A
Regulatory
Reform
Glossary

# A Regulatory Reform Glossary

*Since the financial crisis, financial institutions have been required to address significant regulatory changes. The new regulatory framework in the United States and Europe has introduced a series of new terms. This brief glossary is intended to serve as a helpful summary of frequently used terms. It is by no means comprehensive, and should be read with our Dodd-Frank Act, Basel III, EMIR/MiFID resources made available on our website and through our proprietary FrankNDodd database and tracking system.*

**1940 Act** Investment Company Act of 1940.

**ABA** American Bankers Association.

**ABCP** Asset-backed commercial paper. ABCP is commercial paper (short-term unsecured debt) that is issued by a special purpose entity (SPE) sponsored by a financial institution or other issuer and may often be collateralized by the assets of the SPE. During the financial crisis, the off-balance sheet obligations of ABCP vehicles were assumed by their financial institution issuers. ABCP was sold to, and held by, money market funds (MMFs).

**ABS** Asset-backed securities. ABS are bonds, notes or certificates backed by pools of financial assets, such as auto loans, credit card receivables, student loans and trade receivables. Depending on the context, the term "ABS" may be used to encompass such securities backed by all types of financial assets, including mortgage loans, or it may be used (particularly in US securitization industry parlance) to refer to such securities backed by financial assets other than first lien residential mortgage loans, commercial mortgage loans and corporate bonds or loans.

**ABS Interest** Any type of interest or obligation issued by a securitization trust or other ABS issuing entity, whether or not certificated, including a security, obligation, beneficial interest or residual interest, payments on which are primarily dependent on the cash flows of the underlying financial assets.

**ADC Loans** 1-4 family acquisition, development and construction loans. ADC loans are considered the riskiest type of commercial real estate (CRE) lending. During the financial crisis, FDIC analysis shows that failed institutions had concentrations of ADC loans to total assets that were roughly three times the average of concentrations of non-failed institutions.

**ADV** Form ADV, the registration form used by investment advisers to register with the Securities and Exchange Commission (SEC) and/or state securities regulators.

**Advanced Approaches** A bank with total assets equal to or greater than $250 billion or foreign exposures equal to or greater than $10 billion, or a subsidiary of such a bank. A bank that is not mandatorily subject to the advanced approaches may opt into the advanced approaches. An advanced approaches bank measures credit risk based on the bank's internally generated models, which use certain standardized measures.

**Advisers Act** Investment Advisers Act of 1940. In the United States, certain advisers must register with the SEC; those not eligible to register with the SEC may be required to register with the state securities regulator in the state where they do business.

**AFS** Available for sale. Banks must record and mark to market available-for-sale securities. Available-for-sale securities are recorded in AOCI.

**Agency MBS** Mortgage-backed securities (MBS) issued or guaranteed by GNMA, FNMA or FHLMC.

**AIFMD** Alternative Investment Fund Managers Directive (2011/61/EU). The AIFMD is intended to introduce a harmonised regulatory framework for managers of alternative investment funds (being funds other than UCITS funds) marketing such funds in the EEA. The AIFMD covers areas such as the marketing of investment funds to investors, reporting and compliance standards. The deadline for implementation of the AIFMD by member states into their respective national laws was July 22, 2013.

**ALLL** Allowance for loans, leases and losses.

**AMF** Autorité Des Marches Financiers. The AMF is the French Financial Markets Authority which is the stock market regulator in France and regulates participants and products in France's financial markets.

**AML** Anti-Money Laundering. A set of procedures, laws or regulations designed to stop the practice of generating income through illegal actions. From a regulatory perspective, the Financial Action Task Force develops and promotes international cooperation to seek to combat money laundering. In the EU, Directive 2005/60/EC introduced measures to seek to prevent the use of the financial system for the purpose of money laundering and terrorist financing. An example of AML regulations are those that require institutions issuing credit to complete a number of due-diligence procedures to ensure that these institutions are not aiding in money-laundering activities. The onus to perform these procedures is on the institutions, not the criminals or the government.

**ANPR** Advance Notice of Proposed Rulemaking.

**AOCI** Accumulated other comprehensive income. The US bank capital rules eliminate the "AOCI filter" for advanced approaches banks, which lets banks reverse fair value adjustments to shareholders' equity in their capital calculations. Non-advanced approaches banks can make a one-time election to opt out of the provisions removing the AOCI filter.

**ARM** Adjustable rate mortgage. An ARM is a mortgage loan on which the interest rate may change over time based on changes to an underlying interest rate index, such as LIBOR or rates on specified UST securities.

**ARPS** Auction rate preferred stock. ARPS and ARS (auction rate securities, which may be in the form of notes) have dividend or interest rate payments that are reset at frequent intervals through auctions, which typically occur every 7, 14, 28, or 35 days. The auctions also provide the primary source of liquidity to ARS investors who wish to sell their investment. Closed end funds, municipalities and other types of issuers relied on ARPS and ARS for funding purposes. The auctions for ARPS failed during the financial crisis, rendering the securities illiquid.

**AT1** Additional Tier 1 capital. AT1 is one of the two components of Tier 1 capital, the highest quality capital under the Basel framework, with the other being common equity Tier 1 (or CET1). In order for an instrument to constitute AT1 it must meet the prescriptive criteria identified in the final Basel III framework, such as an ability to absorb losses, subordination, fully discretionary non-cumulative dividend payments, no incentive to repay or redeem, etc. AT1 also may be referred to as "non-core" Tier 1. AT1 is subordinate to depositors, general creditors and subordinated debt of the bank.

**ATR or AtR** Ability to Repay. The Ability-to-Repay Rule was adopted by the CFPB to implement the mandate of Title XIV of the DFA requiring a creditor to make a reasonable good faith determination that a borrower has the ability to repay a loan.

**AUM** Assets under management. The value of the assets that an investment adviser manages on behalf of clients.

**Basel I** A set of international banking regulations published by the BCBS in 1988 referred to as the "Basel Accord", which set out the minimum capital requirements of financial institutions with the goal of minimizing credit risk. Banks that operate internationally are required to maintain a minimum amount (8%) of capital based on a percent of risk-weighted assets. Basel I has now been superseded by Basel II and Basel III which provide more sophisticated mechanics for calculating risk weighted assets.

**Basel II** Basel II updates the Basel I Accord published by the BCBS. It was initially published in 2004 and provides a more sophisticated measure of calculating risk weighted assets. Whereas the Basel I focus was mainly on credit risk, Basel II set out a comprehensive "three pillars" approach comprising (i) minimum capital requirements, (ii) supervisory review and (iii) market discipline including disclosure.

**Basel III** Basel III is a regulatory banking standard agreed to in 2010 by members of the BCBS. It is expected that its implementation will be a lengthy process. Basel III aims to strengthen the regulation, supervision and risk management of the banking sector. Basel III addresses such matters as capital requirements, bank leverage and required liquidity.

**BBA** British Bankers' Association. The BBA is a trade association in the banking and financial services industry representing banks and other financial services firms operating in the UK. The BBA was responsible for the calculation of LIBOR but responsibility will be assumed by NYSE Euronext from early 2014.

**BCBS** Basel Committee on Banking Supervision. The BCBS was established in 1974 and is made up of representatives of the central banks and banking supervisory authorities of various countries. The BCBS was designed as a form for regular cooperation between its member countries on banking supervisory matters. It aims to enhance financial stability by improving supervisory knowhow and the quality of banking supervision globally. Decisions of the BCBS have no legal force, but the BCBS provides guidelines and recommendations of best practice aimed at national authorities.

**BD** Broker-dealer. In the United States, BDs are required to register with the SEC, and also become a member of an SRO, which is FINRA. Title IX of the DFA required that the SEC consider whether BDs should be subject to a fiduciary duty (akin to the duty owed by a registered investment adviser to a client).

**BDC** Business development company. BDCs are closed-end management investment companies that elect to be subject to the provisions of Section 55 through 65 of the 1940 Act. Investment companies that elect to be regulated as BDCs are subject to some, but not all, of the regulatory restrictions imposed by the 1940 Act. BDCs may be publicly traded or privately offered, invest primarily in small companies in the initial stages of development and must offer significant managerial assistance to their portfolio companies.

**BHC** Bank holding company. In the United States, most banking organizations are structured with a parent holding company, which is referred to as a BHC.

**BHCA** Bank Holding Company Act.

**BIS** Bank for International Settlements. The BIS was established in 1930 and is an international organization that serves as a bank for central banks around the world. Its functions include promoting discussion and collaboration amongst central banks, supporting dialogue with authorities responsible for financial stability and acting as a prime counterparty to central banks in their financial transactions.

**Board** Federal Reserve Board of Governors.

**B-piece or B-class** In a securitization, a subordinated class or interest.

**BoE** Bank of England. The BoE is the central bank of the United Kingdom.

**BSA** Bank Secrecy Act. The BSA was passed in 1970. It is also known as the Financial Recordkeeping and Reporting of Currency and Foreign Transactions Act. Among other things, it requires financial institutions to maintain records of currency transactions, file Currency Transaction Reports for each transaction over $10,000, and report suspicious activity that might signify money laundering, tax evasion or other criminal activities.

**Bureau** Consumer Financial Protection Bureau.

**CAMELS** Capital, Assets, Management, Earnings, Liquidity, Market Sensitivity (Regulatory Bank Ratings). The CAMELS rating system (from 1 to 5) is a supervisory system for US banks to evaluate the bank's condition. A CAMEL 1 rating is the strongest and a CAMEL 4 or 5 indicates serious concerns. These ratings are not published.

**Capital conservation buffer** The capital conservation buffer is a buffer of capital above the minimum Tier 1 capital requirement, consisting of CET1, that can be drawn on in times of stress, and is formulated as 2.5% of total RWA (or TRWA). This is an entirely new element introduced by Basel III. The aim of the buffer is to prevent firms from making distributions during times when they are experiencing financial difficulties.

**CARD Act** Credit Card Accountability Responsibility and Disclosure Act. The CARD Act was passed in 2009. Among other things, the Act prohibits card issuers from raising interest rates on existing balances, required that late fees and other penalties must be "reasonable and proportional," and altered credit card statements to include new information including how long it will take for a consumer to pay off a balance and the total amount of interest charged. The CFPB has rulemaking authority over the CARD Act.

**CBO** Collateralized bond obligation. A CBO is a form of CDO backed by corporate bonds.

**CCAR** Comprehensive Capital Analysis and Review. The CCAR is an annual exercise by the Federal Reserve to ensure that institutions have robust, forward-looking capital planning processes that account for their unique risks and sufficient capital to continue operations throughout times of economic and financial stress. As part of the CCAR, the Federal Reserve evaluates institutions' capital adequacy, internal capital adequacy assessment processes, and their plans to make capital distributions, such as dividend payments or stock repurchases. The CCAR includes a supervisory stress test to support the Federal Reserve's analysis of the adequacy of the firms' capital.

**CCF** Credit conversion factor. In assessing risk weights, off-balance sheet exposures and contingencies are subject to regulatorily defined credit conversion factors.

**CCO** Chief Compliance Officer. The CFTC's business conduct rules require SDs (and MSPs) to appoint a CCO. The SEC requires registered investment advisers, registered funds and registered BDs to appoint a CCO. The CCO's responsibilities differ depending upon the regulatory regime under which an entity operates, but they may include, among others, designing and maintaining a program to ensure compliance with applicable statutory and regulatory requirements; conducting periodic reviews of such compliance program; preparing periodic reports (which may be provided to a regulator, an SRO or a board of directors), and assessing the extent of the entity's compliance with such requirements.

**CCP** Central counterparty. When a swap is cleared, the CCP becomes the party facing both parties to the original swap, whose obligations (in the US model) are guaranteed by their respective FCMs. The DFA and regulations thereunder require the clearing of many swaps formerly traded OTC. Although CCPs are intended to reduce risk in the financial system, it is not clear how well they may function in a time of market stress.

**CCPA** Consumer Credit Protection Act. The CCPA was passed in 1968. It is comprised of several specific acts designed to protect consumers including the Truth in Lending Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Debt Collection Practices Act and the Electronic Fund Transfer Act.

**CD** Certificate of deposit. A certificate issued by a bank to the depositor of funds. The certificate records the amount of money deposited, the term of the deposit and the fixed interest rate payable, and entitles the holder to repayment on those terms. CDs are typically freely transferable and for many CDs there is a liquid secondary market.

**CDO** Collateralized debt obligation. A CDO is a form of SPE the obligations of which are backed by collateral in the form of debt. CDOs are thought to have contributed to the financial crisis by enabling lenders to easily sell nonprime loans, thereby giving them greater incentives to make such loans.

**CDS** Credit default swap. A CDS provides protection against certain credit-related risks associated with an entity referenced in the CDS. The buyer of credit protection under the CDS makes periodic payments to the seller of protection, in return for which the seller is required to make a payment if the relevant entity defaults (or is otherwise subject to a credit event) under the debt obligations specified in the CDS.

**CEA** Commodity Exchange Act. The CEA is one of the existing legislative acts that was substantially amended by the DFA. The CEA was originally enacted in 1936 and was amended by the DFA to provide for the extensive regulations of swaps.

**CEM** Current exposure method. The CEM is an approach to measuring exposures arising under derivatives contracts. In this calculation, the current exposure (which is the greater of the sum of the current mark-to-market values or zero) is added to the potential future exposure under the contract, and the market value of any posted collateral is then subtracted.

**CET1** Common equity Tier 1 capital. Tier 1 capital, the highest quality capital under the Basel framework, has two components, common equity Tier 1 capital, which the BCBS has resolved should be the predominant form of bank capital, and additional Tier 1 (AT1) capital. CET1 consists essentially of common shares, retained earnings, and other reserves.

**CFC** Controlled foreign corporation. A corporate entity that is controlled by a U.S. person but that does business in a different jurisdiction. For tax purposes, registered investment companies may invest in commodity interests through CFCs, although financial reporting is done on a consolidated basis.

**CFPB** Consumer Financial Protection Bureau. The CFPB is an independent US government agency established in 2011 pursuant to the DFA. The CFPB has primary responsibility for regulating consumer protection with respect to financial products and services offered in the United States.

**CFR** Code of Federal Regulations. The CFR is a codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the federal government.

**CFTC** US Commodity Futures Trading Commission. The DFA empowers this regulator, the primary role of which had been to regulate the futures industry, to regulate swaps (but not security-based swaps, which fall under the SEC's regulation).

**CICI** CFTC Interim Compliant Identifier. A CICI is an interim form of LEI, used to identify to SDRs the parties to each swap.

**CLO** Collateralized loan obligation. A CLO is a special purpose vehicle (SPV) with securitization payments in the form of different tranches. Financial institutions back this security with receivables from a portfolio of loan obligations. Collateralized loan obligations are the same as collateralized mortgage obligations (CMOs) except for the assets securing the obligation. Banks have historically used CLOs to reduce regulatory capital requirements by selling large portions of their commercial loan portfolios through a CLO structure.

**CMBS** Commercial mortgage-backed securities. CMBS are backed by one or more pools of mortgage loans secured by commercial properties, such as shopping centers, apartment buildings, hotels and office buildings.

**CMO** Collateralized mortgage obligation. A CMO is a security backed by a pool of residential mortgage loans or agency MBS. A CMO issuance usually includes multiple classes of securities having various maturities, interest rates and levels of credit risk.

**CoCo** Contingent Convertible. A CoCo is a form of hybrid security that converts from a debt security into an equity security of the issuer upon the breach of a regulatory capital trigger. Discussion concerning contingent capital securities started shortly after the financial crisis as market participants and academics began to consider how to avoid the too-big-to-fail problem. The objective is for these securities to provide a "buffer" for their financial institution issuers during a stress scenario when it may become difficult for the issuers to raise capital.

**Collins Amendment** Refers to Section 171 of the DFA (introduced by Sen. Susan Collins), which addresses various capital requirements, as well as the phase-out of certain hybrid instruments.

**Comptroller** Comptroller of the Currency.

**Conflict Minerals** Title XV of the DFA addresses a variety of matters unrelated to the financial crisis. For example, Section 1502 of the DFA requires US public companies to disclose annually whether they use certain minerals (columbite-tantalite (also known as coltan), cassiterite, gold, wolframite or their derivatives tantalum, tin and tungsten) which originate in the Democratic Republic of the Congo.

**Council** Financial Stability Oversight Council. See FSOC below.

**Countercyclical Capital Buffer** This refers to a further buffer (beyond the capital conservation buffer) that is meant to protect the banking sector from periods of excess credit growth associated with a build-up of system-wide risk. The buffer is to be set by national authorities, and is expected to range from 0 to 2.5% of TRWA.

**CP** Commercial paper. CP is unsecured, short-term debt. See "ECP" below.

**CPO** Commodity pool operator. The definition of CPO contained in the CEA includes any person engaged in a business that is of the nature of a commodity pool or similar form of enterprise and who receives funds or other assets from others for purposes of trading in commodity interests. An important change under the DFA is that swaps now qualify as "commodity interests," with the result that the operator of an entity trading in swaps may be required to register as a CPO. In addition, investment advisers

to registered investment companies that invest more than a *de minimis* amount of assets in commodity interests are now required to register as a CPO.

**CPSS** Committee on Payment and Settlement Systems. The CPSS is a standard setting body for payment, clearing and securities settlement systems. It also serves as a forum for central banks to monitor and analyze developments in domestic payment clearing and settlement systems as well as in cross-border and multicurrency settlement systems.

**CRA** Community Reinvestment Act. The CRA was passed in 1977. Among other things, the CRA seeks to encourage financial institutions to meet the credit needs of its local communities including residents of low- and moderate-income neighborhoods. The CRA requires that each depository institution's record in helping meet the credit needs of its entire community be evaluated by the appropriate federal financial supervisory agency periodically. A bank's CRA performance record is taken into account in considering an institution's application for deposit facilities.

**CRA** Credit rating agency.

**CRAB** Credit Rating Agency Board. The CRAB is a self-regulatory organization responsible for designating NRSROs as "qualified" and selecting such entities to provide the initial credit rating for any structured financial product. The Board was created by Section 939F of the DFA – also known as the "Franken Amendment."

**CRC** Country Risk Classification. CRCs are intended to reflect country risk (the risk that a government will impose capital or exchange controls, for example) and are used for purposes of certain market risk rules for bank capital purposes, since the DFA required that the banking agencies eliminate references to and reliance on external credit ratings.

**CRD IV** Capital Requirements Directive IV. CRD IV introduces significant reforms to the EU's capital requirements regime for credit institutions and investment firms. CRD IV will replace the existing Capital Requirements Directive (consisting of directive 2006/48/EC and directive 2006/49/EC) with a new directive and regulation: the CRD IV Directive (2013/36/EU) and the Capital Requirements Regulation (or the CRR) (Regulation 575/2013). CRD IV aims, in conjunction with the CRR, to implement the key Basel III reforms including amendments to the definition of capital and counterparty credit risk and the introduction of a leverage ratio and liquidity requirements. Member states must transpose the CRD IV Directive and apply its provisions from December 31, 2013.

**CRR** Capital Requirements Regulation (Regulation 575/2013). The CRR is an EU regulation which entered into force on June 28, 2013 and will apply to all EEA member states from January 1, 2014. As a Regulation, the CRR is directly and uniformly applicable in all member states. The CRR implements certain changes relating to regulatory capital and liquidity as introduced under Basel III.

**CSD** Central securities depositories. A CSD holds securities in certificated or uncertificated form to facilitate transfers of securities, as well as the settlement, processing and clearing of securities transactions. Euroclear, Clearstream and DTC may be considered CSDs. There has been increased focus on the regulation of CSDs given their significance in the financial markets.

**CSMAD** See “MAD” below.

**CTA** Commodity trading adviser. The definition of CTA contained in the CEA includes any person who, for compensation or profit, engages in the business of advising others, either directly or otherwise, as to the value of or the advisability of trading in commodities for future delivery, swaps or certain other products. An important change under DFA is that giving advice as to trading in swaps may require an investment advisor to register as a CTA.

**CUSIP** Committee on Uniform Securities Identification Procedures. CUSIP refers to a 9-digit alphanumeric code that is assigned to all security issues approved for trading in the United States and Canada. CUSIP numbers are permanent and appear on the face of a security’s certificate. The first 6 characters are the issuer’s unique identification code. The 7th and 8th digits represent the type of security, e.g. fixed-income, equity, etc. The 9th number is a check digit that is sometimes ignored or abridged.

**CVA** Credit valuation adjustment. A CVA is a fair value adjustment to reflect counterparty credit risk in valuing an OTC derivatives contract.

**DCM** Designated contract market. DCMs are boards of trade (or exchanges) that operate under the regulatory oversight of the CFTC. DFA makes it unlawful for a party that is not an ECP to enter into a swap except on, or subject to the rules of, a DCM.

**DCO** Derivatives clearing organization. A DCO is a CCP that is registered to clear derivatives.

**DFA** Dodd-Frank Act (the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010). Generally considered the most important piece of financial legislation since the Depression, the DFA substantially overhauled major portions of the US financial and banking systems in response to the financial crisis of 2008.

**DOL** US Department of Labor. The DFA required that the SEC consider whether BDs should be subject to a fiduciary duty. The DOL is also considering strengthening the duties that would be applicable in rendering advice to pension and benefit plans. Regulators have sought to coordinate any rulemaking on a "fiduciary duty" undertaken by the SEC and the DOL.

**D-SIBs** Domestic systemically important banks. In order to mitigate systemic risk, the BCBS has formulated a D-SIB framework to identify domestically important banks, and to scale down the G-SIB regime for the impact that the distress or failure of a D-SIB would have on a domestic economy.

**DTA** Deferred tax asset. Under the capital rules, banks are required to make certain regulatory capital deductions from CET1, including a deduction for certain DTAs that rely on the future profitability of the bank in order to be realized.

**DTC** Depository Trust Company. DTC provides centralized clearance and settlement services. It maintains custody of securities and reflects changes in the ownership of such securities on a "book-entry" basis.

**DTCC** Depository Trust & Clearing Company. DTCC operates an SDR in the United States and has received approvals to operate trade repositories in Europe and Singapore. Such facilities store, as required by DFA and other non-US legislation, details of swap transactions. DTCC also provides other post-trade services.

**DTL** Deferred tax liability. Under the capital rules, banks are required to make certain regulatory deductions from CET1, including a deduction for goodwill, net of DTLs.

**DVP** Delivery versus Payment. This refers to the settlement method for most securities transactions, involving the simultaneous delivery of documents necessary to effect an ownership change of securities and the transfer of the stipulated payment amount.

**EBA** European Banking Authority. The EBA is an independent EU authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector. Its functions include seeking to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector. It is also

mandated to work in conjunction with national competent authorities in the EEA to seek to safeguard values including the stability of the financial system, the transparency of markets and financial products and the protection of depositors and investors.

**ECB** European Central Bank. The ECB is the independent central bank of the EU. It is responsible for making and carrying out EU monetary policy, including setting of short-term interest rates and having the sole right to issue euro bank notes. A key concern of the ECB is the maintenance of the purchasing power of the euro through price stabilisation within the euro zone.

**ECL** Expected credit loss.

**ECP** Eligible contract participant. These are the market participants who, under the CEA as amended by the DFA, may enter into swaps other than on an exchange (DCM). The DFA amended the definition of ECP and the CFTC has further defined such term in regulations and other guidance.

**ECP** Euro commercial paper. ECP refers to a debt security that has a maturity of less than one year from the date of issue, that is issued to international investors in a currency that differs from the issuer's domestic currency. "Euro" in this context denotes the international features of this instrument (as opposed to domestic features of the instrument, which would mean that such instruments would be classified as 'commercial paper', although the terms are used interchangeably) rather the single currency of certain EEA member states.

**ECOA** Equal Credit Opportunity Act. The ECOA was passed in 1974. It prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, and other factors. The CFPB has rulemaking authority for the ECOA. The CFPB and the federal banking agencies, and other federal agencies, have the authority to ensure compliance with the ECOA.

**EEA** European Economic Area. The EEA consists of the European Union (the 28 member states of the EU are as follows; Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the UK) and the members of the European Free Trade Association, with the exception of Switzerland (Iceland, Liechtenstein and Norway).

**EESA** Emergency Economic Stabilization Act of 2008. Enacted in 2008, the EESA established the Troubled Assets Relief Program (TARP). It authorized the Secretary of the Treasury to purchase up to $700 billion worth of distressed assets from institutional investors and supply cash directly to banks.

**EFRAG** European Financial Reporting Advisory Group. Established in June 2001 by a group of organizations representing the European accounting profession, with the aim of providing technical expertise to the European Commission concerning the use of IAS within Europe, participating in IASB's standard setting process and coordinating within the EU the development of views concerning international accounting standards.

**EFSF** European Financial Stability Facility. The EFSF is a special purpose vehicle financed by the members of the EEA to address the European sovereign debt crisis. The EFSF was created to provide financial assistance to member states with unstable economies and was originally established as a temporary measure. However, in October 2010 it was decided a permanent measure was needed and the European Stability Mechanism (ESM) was established and came into force on October 8, 2012. The ESM will now be the main instrument to finance new programmes in response to requests for financial assistance by member states, while the EFSF will continue its ongoing programme for Greece, Portugal and Ireland alongside the ESM.

**EFTA** Electronic Fund Transfer Act. The EFTA was passed in 1978. The EFTA requires financial institutions to provide disclosures to consumers who use electronic fund transfer services and establishes consumer rights for such services. The CFPB has rulemaking authority for the EFTA, with compliance responsibilities vested in the CFPB and other federal agencies.

**EIOPA** European Insurance and Occupational Pensions Authority. A European Union financial regulatory institution that replaced the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). EIOPA's core responsibilities are to support the stability of the financial system, transparency of markets and financial products as well as the protection of insurance policyholders, pension scheme members and beneficiaries. It has various powers to develop draft regulatory technical standards in the insurance sector and to issue guidelines and recommendations. It also coordinates with relevant competent authorities across the EEA.

**EMIR** European Market Infrastructure Regulation (Regulation 648/2012). EMIR is a Regulation which governs OTC derivative transactions and imposes a number of requirements on counterparties to derivative contracts, central counterparties and trade repositories, which include central clearing, reporting to trade repositories, risk mitigation and prudential and organizational requirements. EMIR entered into force on August 16, 2012, although certain provisions including the clearing and reporting requirements have yet to come into effect.

**End-User** A type of market participant that, under CFTC regulations, may be eligible for an exception to the mandatory clearing of swaps if, among other things, it uses the relevant swap to hedge or mitigate commercial risk. A financial entity cannot qualify as an end-user.

**ESA** European Supervisory Authorities. These currently comprise ESMA, the EBA and EIOPA. These bodies were established on January 1, 2011 and replaced the previous Committee of European Securities Regulators, Committee of European Banking Supervisors and Committee of European Insurance and Occupational Pensions Supervisors.

**ESM** European Stability Mechanism (see "EFSF" above).

**ESMA** European Securities and Markets Authority. ESMA is the European supervisory authority for the capital markets. ESMA is an independent EU authority that aims to contribute to the effectiveness and stability of the EU financial system by ensuring the integrity, transparency, efficiency and orderly functioning of the securities markets as well as enhancing investor protection. ESMA is frequently mandated to issue guidance in relation to EU directives and regulations. It is also mandated to work in conjunction with national competent authorities in the EEA.

**ESOP** Employee stock ownership plan. Shares issued as part of an ESOP by banking organizations that are not publicly traded are exempted from the conditions that CET1 instruments can be redeemed only via discretionary repurchases and cannot be subject to any other arrangement that legally or economically enhances their seniority, that the banking organization not create an expectation that the shares will be redeemed, and that the banking organization not directly or indirectly fund the purchase of the instrument.

**ESRB** European Systemic Risk Board. The ESRB was established in December 2010 and is responsible for macro-prudential oversight of the financial system within the European Union to seek to identify and mitigate or prevent systemic risks to financial stability across the EU. It works closely with the ECB and the BoE.

**ETF** Exchange-traded fund. An ETF is a fund or collective investment vehicle that offers securities to the public that are listed or quoted on a securities exchange. ETF shares trade at market value rather than NAV. ETFs track the performance (or the inverse of the performance) of an index, a commodity or a basket of assets or may reflect the performance of an active asset management strategy. The increased popularity of ETFs has brought about regulatory concerns that ETFs may impact market volatility or have other negative effects on the market.

**EU** European Union. The EU is a group of European countries that participates in the world economy as one economic unit and operates under one official currency, the euro. The EU's goal is to create a barrier-free trade zone and to enhance economic wealth by creating more efficiency within its marketplace.

**Exchange Act** Securities Exchange Act of 1934, also referred to as the 1934 Act. The Exchange Act provides the SEC with oversight over brokerage firms, transfer agents, clearing agencies, self-regulatory organizations (or SROs), and securities exchanges, as well as authority to require periodic reporting of information by companies with publicly traded securities.

**FAS** Financial Accounting Standards. Standards formulated by the FASB. See below.

**FASB** Financial Accounting Standards Board. The FASB is a private organization that establishes standards for financial accounting in the preparation of financial reports by publicly held companies that are recognized as authoritative by the SEC and other regulators.

**FATCA** US Foreign Account Tax Compliance Act. FATCA was adopted as a means of combating tax evasion by US persons holding investments in offshore accounts.

**FBO** Foreign banking organization. An FBO may have both federally and state-chartered offices in the United States. The Federal Reserve is responsible for approving, reviewing and monitoring the nonbanking activities of FBOs that have a branch, agency, commercial lending operation or subsidiary bank in the US. The Federal Reserve also assesses the condition of the organization's entire US operations and the FBO's ability to support its US operations.

**FCA** Financial Conduct Authority. The FCA is the UK competent authority and regulator responsible for the conduct of firms authorized under FSMA. Together with the PRA and the FPC, the FCA is a successor regulator to the FSA.

**FCM** Futures commission merchant. An FCM is a person who solicits or accepts orders to buy or sell, by means of a CCP, futures contracts, options on futures, swaps or certain other products. Because of the mandatory clearing of certain derivatives under the DFA, FCMs are now playing a more prominent role in the swaps market than they previously did, and many market participants have put in place, or are in the process of putting in place, cleared swaps-related documentation with FCMs.

**FCRA** Fair Credit Reporting Act. The FCRA was passed in 1970. It regulates the collection, dissemination, and use of certain types of consumer information, including consumer credit information. The CFPB has rulemaking authority for the FCRA. The CFPB, FTC, and other federal agencies have responsibility for enforcing the FCRA.

**FDCPA** Fair Debt Collection Practices Act. The FDCPA was passed in 1977 and was designed to protect consumers from "abusive, deceptive and unfair" debt collection practices. Among other things, it prohibits debt collectors from contacting consumers during certain hours or at their place of employment, making false statements in order to collect a debt, or harassing a consumer with repeated phone calls or contact. The CFPB has rulemaking authority for the FDCPA. In general, the FDCPA is enforced by the CFPB and the FTC.

**FDIA** Federal Deposit Insurance Act. The FDIA was passed in 1950. The Act established the deposit insurance fund, set admission standards for banks to be able to be part of the DIF, and reestablished the FDIC with the ability to administer the DIF.

**FDIC** Federal Deposit Insurance Corporation.

**FDICIA** Federal Deposit Insurance Corporation Improvement Act of 1991. The FDICIA, among other things, required the banking agencies to implement the PCA framework.

**FFIEC** Federal Financial Institution Examination Council.

**FHA** Federal Housing Administration. The FHA is a US government agency within HUD. The FHA provides mortgage insurance on loans made by FHA-approved lenders for mortgages on single and multifamily loans.

**FHA** Fair Housing Act. The FHA prohibits discrimination on the basis of race, national origin, religion, and other bases, in connection with residential real estate transactions, including mortgage loans. HUD has rulemaking authority for the FHA. The FHA is enforced by HUD and other federal agencies.

**FHC** Financial holding company. A BHC can elect to be an FHC, which may engage in nonbanking activities.

**FHFA** Federal Housing Finance Agency. The FHFA is a US government agency that supervises and regulates FNMA, FHLMC and the FHLBs. The FHFA was also appointed the conservator for FNMA and FHLMC during the financial crisis.

**FHLB** Federal Home Loan Bank. FHLBs are cooperative banks established by the US Congress to provide financing and other support to member savings associations, credit unions and other community lending institutions. There are twelve FHLBs, each serving member lending institutions in a particular geographic region of the US. The FHLBs perform similar functions for community lending institutions to the functions performed by the Federal Reserve Board (FRB) for commercial banks.

**FHLMC** Federal Home Loan Mortgage Corporation (a/k/a Freddie Mac). FHLMC is a US government sponsored entity (GSE) that purchases mortgage loans from lenders and issues and guarantees mortgage-backed securities (MBS). FHLMC was placed into a federal conservatorship in 2008 pursuant to HERA.

**FI** Financial institution. Under the capital rules, a bank must deduct from its regulatory capital numerator investments in the capital of unconsolidated financial institutions.

**FICO** Fair, Isaac and Company (often used to refer to the score they produce, the FICO score). FICO credit scores are frequently used in connection with mortgage originations or other consumer credit transactions.

**FinCEN** Financial Crimes Enforcement Network. FinCEN is a bureau of the UST that is responsible for establishing and implementing policies to detect money laundering.

**FINRA** Financial Industry Regulatory Authority. FINRA is an SRO and the successor to the National Association of Securities Dealers, Inc. FINRA regulates the activities of BDs that are member firms.

**FIO** Federal Insurance Office. Title V of the DFA established the FIO (within the UST) to monitor certain aspects of the insurance sector.

**FIRREA** Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The FIRREA was passed following the US savings and loan crisis in the 1980s and implemented significant changes in the bank regulatory framework.

**FMU** Financial market utility. An FMU is a system that provides a basic service that is part of, and essential to, the financial infrastructure, such as a clearance system, payment system, etc. Under Title VIII of the DFA, certain FMUs were designated as systemically important and are subject to heightened supervision in order to mitigate risk to the financial markets.

**FMV** Fair market value. FMV is used in the case of securities or other assets that are not publicly traded. It is an estimate of the amount that a seller of a security might reasonably expect to receive upon its current sale.

**FNMA** Federal National Mortgage Association (a/k/a Fannie Mae). FNMA is a US government sponsored entity (GSE) that purchases mortgage loans from lenders and issues and guarantees mortgage-backed securities (MBS). FNMA was placed into federal conservatorship in 2008 pursuant to HERA.

**FOIA** Freedom of Information Act. The FOIA was passed in 1966. It provides interested parties with the right to obtain access to federal agency records, except to the extent that such records (or portions of them) are protected from public disclosure by one of nine exemptions or by one of three special law enforcement record exclusions.

**FPC** Financial Policy Committee. The FPC is a committee of the BoE and is responsible for macro-prudential regulation of the UK financial industry, looking at the general risks for the economy and analyzing emerging trends or bubbles to seek to prevent problems arising. Together with the FCA and the PRA, the FPC is a successor regulator to the FSA.

**FRA** Federal Reserve Act. The FRA was passed in 1913 and is also known as the Owen-Glass Act. The FRA created the Federal Reserve System which was to be comprised of no less than eight but no more than twelve private regional Federal Reserve Banks and a seven-member Federal Reserve Board made up of public officials appointed by the President and confirmed by the Senate. It also provided the Federal Reserve System with the legal authority to issue Federal Reserve Notes as legal tender.

**Franken Amendment** Refers to Section 939F of the DFA (introduced by Sen. Al Franken), which requires the SEC to carry out a study of the credit rating process for structured finance products, and the feasibility of establishing a system in which a self-regulatory organization assigns rating agencies to determine the credit ratings of structured finance products. The SEC is required to implement a system of assigned credit ratings unless it determines through the course of its study that "an alternative system would better serve the public interest and the protection of investors."

**FRB** Federal Reserve Board.

**FRS** Federal Reserve System.

**FSB** Financial Stability Board. Successor to the Financial Stability Forum (FSF), the FSB is an international body that monitors and makes recommendations in relation to the global financial system. The FSB aims to promote financial stability. It has worked closely with the G20 in relation to developing recommendations for financial regulation to be implemented by G20 members.

**FSCS** Financial Services Compensation Scheme. The UK's statutory compensation scheme for customers of authorized financial services firms. FSCS is an independent body, set up under the Financial Services and Markets Act 2000 (FSMA), and funded by a levy on "authorized financial services firms". The scheme covers deposits, insurance policies, insurance brokering, investments, mortgages and mortgage arrangement.

**FSMA** Financial Services and Markets Act 2000. FSMA establishes an overarching framework for financial services legislation and regulation in the UK. It gives HM Treasury powers to make financial services related secondary legislation and gives the FCA and the PRA powers to make rules and guidance for firms.

**FSOC** Financial Stability Oversight Council. The FSOC was established by Section 111 of the DFA with the purpose of identifying and responding to potential threats to the financial stability of the United States. It is comprised of 10 voting and five nonvoting members, with the Secretary of the Treasury serving as the chairperson.

**FTC** Federal Trade Commission.

**FTT** Financial Transaction Tax. The FTT is a controversial tax that is proposed to be levied by certain EEA member states against transactions on the secondary markets. The FTT was proposed by the EU Commission in 2011. However, failing the cooperation of all EU member states, at present 11 member states (Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovenia, Slovakia and Spain), through an enhanced cooperation scheme, have been authorized by the Council of the EU to adopt an FTT amongst themselves, which will be implemented by a means of a directive. The proposed FTT will involve a minimum 0.1% tax rate for transactions in all types of financial instruments except derivatives (0.01% rate).

**G20** Group of Twenty. G20 refers to the Group of twenty finance ministers and central bank governors from 20 major economies, including 19 countries and the European Union. The heads of G20 countries met semiannually during the financial crisis (and subsequently they have met annually) in order to confer and formulate certain understandings regarding regulatory and other measures that would be implemented in order to mitigate systemic risk and restore integrity to the financial markets. The mandate of the G20 is to promote growth and economic development across the globe.

**GAAP** Generally Accepted Accounting Principles.

**GAO** Government Accountability Office. The GAO is an independent, nonpartisan agency that works for Congress.

**GLB or GLBA** Gramm-Leach-Bliley Act. The GLBA was passed in 1999 and is also known as the Financial Services Modernization Act. The Act repealed part of the Glass-Steagall Act of 1933, removing market barriers that prohibited any one institution from acting as any combination of a commercial bank, investment bank and/or insurance company.

**GNMA** Government National Mortgage Association (a/k/a Ginnie Mae). GNMA is a US government agency within HUD that guarantees mortgage-backed securities (MBS) backed by FHA-insured mortgage loans, VA-guaranteed mortgage loans and other mortgage loans originated under specified government lending programs.

**GSE** Government sponsored entity. FHLMC, FNMA and the FHLBs, among other entities, are GSEs.

**G-SIBs** Global systemically important banks. The BCBS finalized an assessment methodology to identify banks that are globally systemically important based on their size, interconnectedness and other factors. In order to mitigate systemic risk, G-SIBs are subject to additional requirements, including an additional loss absorbency requirement (a G-SIB buffer), which ranges, depending on the bank's importance, from 1% to 2.5% of CET1.

**G-SIFIs** Global systemically important financial institutions. G-SIFIs include G-SIBs and nonbank financial institutions determined to be systemically important.

**HAMP** Home Affordable Modification Program. HAMP is a federal loan program in the US established in 2008 in response to the financial crisis to help eligible homeowners avoid foreclosure by obtaining mortgage loan modifications to provide for lower monthly payments or other more favorable terms.

**HARP** Home Affordable Refinance Program. HARP is a federal program established by the FHFA in 2009 to help borrowers with home equity below or near their current loan amounts to refinance their mortgage loans into loans with more favorable terms.

**HASP** Home Affordability and Stability Plan. HASP is a federal program in the US announced in February 2009 by President Obama. Among other things, HASP provides incentives to mortgage lenders and servicers to modify the mortgage loans of eligible troubled borrowers or to reduce or defer the principal balances of such mortgage loans.

**HCDA** Housing and Community Development Act. The HCDA was originally passed in 1974 and has been amended several times since, with the most recent amendments occurring in 1992.

**HCM or HCML** High cost mortgage loan. HCM is a category of mortgage loan transactions established by HOEPA, characterized by a high cost to the borrower, as measured by the transaction's annual percentage rate (APR), the amount of points and fees paid in connection with the transaction and the prepayment penalties that may be charged for loan payments.

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| **HEL** | Home equity loan. |
| **HELC or HELOC** | Home equity line of credit. |
| **HERA** | Housing and Economic Recovery Act of 2008. Among other things, HERA authorized the FHA to guarantee up to $300 billion in new 30-year fixed rate mortgage loans to subprime borrowers if lenders wrote down principal balances to 90% of the current appraised value of the mortgaged property. HERA also established the FHFA and provided the statutory framework for the FHFA to place FNMA and FHLMC into federal conservatorships. |
| **HFS** | Held for sale. |
| **HFSC** | House Financial Services Committee (of the US House of Representatives). |
| **HIL** | Home improvement loan. |
| **HIRE Act** | Hiring Incentives to Restore Employment Act. The HIRE Act was passed during the financial crisis in 2010 to provide tax incentives for employers that hire unemployed workers; FATCA was enacted as part of the HIRE Act. |
| **HJC** | House Committee on the Judiciary. |
| **HMDA** | Home Mortgage Disclosure Act. The HMDA was enacted in 1975. The CFPB has rulemaking authority for HMDA. HMDA requires financial institutions to collect and report to certain federal agencies information about mortgage loans made by the institutions. |
| **HMT** | Her Majesty's Treasury. The UK Government Department responsible for financial and economic policy. |
| **HOA** | Homeowner's Association. |
| **HOEPA** | Home Ownership and Equity Protection Act of 1994. HOEPA requires certain disclosures and applies certain restrictions on lending of "high-cost mortgage loans." (See "HCM or HCML.") In 2013, the CFPB issued updated regulations under HOEPA giving effect to certain requirements added by the DFA, including the requirement that lenders provide borrowers with information regarding the availability of home ownership counseling and confirm that certain borrowers under mortgage loans with negative amortization have in fact received such counseling. |
| **HOLA** | Home Owners' Loan Act. HOLA provides the federal statutory framework for the chartering and regulation of federal savings associations and savings banks and the regulation of savings and loan holding companies (SLHCs). |

**HOPA** Homeowners Protection Act. The HOPA was signed into law in 1998 and addresses certain aspects of private mortgage insurance. See HPA below.

**Horizontal Interest** Under risk retention rules, a horizontal interest is an ABS interest in a securitization issuing entity which is retained by the securities and fully subordinated to the ABS interests sold to investors.

**House** United States House of Representatives.

**HPA** Homeowners Protection Act. The HPA was passed in 1998 and is also known as the PMI Cancellation Act. The HPA establishes provisions for canceling and terminating private mortgage insurance, establishes disclosure and notification requirements, and requires the return of unearned premiums.

**HPM** Higher-priced mortgage.

**HPML** Higher priced mortgage loan. This term was created by an amendment to TILA. Regulation Z defines a higher-priced mortgage loan (HPML) as a consumer credit transaction secured by the consumer's principal dwelling with an APR that exceeds the average prime offer rate (APOR) for a comparable transaction as of the date the interest rate is set, by 1.5 or more percentage points for loans secured by a first lien, or by 3.5 or more percentage points for loans secured by a subordinate lien. (The escrow account requirements also employ a separate threshold of 2.5 percentage points over APOR for "jumbo" mortgages, but this is not relevant for FHA loans.) A higher priced mortgage loan is different from a higher risk mortgage loan.

**HQLA** High Quality Liquid Asset. As part of the LCR, regulators have classified certain assets as HQLAs because they are liquid and readily convertible into cash. For LCR purposes, HQLAs are further classified into Level 1 assets, Level 2A assets and Level 2B assets, with each being defined in the LCR rules.

**HUD** US Department of Housing and Urban Development.

**HVCRE** High volatility commercial real estate. HVCRE loans are viewed as being risky and are subject to a 150% risk weight. Certain ADC loans are not HVCRE.

**IAA** Internal assessments approach. Refers to an approach for determining capital requirements of securitization exposure.

**IARD** Investment adviser registration depository. Investment advisers are required to use the IARD to file their Form ADV with the SEC and/or state securities regulators.

**IASB** International Accounting Standards Board. The international counterpart to FASB. The IASB is the accounting standard-setting body responsible for developing International Financial Reporting Standards (IFRS).

**IBA** International Banking Act of 1978. The IBA brought American branches of foreign banks and agencies under the jurisdiction of US banking agencies.

**ICA** Investment Company Act of 1940.

**ICBA** Independent Community Bankers of America.

**ICMA** International Capital Market Association. A trade association for investment banks and securities firms in the international capital markets. ICMA facilitates the interaction between issuers, lead managers, dealers and investors in debt securities, by producing guidance notes, conventions and standards for participants in the international bond markets. It represents a broad range of capital market interests, including global investment banks, smaller regional banks, asset managers, stock exchanges, central banks, law firms and other professional advisers. ICMA was formerly known as the International Primary Market Association (IPMA) and the International Securities Market Association (ISMA), before the two associations merged in July 2005.

**ID** Insured Depository. See IDI below.

**IDI** Insured Depository Institution. Refers to a financial institution that is legally permitted to take deposits, including, for example, a commercial bank, a savings bank, and a savings and loan association.

**IFRS** International Financial Reporting Standards. A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board.

**IHC** Intermediate Holding Company.

**IM** Initial margin. In the new world of centrally cleared derivatives, clearing members must post margin on a daily or intraday basis in order to minimize unsecured exposures. Initial margin, which is required to be posted at the outset of a transaction, is intended to provide a buffer such that, even with market volatility, unsecured exposures are expected to be minimal.

**IMM** — Internal model method. Developed under Basel II (2004) as a means to better measure banks' capital requirements for various counterparty credit risk scenarios. Before the introduction of IMM under Basel I (1988), banks commonly employed the Standardized Method (SM) to calculate required reserves. This method is often criticized as too simplistic for the larger financial institutions due to its heavy reliance on external ratings-based information such as that from Fitch, Moody's, or S&P. Critics maintain that a better approach would be to use firm-specific scenarios and information that is tailored to each bank and their trading activity (i.e. each bank's trading book is different and a blanket approach does not always account for every counterparty scenario). Thus the IMM was developed to create a more risk-sensitive approach that is aligned with each firm's internal risk management policies.

**Investment Company Act** — Also referred to as the 1940 Act or the ICA. The Investment Company Act regulates the organization of companies, including mutual funds, closed end funds and unit investment trusts, ETFs and BDCs that engage primarily in investing, reinvesting and trading in securities and whose own securities are offered to the public.

**IO** — Interest-only security. An IO receives some or all of the interest payments on financial assets underlying a securitization, but none of the principal payments.

**IOLTA** — Interest on Lawyers' Trust Account.

**IOSCO** — International Organization of Securities Commissioners. IOSCO was established in 1983 to bring together securities regulators from around the world. IOSCO develops internationally recognized standards for securities regulation. During the financial crisis, IOSCO consulted on CCPs, short selling, the regulation of credit rating agencies and related matters.

**IOTA** — Interest on Trust Account.

**IRB** — Under the Basel II guidelines, banks are allowed to use their own estimated risk parameters for the purpose of calculating regulatory capital. This is known as the Internal Ratings-Based (IRB) Approach to capital requirements for credit risk. Only banks meeting certain minimum conditions, disclosure requirements and approval from their national supervisor are allowed to use this approach in estimating capital for various exposures.

**IRC** — Internal Revenue Code. The Internal Revenue Code was developed by the Internal Revenue Service and codifies US tax laws.

**IRS** Interest rate swap. This is a swap in which the parties agree to swap different interest rates on an agreed notional amount. The market for standard IRSs is among the largest and most liquid of the swap markets. Many standard IRSs are subject to mandatory clearing and are expected to soon be subject to mandatory SEF execution.

**IRS** Internal Revenue Service. The IRS is a bureau of the UST.

**ISDA** International Swaps and Derivatives Association, the trade group for the swap industry. ISDA is the most important industry voice in the swaps market.

**ISIN** International Securities Identification Number. A code that uniquely identifies a specific securities issue. The organization that allocates ISINs in any particular country is the country's respective National Numbering Agency.

**KID** Key Information Document. KID is a proposed new pan-European pre-contractual disclosure document to be introduced by the PRIPs Directive, when implemented, that all retail investors should receive when they are considering purchasing investment products regulated by the PRIPs document. KIDs are intended to be short, plainly worded documents that provide investors with key information in relation to the investment product to assist in potential investors' investment decisions and provide easy comparability with other similar products. The details relating to KIDs remain subject to change pending finalization of the PRIPs directive.

**KYC** Know Your Customer. Registered broker-dealers in the US have an obligation to conduct diligence in order to establish a relationship with their customer. Similarly, financial institutions must undertake certain diligence in connection with their AML functions. In the context of derivatives transactions, KYC may refer to "Know Your Counterparty." A swap dealer must undertake certain diligence about its counterparty.

**LB** Leverage buffer.

**LCR** Liquidity Coverage Ratio (or Requirement). The LCR was finalized by the BCBS in 2013. It is a new short-term liquidity requirement that is implemented by a ratio test, where a bank's modeled outflows are in the denominator, and the bank's HQLA are included in the denominator. If the ratio equals or exceeds 100%, the liquidity requirement is satisfied.

**LEI** Legal Entity Identifier. An LEI is the identifier used to identify to an SDR the parties to a swap. Market participants that are parties to swaps that are subject to SDR reporting under the DFA are required to have an LEI, the current form of which is known as a CICI.

**Level 1 Assets** Under the LCR, HQLAs are comprised of Level 1, Level 2A and Level 2B assets. Level 1 assets are the highest quality and most liquid assets.

**Level 2A Assets** See above.

**Level 2B Assets** See above.

**LGD** Loss given default.

**LIBOR** London InterBank Offered Rate. LIBOR refers to the rate of interest historically published by the BBA based on a survey of a panel of major banks regarding the interest rate at which each such bank believes it could borrow funds in a particular currency, for a particular maturity, in the wholesale market in London. Regulators are now investigating possible rigging of this benchmark.

**Lincoln Amendment** Also referred to as the Lincoln Provision (introduced by Sen. Blanche Lincoln), or the "swaps push out" rule. The Lincoln Amendment, which forms part of the DFA, is intended to prevent taxpayers from bearing market participants' swap-related losses. A controversial and complex provision, it generally prohibits "federal assistance," such as certain advances from a Federal Reserve credit facility or discount window, to an entity that qualifies as a "swaps entity."

**L-Shaped Interest** A combination of a horizontal interest and a vertical interest retained by a securitizer to satisfy risk retention rules.

**LSOC** Legally segregated, operationally commingled. LSOC is the new US regime for collateral posted in relation to cleared swaps (but not futures contracts). Under LSOC, FCMs and DCOs may operationally commingle customer funds, but must maintain legally segregated accounts, and are not permitted to use a non-defaulting customer's collateral to cover losses resulting from the default of another customer.

**LTD** Loan to Deposit Ratio.

**LTR** Large Trader Reporting. As part of its regulations under DFA, the CFTC now requires "large traders" of swaps and swaptions relating to certain physical commodities to report the positions represented by those transactions. Reporting entities, which include SDs, are required to report such swaps and swaptions if such transactions exceed certain thresholds. This reporting is in addition to similar reporting that the CFTC receives in relation to commodity futures contracts and options on such contracts.

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| **LTV** | Loan-to-Value Ratio. The loan-to-value ratio is most frequently used in discussing mortgage loans, with higher LTV loans being viewed as "higher risk" loans. Under the capital standards, risk weights for residential mortgage loans are based on the LTV of the loan. Loans are categorized for Basel purposes as Category 1 (less risky, lower risk weight) and Category 2 (higher risk, higher risk weight) loans. |
| **MA** | Municipal Adviser. MAs include financial advisers to state and local governments with respect to the issuance of municipal securities, swap advisers to municipal issuers, municipal securities dealers, etc. The DFA imposes a fiduciary duty on MAs, requires the registration of MAs with the SEC, provides for their regulation by the MSRB, and makes several other changes to their regulation in order to promote the integrity of the municipal securities market. |
| **MAD** | Market Abuse Directive (2003/6/EC). MAD is an EU directive aimed at harmonising the rules for market abuse throughout the EEA and was adopted in 2003. In 2011, the European Commission published its legislative proposals to replace MAD with a Regulation on insider dealing and market manipulation (MAR) and a Directive on criminal sanctions for such activities (CSMAD). Together, these proposals are known as MAD II. MAD II aims to strengthen the existing market abuse regime and to address the shortcomings revealed by the financial crisis. CSMAD II and MAR are not expected to come into force until 2014/2015. |
| **MAR** | Market Abuse Regulation. MAR is the proposed Regulation that the European Commission intends to implement as part of the replacement of MAD to strengthen the existing market abuse framework. The implementation of MAR is intended to align with the implementation of MiFID II. |
| **MBS** | Mortgage-backed securities. |
| **MDIA** | Mortgage Disclosure Improvement Act. The MDIA was passed in 2008 as an amendment to the Housing and Economic Recovery Act. Among other things, the Act amended TILA to require new disclosures for all credit transactions secured by a consumer's dwelling, required lenders to provide good faith estimates no later than 3 days after loan application and at least 7 days before loan closing, prohibited application fees prior to disclosure and provided consumers with the ability to modify requirements regarding timing of disclosures. |
| **MiFID** | Markets in Financial Instruments Directive. MiFID consists of a framework directive (2004/39/EC), an implementing directive (2006/73/EC) and an implementing Regulation (EC/1287/2006). MiFID is a wide-ranging piece of legislation that replaced the Investment Services Directive and was introduced to integrate the EEA's financial markets, strengthen investor |

protection and enhance competition in the securities industry across the EEA and applies to investment banks, portfolio managers, brokers, corporate finance firms and some derivatives- and commodities-related firms and provides a framework for such firms to be authorized and supervised by their local competent authorities. MiFID came into force on November 1, 2007 and introduced a "passporting regime" whereby a firm authorized in an EEA member state can provide services within the scope of its authorization in other EEA member states without the need for additional authorization in such member states.

**MiFID II** Proposed revision of MiFID to address shortcomings in the financial markets highlighted by the financial crisis and to take into account technological developments and changes in trading patterns since MiFID was implemented, as proposed by the European Commission on October 20, 2011. MiFID II will make significant changes to MiFID, including extending the scope of regulation both in terms of entities regulated and the extent of the regulatory provisions, providing for greater scope for intervention by ESMA and national competent authorities, increased pre- and post-trade transparency requirements and significant changes to the regulation of market infrastructure. MiFID II is not expected to come into force until mid-2014, at the earliest, and consists of a directive and a Regulation (MiFIR).

**MiFIR** Proposed Markets in Financial Instruments Regulation. MiFIR is part of the European Commission's MiFID II proposals, in conjunction with another directive, to replace MiFID. MiFIR covers the areas where the Commission believes uniform application of the reforms throughout the EU is necessary, such as the exchange trading of derivatives, pre- and post-trade transparency requirements and changes to market infrastructure regulation.

**MIP** Mortgage insurance premium.

**MLA** Military Lending Act. The MLA was passed in 2006, as an amendment to the National Defense Authorization Act for fiscal year 2007. It provides federal protections against predatory lending for active duty service members and their eligible family members. Among other things, it imposes a 36% rate cap on tax refund loans and certain payday and auto title loans and prohibits the lender from automatically refinancing such loans. It is enforced by the CFPB and FTC.

**MMF** Money market fund. A fund that invests in high quality, highly liquid ("cash-like"), short-term securities, and that seeks to maintain a stable net asset value (NAV) of $1.00 per share using the amortized cost method of accounting. MMFs are subject to the credit risk limitations and diversification requirements of Rule 2a-7 under the 1940 Act. During the financial crisis, as a result of a liquidity freeze, one MMF "broke the buck" or traded below $1.00.

**Mortgage Act** Mortgage Reform and Anti-Predatory Lending Act. The MRAPLA was originally passed as a standalone bill by the US House of Representatives in 2009, but was never passed by the US Senate. A revised version of the standalone bill later became Title XIV of the Dodd-Frank Act. Among other things, the Act amends TILA and RESPA, creates minimum standards for mortgages, places restrictions on residential mortgage loan originator compensation, creates and defines a "qualified mortgage," and requires lenders to verify a consumer's ability-to-repay.

**MoU** Memorandum of Understanding. A document outlining the terms and details of an agreement between parties, including each party's requirements and responsibilities. The level of detail in the MoU and the extent to which it imposes legal obligations on the parties can vary significantly depending on the particular circumstances. In the context of financial regulation, MoUs can be used to set out a framework of understanding between regulators with similar or overlapping functions in the same or different jurisdictions. For example, in the UK, the FCA and PRA have entered into a MoU in respect of their respective regulatory responsibilities and in the US the CFTC has entered into MoUs with the EU and many jurisdictions in relation to sharing financial information and other matters.

**MRAPLA** Mortgage Reform and Anti-Predatory Lending Act. See above.

**MSA** Mortgage servicing asset. A bank is required to deduct at least 10% of the fair value of MSAs from its CET1.

**MSBSP** Major security-based swap participant. An MSBSP is a market participant that is not an SBSD that may be required to register as an MSBSP based on its "substantial position" in any of the major security-based swap categories, its security-based swaps creating counterparty exposure with potentially serious adverse effects on US financial stability, or being a financial entity that is highly leveraged relative to its capital (and not subject to banking capital requirements).

**MSP** Major Swap Participant. An MSP, like an SD, is required to register with the CFTC and is subject to many of the regulations that apply to SDs. A market participant that is not an SD may be required to register as an MSP based on its "substantial position" in any of the major swap categories, its swaps creating counterparty exposure with potentially serious adverse effects on US financial stability, or its being a financial entity that is highly leveraged relative to its capital (and not subject to banking capital requirements).

**MSR** Mortgage servicing right. Under certain circumstances, US GAAP permits mortgage loan servicers to capitalize and hold MSRs as on-balance sheet assets.

**MSRB** Municipal Securities Rulemaking Board. The MSRB is an SRO created by Congress and charged with adopting investor protection rules governing broker-dealers that underwrite municipal securities, including tax-exempt bonds.

**MTF** Multilateral trading facility. For the purposes of the Markets in Financial Instruments Directive, a multilateral system, operated by an investment firm or a market operator which brings together multiple third-party buying and selling interests in financial instruments in the system and in accordance with non-discretionary rules.

**MTM** Mark-to-market. In relation to swaps, this is shorthand for the value of a transaction. Under the CFTC's regulations, an SD may be required to provide the mid-market mark of certain swaps both before execution and on a daily basis thereafter.

**NAIC** National Association of Insurance Commissioners. The NAIC is the US standard-setting and regulatory organization created and governed by the chief insurance regulators in the US and by which insurance regulators establish standards and best practices and coordinate regulatory oversight. The NAIC also has an office that evaluates and assigns ratings to securities for purposes of determining appropriate risk weights for insurance companies.

**NAV** Net asset value. The price per share of an investment company or other pooled investment vehicle, calculated by dividing the total value of the fund's portfolio (less liabilities) by the number of shares outstanding.

**NBA** National Bank Acts.

**NBFC** Nonbank Financial Company is defined under the DFA as a domestic or foreign company that is predominantly engaged in financial activities, other than BHCs. The FSOC designates nonbank financial institutions as systemically important. These are referred to as "nonbank SIFIs."

**NBFI** Nonbank Financial Institution. A nonbank financial institution is a financial institution that does not have a full banking license or is not supervised by a banking agency. The term may be used to refer to an investment bank, merchant bank, credit union or a "shadow banking" entity.

**NCUA** National Credit Union Administration.

**Negative Amortization** A process whereby the principal balance of a mortgage loan increases over time because the monthly payment is insufficient to cover the interest due on the mortgage loan. Negative amortization can occur on an adjustable rate mortgage (ARM) loan if the interest rate rises more quickly than the monthly payment amount.

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| **NFA** | National Futures Association. The NFA is a self-regulatory organization (SRO) intended to safeguard the integrity of the futures markets. The CFTC delegated to the NFA its authority to administer the process by which CPOs, CTAs, SDs and MSPs register as such with the CFTC. |
| **NHA** | National Housing Act. The NHA created the FHA. |
| **NIMM** | Non-internal model method. The BCBS has proposed an approach to replace the CEM and the SM with a single supervisory formula approach, the NIMM. |
| **NOL** | Net operating loss. Occurs when a company's allowable tax deductions are greater than its taxable income, resulting in a negative taxable income. This generally occurs when a company has incurred more expenses than revenues during the period. The net operating loss for the company can generally be used to recover past tax payments or reduce future tax payments. The reasoning behind this is that because corporations are required to pay taxes when they earn money, they also deserve some form of tax relief when they lose money. |
| **NPR** | Notice of Proposed Rulemaking. |
| **NRSRO** | Nationally Recognized Statistical Rating Organization. In the US, a credit rating agency can apply to the SEC for registration as an NRSRO. The SEC Office of Credit Ratings administers NRSRO rules. |
| **NSCC** | National Securities Clearing Corporation, an affiliate of DTCC. |
| **NSFR** | Net Stable Funding Ratio (or Requirement). The NSFR is another liquidity tool introduced as part of the Basel III framework to assess medium- and long-term liquidity by ensuring that a bank has access to long-term funding sufficient to match long-term assets. |
| **NSS** | National (Mortgage) Servicing Standards. In January 2013, the CFPB issued final national mortgage servicing standards applicable to more servicers of US residential mortgage loans. Previously, lenders were subject to disparate servicing requirements based on their type of organization and the states in which their borrowers resided, among other factors. |
| **OATS** | Order audit trail system, established and maintained by FINRA. OATS captures various order, quote and trade information for NMS and OTC securities. |
| **OC** | Over-collateralization, a form of credit enhancement utilized in some securitization structures. |
| **OCC** | Office of the Comptroller of the Currency. |

**OCIE** Office of Compliance Inspections and Examinations. The SEC's OCIE administers the SEC's nationwide examination and inspection program for registered entities, such as broker-dealers, transfer agents, registered investment advisers, registered investment companies and SROs.

**OD** Overdraft.

**ODP** Overdraft Protection or Overdraft Protection Program.

**OECD** Organization for Economic Co-operation & Development. The OECD is an organization of industrialized countries formed to promote the economic health of its members. It establishes legally binding agreements and issues guidelines and non-binding guidelines on various issues such as export credits and double taxation.

**OFR** Office of Financial Research. Established by Section 152 of the DFA, and housed within the Treasury, the OFR was created to provide data and analysis to the FSOC and its member agencies. The DFA gives it the ability to subpoena financial institutions for any data it deems necessary.

**OIG** Office of Inspector General. In general, each federal agency has an OIG. The OIG is typically required to keep both the specific agency and the Congress informed about the problems and deficiencies relating to the administration of department programs and operations.

**OLA** Orderly Liquidation Authority. Title II of the DFA provides a process to quickly and efficiently liquidate a large, complex financial company through a new receivership process. OLA is intended to eliminate the too-big-to-fail issue.

**OMB** Office of Management and Budget. The OMB assists the President in overseeing the preparation of the federal budget and in supervising its administration in federal agencies. The OMB also oversees and coordinates the Administration's procurement, financial management, information and regulatory policies.

**OTC** Over-the-counter. This is shorthand for a swap (or other instrument) trading as part of a decentralized market, as opposed to on an exchange. Prior to the DFA, swaps were generally traded OTC bilaterally between two counterparties, and without being cleared.

**OTF** Organized Trading Facility. Any facility or system designed to bring together buying and selling interests or orders related to financial instruments. Regulation covering OTFs has been proposed by the European Commission as part of MiFID II and is focused on derivatives and cash bond markets. The original MiFID only covered regulated markets and MTFs.

**OTS** Office of Thrift Supervision. The OTS was a US government agency within UST responsible for chartering federal savings associations and savings banks, and for regulating federal and state savings associations and savings banks and savings and loan holding companies (SLHCs). Section 312 of the DFA mandated the transfer of OTS functions to the OCC, the FDIC, the FRB and the CFPB. The OTS ceased to exist on October 19, 2011.

**PCA** Prompt Corrective Action. The FDICIA created the PCA framework. Under the PCA, there are five capital categories (well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized) based on risk-based capital and leverage requirements that signal the strength of the bank and identify financially troubled banks or banks with supervisory issues. The DFA required a study of the PCA framework. Also, the new capital rules (implementing Basel III for US banks) amend the PCA framework.

**PCAOB** Public Company Accounting Oversight Board. The PCAOB was created by the SOX to oversee the activities of the auditing profession.

**PCS** Payment, Clearing and Settlement. The BCBS Committee on Payment and Settlement Systems makes recommendations on payment systems and the other financial market infrastructures in order to promote stability.

**PD** EU Prospectus Directive. The PD is a framework directive made under the EU's Financial Services Action Plan, which aims to create a single market in financial services in the EEA. It provides for a single regime throughout the EU governing the requirement for a prospectus when offering securities to the public or seeking to admit securities to trading on a regulated market and its content, format, approval and publication.

**PD II** Amended Prospectus Directive (2010/73/EU). PD II amended the PD in 2010 to, amongst other things, change requirements relating to the format and validity of prospectuses, final terms and summary requirements and the thresholds of the exemptions to produce a prospectus.

**PF** Form PF. Sections 404 and 406 of the DFA require SEC-registered investment advisers with at least $150 million in private fund assets under management to periodically file Form PF. Data included in Form PF filings are designed to facilitate monitoring of systemic risk in US financial markets.

**PFE** Potential future exposure. Under the Basel III Leverage Ratio, banks may be required to calculate their derivative exposures as the replacement cost of the transaction plus an additional charge for PFE. The PFE "add-on" is calculated by multiplying the notional principal of the transaction by a fixed percentage established by regulators.

**PIPE** Private investment in public equity securities.

**PMI** Private mortgage insurance.

**PO** Principal-only security. A PO receives some or all of the principal payments on financial assets underlying a securitization, but none of the interest payments.

**POS** Point of Sale. The place where sales are made. On a macro level, a point of sale may be a mall, market or city. On a micro-level, retailers consider a point of sale to be the area surrounding the counter where customers pay. For financial instruments, it refers to the point at which the customer or investor commits to invest in a particular product. From a financial regulatory perspective, there has been recent focus on the information to be disclosed to the investor prior to the point of sale, including the proposed KID.

**PRA** Prudential Regulation Authority. The PRA is part of the Bank of England and the UK's micro-prudential regulator for systemically important firms. Together with the FCA and the FPC, the PRA is a successor regulator to the FSA.

**PRIPs** Packaged Retail Investment Products. The PRIPs initiative was commenced by the EU Commission in 2007 to seek to harmonize the regulation of structured retail products irrespective of how the product was packaged (the Commission focused in particular on structured securities, funds, structured deposits and certain life insurance products). A draft directive has been prepared by the EU Commission and is currently going through the EU legislative process. Initial drafts of the proposed PRIPs directive envisaged that such products would include an element of packaging giving investors access to risk and reward of one or more underlying investments. The EU Parliament, amongst others, is seeking to widen the definition to include investment products more generally with certain exceptions for vanilla products.

**Private Fund** An issuer of securities that would be an investment company but for the exceptions in Section 3(c)(1) or 3(c)(7) of the 1940 Act.

**PSE** Public sector entity. Public sector entities include administrative bodies responsible to central, regional or local governments, and self-administered bodies governed by law that are under public supervision. Under Basel III, exposures to PSEs are accorded a risk weight that is consistent with the risk weight for a sovereign obligation of that country.

**PSLRA** Private Securities Litigation Reform Act.

**QCCP** Qualifying central counterparty. A QCCP is defined under the Basel rules as an entity that is licensed to operate as a CCP and that is based and prudentially supervised in a jurisdiction where the relevant regulator has established rules and regulations for CCPs consistent with the CPSS-IOSCO Principles for Financial Market Infrastructures. Under the capital rules, a bank must determine whether a CCP is a "qualifying" CCP.

**QE** Quantitative easing.

**QFC** Qualified financial contract. "Qualified financial contract" means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement and any similar agreement that the FDIC determines by regulation, resolution or order to be a qualified financial contract for purposes of identifying those contracts that are entitled to certain protections in a bank receivership context. The OLA regime imposes a five-business-day stay (since receivership) for parties to QFCs.

**QM** Qualified mortgage. The DFA created various classes of residential mortgage loans. A "qualified mortgage" is one of these categories. Under Title XIV of the DFA, a creditor must make a reasonable good faith determination that the borrower has the ability to repay the loan. The CFPB adopted rules defining a QM.

**QRM** Qualified residential mortgage. This is a definition that is applicable for purposes of the risk retention rules in connection with securitizations. Title IX of the DFA requires a securitizer of any asset securitization to retain 5% of the credit risk of the underlying pool of assets, but the retention rule does not apply to QRMs.

**QTL** Qualified thrift lender. A qualified thrift lender must meet certain tests. An institution must hold qualified thrift investments (QTIs) equal to at least 65% of its portfolio assets. QTIs include mortgage loans, home equity loans, small business loans, etc. The DFA imposes new sanctions for the failure by a savings association to comply with the QTL test. The principal change is that the one-year grace period to return to compliance is eliminated. These sanctions took effect the day after the enactment of the DFA.

**RAP** Regulatory Accounting Principles. These are the requirements or accounting and reporting standards for supervisory reporting purposes by banks. RAP may differ in certain respects from US GAAP. Call reports and other regulatory filings submitted to the banking agencies are prepared based on RAP.

**RAUM** Regulatory assets under management. RAUM are the gross assets under management, without subtraction of borrowings, short sales or other forms of leverage. Investment advisers to private funds with more than $150 million in RAUM must register with the SEC.

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| **RBC** | Risk-based capital (Also risk-based capital ratio). |
| **RC** | Replacement cost. Usually used in the context of a derivatives exposure, the RC refers to the cost of replacing the derivatives contract. |
| **REIT** | Real Estate Investment Trust. Under the new capital rules, there are restrictions on the extent to which REIT preferred securities may be eligible for inclusion in AT1 capital. |
| **REMIC** | Real Estate Mortgage Investment Conduit. A REMIC is a tax-advantaged structure under the IRC for the issuance of mortgage-backed securities (MBS). |
| **REO** | Real Estate Owned. REO refers to real estate acquired by a bank or other lender upon foreclosure or other liquidation of a mortgage loan. |
| **Repo** | Repurchase agreement. Where one party sells a debt security to another party for cash and agrees to repurchase it or an equivalent security on a specified date for a specified (higher) price. Securities that are typically the subject of repos are government bonds, such as UK gilts. Repos are widely used in the financial markets to provide liquidity to financial institutions and are traded on highly standardized market documentation. |
| **Residual Interest** | A residual interest is the most subordinated interest in or claim to the financial assets underlying a securitization. A REMIC must have a single class of residual interests. |
| **RESPA** | Real Estate Settlement Procedures Act. RESPA was passed in 1974 to address various consumer protection matters in connection with mortgage loans. The CFPB has rulemaking authority for RESPA. |
| **RETA** | Real Estate Trust Account. |
| **RFQ** | Request for quote. In relation to transactions required to be executed on an SEF, an RFQ system is one of the two permissible execution methods for SEFs to employ (the other is an order book system). In an RFQ system, as set out in the CFTC's rules, market participants send a request for a quote to buy or sell a particular instrument to at least two (or after October 2, 2014, three) independent market participants. |
| **RIA** | Registered investment adviser. See Advisers Act above. |
| **RIC** | Registered investment company. An entity required to be registered under the Investment Company Act. See Investment Company Act above. |

**Risk Retention** Risk retention is the retention of a portion of the credit risk of securitized assets by the originator of such assets or by the issuer or sponsor of the securitization. In the wake of the financial crisis, legislators or regulators in various jurisdictions, including the US and the EU, adopted rules requiring securitizers to retain credit risk in securitizations. In the US, Title IX of the DFA requires a securitizer to retain 5% of the credit risk of the underlying financial assets, subject to certain exceptions.

**RM** Regulated Market. A multilateral system operated by a market operator which brings together buyers and sellers in financial instruments in accordance with non-discretionary rules. A list of EU regulated markets is on the website of the EU Commission.

**RMBS** Residential mortgage-backed securities. RMBS are generally backed by mortgage loans secured by single-family (1-4 unit) residential properties.

**RMT** Residential mortgage transaction. RMT refers to a transaction involving a mortgage, deed of trust, purchase money security interest arising under an installment contract, etc.

**RNCDRIA** Riegle Neal Community Development and Regulatory Improvement Act. The RNCDRIA was passed in 1994. Among other things, the Act established the Community Development Financial Institutions Fund, a wholly owned government corporation to provide financial and technical assistance to Community Development Financial Institutions. The Act also instituted new rules to curb "reverse redlining," relaxed certain capital requirements, and reduced a number of bank regulatory burdens and paperwork requirements.

**RVP** Receive versus payment.

**RWA** Risk-weighted assets. Relates to the minimum amount of capital that is required within banks and other institutions, based on a percentage of the assets, weighted by risk. The idea of risk-weighted assets is a move away from having a static requirement for capital and based on the perceived riskiness of a bank's assets.

**SAFE** Secure and Fair Enforcement for Mortgage Licensing Act. The SAFE Act was passed in 2008 as an amendment to the Housing and Economic Recovery Act. The Act established minimum licensing standards for mortgage loan originators and requires that they be registered with the federal government or licensed by the states. MLOs that work for an insured depository institution regulated by a federal banking agency or by the Farm Credit Administration are required to register with the federal government; all others are required to be state licensed.

**SAFEMLA** — Secure and Fair Enforcement Mortgage Licensing Act (sometimes called SAFE or SAFE Program).

**Say-on-Frequency** — Pursuant to the DFA and rules adopted by the SEC, certain public companies must include in their proxy statements a separate resolution to determine whether the required Say-on-Pay vote (discussed below) takes place every one, two or three years.

**Say-on-Parachute** — Companies are required to disclose compensation arrangements and understandings with those executive officers in connection with an acquisition or merger. In certain circumstances, these companies also are required to conduct a shareholder advisory vote to approve the golden parachute compensation arrangements.

**Say-on-Pay** — Titles IX and Title XV of the DFA include corporate governance provisions. Certain public companies are required to include a resolution in their proxy statements asking shareholders to approve, in a nonbinding, advisory vote, the compensation of their executive officers disclosed in the proxy statement.

**SBA** — Small Business Administration. The SBA is an independent US federal agency that administers the SBIC program through its Investment Division.

**SBIA** — Small Business Investment Act of 1958. The SBIA established the framework for SBICs in order to supplement and stimulate existing private capital sources to address the needs of small businesses.

**SBIC** — Small Business Investment Company. In 1958, Congress created the Small Business Investment Company (SBIC), which is administered by the SBA. The SBA partners with private investors to fund SBICs that lend to small businesses. Under the DFA, there is an exemption from registration under the Advisers Act for advisers whose sole clients are SBICs.

**SBS** — Security-based swaps. The DFA requires the SEC to regulate SBS, which include swaps closely linked to a single security or loan or a narrow-based security index.

**SBSD** — Security-based swap dealer. Under the DFA and SEC rules, an entity may be an SBSD if it holds itself out as a dealer in SBS, makes a market in SBS, regularly enters into SBS with counterparties as an ordinary course of business for its own account, or engages in activity causing itself to be commonly known in the trade as a dealer or market maker in SBS.

**SCAP** — Supervisory Capital Assessment Program. The SCAP was instituted as a "stress test" in 2009 of the 19 largest US banks to determine the size of their capital needs, and whether the banks needed additional capital to withstand certain economic scenarios.

**SD** Swap dealer. This designation, formerly somewhat loose in meaning, has become a term of art as the CFTC has required many market participants (including many non-US entities active with US counterparties) to register as swap dealers based on particular levels of swap dealing activity. Under the DFA and CFTC rules, an entity may be a swap dealer if it holds itself out as a dealer in swaps, makes a market in swaps, regularly enters into swaps with counterparties in the ordinary course of business for its own account, or engages in activity causing itself to be commonly known in the trade as a dealer or market maker in swaps.

**SDR** Swap data repository. During the financial crisis, regulators came to believe that one weakness in the financial system was the limited visibility that regulators had in the swaps market and their difficulty in ascertaining which market participants were parties to which swaps. The solution was the SDR, to which a party to a swap must report data relating to each swap (including economic details as well as LEIs and USIs).

**SE** Special Entity. A Special Entity is an entity of a type that, under CFTC certain business conduct rules for SDs, receives protections beyond those given to other types of market participants. Such entities include many public entities and agencies and public and private pension plans as well as certain endowments.

**SEC** Securities and Exchange Commission. The DFA empowers this regulator, the primary role of which had been to enforce the federal securities laws, to regulate security-based swaps (but not swaps that fall under the CFTC's regulation).

**Securities Act** Securities Act of 1933. The Securities Act, also referred to as the 1933 Act, provides the principal framework for the regulation of, and registration of, securities offerings.

**Securitizer** Under US risk retention proposed rules, a securitizer is the sponsor of a securitization or the depositor of financial assets into a securitization issuing entity (if the depositor is not the sponsor of the securitization).

**SEF** Swap execution facility. These are facilities, in which multiple market participants can interact and execute swaps, are part of the regulators' effort to level the playing field in the swap market and provide increased price transparency. Certain swaps will be required to be executed on SEFs.

**Senate** United States Senate.

**SFA** Supervisory formula approach.

**SFT** Securities financing transaction. An SFT may include repo, reverse repo and collateralized repo transactions, securities borrowing/lending transactions, and margin loans.

**Shadow Price** The market-based value of a stable NAV money market fund. Shadow prices fluctuate based on the market price of the underlying portfolio securities held in the fund.

**SHC** Securities holding company. Section 618 of the DFA permits a company that owns at least one registered securities broker or dealer (a "nonbank securities company") and that is required by a foreign regulator or provision of foreign law to be subject to comprehensive consolidated supervision, to register with the Federal Reserve as a securities holding company and become subject to supervision and regulation by the Federal Reserve.

**SI** Systematic Internaliser. A firm that executes orders from its clients against its own book or against orders from other clients. MiFID treats Systematic Internalisers in some respects in a similar manner to regulated markets and MTFs. Therefore, whilst not subject to non-discretionary rules in the same way as regulated markets and MTFs, they are subject to certain MiFID rules including in relation to pre-trade and post-trade transparency requirements.

**SIDCO** Systemically important derivatives clearing organization.

**SIFI** Systemically important financial institution. The BCBS and the FSB have developed a framework for proposed regulation of SIFIs, focusing initially on G-SIBs and G-SIFIs. Under the DFA, in order to seek to eliminate the too-big-to-fail problem, institutions that are either de facto categorized as SIFIs or designated as such as a result of the procedures outlined in the DFA are subject to more onerous requirements and more rigorous prudential standards in order to mitigate the risk of failure of a SIFI. Post-DFA, it has become increasingly important not to be viewed as important.

**SIPA** Securities Investor Protection Act. The SIPA established the Securities Investor Protection Corporation. The DFA amends various provisions of the SIPA.

**SIPC** Securities Investor Protection Corporation. The SIPC was created to insure against the risk of loss by customers of a brokerage firm upon the firm's failure by creating a reserve or fund to satisfy claims.

**SIV** Structured investment vehicle. An SIV is an SPV or SPE that is organized for funding purposes to hold highly rated long-term debt securities and, in turn, issue short-term debt, including ABCP. Pre-financial crisis, SIVs were frequently used as special funding vehicles and many were sponsored by financial institutions. Although these entities were formed as bankruptcy remote vehicles, when the securities that they held became impaired or lost their value, the SIVs faced liquidity and other difficulties, and many financial institution issuers provided support for the SIVs they had sponsored, resulting in losses for these sponsors.

**SLHC** Savings and loan holding company.

**SLMA** Student Loan Marketing Association (a/k/a Sallie Mae). Sallie Mae was created as a GSE but its ties to the government were cut in 2004. Sallie Mae originates, services and securitizes student loans.

**SM** Standardized method.

**Soft Dollars** Credits generated on commission revenue used to pay broker-dealers for their services.

**SOX** Sarbanes-Oxley Act of 2002. SOX was meant to reform the governance requirements applicable to US public companies in an effort to restore investor confidence following a series of corporate scandals. The DFA adds a number of corporate governance and executive compensation requirements for US public companies, beyond those required by the SOX.

**SPE** Special purpose entity. An SPE (also often referred to as a special purpose vehicle, or SPV) is a single-purpose entity, often structured as a partnership or other tax “pass-through” vehicle, and frequently used in securitization or other financing transactions.

**SPOC** Single point of contact. Under national mortgage servicing standards (NSS), mortgage loan servicers are required to provide borrowers with a single contact for addressing servicing questions and problems.

**SPV** See above. Under Basel rules, no capital issued by SPVs would qualify as CET1. It may qualify as AT1 or Tier 2 capital.

**SRO** Self-regulatory organization. Generally, references to an SRO refer to FINRA, which is the successor to the National Association of Securities Dealers, or NASD. The SEC has delegated to FINRA authority to enforce certain regulations related to the activities of broker-dealers.

**SSFA** Simplified supervisory approach.

**SSM** Single supervisory mechanism. A core element in the European banking union, under which the European Central Bank (ECB) will carry out key supervisory tasks for banks in EU Member States within the Eurozone. The Member States participating in the SSM agreed on the terms of the SSM in March 2013. The draft SSM regulation is still going through the EU legislative process and is not yet finalized.

**Standardized Approach** A standardized approach bank will measure credit risk pursuant to fixed risk weights based on external credit assessments (Basel III) or in the US based on standardized credit assessments that post-financial crisis do not rely on credit ratings.

**STWF** Short-term wholesale funding. In the aftermath of the financial crisis, there has been increased attention on the possible risks associated with an overreliance by banks on short-term wholesale funding, such as certificates of deposits, brokered deposits, commercial paper, central bank funds, repurchase agreements and similar arrangements that are subject to rollover risk and may not be available in stress scenarios when liquidity has dried up. As a result, there may be regulatory initiatives to curb reliance on short-term wholesale funding.

**Supplementary Leverage Ratio** Eight US banks that are G-SIBs are subject to a 5% supplementary leverage ratio minimum at the parent level and a 6% supplementary leverage ratio minimum at the bank subsidiary level, which is a surcharge over the Basel III 3% minimum leverage ratio.

**TAG or TAGP** Transaction Account Guarantee Program. A TAG is an FDIC guarantee in full of noninterest-bearing transaction accounts, which was part of the TLGP.

**TALF** Term Asset-Backed Securities Loan Facility. TALF is another of the US government programs created during the financial crisis. TALF was intended to support the issuance of certain ABS by providing support from the Federal Reserve Bank of New York.

**TARP** Troubled Asset Relief Program. In 2008, Congress initially authorized $700 billion for various initiatives designed to strengthen market stability and enhance liquidity during the financial crisis. Initially, it was contemplated that funds would be used to purchase “toxic assets,” however, UST modified the direction of its emergency efforts. The UST implemented the Capital Purchase Program (CPP) pursuant to TARP pursuant to which UST purchased preferred stock in various US banks. In addition, there were funds used for various other emergency measures. The DFA reduced authority to $475 billion and the authority to make new TARP commitments ended in October 2010.

**TD** EU Transparency Directive (2004/109/EC). The TD provides for the harmonization of transparency requirements across the EU by requiring issuers of securities admitted to trading on a regulated market to disclose a minimum level of information to the public. The Transparency Directive forms a major component of the Financial Services Action Plan, which aims to create a single market in financial services for the EEA.

**TDR** Troubled debt restructuring.

**TIL** Truth in Lending. See below.

**TILA** Truth in Lending Act. TILA was passed in 1968. Among other things, it imposes disclosure requirements for consumer credit transactions, including mortgage loans, credit cards, car loans, and other transactions. The DFA amended certain provisions of TILA. The CFPB has rulemaking authority for TILA.

**TISA** Truth in Savings Act. TISA was passed in 1991 as part of the FDIC Improvement Act, and is implemented by Regulation DD. Among other things, it establishes disclosure standards for checking accounts. The CFPB has rulemaking authority for TISA.

**TLGP** Temporary Liquidity Guarantee Program. The TLGP is one of the US government financial crisis programs, which was comprised of the Transaction Account Guarantee Program (TAGP), an FDIC guarantee in full of noninterest-bearing transaction accounts, and the Debt Guarantee Program (DGP), an FDIC guarantee of certain senior debt securities issued by banks.

**TNCO** Total net cash outflow. TNCOs are measured in connection with the LCR. Net cash flows equal total expected cash outflows, minus total expected net cash inflows (with inflows capped at 75% of outflows).

**TRs** Trade repositories. TRs are entities that will centrally collect and maintain the records of trades in OTC derivatives under the reporting obligations introduced by EMIR, in order to improve transparency in the derivative markets. EMIR also sets out registration, organizational and operational requirements for TRs. Please also see "SDR" above.

**TRuPs** Trust preferred securities. TRuPs are hybrid securities that have certain equity-like and certain debt-like features and provide efficient capital for the bank holding companies that issued these securities, as the payments on the securities were tax deductible to the issuer, and TRuPs qualified for Tier 1 regulatory capital treatment pre-Basel III. During the financial crisis, ratings on TRuPs were downgraded and investors and regulators lost confidence in their loss absorption capabilities. As a result, under Basel III, TRuPs (and other hybrid and "innovative" securities) have been phased out

and are no longer eligible for Tier 1 credit. Under the US capital rules, there is a limited exemption for community banks that issued TRuPs.

**TRuPs CDOs** Trust preferred collateralized debt obligations. TRuPs issued by groups of unrelated community banks were pooled into trust vehicles that in turn issued securities. These are referred to as TRuPs CDOs. During the financial crisis, this structure often made it difficult to restructure or recapitalize certain community banks whose securities had been pooled.

**UCC** Uniform Commercial Code.

**UCITS** Undertakings for Collective Investment in Transferable Securities. UCITS are open-ended collective investment schemes with the sole object of collective investment in transferable securities or in other liquid financial assets, capital raised from the public and which operate on the principle of risk-spreading, and the units of which are repurchased or redeemed out of such UCITS' assets. A UCITS must be authorized by the competent authority of its home Member State in order to be able to carry out its activities. UCITS were originally established by the UCITS Directive (85/611/EEC), which has subsequently been replaced by UCITS I, II, III and IV, which is the current incarnation of the directive. The aim of the UCITS directive was to create a single market for UCITS, while ensuring a high level of protection for investors.

**UCITS IV** UCITS IV Directive (2009/65/EC). UCITS IV aims at improving the effectiveness of the investment fund market. Amongst other things, it introduces the concept of key investor information and simplifies the notification procedure for UCITS which market their units in another Member State of the EEA through a passporting structure. There are currently legislative proposals for further versions of the Directive, known as UCITS V and UCITS VI respectively.

**UDAAP** Unfair, Deceptive or Abusive Acts or Practices. The DFA establishes a prohibition on UDAAPs. The CFPB has rulemaking and enforcement authority under UDAAP.

**UDAP** Unfair or Deceptive Acts or Practices. The underlying statute prohibits persons from engaging in unfair or deceptive acts or practices. The FTC and the federal banking agencies have enforcement authority for UDAP.

**UKLA** United Kingdom Listing Authority. The Financial Conduct Authority (FCA) acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (Official Listing). The UKLA's responsibilities include monitoring market disclosures by issuers, enforcing compliance with the FCA Disclosure and Transparency Rules, reviewing and approving prospectuses for the purpose of the PD and operating the UK listing regime for debt and equity securities.

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| **USC** | United States Code. |
| **USI** | Unique Swap Identifier. USI is the unique code used to identify each swap transaction for purposes of the SDRs. |
| **UST** | US Department of the Treasury. |
| **VA** | US Department of Veterans Affairs. The VA guarantees certain mortgage loans made to veterans of the US armed services. |
| **VAR** | Value-at-risk. A statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame. Value at risk is used by risk managers in order to measure and control the level of risk which a firm undertakes. Value at Risk is measured according to three variables: the amount of potential loss, the probability of that loss, and the time frame. |
| **VAT** | Value-added tax. A tax on supplies of goods and services made by a taxable person in the course or furtherance of a business. It is administered by HM Revenue & Customs (HMRC). |
| **VC** | Venture capital. |
| **Vertical Interest** | Under risk retention rules, a single vertical interest or pro rata interest is all ABS interests in a securitization issuing entity which are retained by the securitizers. |
| **VM** | Variation margin. In the new world of centrally cleared derivatives, clearing members must post margin on a daily or intraday basis in order to minimize unsecured exposures. VM, which is required to be posted over the life of a cleared swap transaction, is intended to account for variations over time in the MTM of the relevant transaction or transactions. |
| **Volcker Rule** | Section 619 of the DFA. The Volcker Rule is named for its proponent Paul Volcker, the former Federal Reserve chairman, and it is designed to prohibit banking entities from engaging in proprietary trading and other activities that are deemed risky. |
| **VWA** | Volume weighted assets. |
| **WAM** | Weighted average maturity. |
| **YSP** | Yield spread premium. A YSP is a payment from a lender to a mortgage originator when a residential mortgage loan is closed. The DFA prohibits certain types of YSPs. |

# Helping clients understand the rules of the road.

To obtain a password for FrankNDodd, BureauTrak or FrankNDodd Lite, please send an email naming your contact at Morrison & Foerster, or, alternatively, explaining how you heard about FrankNDodd to subscribe@frankndodd.com.

## FrankNDodd™

FrankNDodd™ is our online proprietary resource that tracks rulemaking pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, including rule proposals, rulemaking, and publication of study results and public comments, as well as key dates for comment deadlines, enactment deadlines, and effective dates. FrankNDodd also provides our color commentary and links to relevant articles, alerts, powerpoints, and other resources.

BureauTrak® is a module within FrankNDodd dedicated entirely to the Consumer Financial Protection Bureau. BureauTrak monitors every CFPB rulemaking, report, and enforcement action, as well as news concerning the CFPB. If you are a CFPB aficionado, you can bypass our FrankNDodd tracker and head straight to BureauTrak.

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"Daily updates on Dodd-Frank from...Morrison & Foerster have become as important to many on Wall Street as newspapers." – *The Economist,* February 2012

"The firm has carved out a niche as a disseminator of information about regulatory developments in the United States and abroad, through webinars, conferences, bulletins and its distinctive 'FrankNDodd' daily email-alerts." – *IFLR1000*, 2014

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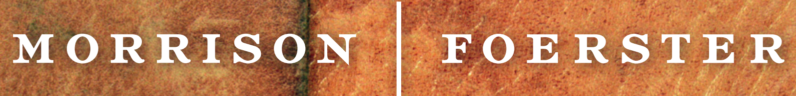
To learn more about Morrison & Foerster's regulatory practice, see http://www.mofo.com/files/Uploads/Images/regulatory-advising.pdf.

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