EUROPEAN CENTRAL BANK

EUROSYSTEM

GLOSSARY OF TERMS RELATED TO PAYMENT, CLEARING AND SETTLEMENT SYSTEMS[1]

Acceptance: this term has two meanings:

1) in the field of transfer systems, it refers to the inclusion of a transfer order for funds or securities in a system's operations for further processing, potentially following various checks (e.g. regarding technical standards or the availability of funds), as specified in the rules of the system;
2) in the field of cards, it refers to the process whereby a particular brand of card is accepted by a terminal, merchant or other entity.

Acceptor: a merchant or other entity that accepts a payment instrument presented by a client in order to transfer funds to that merchant or other entity.

ACH: see **automated clearing house**.

Acquirer (card acquirer): in point-of-sale (POS) transactions, the entity (usually a credit institution) to which the acceptor (usually a merchant) transmits the information necessary in order to process the card payment.
In automated teller machine (ATM) transactions, the entity (usually a credit institution) which makes banknotes available to the cardholder (whether directly or via the use of third-party providers).

Advisory netting: see **position netting**.

Agency relationship: a contractual relationship whereby one party (the agent) acts on behalf of another (the principal).

Ancillary system: a system in which payments or securities are exchanged and/or cleared. Meanwhile, the ensuing monetary obligations are settled in another system, typically an RTGS system.
See also **real-time gross settlement (RTGS) system**.

Asset servicing: administration services provided by a central securities depository (CSD) or custodian in connection with the custody and/or safekeeping of financial instruments (e.g. the processing of corporate events or the handling of taxes).

ATM: see **automated teller machine**.

Authentication: a security mechanism for verifying: 1) the identity of an individual or other entity (including verification by means of a computer or computer application); and 2) the level of authority of that person or entity (i.e. the ability of that person or entity to perform specific tasks or activities).

Authorisation: the consent given by a participant (or a third party acting on behalf of that participant) in order to transfer funds or securities.

1 These are definitions of terms as they are used by market participants, not legal definitions. The objective is for the glossary to have a broad, general scope, rather than being system or infrastructure-specific. The use of these terms and definitions may be subject to limitations on account of the diversity of European infrastructure and legal systems.

Auto-collateralisation: a credit operation that is or can be triggered when a buyer does not have sufficient funds to settle a securities transaction in order to improve its cash position for the next settlement cycle. The credit provided can be secured using securities already held by the buyer ("collateral stocks") or the securities that are being purchased ("collateral flows").

Automated clearing house (ACH): an electronic clearing system in which payment orders are exchanged among participants (primarily via electronic media) and handled by a data-processing centre.
See also **clearing**, **clearing house**.

Automated teller machine (ATM): an electromechanical device that allows authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services (allowing them, for example, to make balance enquiries, transfer funds or deposit money).
See also **cash dispenser**.

Automatic linking: a process whereby trading members may automatically link buy and sell trades by marking the respective securities trades.
See also **linked trade**.

Backup system: a system designed to replace the primary system in the event of the primary system being unable to function for whatever reason.
See also **business continuity**.

Bank Identifier Code (BIC): an International Organization for Standardization (ISO) technical code that uniquely identifies a financial institution. SWIFT is the registration authority for BICs. A BIC consists of eight or eleven characters, comprising a financial institution code (four characters), a country code (two characters), a location code (two characters) and, optionally, a branch code (three characters).

Batch (bulk payments): a group of orders (payment orders and/or securities transfer orders) to be processed together.

Beneficiary: a recipient of funds (payee) or securities. Depending on the context, a beneficiary can be a direct participant in a payment system and/or a final recipient.

BIC: see **Bank Identifier Code**.

Bilateral exposure: one party's exposure to another party.
See also **exposure**.

Bilateral net settlement system: a settlement system in which every individual bilateral combination of participants settles its net settlement position on a bilateral basis.
See also **net settlement system**.

Bilateral netting: an arrangement whereby two parties net their bilateral obligations.
See also **multilateral netting**, **netting**, **net settlement system**.

Bill of exchange: a written order from one party (the drawer) to another (the drawee) instructing it to pay a specified sum on demand or on a specified date to the drawer or a third party specified by the drawer. These are widely used to finance trade and, when discounted with a financial institution, to obtain credit.

Blocking: a process preventing the transfer of a specified amount of funds or a specified quantity of a security.

Book-entry system: a system which enables transfers of securities and other financial assets which do not involve the physical movement of paper documents or certificates (e.g. the electronic transfer of securities).
See also **dematerialisation**, **immobilisation**.

Book-entry transaction: this term has two meanings:
1) in the field of securities, it refers to a transaction which is processed without the movement of physical certificates, being effected instead by means of credit and debit entries;
2) in the field of payments, it refers to a credit or debit entry made by a credit institution on the account of a customer in accordance with a general instruction issued by the customer (e.g. for a dividend payment or bank fees).

Brand: a particular payment product (especially a card) that has been licensed by its owner for use in a given territory.

Bulk payments: see **batch**.

Business continuity: a state of uninterrupted business operations. This term also refers to all of the organisational, technical and staffing measures employed in order to:
1) ensure the continuation of core business activities in the immediate aftermath of a crisis; and
2) gradually ensure the continued operation of all business activities in the event of sustained and severe disruption.

See also **backup system**.

Cap (limit): a quantitative limit on the funds or securities transfer activity of a participant in a system. Limits may be set by each individual participant or imposed by the entity managing the system. Limits can be placed on system participants' net debit and/or net credit positions.

Card (payment card): a device that can be used by its holder to pay for goods and services or to withdraw money.

Card acquirer: see **acquirer**.

Cardholder: a person to whom a payment card is issued and who is authorised to use that card.

Card issuer: a financial institution that makes payment cards available to cardholders, authorises transactions at point-of-sale (POS) terminals or automated teller machines (ATMs) and guarantees payment to the acquirer for transactions that are in conformity with the rules of the relevant scheme.

Card scheme: a technical and commercial arrangement set up to serve one or more brands of card which provides the organisational, legal and operational framework necessary for the functioning of the services marketed by those brands.
See also **three-party card scheme**, **four-party card scheme**.

Card with a cash function: a card enabling the cardholder to withdraw cash from a cash dispenser and/or deposit cash. The cash function is usually combined with a payment function.
See also **cash card**.

Card with a credit function: see **credit card**.

Card with a debit function: see **debit card**.

Cash card: a card which has only a cash function.
See also **card with a cash function**.

Cash dispenser: an electromechanical device that permits authorised users to withdraw banknotes, typically using machine-readable plastic cards.
See also **automated teller machine**.

Cash settlement agent: the entity whose assets or liabilities are used to settle the payment obligations arising from funds transfer systems or from securities transfers within a central securities depository (CSD). Commercial banks and central banks are typical cash settlement agents.

CCBM: see **correspondent central banking model**.

CCBM2: see **Collateral Central Bank Management**.

CCP: see **central counterparty**.

Central bank money: liabilities of a central bank, in the form of either banknotes or bank deposits held at a central bank, which can be used for settlement purposes.

Central counterparty (CCP): an entity that interposes itself, in one or more markets, between the counterparties to the contracts traded, becoming the buyer to every seller and the seller to every buyer and thereby guaranteeing the performance of open contracts.

Central counterparty (CCP) link: an arrangement between two central counterparties (CCPs) that allows the provision of central counterparty services for trades performed by the participants of those two CCPs, without requiring those participants to become members of both CCPs.

Central securities depository (CSD): an entity that: 1) enables securities transactions to be processed and settled by book entry; 2) provides custodial services (e.g. the administration of corporate actions and redemptions); and 3) plays an active role in ensuring the integrity of securities issues. Securities can be held in a physical (but immobilised) form or in a dematerialised form (whereby they exist only as electronic records).

Chaining: a method used in certain transfer systems for the processing of orders. This involves altering the sequence in which transfer orders are processed in order to increase the number or value of transfers that can be settled with the available funds and/or securities balances (or the available credit or securities lending lines).
See also **optimisation routine**.

Charge card: see **delayed debit card**.

Cheque: a written order from one party (the drawer) to another (the drawee; normally a credit institution) requiring the drawee to pay a specified sum on demand to the drawer or a third party specified by the drawer.

Chip card (smart card): a card with an embedded microprocessor (chip) loaded with the information necessary to enable payment transactions.

Clearing: the process of transmitting, reconciling and, in some cases, confirming transfer orders prior to settlement, potentially including the netting of orders and the establishment of final positions for settlement. Sometimes this term is also used (imprecisely) to cover settlement. For the clearing of futures and options, this term also refers to the daily balancing of profits and losses and the daily calculation of collateral requirements.
See also **settlement**.

Clearing fund: a fund composed of assets contributed by participants in a central counterparty (CCP) or by providers of guarantee arrangements that may be used to meet the obligations of a defaulting CCP participant. In certain circumstances, it may also be used to settle transactions and cover losses and liquidity pressures resulting from such defaults. A clearing fund serves as insurance against unusual price movements not covered by the margin calculation in the event of a member defaulting.

Clearing house: a common entity (or a common processing mechanism) through which participants agree to exchange transfer instructions for funds, securities or other instruments. In some cases, a clearing house may act as a central counterparty for those participants, thereby taking on significant financial risks.

Clearing member: a member of a clearing house.
See also **direct clearing member**, **general clearing member**, **non-clearing member**.

Clearing system: a set of rules and procedures whereby financial institutions present and exchange data and/or documents relating to transfers of funds or securities to other financial institutions at a single location (e.g. a clearing house). These procedures often include a mechanism for calculating participants' mutual positions, potentially on a net basis, with a view to facilitating the settlement of their obligations in a settlement system.
See also **clearing**, **netting**, **clearing house.**

Close-out netting: a special form of netting which follows certain contractually agreed events (such as the opening of insolvency proceedings), whereby all existing obligations are accelerated such that they become due immediately.
See also **netting**, **default**.

Co-branding: an arrangement whereby a product or service is associated with more than one brand.

Collateral: an asset or third-party commitment that is used by a collateral provider to secure an obligation vis-à-vis a collateral taker.
See also **pledge**, **collateral pool**, **repurchase agreement**.

Collateral Central Bank Management (CCBM2): a common platform for Eurosystem collateral management, establishing efficient collateral mobilisation and management procedures for both domestic and cross-border collateral.

Collateral management: collateral management includes the process used to control the correspondence between the market value of the relevant collateral and the required value of that collateral. It generally also includes the generation and processing of collateral transfers.

Collateral pool: a collateralisation technique that enables an institution to make collateral available to a counterparty without allocating it to a specific transaction.
Antonym: **earmarking**.

Commercial bank money: commercial bank liabilities that take the form of deposits held at a commercial bank which can be used for settlement purposes.
See also **loro account**, **nostro account**.

Committed facility: a facility (e.g. a credit line or a repo facility) whereby the provider is contractually required to advance funds in specified circumstances.
See also **collateral pool**, **loss-sharing agreement**.

Common depository: an entity, usually a credit institution, that provides the two international central securities depositories (ICSDs) with safekeeping and asset servicing for physical papers ("global notes") covering all or part of an issue of international debt instruments (e.g. Eurobonds).
See also **specialised depository**.

Confirmation (trade confirmation): a process whereby the terms of a trade are verified either by directly involved market participants or by a central entity.

Contractual settlement date accounting: a contractual commitment by a custodian to credit and debit a customer's cash and securities accounts, as appropriate, on the date on which the customer's contract with its counterparty is due for settlement (i.e. the contractual settlement date), regardless of whether settlement has actually occurred. Such crediting and debiting is normally provisional and does not become final if settlement does not occur within a time period established by the custodian.

Core Principles for Systemically Important Payment Systems (CPSIPS): international standards for systemically important payment systems developed by the G10 central banks in order to guide the oversight activities of central banks with regard to payment systems of systemic importance.
For details, see the report **"Core Principles for Systemically Important Payment Systems"**, BIS, January 2001.

Corporate action (corporate event): an action or event decided by the issuer of a security which has an impact on the holders of that security. This may be optional, in which case those holders have a choice (for example, they may have the right to purchase more shares, subject to conditions specified by the issuer). Alternatively, it may be mandatory, whereby those holders have no choice (e.g. in the case of a dividend payment or stock split). Corporate actions can relate to cash payments (e.g. dividends or bonuses) or the registration of rights (subscription rights, partial rights, splits, mergers, etc.).

Corporate event: see **corporate action**.

Correspondent banking: an arrangement whereby one bank (the settlement or service-providing bank) makes or receives payments (potentially performing other banking services in addition) on behalf of another bank (the customer or user bank).
See also **loro account**, **nostro account**, **tiering arrangement**.

Correspondent central banking model (CCBM): a mechanism established by the European System of Central Banks with the aim of enabling counterparties to use eligible collateral in a cross-border context. In the CCBM, national central banks act as custodians for one another. This means that each national central bank has a securities account in its securities administration for each of the other national central banks and the ECB.

Counterparty risk: the risk that between the time a transaction is agreed and the time it is actually settled, the counterparty to that transaction will fail to fulfil its obligations.

CPSIPS: see **Core Principles for Systemically Important Payment Systems**.

Credit cap: see **credit limit**.

Credit card (card with a credit function): a card that enables cardholders to make purchases and/or withdraw cash up to a prearranged credit limit. The credit granted may be either settled in full by the end of a specified period, or settled in part, with the balance taken as extended credit (on which interest is usually charged).

Credit institution: a credit institution is a company duly authorised to carry out banking transactions on a regular basis (i.e. to receive deposits from the public, carry out credit transactions, make funds available and manage means of payment).

Credit limit (credit cap): a limit on the credit exposure which a payment system participant incurs either vis-à-vis another participant (a "bilateral credit limit") or vis-à-vis all other participants (a "multilateral credit limit") as a result of receiving payments which have not yet been settled.

Credit line: a commitment, made in advance by a given entity, to grant credit on demand to another entity subject to agreed terms.

Credit risk: the risk that a counterparty will not settle the full value of an obligation – neither when it becomes due, nor at any time thereafter. Credit risk includes replacement cost risk and principal risk. It also includes the risk of the settlement bank failing.
See also **replacement cost risk**, **principal risk**.

Credit transfer: a payment instrument allowing a payer to instruct the institution with which its account is held to transfer funds to a beneficiary.

Cross-border payment: a payment where the financial institutions of the payer and the payee are located in different countries.

Cross-border settlement: settlement that takes place in a country (or currency area) in which one or both parties to the transaction are not located.
Antonym: **domestic settlement**.

Cross-currency settlement risk: see **foreign exchange settlement risk**.

Cross-margining agreement: an agreement between two central counterparties (CCPs) which makes it possible to limit the margin requirements for institutions participating in both CCPs by regarding the positions and collateral of such participants as one portfolio.

Cross-system settlement: the settlement of a payment or securities transaction through a link between two separate payment systems or securities settlement systems.

CSD: see **central securities depository**.

CSD link: a set of technical and legal arrangements between two central securities depositories (CSDs) for the cross-system transfer of securities.
See also **investor CSD**, **issuer CSD**, **relayed link**, **direct link**, **indirect link**.

Custodian: an entity, often a credit institution, which provides securities custody services to its customers (cf. **depository**).

Custody: the holding and administration, by an entity entrusted with such tasks, of securities and other financial instruments owned by a third party.

Custody risk: the risk of a loss being incurred on securities in custody as a result of a custodian's insolvency, negligence, misuse of assets, fraud, poor administration or inadequate record-keeping.

Cut-off time: the deadline set by a system (or an agent bank) for the acceptance of transfer orders for a given settlement cycle.

Daily processing: the complete cycle of processing tasks which need to be completed in a typical business day, from start-of-day procedures to end-of-day procedures. This sometimes includes the backing-up of data.

Daylight credit: see **intraday credit**.

Debit card (card with a debit function): a card enabling its holders to make purchases and/or withdraw cash and have these transactions directly and immediately charged to their accounts, whether these are held with the card issuer or not.
See also **card**, **delayed debit card**.

Default: an event stipulated in an agreement as constituting a default. Generally, such events relate to a failure to complete a transfer of funds or securities in accordance with the terms and rules of the system in question. A failure to pay or deliver on the due date, a breach of agreement and the opening of insolvency proceedings all constitute such events.
See also **failed transaction**.

“Defaulter pays”: a loss-sharing arrangement whereby each participant is required to collateralise any exposures it creates for other participants. As a result, losses resulting from a party’s default are borne by the defaulting party.
Antonym: “**survivors pay**”.

Deferred net settlement system: a system which settles on a net basis at the end of a predefined settlement cycle (typically at the end of – but sometimes during – the business day).
See also **net settlement system**.

Delayed debit card (charge card): a card enabling its holders to make purchases and/or withdraw cash and have these transactions charged to an account held with the card issuer, up to an authorised limit. The balance of this account is then settled in full at the end of a predefined period.
See also **card**.

Delivery: the transfer of financial instruments or commodities by means of book entry or physical exchange.

Delivery versus delivery (DvD): a securities settlement mechanism which links two securities transfers in such a way as to ensure that the delivery of one security occurs if – and only if – the other security in the other transfer is delivered.

Delivery versus payment (DvP): a securities settlement mechanism which links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if – and only if – the corresponding payment occurs.

Dematerialisation: the elimination of physical certificates or documents of title indicating ownership of financial assets, such that the financial assets exist only as accounting records.

Deposit facility: a standing facility of the Eurosystem which counterparties may use to make overnight deposits at a national central bank. Such deposits are remunerated at a pre-specified interest rate.
See also **standing facility**.

Depository: an agent with the primary role of recording (direct or indirect) holdings of securities. A depository may also act as a registrar (cf. **custodian**).

Derivative: a financial contract whose value depends on the value of one or more underlying reference assets, rates or indices, on a measure of economic value or on factual events.

Designated system: a system governed by the law of an EEA Member State and designated to the European Commission by the competent national authorities in accordance with Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems.

Digital signature: see **electronic signature**.

Direct clearing member: a member of a clearing house that clears on its own behalf and on behalf of its customers.
See also **clearing member**, **general clearing member**, **non-clearing member**.

Direct debit: a payment instrument for the debiting of a payer's payment account whereby a payment transaction is initiated by the payee on the basis of authorisation given by the payer.

Direct holding system: an arrangement for registering ownership of securities (or similar interests) whereby each and every final investor in the security is registered with a single entity (e.g. the issuer itself, a central securities depository (CSD) or a registry). In some countries, the use of direct holding systems is required by law.
Antonym: **indirect holding system**.

Direct link: an account opened by a central securities depository (CSD), referred to as the "investor CSD", in the books of another CSD, referred to as the "issuer CSD", in order to facilitate the transfer of securities from participants in the issuer CSD to participants in the investor CSD.
See also **investor CSD**, **operated direct link**, **relayed link**.
Antonym: **indirect link**.

Direct participant: a participant in a transfer system that can perform all activities allowed in the system without using an intermediary (including, in particular, the direct inputting of orders in the system and the performance of settlement operations).
Antonym: **indirect participant**.

Domestic settlement: settlement which takes place in the country (or currency area) in which both parties to the transaction are located.
Antonym: **cross-border settlement**.

Double-entry bookkeeping: an accounting principle whereby for each credit/debit entry made in one account, there is a corresponding entry in another account.

DvD: see **delivery versus delivery**.

DvP: see **delivery versus payment**.

Earmarking: a technique for identifying collateral whereby assets provided as collateral are attributed to individual transactions.
Antonym: **collateral pool**.

EBPP: see **Electronic Bill Presentment and Payment**.

EDI: see **electronic data interchange**.

EFTPOS terminal: a terminal which captures payment information by electronic means and transmits such information either online or offline. "EFTPOS" stands for "electronic funds transfer at point of sale".
See also **point-of-sale (POS) terminal**.

Electronic Bill Presentment and Payment (EBPP; electronic invoicing): services which enable the electronic transmission, browsing and payment of invoices.

Electronic data interchange (EDI): the exchange between commercial entities (in some cases also public administrations), in a standardised electronic format, of data relating to a number of message categories, such as orders, invoices, customs documents, remittance advices and payments. EDI messages are sent through public data transmission networks or banking system channels. Any movement of funds initiated by EDI is reflected in payment instructions flowing through the banking system. UN/CEFACT, a United Nations body, has established a set of standards relating to electronic data interchange for administration, commerce and transport (EDIFACT).

Electronic invoicing: see **Electronic Bill Presentment and Payment**.

Electronic money: a monetary value, represented by a claim on the issuer, which is:
1) stored on an electronic device (e.g. a card or computer);
2) issued upon receipt of funds in an amount not less in value than the monetary value received; and
3) accepted as a means of payment by undertakings other than the issuer.

Electronic money institution (ELMI): a term used in EU legislation to designate credit institutions which are governed by a simplified regulatory regime because their activity is limited to the issuance of electronic money and the provision of financial and non-financial services closely related to the issuance of electronic money.

Electronic purse: see **multi-purpose prepaid card**.

Electronic signature (digital signature): a string of data, generated by a cryptographic method, which is attached to an electronic message in order to guarantee its authenticity, identify the signatory and link the content to that signatory (thereby protecting the recipient against repudiation by the sender).

Eligible assets (eligible collateral): assets which can be used as collateral in order to obtain credit from the Eurosystem.

Eligible collateral: see **eligible assets**.

ELMI: see **electronic money institution**.

EMV: an acronym describing the set of specifications developed by the consortium EMVCo, which is promoting the global standardisation of electronic financial transactions – in particular the global interoperability of chip cards. “EMV” stands for “Europay, MasterCard and Visa”.

Exchange-for-value settlement system: a general term referring to systems which simultaneously exchange the two assets involved in a foreign exchange transaction or a securities transaction.
See also **delivery versus delivery**, **delivery versus payment**, **payment versus payment**.

Exit criteria: criteria determining whether an existing participant in a system should cease participation or not. The participant’s exit may be voluntary, or it may be compulsory (e.g. following the opening of insolvency proceedings).

Exposure: the loss that would be incurred if a certain risk materialised.
See also **bilateral exposure**.

Face-to-face payment: a payment where the payer and the payee are in the same physical location.
Antonym: **remote payment**.

Fail: see **failed transaction**.

Failed transaction (fail): a transaction that does not settle on the contractual settlement date. Such a transaction may be retained and may settle thereafter.

Final investor: the ultimate recipient of rights in securities held on a securities account (e.g. ownership rights, voting rights or dividends).

Final settlement (final transfer): a settlement or transfer is final when it is unconditional, enforceable and irrevocable, even in the framework of insolvency proceedings opened against a participant (except in the case of criminal offences or fraudulent acts, as determined by a competent court). In the European context, a distinction is made between:

1) the enforceability of a transfer order which is binding on third parties and protected from insolvency risks, provided that the transfer order was entered in the relevant system, in accordance with the rules of that system, prior to the opening of insolvency proceedings (with transfer orders entered in a system following the opening of insolvency proceedings being legally enforceable only in exceptional circumstances); and
2) the irrevocability of a transfer order which cannot be revoked by the participants as of the point in time laid down in the rules of that system.

A distinction should be made between the finality of the transfer order and the finality of the *transfer*, which indicates the moment at which entitlement to the asset in question (be it cash or securities) is legally transferred to the receiving entity.

Final transfer: see **final settlement.**

Foreign exchange settlement risk (cross-currency settlement risk): the risk that a party to a foreign exchange transaction will transfer the currency it has sold, but not receive the currency it has bought. This is a form of principal risk.
See also **principal risk**, **payment versus payment**.

Four-party card scheme: a card scheme where the stakeholders involved are:

1) the issuer; 2) the acquirer; 3) the cardholder; and 4) the card acceptor. (In the case of automated teller machine (ATM) transactions, it is usually the acquirer that offers its services via the ATM.) By contrast, in a three-party card scheme, the issuer and the acquirer are always the same entity.

See also **card scheme**, **three-party card scheme**.

Free-of-payment (FOP) delivery: a delivery of securities which is not linked to a corresponding transfer of funds.

FTS: see **funds transfer system**.

Funds transfer system (FTS): a formal arrangement based on a private contract or legislation, with multiple membership, common rules and standardised arrangements, for the transmission, clearing, netting and/or settlement of monetary obligations arising between its members.

See also **interbank funds transfer system**, **payment system**.

Fungibility: a characteristic of securities which are substitutable on account of their being identical.

General clearing member: a member of a clearing house that clears on its own behalf, on behalf of its customers and on behalf of other market participants.
See also **clearing member**, **direct clearing member**, **non-clearing member**.

Global certificate: a single physical certificate that covers all or part of an issue of securities.
See also **global note**.

Global custodian: a custodian that provides its customers with custody services in respect of securities traded and settled in several countries around the world.

Global note: the term used when a global certificate relates to fixed income instruments (e.g. bonds).
See also **global certificate**.

Governance: procedures through which the objectives of a legal entity are set, the means of achieving them are identified and the performance of the entity is measured. This refers, in particular, to the set of relationships between the entity's owners, board of directors, management, users and regulators, as well as other stakeholders that influence these outcomes.

Gridlock: a situation that can arise in a funds or securities transfer system in which a failure to execute one or more transfer orders prevents the execution of a substantial number of orders submitted by other participants.
See also **queuing**, **systemic risk**.

Gross margining: a mechanism whereby the margin that a participant posts in a central counterparty (CCP) for its customers' positions is the sum of the requirements for individual customers.

Gross settlement: the settlement of transfer orders one by one.
See also **net settlement**.

Gross settlement system: a transfer system in which transfer orders are settled one by one.
See also **net settlement system**, **real-time gross settlement (RTGS) system**.

Guarantee fund: a fund which compensates non-defaulting participants for losses which they suffer in the event that one or more participants default on their obligations.
See also **clearing fund**, **collateral pool**.

Haircut: a risk control measure applied to underlying assets whereby the value of those underlying assets is calculated as the market value of the assets reduced by a certain percentage (the "haircut"). Haircuts are applied by a collateral taker in order to protect itself from losses resulting from declines in the market value of a security in the event that it needs to liquidate that collateral.

Home banking: banking services which retail customers of credit institutions can access using various kinds of telecommunication device (e.g. telephones, mobile phones, television sets, terminals or personal computers).

Hybrid system: a system that combines the characteristics of RTGS systems (e.g. the continuous processing and clearing of transfer orders) and net settlement systems (the operation of several settlement cycles per day, some form of netting procedure for transfer orders, etc.).
See also **net settlement system**, **real-time gross settlement (RTGS) system**.

IBAN: see **International Bank Account Number**.

ICSD: see **international central securities depository**.

IFTS: see **interbank funds transfer system**.

Immobilisation: the placement of physical certificates for securities and financial instruments in a common depository or a central securities depository so that subsequent transfers can be made by book entry (i.e. by debiting and crediting holders' accounts at the depository).

Indirect holding system: a multi-tiered arrangement for the custody and transfer of ownership of securities (or the transfer of similar interests therein) in which investors are identified only at the level of their custodian.
Antonym: **direct holding system**.

Indirect link: a link between two central securities depositories (CSDs) through a non-CSD intermediary.
See also **relayed link**.
Antonym: **direct link**.

Indirect participant: a participant in a funds or securities transfer system with a tiering arrangement that uses a direct participant as an intermediary in order to perform some of the activities allowed in the system (particularly settlement).
See also **tiering arrangement**.
Antonym: **direct participant**.

Initial margin: for instruments cleared by a central counterparty (CCP), the amount of collateral that each participant is required to provide to the CCP (or the clearing member) in order to cover potential losses in the event of that participant defaulting. The initial margin is calculated on the basis of a formula set by the CCP.
See also **haircut**, **margin**.

Integrity: in the context of data, the quality of being protected against accidental or fraudulent alteration in transmission or in storage. Alternatively, the quality of indicating whether or not such alteration has occurred.

Integrity of a securities issue: the result of legal requirements and securities accounting procedures ensuring that the number of securities issued is, at all times, equal to the total number of securities in circulation (i.e. validly booked in investors' accounts).

Interbank funds transfer system (IFTS): a funds transfer system in which all (or almost all) participants are credit institutions.

Interchange fee: a transaction fee payable between the payment service providers involved in a transaction.

Internal settlement: settlement that is effected through transfers of securities and/or funds on the books of a bank or investment firm, as opposed to settlement via an interbank funds transfer system or a central securities depository (CSD).

International Bank Account Number (IBAN): an International Organization for Standardization (ISO) technical code that is an expanded version of the basic bank account number (BBAN). Intended for use internationally, the IBAN uniquely identifies an individual account at a specific financial institution in a particular country. The IBAN also includes the bank identifier of the financial institution servicing that account.

International central securities depository (ICSD): a central securities depository (CSD) which was originally set up to settle Eurobond trades and is now active also in the settlement of internationally traded securities from various domestic markets, typically across currency areas.
At present, there are two ICSDs located in EU countries: Clearstream Banking in Luxembourg and Euroclear Bank in Belgium.

Interoperability: the set of arrangements/procedures that allows participants in different systems to conduct and settle payments or securities transactions across systems while continuing to operate only in their own respective systems.

Intraday credit (daylight credit): credit extended and reimbursed within a single business day.

Intraday finality: final settlement achieved continuously or at various times in the course of the settlement day. Intraday finality can be provided through real-time settlement procedures and/or the settlement of the results of batch processing during the settlement day.

Intraday liquidity: funds which are available or can be borrowed during the business day in order to enable financial institutions to effect payments/settlement. Repayment of the funds borrowed should take place before the end of the business day.
See also **intraday credit**, **same-day funds**.

Investment firm: any entity whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis.

Investor CSD: a term used in the context of central securities depository (CSD) links. An investor CSD – or a third party acting on behalf of the investor CSD – opens an account in another CSD (the issuer CSD) so as to enable the cross-system settlement of securities transactions.
See also **CSD link**, **central securities depository**, **issuer CSD**.

Issuer CSD (issuing CSD): a central securities depository (CSD) in which securities are issued (or immobilised). The issuer CSD opens accounts allowing investors (in a direct holding system) and/or intermediaries (including investor CSDs) to hold these securities.
See also **direct link**, **investor CSD**, **relayed link**, **direct holding system**, **indirect holding system**.

Issuing CSD: see **issuer CSD**.

Lamfalussy standards (minimum standards of the Lamfalussy report): the six minimum standards for the design and operation of cross-border and multi-currency netting schemes or systems. For details, see the "Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of Ten Countries" (the "Lamfalussy report"), BIS, November 1990.
See also **Core Principles for Systemically Important Payment Systems**.

Large-value funds transfer system (wholesale funds transfer system): a funds transfer system through which large-value and/or high-priority funds transfers are made between participants in the system for their own account or on behalf of their customers. Although, as a rule, no minimum value is set for payments made in such systems, the average size of such payments is usually relatively large.

Large-value payment: large-value payments are generally for very large amounts, are exchanged mainly between banks or between participants in financial markets, and usually require urgent and timely settlement.
Antonym: **retail payment**.

L/C: see **letter of credit.**

Legal risk: the risk of a loss being incurred on account of the unexpected application of a law or regulation, or because a contract cannot be enforced.

Letter of credit (L/C): an irrevocable commitment by a bank (the issuing bank) or other issuer made at the request of a customer (the applicant third party) to pay a specified sum of money to a third party upon request, subject to terms and conditions drawn up in accordance with uniform customs and practices.

Limit: see **cap**.

Linked trade: a trade where securities are released for delivery only if they become available from another trade.

Liquidity risk: the risk that a counterparty will not settle an obligation in full when it becomes due. Liquidity risk does not imply that a counterparty or participant is insolvent, since it may be able to effect the required settlement at some unspecified time thereafter.

Loro account (vostro account): in correspondent banking, an account held by one bank on behalf of another bank (the "customer bank"); the customer bank regards this account as its "nostro account".
Antonym: **nostro account**.

Loss-sharing agreement: an agreement among participants in a clearing or settlement system regarding the allocation of any losses arising from the default of either a participant in the system or the system itself.
See also **loss-sharing rule**.

Loss-sharing rule: the rule or formula stipulating the way in which losses arising from the default of either a participant in the system or the system itself are to be shared among the various parties in the event that a loss-sharing agreement is activated.
See also **loss-sharing agreement**.

Mandate for direct debits: the authorisation given by a payer to a payee (and/or the institution with which the payer's account is held) consenting to the debiting of the payer's account.
See also **direct debit**.

Margin: highly liquid collateral required in order to cover adverse market price movements. The initial margin is calculated on the basis of a formula set by the counterparties to a trade or by a central counterparty (CCP). A market participant is called upon to provide additional collateral if the collateral that has been deposited is no longer sufficient (with this "margin call" indicating a shortfall in the margin coverage).

Marginal lending facility: a standing facility of the Eurosystem which counterparties may use to receive overnight credit from a national central bank at a pre-specified interest rate against eligible assets.
See also **standing facility**.

Market infrastructure: systems used for the trading, clearing and settlement of payments, securities or derivatives.

Market risk (price risk): the risk of losses (in both on and off-balance sheet positions) arising from movements in market prices.
See also **replacement cost risk**.

Marking to market: the practice of revaluing securities and financial instruments using current market prices.
See also **haircut**, **variation margin**.

Matching: the process used for comparing the trade or settlement details provided by parties in order to ensure that they agree on the terms of the transaction.

Means of payment: assets or claims on assets that are accepted by a payee as discharging a payment obligation on the part of a payer vis-à-vis the payee.
See also **payment instrument**.

Member: a participant in a system which also owns a stake in that system.

Merchant service charge (MSC): a fee paid by the acceptor/merchant to the acquirer.

Minimum reserves: the minimum amount of reserves that a credit institution is required to hold with the Eurosystem.

Minimum standards of the Lamfalussy report: see **Lamfalussy standards**.

Mobile payment (m-payment): a payment where a mobile device (e.g. a phone or personal digital assistant (PDA)) is used at least for the initiation of the payment order and potentially also for the transfer of funds.

Money order: an instrument used to transfer money remotely, often used where the payer and/or the payee do not have a current account with a financial institution.

Money remitter: a payment service provider that accepts funds from a payer for the purpose of making them available to a payee, without necessarily maintaining an account relationship with the payer or payee.

M-payment: see **mobile payment**.

MSC: see **merchant service charge**.

Multilateral net settlement system: a settlement system in which each settling participant settles its own multilateral net settlement position (typically by means of a single payment or receipt).
See also **multilateral netting**, **net settlement system**.

Multilateral netting: an arrangement among three or more parties for the netting of obligations and the settling of multilateral net settlement positions.
See also **bilateral netting**, **netting**.

Multi-purpose prepaid card (electronic purse): a prepaid card which can be used at the outlets of several service providers for a wide range of purposes.
See also **prepaid card**.

Net credit cap: a limit placed on the credit exposure which a participant is allowed – or willing – to take on vis-à-vis all other participants or a given participant in the system as a result of sending/receiving payments which have not been settled.
See also **cap**.

Net margining: a mechanism whereby the margin that a participant posts in a central counterparty (CCP) for its customers' positions is the net total of the requirements for the individual customers.
See also **gross margining**.

Net settlement: the settlement of transfer orders on a net basis.
See also **gross settlement**.

Net settlement system: a funds or securities transfer system which settles net settlement positions during one or more discrete periods, usually at pre-specified times in the course of the business day.
See also **gross settlement system**.

Netting: in the context of clearing or settlement systems, the agreed offsetting of mutual obligations by participants in a system. This process involves the calculation of net settlement positions and their legal reduction to a (bilateral or multilateral) net amount.

Netting may take several legal forms.
See also **bilateral netting**, **multilateral netting**, **position netting**, **netting by novation**, **unwind**.

Netting by novation: an agreement whereby obligations derived from individual transfer orders are netted and replaced by a new obligation. The parties to the new obligation may be the same as the parties to the existing obligation. Alternatively, in the context of some clearing house arrangements, there may be some substitution of parties.
Antonym: **position netting**.

Nominee: a person or entity named by another to act on its behalf. Nominees are commonly used in securities transactions to register and obtain legal ownership of securities.

Non-clearing member: a member of a regulated market that uses a general clearing member to access a clearing house's services. All trades must be settled through a clearing member.
See also **clearing member**, **direct clearing member**, **general clearing member**.

Non-repudiation: mechanisms providing evidence of: 1) the identity of the sender of a payment message; and 2) the integrity of that message. These are sufficient to prevent the sender of a message from successfully denying the submission of the payment message or the integrity of its contents.

Nostro account: in correspondent banking, an account held by a customer bank on the books of another bank acting as a service provider. The other bank regards this account as a "loro account".
Antonym: **loro account**.

Offline card transaction: a card transaction which is authorised without contacting the issuer at the time of the transaction.
Antonym: **online card transaction**.

Online card transaction: a card transaction which is authorised following explicit approval by the issuer at the time of the transaction.
Antonym: **offline card transaction**.

Operated direct link: a direct link between two central securities depositories (CSDs) where a third party, typically a custodian bank, operates the account in the issuer CSD on behalf of the investor CSD.
See also **direct link**.

Operational risk: the risk that deficiencies in information systems or internal controls, human error or management failures will result in unexpected losses. This relates to both internal and external events.

Optimisation routine: a procedure determining the order in which transfer orders are to be processed and settled in a transfer system in order to increase settlement efficiency.
See also **queue management**, **chaining**.

OTC (over-the-counter) trading: a method of trading that does not involve a regulated market. In over-the-counter markets, participants trade directly with each other, typically through telephone or computer links.

Oversight: the oversight of payment systems is a typical central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned systems, assessing them against the applicable standards and principles whenever possible and, where necessary, fostering change.
Oversight activities increasingly relate also to securities clearing and settlement systems.

Pan-European automated clearing house (PE-ACH): a business platform for the processing of euro payment instruments which is made up of governance rules and payment practices and supported by the necessary technical platform(s).

Participant: an entity which is identified/recognised by a transfer system and – either directly or indirectly – is allowed to send transfer orders to that system and is capable of receiving transfer orders from it.
See also **direct participant**, **indirect participant**, **remote participant**.

Payer: the party to a payment transaction which issues the payment order or agrees to the transfer of funds to the payee.

Payment: in a strict sense, a payment is a transfer of funds which discharges an obligation on the part of a payer vis-à-vis a payee. However, in a technical or statistical sense, it is often used as a synonym for "transfer order".
See also **transfer order**.

Payment card: see **card**.

Payment instrument: a tool or a set of procedures enabling the transfer of funds from a payer to a payee. The payer and the payee can be one and the same person.
See also **means of payment**.

Payment lag: see **settlement lag**.

Payment order: an instruction sent by a payer or a payee to a payment service provider requesting the execution of a payment transaction.

Payment scheme: a set of interbank rules, practices and standards necessary for the functioning of payment services.
See also **card scheme**.

Payment system: this term has two meanings:
1) in some cases, it refers to the set of instruments, banking procedures and interbank funds transfer systems which facilitate the circulation of money in a country or currency area;
2) in most cases, it is used as a synonym for "funds transfer system".

See also **funds transfer system**.

Payment versus payment (PvP): a mechanism which ensures that the final transfer of a payment in one currency occurs if – and only if – the final transfer of a payment in another currency or currencies takes place.
See also **exchange-for-value settlement system**.

PE-ACH: see **pan-European automated clearing house**.

Personal identification number (PIN): a personal and confidential numerical code which the user of a payment instrument may need to use in order to verify his/her identity. In electronic transactions, this is seen as the equivalent of a signature.
See also **electronic signature**.

Physical delivery: settlement of a derivatives transaction through the delivery of the underlying asset in exchange for payment.

PIN: see **personal identification number**.

Pledge: the delivery of assets in order to secure the performance of an obligation by one party (the debtor) vis-à-vis another (the secured party). For the secured party, a pledge creates a security interest (a “lien”) in the assets delivered, while ownership of the assets remains with the debtor.

Point-of-sale (POS) terminal: a device allowing the use of payment cards at a physical (not virtual) point of sale. The payment information is captured either manually on paper vouchers or by electronic means.
See also **EFTPOS terminal**.

Position netting (advisory netting): netting of orders in respect of obligations between two or more parties which neither satisfies nor discharges those original individual obligations. Also referred to as “payment netting” in the case of payment orders.
Antonym: **netting by novation**.

Postal order: money order in which the drawee is a postal institution.

Prenotification: in the field of direct debits, the advance notification provided by the creditor to the debtor as regards: 1) the amount of the next direct debit; and 2) the date of collection.

Prepaid card: a card on which a monetary value can be loaded in advance and stored either on the card itself or on a dedicated account on a computer. Those funds can then be used by the holder to make purchases.
See also **multi-purpose prepaid card**.

Price risk: see **market risk**.

Primary site: the place where systems operators locate the infrastructure and/or staff necessary to run their normal daily business operations.

Principal: an entity that acts on its own behalf, with its own funds and at its own risk.

Principal risk: the risk that the seller of a financial asset (e.g. securities or currency) will deliver, but not receive payment, or the risk that the buyer will pay, but not receive delivery. In such a situation, the full value of the securities or funds transferred is at risk.
See also **delivery versus payment**, **payment versus payment**.

Processing: the performance of all of the actions required in accordance with the rules of a system for the handling of a transfer order from the point of acceptance by the system to the point of discharge from the system. Processing may include clearing, sorting, netting, matching and/or settlement.

Provisional settlement: the discharging of an obligation by means of a transfer of funds and/or a transfer of securities which is dependent on the fulfilment of certain conditions and can therefore be rescinded by one or more parties.
See also **settlement**.
Antonym: **final settlement**.

Provisional transfer: a transfer order is provisional as long as it can be revoked by the originator or as long as it can be reversed subject to certain conditions.
Antonym: **final settlement**.

PvP: see **payment versus payment**.

Queue management: rules and procedures that determine the order in which transfer orders are released from the queue and processed – e.g. "first in, first out" (FIFO). Optimisation routines may or may not be used.
See also **queuing**, **optimisation routine**.

Queuing: an arrangement whereby transfer orders are held in a queue by the sending participant or by the system until they can be processed in accordance with the rules of the system. In an RTGS system, payments are typically "queued" because of a lack of funds or insufficient access to intraday credit. In netting systems, payments are "queued" in order to prevent caps from being exceeded.
See also **cap**, **real-time gross settlement (RTGS) system**.

Reachability: a credit institution is "reachable" if it can execute a credit transfer order and/or a direct debit instruction sent by any other bank in a particular currency area.

Realignment: the transfer of assets from the account of one investor central securities depository (CSD) to the account of another investor CSD, both of which are held with the issuer CSD, in order to reflect the transfer of assets between participants in those investor CSDs.
See also **investor CSD**, **issuer CSD**.

Real-time gross settlement (RTGS) system: a settlement system in which processing and settlement take place on a transaction-by-transaction basis in real time.

Reconciliation: a procedure to verify that two sets of records issued by two different entities match.

Refund: in the field of direct debits, a claim made by a debtor for the reimbursement of debits effected from its account (with or without a specific reason being indicated by that debtor).

Refusal: in the field of direct debits, an instruction issued by a debtor prior to settlement, for whatever reason, to the effect that the debtor bank should not make a direct debit payment.

Registrar: see **registry**.

Registration: the documenting of the ownership of securities in the records of the issuer, in a registry or in a central securities depository (CSD).

Registry (registrar): an entity that records the ownership of securities on behalf of the issuer.

Reject: in the field of payments, a payment transaction whose normal execution is prevented by the payment service provider of either the payer or the payee prior to settlement.

Relayed link: a contractual and technical arrangement that allows issuer and investor central securities depositories (issuer and investor CSDs) to hold and transfer securities through an account with a third CSD (a "middle CSD"), which acts as an intermediary.

Remote access: direct access by an institution established in one country to a system (e.g. a payment system, a securities settlement system or a central counterparty (CCP)) established in another country.

Remote participant: a participant in a system which operates from a country other than that in which the system in question is located.

Remote payment: a payment made from a distance, without the payer and payee being present at the same physical location.
Antonym: **face-to-face payment**.

Replacement cost risk: the risk that, owing to a party to a transaction failing to meet its obligation on the settlement date, its counterparty may have to replace the original transaction at current market prices ("replacement cost").
See also **market risk**.

Repurchase agreement: the process of borrowing money by combining the sale of an asset (usually a fixed income security) with the subsequent repurchase of that same asset for a slightly higher price (which reflects the borrowing rate).

Retailer card: a card issued by a merchant for use at specified merchant outlets.

Retail funds transfer system: a funds transfer system which typically handles a large volume of payments of relatively low value in forms such as cheques, credit transfers and direct debits.

Retail payment: a non-time-critical payment of relatively low value. These payments are typically made outside of the financial markets and are both initiated by and made to individuals and non-financial institutions.
Antonym: **large-value payment**.

Returns: funds sent back by the payee to the payer following settlement of the original payment instruction. The term "return" is used in connection with both direct debits and credit transfers.

RTGS system: see **real-time gross settlement (RTGS) system**.

Safekeeping services: the holding of physical securities on behalf of other parties.

Same-day funds: funds which the recipient is entitled to transfer or withdraw from an account on the day of receipt.
See also **intraday liquidity**.

Scheduling: technique for managing payment queues by determining the order in which payments are accepted for settlement.
See also **queuing**.

Secondary site: a location other than the primary site which systems can use to resume their business operations and other functions in the event of a disaster.

Securities settlement system (SSS): a system which allows the transfer of securities, either free of payment (FOP) or against payment (delivery versus payment).

Segregation: a method of protecting a client's assets by holding them separately from those of the custodian (or other clients, as the case may be).

SEPA: see **Single Euro Payments Area**.

Settlement: the completion of a transaction or of processing with the aim of discharging participants' obligations through the transfer of funds and/or securities. A settlement may be final or provisional.
See also **final settlement**, **provisional settlement**, **gross settlement**, **net settlement**.

Settlement account: an account held at a central bank or a central securities depository, or with a central counterparty or any other institution acting as a settlement agent, which is used to settle transactions between participants in a system.

Settlement agent (settlement institution): the institution across whose books transfers between participants take place in order to achieve settlement within a settlement system.
See also **bilateral net settlement system**, **multilateral net settlement system**, **settling participant**.

Settlement asset: an asset or a claim on an asset that is accepted by a beneficiary in order to discharge a payment obligation.

Settlement bank: see **settling participant**.

Settlement cycle (settlement interval): in the field of securities, the time period that elapses between the trade date and the settlement date.

Settlement date: see **settlement day**.

Settlement day (settlement date): the day on which settlement actually takes place.

Settlement failure: the inability of a participant to meet its settlement obligations in a system. This inability may be temporary or permanent.
See also **failed transaction**, **default**.

Settlement institution: see **settlement agent**.

Settlement interval: see **settlement cycle**.

Settlement lag (payment lag): in a transfer system, the time lag between the acceptance of the transfer order by the system and its final settlement. In an exchange-for-value system, the time lag between entering into a trade/bargain and finally exchanging the financial asset for payment.

Settlement obligation: the requirement, as a result of the settlement process, that a participant in a settlement system effect payment or deliver assets.

Settlement risk: the risk that settlement in a transfer system will not take place as expected, usually owing to a party defaulting on one or more settlement obligations. This risk includes, in particular, operational risks, credit risks and liquidity risks.

Settlement system: a system used to facilitate the settlement of transfers of funds, assets or financial instruments.
See also **funds transfer system**, **securities settlement system**.

Settling member: see **settling participant**.

Settling participant (settlement bank; settling member): a participant which maintains one or more accounts with a settlement agent in order to settle funds or securities transfers on its own behalf or, potentially, for other market participants.
See also **tiering arrangement**, **settlement agent**.

Single Euro Payments Area (SEPA): a process initiated by European banks and supported, inter alia, by the Eurosystem and the European Commission with a view to integrating retail payment systems and transforming the euro area into a true domestic market for the payment industry.

Smart card: see **chip card**.

Specialised depository: an entity, usually a credit institution, that provides international central securities depositories (ICSDs) with safekeeping and asset servicing for physical certificates ("individual notes") that represent shares in international debt instruments (e.g. Eurobonds).
See also **common depository**.

SSS: see **securities settlement system**.

Standing facility: a central bank credit facility available to counterparties at their own initiative. The Eurosystem offers two overnight standing facilities: the marginal lending facility and the deposit facility.

Standing order: an instruction from a customer to its bank to make a regular payment of a fixed amount to a named beneficiary.

STP: see **straight-through processing**.

Straight-through processing (STP): the automated end-to-end processing of trades/payment transfers – including, where relevant, the automated completion of confirmation, matching, generation, clearing and settlement of orders.

Substitution of securities: a situation in which an institution which has provided securities as collateral recalls them and replaces them with other securities of equivalent market value.

"Survivors pay": a loss-sharing arrangement which, in the event of a participant's inability to settle, requires losses to be borne by the other (non-defaulting) participants in accordance with a predetermined formula.
Antonym: **"defaulter pays"**.

Systemically important payment system: a payment system which has the potential to trigger systemic risks in the event of it being insufficiently protected against the risks to which it is exposed.

Systemic risk: the risk that the inability of one participant to meet its obligations in a system will cause other participants to be unable to meet their obligations when they become due, potentially with spillover effects (e.g. significant liquidity or credit problems) threatening the stability of or confidence in the financial system. That inability to meet obligations can be caused by operational or financial problems.

T2S: see **TARGET2-Securities**.

TARGET2: the real-time gross settlement system for the euro. TARGET2 settles payments in euro in central bank money and functions on the basis of a single IT platform, to which all payment orders are submitted for processing. This means that all payments are received in the same technical form. TARGET2 is legally structured as a multiplicity of RTGS systems (TARGET2 component systems).

TARGET2-Securities (T2S): the Eurosystem's single technical platform enabling central securities depositories (CSDs) and national central banks to provide core, borderless and neutral securities settlement services in central bank money in Europe. T2S is scheduled to go live in 2013.

Three-party card scheme: a card scheme involving the following stakeholders: 1) the card scheme itself, which acts as issuer and acquirer; 2) the cardholder; and 3) the accepting party. This contrasts with a four-party card scheme, where the issuer and the acquirer are separate entities and are separate from the card scheme itself.
See also **card scheme**, **four-party card scheme**.

Tiering arrangement: an arrangement whereby indirect participants in a system require the services of direct participants in order to carry out their transactions.
See also **indirect participant**, **settling participant**.

Trade confirmation: see **confirmation**.

Transaction reference number (TRN): a unique reference number used to identify individual payment or securities settlement instructions (e.g. SWIFT payment messages or credit card authorisations).

Transfer order: an order or message requesting the transfer of assets (e.g. funds, securities, other financial instruments or commodities) from the debtor to the creditor.
See also **payment**.

Transfer system: a set of legal, technical and procedural arrangements for the transfer of assets such as money or securities.

Tri-party repo: repurchase agreement in which a third party (e.g. a custodian bank, a clearing house or a central securities depository (CSD)) is responsible for the management of the collateral during the life of the transaction.

TRN: see **transaction reference number**.

Truncation: a procedure in which a paper-based transfer order or other financial instrument is replaced, in whole or in part, by an electronic record of the content of that instrument for the purposes of further processing and transmission.

Underlying asset: the asset (i.e. the financial instrument or security) upon which a derivatives contract is based.

Unwind: the process used to recalculate obligations in some net settlement systems where transfers between the accounts of participants are provisional until all of them have finally discharged their settlement obligations. If a particular participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations of the remaining participants are recalculated.
See also **zero-hour rule**.

Value date: the date on which it is agreed to place a payment or transfer at the disposal of the receiving user. The value date is also used as a point of reference for the calculation of interest on the funds held on an account.

Variation margin: profits and losses calculated on a daily basis in open futures contracts and options, resulting in the counterparty to the bilateral trade making a payment to the relevant clearing house or vice versa.

Vostro account: see **loro account**.

Wholesale funds transfer system: see **large-value funds transfer system**.

Zero-hour rule: a provision in the insolvency law of some countries whereby the transactions conducted by an insolvent institution after midnight on the date the institution is declared insolvent are automatically ineffective by operation of law.
See also **unwind**.