remains in effect until the order is executed or canceled.

GOV
Government (or GVT)

Government
A security issued by the U.S. federal government and its agencies (all are U.S. treasury obligations).

Government Agencies
Obligations of the federal government other than direct obligations such as Treasury Notes, Bonds, or Bills. Examples of these are GNMA, FHLMC, etc.

Government Bonds
Bonds backed by the federal government, whether issued by the Treasury or one of the government agencies.

Graduated Payment Mortgages (GPMs)
A mortgage which calls for monthly payments that are initially relatively small and which rise by a fixed percentage each year for some specified period of time.

Green Shoe Provision
A provision in the underwriting agreement that allows the underwriter to purchase up to an additional amount (usually 10-15%) of the offering from the company on the same terms as the original offering. It provides the underwriter with a cushion against covering any short position incurred by the syndicate.

Gross Domestic Product (GDP)
One of the main measures of U.S. economic activity. Although similar to GNP, it measures the dollar value of goods and services produced in the nation regardless of their ownership, but excludes the value of U.S.-owned companies whose goods and services are produced abroad.

Gross National Product (GNP)
The total dollar value of final goods and services produced by the economy. When the proper accounting adjustments are made, this is equivalent to adding up total income and taxes in the economy; or total final sales plus the change in inventory stock; or the total value of each industry's output. Real GNP is the figure derived by deflating each component of GNP for the increase in prices since an arbitrary base period (currently 1972) and adding up the results. The relationship between this total and the actual dollar GNP yields the implicit GNP price deflator that is commonly cited as a measure of general price change.

Gross Spread
The dollar difference between the price which the issuing company receives for its securities and the price which the public pays for those securities. The sum of the selling concession, management fee and the underwriting fee equals the gross spread.

Group Sale
As opposed to a designated order in which only certain underwriters participate in a pot order, a
sale shared pro rata by every member of the account.

**Growth Stock**
The earnings of stock in a corporation that have increased consistently over a number of years and show every indication of considerable further expansion.

**GTC**
Good Till Canceled

**Guaranteed Coupon**
In the GNMA forward market, a trade in which the seller guarantees the buyer delivery of a specific-coupon GNMA at the agreed price, thereby avoiding the yield maintenance and par cap procedures associated with delivery of different coupons.

**Guaranteed Mortgage Certificate (GMC)**
A bond issued by FHLMC backed by a pool of conventional mortgages and similar to a pass-through except that FHLMC guarantees that some minimum principal amount will be paid each year. Unlike pass-throughs GMC's pay interest semi-annually and principal annually. The investor also has the option to put his remaining principal balance to FHLMC at par some time prior to maturity.

**GYP'EMS**
GNMA Graduated Payment Mortgage Securities

**Half-life**
The amount of time that must elapse until half the principal amount of a block of bonds has been retired (via a sinking fund or other Process).

**Handle**
Refers to the dollar price of a bond without additional fractions. Quoting a bond only in fractions presumes that the "handle" is known by market participants.

**Hedge Clause**
A disclaimer that disavows legal claim of and responsibility for the accuracy of information obtained from outside sources.

**Hedge Period**
The time interval between the initial futures transaction (creating an open position) and the offsetting futures transactions.

**Hedging**
1. The temporary purchase or sale of a contract calling for future delivery of a specific security at an agreed upon price to offset a present or anticipated position in the cash market.
2. The technique of making offsetting commitments to minimize the impact of contrary adverse movements.

**HFA**
Housing Finance Authority

**High Grade Bonds**
A bond of superior merit upon which the principal and interest will be paid under most conceivable circumstances, as with U.S. Government obligations.

**High-Powered Money**
Refers to financial institutions' reserve balances on the books of the Fed. since each dollar of reserves supports several dollars of deposits. The total quantity of high-powered money can be
precisely controlled by the Federal Reserve.

**Hit**
Sellers hit bids when they agree to sell at the bid price.

**Honest-To-God Yield**
A yield computed on a mortgage-related security based on an actual or an assumed prepayment rate on the underlying mortgages.

**Hung Deal**
A new issue of which a large portion remains unsold and in the hands of the underwriters.

**Hypothecation**
The pledging of customers' securities as collateral for loans to brokers and dealers.

**IET**
Interest Equalization Tax

**IMM**
International Monetary Market at the Chicago Mercantile Exchange

**Immunization**
A process for designing fixed income portfolios to obtain a target rate of return over a specified time period, within a narrow range, despite market conditions.

**Imperfect Hedge**
Unequal price changes on the two sides of a hedged position during a hedge period; an ex post description, it may result from a favorable or unfavorable basis change.

**Implied Yield**
A forecasted yield derived from present yields and based on the theory that the yield curve on one day is an excellent prediction of itself in the future.

**In and Out**
Denotes a transaction quickly turned over. A security has been bought and sold (or vice versa) on the same day.

**In Competition**
A situation in which two or more dealers compete for the purchase, sale or swap of bonds by an account, with implicit agreement that the execution will be awarded to the dealer who provides the most advantageous price to the account. Ties are generally decided by the flip of a coin or by resubmission of proposals.

**In Hand**
An expression having the same meaning as "firm" when applied to an offering or bid.

**In syndicate**
Refers to a new issue that is still subject to the price and trading restrictions as set forth in the Agreement Among Underwriters.

**Income**
Money earned on a security from interest or dividends.

**Income Bond**
A bond which is guaranteed as to principal but for which interest payments are a contingent obligation, required only if earned and then consented to by the board of directors. Failure to pay interest does not constitute default. Income bonds trade flat.

**Incomes Policy**
Any governmental policy to directly influence or regulate prices, wages, profits, or dividends. Methods may range from gentle "jawboning" to rigid price and wage freezes.

**IND**
Chicago Mercantile Exchange

**IND%**
Refers to percent of asset clarification (i.e., Cash and Case Equivalents, Bond, Equities).

**Indenture**
For debt securities, the contract that specifies all legal obligations of the issuer with respect to the securities and any qualifications or restrictions that may exist. The indenture names a trustee which holds the indenture, supervises payments of principal and interest to the security holders, and acts on behalf of the holders in the event of a default or other violation of the indenture's provisions.

**Index**
A statistical yardstick composed of a basket of securities with a set of characteristics. An example of this would include the "S&P 500" which is an index of 500 stocks.

**Index Fund**
An account comprised of securities; the characteristics of which will produce a return which will replicate a designated securities index. (i.e., Stocksplus and S&P 500)

**Index-Linked Bond**
A bond whose coupon payments are a function of some index. For example, coupons on index-linked gilts are linked to the Retail Price Index.

**Inflation**
A general rise in prices, usually measured by changes in prices of major indices, such as the Consumer Price Index. An increase in a particular price may or may not be inflationary, depending on how it affects other prices and on how promptly it brings to market additional supplies of a product. As of December 2001, the year-over-year percentage change in the CPI was 1.9%, which in historical terms is a modest rate of inflation.

**Inflation Index Bond**
Fixed income securities whose principal value is periodically adjusted according to the rate of inflation. The interest rate on these bonds is fixed at issuance, but over the life of the bond this interest is paid on an increasing principal value, which has been adjusted for inflation.

**Initial Margin**
The amount of margin required in order to establish a position in a futures contract.

**Inside Market**
The market defined by the highest actual bid and the lowest actual offering. An inside market may be tighter than a particular trader's market.

**Institutional Pot**
The percentage (usually 20%) of a new issue offering which is set aside by the managers for large institutional orders.

**Int. B/S**
Refers to interests bought or sold.

**Interest**
An amount charged to a borrower by a lender for the use of money, normally expressed in terms of an annual percentage rate of the principal amount.

**Interest Calculations**

*Current Yield:* this is simply the annual coupon rate divided by the clean price of the bond.

*ISMA Yield:* a standard yield to maturity calculation recommended by the ISMA (formerly AIBD). Yield is compounded annually regardless of the coupon frequency.

*SABE:* Semi-Annual Bond Equivalent Yield; a method of converting yields and other measures of value in order to place them on a comparable basis. This method assumes interest is reinvested semi-annually. SABE is often applied to discount securities in order to compare their rate of return to the yield to maturity on coupon bonds.

*Simple Yield:* a modified version of the current yield that accounts for a deviation in a bond’s clean price from par. Any capital gain or loss is assumed to occur uniformly over the life of the bond.

*U.S. Street Method:* The standard yield to maturity calculation used in the United States by market participants other than the U.S. Treasury. Yield is compounded semi-annually regardless of the coupon frequency. If the value date does not fall on a coupon date, the present value of the bond on the next coupon date is discounted over the fractional period with compound interest.

*U.S. Treasury Method:* The yield to maturity used by the U.S. Treasury to price bonds at auction. Partial periods are discounted using simple rather than compound interest.

*Yield to Average Life:* A yield which assumes the entire issue amount matures on the average life date rather than the maturity date. This is a quick-and-dirty method for comparing bonds with sinking funds with straight issues.

*Yield to Equivalent Life:* The discount rate that equates the present value of the future cash flows to the dirty price where the cash flows take into account the bond’s amortization schedule. This calculation is appropriate for sinking funds; however, it is rarely used because of its complexity.

*Yield to Maturity:* The yield if the bond is held to maturity. This is the most frequently used measure of value for a bond. Generally, the calculation is a function of coupon payments, dirty price, and the method for discounting coupons and the redemption value. However, the exact functional form is determined by market or dealer conventions.

**Interest Equalization Tax (IET)**
A special tax that was once imposed by the United States Government on interest and other income from certain foreign securities in order to discourage the offering of such securities in the United States.

**Interest-Rate Risk**
When interest rates rise, the market value of fixed-income securities (such as bonds) declines. Similarly, when interest rates decline, the market value of fixed-income securities increases.

**Interest Rates**
The percentage paid as a fee for the use of money, expressed as an annual percentage of the principal amount. Influenced by a variety of factors including economic growth, inflation, supply/demand and international factors.
**Interest Receivable**
Interest income impacts the portfolio as soon as it is earned. Income is posted to cash automatically on payment date except in the case of mortgage a pass-through, where we post based on actual bank receipts.

**Interest Yield Equivalent (IYE)**
A measurement of the rate of return on a security sold on a discount basis that assumes actual days to maturity and a 360-day year.

**Interim Experience**
The rate of prepayments that are made between two specific points in time after a pass-through security has been issued- for example, the experience for the latest three months.

**Interim Financing**
Financing during the time from project commencement to closing of a permanent loan, usually in the form of a construction loan and/or development loan.

**Intermediate**
A bond with a maturity of intermediate length. Depending on the particular market, the range for this length may vary. In the corporate bond market, and intermediate would have a maturity between 1 and 12 years.

**Inventory Valuation Adjustment (IVA)**
A statistical estimate of what part of the national increase in the book value of inventories results merely from replacing identical items at higher or lower cost. The IVA is subtracted from the book value increase to obtain the inventory change component of the GNP.

**Investment**
The utilization of money in the expectation of future returns in the form of income or capital gain.

**Investment Act of 1940**
Legislation passed by Congress to insure that those investing in investment companies are fully informed and fairly treated. It requires that all publicly held companies register with the SEC.

**Investment Banker**
An individual or firm engaged in the financing of capital. the investment banker is the middleman between the issuer of new securities and the investor. He/she facilitates the conversion of savings into investment.

**Investment Grade**
Bonds rated in the top four rating categories (AAA, AA, A, BBB) are commonly known as investment grade securities and are considered eligible for bank investment under present commercial bank regulations issued by Comptroller of the Currency.

**ISITC**
The Industry Standards for Institutional Trade Communication committee, a group of U.S. banks and investment managers formed to develop and maintain standards used for securities message communication among participants in the U.S. securities.

**ISMA**
International Securities Market Association (Formerly, Association of International Bond Dealers)

**Issue Bid**
A bid to purchase securities at the initial offering price.

**IT**
Information Technology

**IVA**
Industrial (or INDU)

**IYE**
Interest Yield Equivalent

**JAD**
Joint Application Development

**Jawboning**
The use of public pronouncements and persuasion to affect public policy.

**JEEPS**
GNMA Graduated Payment Mortgage Securities

**Joint Account**
An agreement by two or more firms to share in the purchase, sale or ownership of securities with equal or proportionate risk and financial participation.

**Junk Bond**
A bond claimed to have high yield, a low investment quality and credit worthiness, usually with a rating of BB or less.

**KIM**
Keep In Mind

**Labor Force**
Those people either who have jobs or who are looking for work. The figures are obtained through monthly inquiry from a rotating sample of households.

**Labor Force Participation Rate**
The labor force as a percentage of the total population.

**Laddering**
A fixed income portfolio strategy in which assets are distributed evenly over a range of maturities.

**Leading Indicators**
Those economic statistics that in the past have turned up or down in advance of the general business situation. The Leading Indicator Index is a composite of several such series. There are also Coincidental Indicators (that move with the situation) and Lagging Indicators (that move after the situation).

**Legal List**
A list of prime investments selected by various states, into which certain institutions and fiduciaries
may invest their funds.

**Legality**
The legal status of a bond generally used to indicate whether it is a legal investment for savings banks in Connecticut, Massachusetts, New Hampshire, New Jersey and/or New York. Also called Legal Status.

**Leg-In**
To execute the first side of a spread trade. This presumes that each side is done separately to establish the spread.

**Less the Reallowance**
Refers to a trade between two NASD member dealers of an item subject to syndicate restrictions at the maximum permissible discount. Often abbreviated as "less the re".

**Leverage**
1. The effect of the use of senior capital (bonds and preferred stocks) over junior capital (common stock) in capitalizations.
2. A measurement of a portfolio's exposure to market risk.

**Lifting a Leg**
Closing out one side of a spread trade by making the transactions with the securities involved individually to eliminate the spread.

**Limit**
The maximum daily price change of a futures contract above or below the previous day's settlement price.

**Limit Order**
An order to buy or sell at a specific price or better.

**Liquidity**
The ability to convert an investment into cash promptly with a minimum risk of principal.

**Liquidity Preference**
The increased willingness of investors to hold issues that are more liquid. In the Treasury market, where the shorter maturity issues are generally more liquid, the yield curve often has a rising (positive) shape due in part to liquidity preference.

**Liquidity Premium**
The extent to which yields are lower on more liquid securities due to the relative ease with which such securities can be bought or sold in the secondary market.

**Listed**
An issue traded on the New York Stock Exchange or other major exchange.

**Loan-to-Value Ratio**
The relationship between the amount of a mortgage loan and the appraised value of the property, expressed as a percentage of the appraisal value.

**Lock**
When both the buyer and the seller wish to execute at the same price and neither wants to concede the commission to the broker to execute the transaction.
London Interbank Offered Rate (LIBOR)
The posted rate at which prime banks offer to make Eurodollar deposits available to other prime banks for a given maturity which can range from overnight to five years.

**Long**
Signifies an ownership position of a security of sale without ownership. Opposite is "short".

**Maintenance and Replacement Fund**
A fund provided in most electric utility mortgage indentures requiring minimal annual property additions based on a percentage of revenues and/or assets to maintain or replace depreciable property. Deficiencies must usually be made up by deposit of cash, bonds or additional unfunded property. Deposited cash can often be used to redeem bonds at the special (lower) call price which frequently does not carry refunding protection.

**Maintenance Margin**
The amount to which the initial margin for a futures position may be depleted by adverse price changes before additional margin is required to restore the initial margin amount.

**Maloney Act of 1938**
Legislation allowing the over-the-counter market to establish the National Association of Securities Dealers to regulate itself. It was designed to protect the public from unfair practices and insure continued public confidence in the securities industry.

**Management Fee**
A fixed percentage (usually 20%) of the gross underwriting spread which accrues only to the managers.

**Manager**
A firm which deals with the issuer of securities on behalf of the underwriting group. There may be a number of co-managers, but only the one "running the books" is directly responsible for distributing securities throughout a syndicate.

**Margin**
The difference between the market value of collateral pledged to secure a loan and the face value of the loan itself.

**Margin Call**
A call for cash in a margin position.

**Market**
1. The prices at which a security can actually be bought and/or sold.
2. A locale where a security is known to be traded.

**Market Amount**
Market price times Quantity.

**Market Order**
An order given to buy or sell a particular security at the best immediately obtainable price.

**Market Price**
The most current price of a security.

Main sources:

*Agencies, Treasuries, Preferred Stocks*: Interactive Data Service.
CMOs, Pass-Throughs, & Strips: An in-house Duration Model based on a treasury yield spread. These securities are compared to treasuries with similar features such as coupon and maturity date and given like prices.

Private Placements, Corporate Bonds: Merrill Lynch pricing source.

Market prices are also obtained from other services such as Bloomberg, Reuters and various market makers.

Market Risk
The risk that current interest rates may change and thus adversely affect current market prices.

Market Value
Market price times quantity.

Marketability
The ease with which an asset can be sold at a given price.

Master Page
A Process Charter page where text is stored that is displayed on all pages for the one file; i.e. team name, file name, modified date.

MAT
Maturity

Match Book
The collection of repurchase and reverse repurchase agreements done with customers. Securities acquired through reverse repurchase agreements are "matched," or paired off, against a repo on the same security for the same period of time. The investment banker running the match book acts as principal in all transactions and incurs any liabilities. Repos done to finance dealer positions are not considered part of the match book.

Matched Sales
The opposite of repurchase agreements. In the context of match book operations, refers to lending money and taking securities as collateral. In reference to Federal Reserve actions, a means of temporarily absorbing reserves by selling securities under and agreement to subsequently repurchase them. Also known as Reverse Repurchase agreements.

Maturity
The date on which a loan, bond, mortgage or other debt security becomes due and is to be paid off.

Member Firm
A securities brokerage firm having one or more partners or officers who are members of the New York Stock Exchange.

MERC
Chicago Mercantile Exchange

Method or System of Issue
Auction: A method of issue where brokers or dealers submit bids to the issuer on either a price or yield basis. Auction rules vary considerably across markets.

Competitive Auction: There are two types of competitive auctions: English and Dutch. In an English auction, bidders buy bonds at their bid price if they bid above the stop price. In a Ditch auction, bidders buy bonds at the stop price as long as their bid prices are above the stop price. For an oversubscribed auction, bids at the stop price are scaled proportionately.
Non-Competitive Auction: An auction at which bidders receive bonds at the average price.

Subscription Offering: Practice of issuing a security(s) by allotment to distributors or a syndicate who agree to distribute the issue(s) by pro-curing subscribers. The terms of the issue(s) are widely publicized in advance.

Syndicate: A group consisting of managers, underwriters and selling groups that is responsible for distributing new issues or taps.

Tap (or reopening): A method of reissuing an already existing bond, also the term used to describe such an issue.

Mobile Homes
Mobile home mortgage pass-through securities issued by GNMA.

Modern Portfolio Theory
The theoretical framework for designing investment portfolios based upon the risk and reward characteristics of the entire portfolio, which is held not to be equivalent to the aggregation of the individual securities of the portfolio. The major tenet of the theory holds that reward is directly related to risk, which can be divided into two basic parts:

1) systematic risk (portfolios' behavior as a function of the market's behavior), and
2) unsystematic risk (portfolios' behavior attributable to selection of individual securities).

Because un-systematic risk can be largely eliminated through diversification, the portfolio will be subject principally to systematic risk.

Mortgage
A conveyance of an interest in real property given as security for the payment of a debt.

Mortgage Banker
A firm that supplies its own funds for mortgage loans which are later sold to permanent investors. Usually they continue to service the loans for a specified fee.

Mortgage Bond
A bond backed by a lien against real property.

Mortgage Insurance
A type of term life insurance often bought by mortgagors. The amount of coverage decreases as the mortgage balance declines. In the event that the borrower dies while the policy is in force, the debt is automatically repaid by insurance proceeds.

Mortgage-Backed Securities
Bonds which are a general obligation of the issuing institution but are collateralized by a pool of mortgages.

Mortgagor
One who borrows money, giving as security a mortgage or deed of trust on real property; a debtor.

MOTORCYCLES
Guaranteed Mortgage Certificate

MPT
Modern Portfolio Theory

MTG
Mortgage

MUNI
Municipal Debt obligation of a state or local government.

NAIRU
Non-Accelerating Inflation Rate of Employment

NASD (National Association of Securities Dealers)
Formed in 1939 under the auspices of the Maloney Act, it is a self-regulating body of the securities industry designated to establish rules of fair practice for the protection of the investing public.

NCC
National Clearing Corporation

Negotiated Offering
A method of syndication by which the terms of an offering are determined by negotiation between the issuer and the underwriters' manager.

Net Asset Value Percentage (NAV)
Refers to percent of Total Company (net asset) Market Amount.

Net Unsettled Trades
This is the sum of any Due-To-Broker and Due-From-Broker amounts. The actual item purchased shows in the inventory listings as of the Trade Date. The payable is automatically posted against cash on Settlement Date.

New Issue
A stock or bond sold by a corporation for the first time. Proceeds may be said to retire outstanding debt, for new plants or equipment, or for additional working capital.

New Money
In a refunding, the amount by which the principal amount of securities offered exceeds the principal amount maturing.

New Money Preferred
A preferred stock of a public utility that was issued on or after October 1, 1942 and did not refund or replace any bond, debenture or other preferred stock issued prior to October 1, 1942. In accordance with the laws regarding investment by one corporation in the stock of another corporation, corporations are entitled to an 85% tax deduction on the dividends from new money preferred stocks.

Nine Bond Rule
The rule of the New York Stock Exchange that all orders for the nine bonds ($9000 par amount) or less in listed issues must be sent to the floor for execution unless the customer directs the broker to go the OTC market.

Nominal Bond
A bond whose value does not adjust to compensate for the impact of inflation.

Nominal Return
Describes any change in value, including the artificial rise in prices that comes with inflation.

Nominal Yield
The rate listed on the face of a bond; the coupon rate.

Nominee Name
The registered name issued by the Comptroller of the Currency into which a bank or a trust company registers the securities it holds as an investment agent for its trust department portfolios, thereby facilitating a good delivery to brokers at time of sale or exchange.

**Non-Callable Treasuries**
A treasury which cannot be redeemed at the option of the issuer.

**Non-Refundable**
Ineligible for a stated period of time, for redemption with funds raised through the sale of an issue having an interest cost lower than that on the outstanding bonds. Bonds with refunding protection are still subject to regular redemption and call for sinking funds.

**Note**
A promise to pay as distinguished from an order to pay. A written promise of the maker to pay a certain sum of money to the person named as payee, on demand or at a fixed or determinable future date. In the government securities market, a note is a coupon issue with a maturity of one to ten years. In contrast to Treasury bonds, coupon rates on Treasury notes are not restricted by law.

**NVA**
No value added

**NYFE**
New York Futures Exchange

**NYSE**
New York Stock Exchange

**O & O**
Own and Offer

**Object**
An input/output defined in the activity screen within Process Charter. Objects that are affected by work that is being performed. This is in contrast to a resource.

**Odd Coupons**
Sometimes, the first or last coupon period is either linger or shorter than a normal coupon period and therefore the coupon payment is more or less than a normal coupon payment. Calculating the odd coupon payment is roughly the same as calculating accrued interest for the number of days in the odd coupon period.

**Odd-Lot**
Refers to a trading unit of a bond that is some fraction of a round-lot. A premium is usually charged for odd-lot transactions.

**Off to Off**
Refers to a trade made from one retail account to another (off-the-street to off-the-street).

**Offer**
The price at which someone will sell a security.

**Offer Wanted**
The security referred to is desired by a buyer and prospective sellers are requested to submit offers for it. The inference is that the security will be bought from the lowest offerer.

**Old Money Preferred**
A preferred stock of a public utility that was issued prior to October 1, 1942, or that refunded or
replaced a bond, debenture or other preferred stock issued prior to October 1, 1942. The tax deduction for corporations investing in stock of another corporation is 60.2% for income from old money preferreds.

**OMC**
Open Market Committee

**One-sided Market**
A market consisting of only a firm bid or a firm offering.

**Open Order**
An order to buy or sell entered at a certain price and designated good until canceled.

**Open-end**
To liquidate all or part of a portfolio and to hold cash or cash equivalents.

**Open-end Fund**
A mutual fund that has no fixed number of shares outstanding. The share represent an interest in the fund's portfolio. New shares are offered to the public and any investor can sell shares back to the fund at market value. Price is determined by the per share net asset value of the portfolio on a daily basis.

**Option**
1. An agreement, or privilege, which conveys the right to buy or sell a specific security at a stipulated price and within a stated period of time. If not exercised during that time, the money paid for the option is forfeited.
2. Right to buy or sell property that is granted in exchange for an agreed-upon sum.

**Option to Double**
A feature of an indenture that allows a sinking fund to purchase twice the normal principal amount of bonds for the sinking fund, at the sinking fund call price. Such additional purchases are not considered buying ahead.

**Original Face**
Value of asset pool at time of origination.

**Original Issue Discount**
The discount from par at which a new issue comes to the market. The IRS treats the accretion of this discount over the life of the security as being current income to the holder.

**Original Principal**
The principal amount of a pass-through pool originally issued (also called original face).

**Originator**
A person who solicits builders, brokers, and others to obtain applications for mortgage loans. Origination is the process by which the mortgage banker brings into being a mortgage secured by real property.

**OTC**
Over the Counter

**OTL**
Out to Lunch

**Out Firm**
Advises that a trader has already given someone else an option to buy or sell the security at a given price, for a specified period of time.
Out Trade
A futures trade by a floor trader which the clearing house cannot march with the other party to the trade, as recorded at the time of the trade.

Over the Counter Deliveries
Securities that are delivered by messenger to members and agents against payment. Delivery hours are between 9:00 and 11:30 a.m.

Overbought
A market that is susceptible to a downward correction in price levels. Implies that prices have risen more than fundamentals would dictate.

Oversold
A market that is susceptible to an upward correction in price levels. Implies that prices have fallen more than fundamentals would dictate.

Overtrading
The practice of allowing illegal concessions by paying substantially more than the market value for one security in order to affect the sale of another.

OW
Offer Wanted

P & I Claim Letter
A request by the beneficial owner for payment of principal and interest paid to the registered holder.

Pair Off
1. To offset a position in the GNMA forward market by buying an issue previously sold or selling an issue previously bought. Both buy and sell side must be in the same delivery month and both must be for the same guaranteed coupon.

2. To offset a trade in the match book; to do a repurchase agreement on securities acquired through a reverse repurchase agreement or vice-versa.

Paper
Colloquially, securities of a particular industry or sector. May also refer to commercial paper in money market discussions.

Par
The nominal or face value of a security. See Par Value.

Par Bond
A bond selling at par, in line with prevailing new issue or estimated going yield rates.

Par Cap
A restriction which prohibits the delivery of an issue in the GNMA forward market in satisfaction of a yield maintenance contract if the equivalent price of the security delivered is over par. The only exception is when the issue bought for yield maintenance was at a price over par. In this case, the issue delivered may be at the contracted price or lower.

Par Value
1. The value of a security as expressed on its face value without consideration to any premium or discount. Also signifies the dollar value on which bond interest is figured.
2. A price of 100 percent of face value.

3. The face value assigned by a corporation to common or preferred stock.

4. The principal amount or denomination at which the obligor (issuing corporation) contracts to redeem the bond at maturity. This amount is stated on the face of the bond.

**Participating Preferred**
A preferred stock entitled to a specific dividend before dividends are paid to common stockholders and which also participates with the common stock in additional corporate earnings distributed as dividends.

**Participation Certificate**
A security issued by FHLMC representing an undivided interest in a pool of conventional mortgages. Principal and interest payments on the mortgages are passed through to the certificate holders each month. Participation certificates qualify as "loans secured by an interest in real property" and as "qualifying real property loans" with respect to certain thrift institutions.

**Partly Paid**
In the United Kingdom, the full issue price of a Gilt is often paid in either two or three installments. The initial payment is made upon application and the remaining payment(s) is made within a couple of months.

**Pass-Through**
A mortgage-backed security for which the payments on the underlying mortgages are passed from the mortgage holder through the servicing agent (who usually keeps a portion as a fee) to the security holder. There are 3 types of pass-through securities:

- **Straight Pass-Through**: the security holder receives principal and interest actually collected by the servicing agent.
- **Modified Pass-Through**: the security holder receives interest due, whether or not it has been collected, and principal as collected.
- **Fully Modified Pass-Through**: The security holder receives principal and interest due, whether or not they have been collected.

**Pay Code**
"S" indicates transaction has settled.

**Pay Down**
That portion of a mortgage which is applied toward reduction of the par amount, as opposed to the interest due. Includes all pass-through principal payments.

**Pay Up**
Included are regular additions to GNMA Graduated-Payment Mortgages principal balances, as well as some CMO's. Treated as the opposite of a pay down where payments are being added to the par.

**Paying Agent**
The agency, usually a commercial bank, responsible for making principal and interest payments on a security.

**Payment Delay**
The amount of time that elapses between the time that a pass-through issuer receives payments
of principal and interest from the mortgagors and the time that the security holder receives them.

**PBW**
Philadelphia-Baltimore-Washington Exchange

**PC**
Participation Certificate

**Perfect Hedge**
Equal price changes on both sides of a hedged position during a hedge period; an ex post description which results from no basis change.

**Periodic Payment**
In reference to the calculation of average life for a sinking fund issue, a group of consecutive equal sinking fund payments.

**Perpetual**
A fixed income security with no maturity date, e.g., British consul or a preferred stock with no sinking fund.

**PFD**
Preferred

**Pick-up**
The gain in yield resulting from the sale of one block of bonds and the purchase of another block with a greater yield.

**Pit**
A trading area on the floor of an exchange where only one kind of security is traded. In futures parlance, it is a trading area on the floor of an exchange where one or more types of futures contracts may be traded.

**Point**
One percent of the face amount of a bond; $10 for each $1000 face amount. Bond prices are quoted in points and fractions of points.

**Pool**
A collection of mortgages assembled by an originator or master servicer as the basis for a security. Pools are identified by a number.

**Pool Factor**
The ratio of the outstanding principal amount of a pass-through pool to its original principal amount.

**Pool Insurance**
Insurance carried to guarantee the payments of principal and interest on the mortgages comprising a mortgage pool.

**Portfolio**
The securities owned by an investor.

**Portfolio Structure**
Refers to the maturity structure of the portfolio. There are three ways to structure a portfolio given a target duration. For example, a portfolio given a target duration of five years would be structured:
**Bullet**: Focus on intermediate securities (3-7 year maturities).

**Barbell**: Mix short (1-2 years) and long (10+ years) maturities to achieve a five year average duration.

**Blanket**: Mix short and long maturities to average a five year duration.

Maturity structure of a portfolio is chosen largely based upon our expectations of the yield curve shifts:

**Bullet**: Short rates to fall while long rates rise or fall less.

**Barbell**: Short rates to rise while long rates fall or rise less.

**Position**
1. To buy or sell a security and thereby become long or short in such security.
2. The amount of a security that one owns (long position) or owes (short position).

**PPI**
Producer Price Index

**Preferred Stock**
Securities or shares representing an ownership interest in a business, but which have "preference" over common shares, in regards to dividends and distribution of assets in the event of liquidation.

**Premium**
The amount by which the price exceeds the par amount or maturity value of a bond.

**Premium Bond**
A bond selling above par; opposite of a discount bond. The excess over par is called the premium.

**Prepayment**
The unscheduled partial or complete payment of the principal amount outstanding on a debt obligation before it is due.

**Price**
The dollar amount to be paid for a security, expressed as a percentage of its current face value.

**Price Performance**
Determined by changes in interest rates. If rate rise, bond prices fall. If rates fall, bond prices rise.

**Prime Rate**
1. The rate of interest at which a commercial bank offers to lend money to its most creditworthy customers.
2. The level of prime rates at most money center banks.

**Principal**
The amount lent at the start of a loan. In the case of fixed income instruments, the principal is the current par value of a security, exclusive of accrued interest.

**Principal and Interest Letter**
A request by the beneficial owner for payment of principal and interest paid to the registered holder.

**Principal Balance**
The outstanding balance of a mortgage, sinking fund bond or other debt, exclusive of interest and any other charges.
**Principal Only (P/O)**
The principal only portion of a stripped mortgage-backed security. For P/O securities, all of the principal distribution is due to the registered holder based on the current face of the underlying mortgage-backed security.

**Principal Transaction**
A securities transactions in which one or both of the parties act as principals dealing for their own account.

**Private Mortgage Insurance**
Insurance written by a private company protecting a mortgage lender against loss occasioned by a mortgage default.

**Private Placement**
A debt instrument which has been negotiated directly between the issuer and investor, without any middleman (brokers).

**Process**
Event level used in describing the work flow; detailed further by Activities and preceded by Functions. A process is defined by its activities and leads to a change in state.

**Producer Price Index**
A measure of the prices paid among business firms. It is based mainly on published price lists.

**Project Loan**
A mortgage on a commercial property or multi-family dwelling, with a maturity of up to forty years. Also used to refer to pass-through pools containing project loans.

**Project Notes**
A short-term federal tax-exempt note issued by local authorities to build low-cost housing which is backed by the U.S. Government.

**Pro-Rata Sinking Fund**
A sinking fund in which each investor loses an equal percentage of his holdings to the issuer when the issue is called for sinking fund requirements.

**Prospectus**
A detailed statement by a company prior to the sale of new additional securities, giving full description of factors and information as required by the Securities and Exchange Commission ("SEC").

**Protect**
To guarantee a customer an execution at a certain price (the "protect price"). The customer has the option of accepting the execution or refusing it.

**PT**
Point

**Public Housing Authority Bonds (PHA)**
Federal tax-exempt bonds which are issued by local housing authorities to finance public housing and are backed by the U.S. Government.

**Purchase Fund**
A type of bond whose issuer may retire up to specified amounts of the issue in the open market if the price remains below a certain level.
**Purchasing Power**
Measurement of money value, based on the quantity of goods and services it can buy. Purchasing power of money changes over time and is affected by the rate of inflation. As inflation rises and the costs of goods and services increases, the purchasing power of the dollar declines. If purchasing power is maintained, an investor can keep a constant standard of living.

**Put Option**
The right to sell a security at a predetermined price on or before a specified future date.

**Puttable Bonds**
Corporate issues in which the investor has the option to "put" (sell) the bond back to the issue at a stated price.

**PX**
Price

**Quality**
Rating assigned to issue based upon issuer's credit worthiness. Investment grade issues are BAAA - AAA (Moody's rating).

**Quotation (Quote)**
A price (bid and/or asked) in a subject market; not necessarily the price at which a security can be bought or sold, but an indication of market levels.

**Rally**
An expression used in market parlance and literature to indicate a rise in prices following a flat or declining trend.

**Rate of Purchase**
The yield obtainable on a security based on its purchase price or its current market price. This may be an amortized yield to maturity on a bond or the current income return.

**Rate of Return**
The annualized return on a fixed income investment is a combination of the percentage change in the price of the security and the coupon interest earned over the same period. If a security is held to maturity its rate of return will equal the yield to maturity. This may be amortized yield to maturity on a bond or the current income return.

**Rating**
The designation used by investor's services to give relative indications of quality (I.e., AAA, Ba).

**Real Estate Mortgage Investment Conduit (REMIC)**
A REMIC is a vehicle created under the Tax Reform Act of 1986 for issuing mortgage-backed securities. REMICs may be structured as corporations, partnerships, trusts, or as a segregated pool of assets and will not be subject to taxation at the issuer level in compliance with the requirements of the act.

**Real Return Bond**
A security that adjusts either, or both, its principal and interest payments to compensate for rising inflation, thereby protecting an investor's purchasing power.

**Real Yield**
Describes the yield on a security adjusted for inflation.
Recession
A decline in total physical output that lasts six consecutive months or more. A growth recession is marked by a six-month or longer slowdown (but no decline) in the growth rate.

Reclamation
A claim for the right to return or the right to demand the return of a security that has been previously accepted as a result of bad delivery or other irregularities in the settlement process.

Record Date
The date set by trustees for determining who will be paid principal and interest (and prepayment) on a security. The record date for most mortgage-backed securities is the last calendar date of the month.

Red Herring
A preliminary prospectus giving the advance details of an expected offering of corporate securities, subject to amendment, with the sale contingent upon clearance by the SEC. So called because it contains a disclaimer printed in red.

Redemption
The liquidation of indebtedness by retiring an outstanding obligation, usually at the issuer's option and prior to a stated final maturity.

Redemption Price
The price at which a bond may be redeemed (at the option of the company) prior to its maturity day. Redemption prices are determined when the bond is issued and are usually based on the original coupon and offering price.

Refinancing
The retirement of existing securities and issuing of new securities to save interest costs, consolidate debt, lengthen maturity, or otherwise alter the capitalization of a company. The prepayment of a mortgage with funds borrowed at a lower interest rate.

Refunding
A redemption with funds raised through the sale of a new issue. Most corporate bonds are protected for some stated period against refunding through sale of an issue with an interest cost lower than that on the outstanding bond.

Registered Bond
A bond registered on the issuing company's books in the name of the owner. Although interest can be collected upon presentation of the coupon, the principal can be transferred only with the endorsement of the registered owner. A fully registered bond pays interest to the owner by check for the issuer's agent.

Registered Holder
The name in which a security is registered as stated on the certificate itself or on the books of the paying agent. All principal and interest payments are made to the registered holder regardless of beneficial ownership on the record.

Registration Statement
A document including a prospectus with exhibits prepared primarily by the issuing company, its counsel, and independent accountants, with the help of the managing underwriter and its counsel. Once prepared, it is filed with the SEC.
Regular Dividend
An established dividend rate fixed by a corporation upon its stock and usually paid quarterly or semi-annually.

Regular Way Settlement
The customary process by which purchases and sales of securities are determined and the balance paid. Regular Way Settlement of a corporate security is on the third full business day after the transaction date; on a government security, it is the first full business day after the trade date.

REIT
Real Estate Investment Trust

REMIC
Real Estate Mortgage Investment Conduit.

Reopening
The offering by the issuer of an additional amount of an outstanding security.

Repurchase Agreements (RP's)
A method of borrowing by using a security as collateral for a loan. The interest rate and term of the loan are agreed upon in advance, an upon repayment of the loan the security is returned to the owner. The borrower retains possession of the security and continues to receive any interest payments during the term of the agreement. Also known as a repo.

In reference to Federal Reserve actions, a means of temporarily adding to reserves. The fed buys securities under a contract to sell them back at an agreed price and date. (General RP's mature within 1-7 days, the maximum term being 15 days.) Dealers may repurchase prior to the maturity of the RP if they wish.

Reserve Requirements
The percentage of deposits required to be held as reserves. This is set by the Fed, within limits legislated by Congress. Generally, reserve requirements are higher on demand deposits than on savings deposits. Reserve requirements change infrequently.

Reserves
That part of a financial institution's assets held in vault or on deposit at the Fed.

Resource
Assigned in the activity screen with Process Charter. Resources are used to perform activities; these include: human, system and application resources.

Retail
Legitimate institutional or individual investors as opposed to dealers and broker traders.

Retention
That percentage of a syndicate member's underwriting participation which is retained for his own, retail sales, the balance of the underwriting commitment being set aside for the pot.

Return
The amount of money received annually from an investment, usually expressed as a percentage.

Return Correlation
The relationship between the returns on investments. A negative return correlation between two investments means that most of the time when investment A has a positive return, investment B will have a negative return.
Reversal
A bond swap that is the "reverse" of a prior bond swap. If the initial bond swap consisted of selling bond A and buying bond B, the reversal is the sale of B and the purchase of A.

Rich
Expensive; having a price which is perceived to be overvalued.

Right
An option to subscribe to new shares issued by a company which enables a stockholder to maintain his proportionate ownership in the company

Risk
A measure of the probability of financial loss. In the fixed income markets there are several types of risk:

Credit risk: is the risk that an issuer will default on its bonds at some time prior to maturity

Market risk: is the risk that an investor will experience a financial or book loss from an adverse change in market prices.

Liquidity risk: is the risk that an issue will be illiquid and force an investor to take a loss if he attempts to sell the issue prior to maturity.

Prepayment risk: is the risk that a pass-through issue will have an adverse pattern of prepayments (i.e., low prepayments for discount issues, high prepayments for premium issues).

Reinvestment Risk: is the risk that an investor will be forced to reinvest cash flow from an issue at substantially lower rates that the yield of the original investment.

Risk can be either systematic or unsystematic (diversifiable).

Risk-vs-Return
Risk measures the probability of financial loss. Investors often compare risk, as measured by standard deviation of returns, to historical or expected return when making investment decisions. Typically, investors demand higher returns for investments they consider more risky.

Riskless
Without credit risk. Treasury issues and government-guaranteed issues are regarded as the only riskless issues.

With respect to bond trading, simultaneous buying and selling so as to eliminate market risk.

Roll Over
Reinvestment of funds received from a maturity security in a new issue of the same or like security.

Round Lot
An amount of bonds of $100,000 par amount. For trades involving par amounts greater that $100,000, a good delivery requires that the bonds delivered be in units that are multiples of $100,000 or units that can be grouped into blocks of $100,000.

Colloquially and in institutional context, the smallest amount of bonds acceptable for dealing, ranging from $100,000 to $1 million, depending on the liquidity of the issue and the size of the institution involved.

The smallest amount of bonds traded in a tight market without a price differential or adjustment.

RP
Repurchase Agreement
1. Reinvestment Rate
2. Registered Representative

**Rule 144**
An SEC rule permitting the sale of restricted investment letter stock by affiliated persons in small amounts without first registering the stock with the SEC. It is designed to prohibit the creation of public markets in securities of issuers for which adequate current information is not available to the public. (The rule permits the public sale in ordinary trading transactions of limited amounts of securities owned by persons controlling, controlled by, or under common control with the issuer and by persons who have acquired restricted securities of the issuer).

**S&L**
Savings and Loan

**S&P**
Standard and Poor’s Corporation

**SABE**
Semi-Annual Bond Equivalent

**Samurai Bond**
A yen-denominated bond issued in Japan by a foreign issuer.

**Saving Certificate**
A deposit of a fixed maturity and amount usually earning a higher rate of interest than a savings bond.

**Seasoned**
Refers to a security which has been outstanding in the secondary market for over 90 days

**SEC**
Securities and Exchange Commission

**Sector**
A group of securities with similarities (for example, industry type, coupon rate, maturity date and/or rating).

The four bond sectors of the market, as we view them: Treasuries, Mortgages, Corporates, and International.

**Treasuries:** All U.S. Treasury Issues. Highest quality (AAA), and liquidity.

**Mortgages:** Agency and other pass-throughs (FNMA,FHLMC,FHA), plus derivatives (CMO’s, PO’s. etc.). Mostly AA-AAA, prepayable at any time.

**Corporates:** All industrial, financial, utility, and other corporate issuers. Terms and quality vary. Generally callable prior to maturity.

**International:** Includes U.S. issuers in foreign markets (Euro’s), foreign issues in U.S. market (Yankees), and foreign issues in foreign markets.

**Secular Trend**
A long-term movement in the price of a security or of interest rates, either upward or downward, which is not related to seasonal or technical factors.
Securities
Stocks, bonds and notes which give evidence to and assure the fulfillment of an obligation.

Securities Act of 1933
A law designed to ensure that new securities offered to the public are clearly and completely described in the registration statement and prospectus. The SEC does not guarantee that the statements are accurate, but attempts to make certain that all relevant information is fully disclosed.

Securities and Exchange Commission (SEC)
An agency created by Congress to provide laws for the protection of investors in security transactions. The SEC administers the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act, the Investment Company Act, the Investment Advisors Act and the Public Utility Holding Company Act.

Securities Depository
A company, usually a domestic bank, whose responsibility includes the custody of securities, administration of fungible securities and the settlement of securities transactions including payment.

Sell Off
A sudden sharp decline in prices accompanied by increased volume of trading and a general rise in interest rates.

Senior Securities
The class of securities that occupies the highest priority in a claim for principal, interest or dividends.

Serial Bond
An issue that is segmented into a series of maturities which matures in relatively small amounts at stated periodic intervals.

Servicing
The policing and record-keeping functions performed by mortgage lenders. The servicer of a loan sends payments notices, keeps track of the principal balance, ensures that property taxes and mortgage insurance are paid, remits payments to mortgage investors, etc. For these considerations, the servicer is paid a servicing fee.

Servicing Fee
The fee paid to the servicer of a mortgage loan. It is usually a fixed percentage of the outstanding principal balance of the loan, and is taken from the interest portion of the payment.
Settlement

Cash Settlement: Same day settlement

Corporate Settlement: Settlement five market days after the trade date (term used in the U.S. Market).

Delivery Versus Payment Basis: Under this settlement rule, the delivery of and payment for bonds are simultaneous.

Domestic Settlement: Settlement according to the accepted market convention.

Euroclear Settlement: Settlement is seven calendar days after the trade day. As of June 1995, settlement will be three market days after the trade day.

Free Payment Basis: The delivery of a bond and the payment for it are not necessarily simultaneous.

International Settlement: The settlement of securities is affected through an international clearing agency such as Euroclear or Cedel. International settlement usually assumes no local or generally recognized holidays.

Regular Way Settlement: In the United States, settlement is on the next market day after the trade date.

Skip-Day Settlement: Settlement on the day after the next market trade day.

Settlement Date
The date on which the final consummation of a securities transaction takes place and payment is made.

SF
1. Sinking Fund
2. Single Family

Share/Par
Refers to par value in the case bonds, and number of shares in the case of stocks.

Shopping
Making an effort to obtain a better bid or offering from someone else after having received a firm bid or offering from a dealer.

Short
To become an owner; to have sold without ownership in anticipation of subsequently purchasing at a lower price.

Short Covering
The action taken by a trader or investor to buy securities previously sold short in order to deliver them and thereby close out a short position.

Short Position
Situation that arises when securities that are not owned are sold.

Short Sale
The practice of selling first and buying later. The seller sells a security not owned on the expectation that the market price will fall and the seller will be able to buy the security at a price lower than that at which it was sold.

Short-Term
A type of obligation with a maturity of less than one year.
**Singapore Interbank Offered Rate (SIBOR)**
The posted rate at which prime banks offer to make Asian dollar deposits available to other prime banks.

**Single-Family (SF)**
Refers to mortgages on one-to-four family dwellings.

**Sinking Fund**
Money, either cash or an acceptable substitute, regularly set aside by a company out of its earnings at stated intervals to redeem all or part of its long-term debt as specified in the indenture. The creation of a sinking fund provides for an orderly amortization of a debt over the life of an issue. A *Cash Sinking fund* can be satisfied by cash or bonds purchased in the open market or called at the sinking fund call price. A *Property Additions Sinking Fund* is generally satisfied by pledging a stated portion of the value of unmortgaged property.

**Spot Price**
The price of a security or commodity in the cash market. Used in reference to the futures markets for securities or commodities which underlay various futures contracts.

**Spread**
The yield or price differential between two different securities.

Underwriting spread; the difference between the price to the public and the issuer.

The difference between the bid and the asked price or yield in the quotation of a security.

Simultaneous purchase and sale of different but related futures contracts, one-to-one or in a ratio; a hedge if the cause of widening or narrowing in the price difference between futures contracts is the same as the cause of gains or losses in an intended cash market transaction.

**Standard Deviation**
Statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. In portfolio theory, the past performance of securities is used to determine the range of possible future performances and a probability is attached to each performance. The standard deviation of performance can then be calculated for each security and for the portfolio as a whole. The greater the degree of dispersion, the greater the risk.

**State Work Flow**
High level diagram showing the states, beginning to end, following each process in work flow; i.e. Trade Flow and Account Flow.

**Stock**
A certificate of ownership. A contract between the issuing corporation and the owner which gives the latter an interest in the management of the corporation the right to participate in its profits.

**Stop**
To agree to trade a specific block of securities at a certain price or better. The agreed trade will be executed in any event.

In a Treasury auction, the last competitive bid which is accepted on the high yield side.

**Stop Limit Order**
An order to buy or sell when a given price is reached or passed, but at that price or better. A stop limited order to buy always specifies a price above the present market price; when the market price reaches the stop limit price, the stop limit order to sell specifies a price below the present market price.
**Stop Order**
An order to buy or sell when a given price is reached or passed. A stop order to buy always specifies a price above the present market price. A stop order to sell always specifies a price below the present market price. When the stop price is reached or passed, the stop order becomes a market order.

**Stop Price**
The lowest price the issuer accepts in an auction for a new issue.

**Straddle**
An option position that is a combination of a put and a call on the same security the same strike prices for the same expiration date.

A futures position that is any combination of both long and short contracts of the same security for different delivery months.

**Straight Bond**
A bond with unquestioned right to repayment of principal at a specified future date, unquestioned right to fixed interest payments on stated dates and no right to any additional interest, principal or conversion privilege

**Street**
The New York Financial Community in the Wall Street area, or the broker/dealer community in general.

**Street Name**
Registration of securities in the name of a broker bank or other third party instead of the owner. Facilitates transfer of record ownership and the clearance and settlement of securities transactions.

**Street Practice**
Any procedure generally agreed upon and in use by the financial community.

Specifically, the collection of conventions in general use by the financial community regarding calculations of yields or prices.

**Strike Price**
The price at which an option may be exercised for the underlying security

**STRIP**
(Separate trading of Registered Interest and Principal of Securities) Process by which a bond is separated into its corpus and coupons which are then sold separately as zero coupon securities.

**SUB**
1. Subsidiary
2. Subject
3. Subordinated

**Sub Process**
A type of activity assigned within Process Charter to link an activity in one process flow to a start box in a separate file, creating a parent/child relationship.
Subject
Refers to a quote or indication of price that is not firm and cannot be relied upon as the basis for a transaction.

In new issue terminology, a term indicating to would-be buyers that all securities have been circled. However, depending on subsequent availability, the order may be filled

Subordinated
Refers to a promise to pay or a security with a promise to pay which cannot legally be fulfilled until payments on certain other obligations have been made and any other conditions (defined in the indenture) have been met. These other obligations are said to be senior to the subordinated obligation.

Surplus
The amount by which revenues exceed expenditures.

Swap
The sale of one security for the purchase of another. Bond swaps fall into three basic categories, although a given swap may have aspects of two or more of these:

Substitution Swaps: swaps done in order to improve upon one or more characteristics of the original bonds. Swaps done for yield pickup, quality improvement or change in call protection are in this category.

Intermarket Spread Swaps: swaps done in anticipation of a (favorable) change in the price or yield spread between the two issues from two different sectors of the market.

Rate Anticipation Swaps: swaps done in anticipation of a (favorable) change in the overall level of interest rates. Rate anticipation swaps generally consist of lengthening maturity and/or lowering coupon when bullish and shortening maturity and/or increasing coupon when bearish.

Syndicate
A limited partnership agreement among underwriters.

A group of investment bankers who underwrite and distribute as agreed a new issue of securities or a large block of an outstanding issue

Syndicate is Terminated
Means that all the underwriters have been freed from all price and trading restrictions imposed during syndication and that the security is trading or is expected to trade at or over its initial offering price.

Syndicate Restrictions
The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions

T+3
Shorthand abbreviation for Trade Date plus three which is the current standard settlement time frame for equity and debt securities in the U.S.

TAB
Tax Anticipation Bill
**Tail**
Commonly refers to the difference between the average and stop prices in Treasury cash auctions. An increment to a bid or offer in competition to avoid ties.

**Take**
Buyers "take" offerings when they agree to buy at the offering price.

**Take Down**
To receive and to take into position an allotment in the new issue market.

**Take-Out**
Cash retained as a result of the sale of one block of bonds and the purchase of another block at a lower cost.

**Task**
Event level used in describing the work flow at the lowest level; preceded by Activities. Activities describe "what" is done. Tasks describe "how" the activity is done.

**Technical Correction**
A price movement generated by internal market variables, such as street positions, as opposed to one generated by more fundamental economic or credit factors.

**TEL**
Telephone

**Tender Offer**
A cash offer to the public, usually at a premium over current market price, for a specific aggregate amount of securities or the entire issue. Typically a fee is paid to the dealer who solicits the tender and the dealer manager.

**Term Repo**
A repurchase agreement usually longer than overnight.

**Term Structure**
The internal structure of the yield curve; the level and shape of the yield curve; the relationship among yields on securities of varying maturities.

**Term Structure Hypothesis**
The theory that the market is priced in such a way that an investment in a riskless issue of any maturity is expected to produce roughly the same rate of return. The hypothesis enables investors to imply a market forecast based on the shape (or term structure) of the existing yield curve.

**Thin**
As applied to a market, means that bids and offerings are scarce and the market is subject to wide fluctuations and small-sized executions.

**Thrift Institution**
An institution that accepts and maintains accounts for small depositors but is legally barred from offering demand deposit accounts. Institutions offering demand deposit facsimile accounts are considered thrift institutions and not commercial banks.

**Through the market**
When a new bond offering has come to market and the yield to maturity is lower than comparable bonds outstanding, the new bond is said to be offered "through the market".
**Tick**
The minimum price fluctuation for a futures contract. Commonly used in reference to GNMA's and Treasury bond futures to indicate 1/32 of one percent par value.

**Tick Size**
The increments used for expressing bond prices. For example, the tick size for United Kingdom Gilt Stocks is 1/32\(^{nd}\)

**Tight**
Highly competitive. A tight market is characterized by a small spread between the bid and offer levels for a given security

**Time Deposit**
A deposit with a maturity fixed by law of at least 30 days. Savings accounts at commercial banks also are regarded as time deposits

**TIPS**
Inflation-indexed securities issued by the U.S. Treasury Department (commonly known as Treasury Inflation-Protection Securities). TIPS have been issued in the U.S. since January 1997. These securities adjust both their principal and coupon payments upward with any rise in inflation. Like all Treasuries, they enjoy the full guarantee of the U.S. government.

**Title XI**
A bond backed by a ship mortgage and guaranteed by the United States Government according to the ship Financing Act of 1972

**Tombstone**
An advertisement that states the name and terms of a security, the underwriters, and where a prospectus can be obtained. Does not constitute any offer to buy or sell such securities.

**Total Cash Less Unsettled Trades**
This refers to all items in the Cash Accounts section of the inventory, less any Due-to-Broker and Due-From-Broker amounts.

**Total Cost**
This is the total original cost of positions. When positions consist of several "lots" purchased at different prices, it is the total cost of the lots. Any expenses associated with an acquisition (i.e., postage, insurance, commissions).

**Total Return**
The aggregate increase or decrease in the value of the portfolio resulting from the net appreciation or depreciation of the principal of the fund, plus or minus the net income or loss experienced by the fund during the period.

**Trade Date**
The date when a transaction is effected or executed.

**Trade Date Basis, Accrual Basis**
PIMCO employs a double entry accounting system. Since many custodian statements are based on settlement date-basis, or cash-basis accounting systems, there may be some confusion as to what information contained under.

**Trader**
A person whose intention is to profit from buying and selling, rather than the holding of securities.
Traditional Mortgage
A mortgage with a fixed interest rate and term to maturity, requiring level payments of principal and interest.

Tranche
A part of a single market operation which may have shared documentation, but different terms; e.g., a $200 million issue, one tranche of $100 million having a maturity of 5 years and the second tranche of $100 million having a 10 year maturity.

Transfer Payment
A government or other payment for which the recipient renders no current services. Social security, unemployment compensation and welfare benefits are the largest types of transfer payments.

Treasuries
Negotiable debt obligations of the U.S. government, secured by its full faith and credit and issued at various schedules and maturities. Examples are T-Bills with maturities ranging from 3 months to 30 years at the time of the issue. These are generally non-callable.

Treasury Bill
A non-interest bearing obligation, fully guaranteed by the U.S. Government, payable to the bearer. Bills are sold on a discount basis so that the income is the difference between the purchase price and the face value.

Treasury Bond
A coupon security of the U.S. Treasury which may be issued with any maturity but generally carries a maturity of more than 10 years.

Treasury Note
A coupon security issued by the U.S. Treasury with a maturity of not less than one year not more than 10 years.

Treasury Strips (Zero Coupons)
Treasury "Strips" : Broker/Dealers repackage Treasury cash flows to create "Strip" securities. "Strips" have varying maturities, trade on discount basis, pay no coupon and mature at par.

Trustee
A bank designated as the custodian of funds and official representative of bondholders to enforce their contract with the issuer.

TSY
Treasury

Turnaround
Refers to the ability to clear securities which are bought and sold for same-day settlement. The optimum is to receive and deliver the security within the established delivery period.

Turnover
The rate at which securities within a portfolio are exchanged for other securities.

Twelve-Year Prepayment Assumption
The traditional cash flow assumption used to compute 30-year mortgage yields. It derives from an accounting practice used by mortgage bankers in keeping their books. It assumes that there are no prepayments or defaults. At the end of 12 years, the unamortized principal balance is redeemed at par.
Two-sided Market
Synonymous with market; consists of a bid and an asked price, both of which are firm and operable for the standard unit of trading.

Unamortized Bond Discount
The part of the original issue discount which has not yet been amortized or charged off against earnings.

Underwrite
To agree to buy an issue of securities on a given date at a specific price or to agree to buy an issue of securities of an issue, thus assuming the liability of guaranteeing the issuer the full anticipated proceeds.

Underwriters Agreement
The agreement between the company and the underwriters wherein the terms of the purchase of the securities from the company are formally stated. This is a separate from the Agreement Among Underwriters.

Underwriting Fee
A percentage of the gross spread that accrues only to the members of the account on a pro rata basis. This fee covers the expenses incurred in underwriting the offering.

Unemployment rate
The percentage obtained by dividing the number of persons looking for work by the total labor force.

Unit Cost
This is Cost Amount divided by Quantity times 100.

Unsecured Bonds
A bond which is not backed by any pledge of assets that the debt will be paid; the debtor merely pledging the credit standing.

Unwind
To gradually reduce a position in a security over a period of time.

Upgrade
The changing of a rating by a rating agency to a higher (more credit worthy) rating.

The sale of one block of bonds and the purchase of another block with a higher rating.

Uptick
A term used to designate a transaction made at a price higher than the preceding transaction in the same security.

U.S. Treasuries
Securities issued by the U.S. Treasury Department to fund the government's operations. As of January 2002, there were approximately $2.9 trillion marketable Treasuries outstanding. During the third quarter of 2001, an average of $286 billion Treasuries traded per day, according to data compiled by the Bond Market Association, an industry group.

USGC
United States Government Guaranteed

UTIL
Utility
VA
1. Veterans Administration
2. Value Added

**Variable Rate Mortgage (VRM)**
An adjustable rare mortgage whose rate is tied to an index of lender's cost of money, calculated periodically.

**Velocity**
In the most common usage, the number obtained when GNP is divided by money supply. As such, it represents the number of times per year that each dollar in the money supply is spent on goods and services.

**Volatility**
Measures the variation of bond returns and/or interest rates over a set time period. It can be integral to pricing many issues with call options.

**Warehousing**
The borrowing of funds by a mortgage banker on a short-term basis at a commercial bank using permanent mortgage loans as collateral. This form of interim financing is used until the mortgages are sold to a permanent investor.

**Warrant**
A certificate giving the holder the right to purchase a security at a stipulated price, either for a specified period of time or perpetually.

**WB**
We Bid

**WBF**
We Bid Firm

**WBS**
We Bid Subject

**Weighted Average**
An average calculated by using two data items, 1) the percentage each item represents of the total amount, 2) the data item in which you are trying to get a weighted average.

**When Issued**
A method of trading in listed or unlisted securities which have not actually been issued. These securities trade on a "when, as and if issued" basis. The securities are not yet deliverable and such trades are subject to subsequent delivery of the certificates.

**WI**
When Issued

**WO**
We Offer

**WOF**
We Offer Firm

**Work Flow**
The order in which a process, activity or task must be accomplished.
**Workout order**
Either a firm order in response to a workout market, or, more likely, a firm swap order usually involving two rare issues or at a level away from the current market levels.

**Workout-Market**
An indicated market given on an active security with the inference that, over time, either one of both sides could be made firm by the trader.

**WOS**
We Offer Subject

**Wrap-Around Mortgage**
A junior lien which is written for the entire mortgage indebtedness of the borrower; the wrap-around lender assumes the responsibility for the original lien, and the borrower thereby makes only one monthly payment (to the wrap-around lender).

**WSJ**
Wall Street Journal

**WW**
With Warrants

**XW**
Ex-Warrants

**Yankee Securities**
Dollar denominated bonds issued in the U.S. by foreign banks and corporations for trade in U.S. markets.

**Yield**
The rate of annual income **return** on an investment expressed as a percentage. Income yield is obtained by dividing the current dollar income by the current market price of the security.

**Yield Curve**
A graphic depiction of interest rates across all maturities, 0-30 years. The shape of the curve is largely influenced by the Federal Reserve Policy as well as factors listed under "Interest Rates" above.

**Yield Curve Risk**
Price exposure that a security or portfolio has in the event of nonparallel shifts in the yield curve.

**Yield Maintenance**
For a GNMA or other mortgage security bought under a futures contract or standby commitment, the adjustment of the price upon delivery necessary to provide the same yield to the buyer that was specified in the original agreement. Yield maintenance becomes necessary when the coupon on the GNMA that is delivered is different from the coupon that had been expected at the time the agreement was made.

**Yield to Adjusted Minimum Maturity**
A measure designed to give the yield to the shortest possible life of a bond. It is based on the assumption of maximum sinking fund operation and a call on the bond as early as possible.
Yield to Average Life
The yield derived when the average life date (average maturity) is substituted for the maturity date of the issue.

Yield to call
The yield computed assuming cash flow is the coupon stream to the call date, when the issue is redeemed at its call date, when the issue is redeemed at its call price.

Yield to Maturity
The return a bond earns on the price at which it was purchased if it were held to maturity. It assumes that coupon payments can be reinvested at the yield to maturity.

Yield To Put
The return a bond earns assuming that it is held until a certain date and put (sold) to the issuing company at a specific price (the put price).

Yield to Worst
The yield resulting from the most adverse set of circumstances from the investor's point of view; the lowest of all possible yields.

YLD
Yield

YTAL
Yield to Average Life

YTC
Yield to Call

YTM
Yield to Maturity

Zero-Coupon Bond
Security that makes no interest payments, but is sold at a discount from its face value. Also refers to a bond created by stripping off the coupon and selling the principal and coupons separately.

12B-1 Fee
A fee assessed to mutual fund shareholders to cover some of the promotional expenses of the fund. Such fees are usually found in no-load funds where brokers are involved in the sale to the public.