

### Actual settlement

Settlement that occurs when the seller has received the proceeds and the buyer has received the securities. See contractual settlement (in which a trade settles regardless of whether these events occur).

### Affirmation/confirmation process

The transmission of messages among broker-dealers, institutional investors, and custodian banks regarding the terms of a trade executed for an institutional investor. See matching, qualified vendor.

### Beneficial owner

A person who does not have legal title but who enjoys the benefits of ownership.

### Bilateral netting

Consolidating cash flows from two different contracts or instruments.

### Book-entry securities

Securities that are transferred electronically. No physical certificates change hands. See dematerialization, immobilization.

### Book-entry system

An accounting system that permits the electronic transfer of securities and does not require certificates to change hands. See dematerialization, immobilization.

### Bridge

The term commonly used for the link between Euroclear and Clearstream that permits cross-system settlements of trades between participants.

### Buy-in

A purchase of securities in the open market by a lender because the borrower cannot deliver the securities to the lender in accordance with the terms of the transactions. The borrower pays all costs related to the buy-in.

### Cedel (See Clearstream International)

An international central securities depository founded in 1970 and headquartered in Luxembourg. Cedel was renamed Clearstream after a 1999 merger.

### Central securities depository (CSD)

An institution created to hold physical securities so that securities transactions can be processed by book entry. The depository immobilizes (dematerializes) physical securities. See dematerialization, immobilization.

### Clearing

This represents a central setting-off of claims and liabilities.

### Clearing House Automated Payment System (CHAPS)

The United Kingdom's electronic transfer system for sending same-day value payments from bank to bank. It was introduced in 1984, and has operated as a real-time gross settlement system since April 1996. In 1999, CHAPS began offering payment services in Euro as well as Sterling. Every CHAPS payment is unconditional, irrevocable, and guaranteed. <http://www.apacs.org.uk>

### Clearing House Interbank Payments System (CHIPS)

An on-line, real-time, large-value fund transfer network. A same-day settlement multilateral netting system, it is the central U.S. clearing system for international transactions. All transactions settle in U.S. dollars. Originated in 1970, CHIPS is a private funds transfer network managed by the Clearing House Interbank Payments Company LLC (CHIPCo). CHIPCo is owned by CHIPS participants. <http://www.chips.org>

### Clearance

The process of calculating the mutual obligations of the participants, usually on a net basis, for the exchange of funds and securities. Clearance may also refer to the process of transferring securities on the settlement date (a clearing system), also known as a securities settlement system.

### Clearing agency

Section 3(a)(23)(A) of the Securities Exchange Act of 1934 defines a clearing agency as "any person who acts as an intermediary in making payments or deliveries or both in connection with transactions in securities or who provides facilities for comparison of data respecting terms of settlement of securities transactions, to reduce the number of settlements of securities transactions, or for the allocation of securities settlement responsibilities."

### Clearing system

See securities settlement system (SSS).

### Clearstream International

Clearstream International is a settlement organization offering comprehensive service for bonds and equities both domestic and cross-border. The company was formed from the merger of Cedel International and Deutsche Börse Clearing. Its shareholders consist of the world's major financial institutions. Clearstream International has two subsidiaries – Clearstream Banking and Clearstream Services. <http://www.clearstream.com>

### Collateral

An asset or third-party commitment that is accepted by the lender to secure an obligation of the borrower.

### Continuous net settlement (CNS)

A method of clearing and settling securities that matches transactions to available securities and results in net receive or net deliver positions (and funds) at the end of the day (or settlement period). This method requires the use of a clearing house and a depository. Participants' positions are continuously updated as transactions settle.

### Contractual settlement

An arrangement whereby the customer is credited with the sale proceeds on the contractual settlement date regardless of whether the proceeds have been received. In the case of purchases, the customer's account will be debited on the contractual settlement date regardless of whether the securities have been received. If the securities or proceeds have not been received by an agreed upon date, the transaction typically will be reversed. See actual settlement.

### Corporate actions

Events typically related to capital reorganization or restructuring. Corporate actions frequently require notification of and response by the beneficial owner of the security. See appendix B for examples of corporate actions. Counterparty credit limits Limits set by a trading party to restrict the amount of its credit exposure to different counterparties.

### CREST

CREST is the real-time gross settlement system for United Kingdom government bonds (Gilts), collective instruments (unit investment trusts, open-ended investment companies), and money market instruments, and also for United Kingdom and Irish corporate securities. Participants hold securities in uncertificated form (see dematerialization), and transfers are made DVP (at the same time payment is made) electronically. (See delivery vs. payment.) <http://www.crestco.co.uk>

### Cross-border settlement

Settlement of securities trades between two market participants belonging to different settlement organisations, settlement that takes place in a country other than the country in which one or both of the trade counterparties are located.

A transaction in a foreign security, or a transaction in a domestic security, when at least one trade counterparty is located outside the domestic market.

### CSD/ICSD

Central securities depository/International central securities depository. Central agency for the settlement of securities transactions and the custody of securities from the national capital market (CSD) or the international Eurobond market (ICSD).

### CUSIP

The numbering system used in the United States to identify issuers and issues of securities. The CUSIP system originated from the American Bankers Association's Committee on Uniform Security Identification Procedures. Numbers are assigned by the CUSIP Service Bureau, which is operated by Standard & Poor's. <http://www.cusip.com>

### CUSIP International Numbering System (CINS)

CINS uses the CUSIP numbering format to identify international securities. See CUSIP, ISID.

### Custodian

A bank or other financial institution that provides safekeeping services and administers securities for its customers.

## Custody

The safekeeping, settlement, and servicing of securities for customers. This means the safekeeping, monitoring and administration of securities instruments independent of their physical place of custody. Custody also includes the collection of interest income and dividends, the dissemination of information on entrepreneurial-political measures as well as the claiming of withholding tax and other financial services.

## Daylight overdraft

Credit extended for less than one business day. For example, in a clearing system with end-of-day final settlement, intra-day credit is extended by a participant that accepts and acts on a payment order, even though that participant will not receive final funds until the end of the business day.

## Default

Failure to complete a funds or securities transfer according to its contractual terms for reasons that are not technical or temporary in nature. The reason is often a counterparty's bankruptcy or insolvency. Default is usually distinguished from a failed transaction.

## Delivery

Final transfer of a security or financial instrument.

## Delivery versus payment (DVP)

The International Securities Services Association defines DVP as simultaneous, final, irrevocable, and immediately available exchange of securities and cash on a continuous basis throughout the day. The Bank for International Settlement defines DVP as a link between a securities transfer system and a funds transfer system that ensures that delivery occurs if, and only if, payment occurs.

## Dematerialization

The elimination of physical certificates or documents representing ownership of securities so that the securities exist only as accounting records. See bookentry securities, immobilization.

## Depository receipt

An instrument issued in one country that establishes an entitlement to a security held in custody in another country.

## The Depository Trust Company (DTC)

A participant-owned central securities depository in the United States and a subsidiary of DTCC. DTC is a national clearinghouse for the settlement of trades in corporate and municipal securities. It performs custody services for its bank and broker/dealer customers. DTC products and services include: ☐ DTC Hub. DTC's centralized communications system that consolidates messages between institutional investors and bank custodians. ☐ Institutional Delivery (ID) System. DTC's confirmation/affirmation service. ☐ Standing Instruction Database (SID). A database which provides the participants' account and settlement instructions for all security types, settlement locations, and currencies. <http://www.dtc.org>

### DK (Don't Know)

An explanation, in industry shorthand, of a custodian's refusal to accept a security delivery. DK means that the custodian does not know about the security and is not expecting it. Disagreement between parties on sale price, quantity, and other factors can also lead to a DK.

### Domestic settlement

A settlement that takes place in the country where both counterparties to the trade are located.

### Domestic trade

A trade between counterparties located in the same country.

### Electronic Trade Confirmation (ETC)

A process providing an efficient bridge between pre-trade messaging and settlement processing. The industry views the role of ETC as crucial to achieving straight-through processing. Providers of ETC systems include DTC's ID system, Thomson Financial's OASYS, Financial Management Corporation's FMCNET, and ISMA's TRAX system.

### Euroclear

An international central securities depository operated by the Brussels branch of Morgan Guaranty Trust Company of New York through the Euroclear Operations Center. Euroclear is owned by its participants. <http://www.euroclear.com>

### European Central Securities Depository Association (ECSDA)

An association of central securities depositories formed in 1997 to facilitate the exchange of ideas and collaboration on projects of mutual interest. European Central Securities Depositories Association. A grouping of over fifteen European central custodians of securities (CSDs, ICSDs), including the Swiss CSD/ICSD. The objectives of the Association are the mutual elaboration of European standards for the build-up of a pan-European securities settlement infrastructure. <http://www.ecsda.com>

### euroSIC

An electronic real-time gross settlement system (RTGS) for euro in Switzerland and cross-border. euroSIC is operated by Swiss Interbank Clearing, a wholly-owned subsidiary of Telekurs Holding Ltd.

### Ex-dividend

The interval between the announcement of a dividend and the dividend's payment. An investor purchasing a security while it is ex-dividend is not entitled to the dividend.

### Failed transaction

A securities transaction that fails to settle on the contractual settlement date because one of the counterparties fails to perform. The trade, which usually fails because of technical or temporary difficulties, often settles at a later date.

### **Fedwire**

A Federal Reserve Bank transfer system with two components, Fedwire Funds Transfer Service and Fedwire Book-Entry Securities Service. Fedwire Funds Transfer Service is a large-value funds transfer system that offers real-time gross settlement. Transfers are initiated by the sender. Fedwire Book-Entry Securities Service is a large-value transfer system that offers real-time gross settlement and that operates on a delivery vs. payment system. Used for the safekeeping and transfer of U.S. government securities in book-entry form. Transfers are initiated by the sender of securities. Once authorized (matched) and processed, all transfers are final.  
<http://www.federalreserve.gov/PaymentSystems/FedWire>

### **Final transfer**

An irrevocable and unconditional transfer which discharges the obligation to deliver or pay. See provisional transfer.

### **Financial Information Exchange (FIX)**

A messaging protocol developed for the real-time electronic exchange of securities transaction information. FIX is popular with fund managers, brokerdealers, and institutional investors.  
<http://www.fixprotocol.org>

### **Free delivery**

Securities delivered without a corresponding receipt of funds.

### **Free riding**

A term for the practice of buying and selling securities, usually on the same day, in amounts greatly exceeding the amount allowed under margin collateral requirements. The practice is also referred to as "day trading." The free rider attempts to profit from short-term changes in market prices without placing significant personal funds at risk. This practice may result in a violation of 12 CFR 221 (Regulation U), and is addressed by OCC Banking Circular 275, "Free Riding in Custody Accounts," September 3, 1993.

### **Fungible**

Freely exchangeable for or replaceable by similar securities or goods in the satisfaction of an obligation.

### **Global agent, global custodian**

Institutes that offer comprehensive global custody services based on worldwide capital market coverage. A global agent's services are restricted to the interbank business (back office, street side), whereas the classical global custodian offers value-added services, such as advisory, risk controlling and performance measurement, primarily to institutional investors as well as fund and asset managers. An institution that provides its customers with safekeeping services and that administers securities that trade and settle throughout the world.

### Global Custody

Integral, worldwide settlement, custody and administration of securities. The service comprises settlement and custody both in the domestic market and in numerous foreign and international capital markets.

### Global Straight Through Processing Association (GSTPA)

An industry association of investment managers, broker/dealers, and global custodians involved in the processing of cross-border trades. The primary objectives of the GSTPA are to accelerate the flow of cross-border trade information, to reduce the number of failed cross-border trades, and to reduce the risks and the costs of cross-border trade settlements. <http://www.gstpa.org>

### Gross settlement system

A transfer system in which funds are settled or securities are transferred instruction by instruction.

### Group of Thirty (G30)

A private, nonprofit international organization composed of representatives from the public sector and the private sector, including academia. The Group's objectives are to deepen the understanding of international financial and economic issues. In 1989, the G30 made recommendations regarding international clearance and settlement systems. <http://www.group30.org>

### Immobilization

Placement of certificated securities and financial instruments in a central securities depository to facilitate book-entry transfers.

### Indemnification

An agreement to compensate for damage or loss. Custodians may indemnify customers that lend securities. Industry Standardization for Institutional Trade Communications (ISITC) A working committee of securities operations professionals that defines message standards governing communications between custodians, investment managers, custodians, and broker/dealers and vendors. The ISITC's mission is to foster alliances and advocate standards that promote straight-through processing (STP) of securities transactions. <http://www.isitc.org>

### Internal settlement

A settlement that is effected through transfers of securities and funds on the books of a single intermediary. An internal settlement requires both counterparties to maintain their securities and funds accounts with the same intermediary.

### International Central Securities Depository (ICSD)

A central securities depository that settles trades in international and domestic securities, usually through direct or indirect (through local agents) links to local central securities depositories. Customers include commercial and central banks, custodians, and broker/dealers.

### **International Organization of Securities Commissions (IOSCO)**

The primary objectives of IOSCO are to promote high standards of regulation in order to maintain just, efficient, and sound markets; to establish standards and an effective surveillance of international securities transactions; and to promote the integrity of the markets by applying standards rigorously and enforcing them effectively. <http://www.iosco.org>

### **International Securities Identification Directory (ISID and ISIDPlus)**

Directory which includes CUSIP numbers and International Securities Identification Numbers, as well as cross-references to other international securities numbering systems. ISIDPlus is produced jointly by Standard and Poor's and Telekurs (USA). <http://www.isidplus.com>

### **International Securities Identification Number (ISIN)**

The ISIN provides a uniform structure for use in the trading and administration of securities in the international securities industry. The Euroclear Operations Center has been designated as the numbering agency for international securities.

### **International Securities Market Association (ISMA)**

An industry organization based in Zurich, ISMA acts as a forum for questions related to international securities markets.

### **International Securities Services Association (ISSA)**

An international organization of participants in the global securities markets including banks, clearing organizations, central securities depositories, broker/dealers, and asset managers. ISSA's stated goals include increasing knowledge of participants, improving communications, and promoting progress in the securities services industry. <http://www.issanet.org>

### **Irrevocable transfer**

A transfer that the transferor cannot revoke.

### **Lamfalussy Standards**

A report on netting schemes, issued in 1998, which advanced minimum standards for netting systems. In common references, the recommended standards took the name of the chairman of the committee issuing the report.

### **Legal ownership**

Recognition in law as the owner of a security or financial instrument.

### **Local agent**

A local custodian that provides custody services to nonresident trade counterparties and settlement intermediaries. Also known as a sub-custodian or agent bank.

### **Local custodian**

Provides custody services for securities traded and settled in the country in which the custodian is located.

### Loss-sharing agreement

An agreement among participants in a clearing or settlement system on how to allocate losses arising from the default of a participant in the system or from the default of the system itself.

### Loss-sharing pools

Cash, securities, or other assets that are provided by the participants in advance and are held by the system to ensure that commitments arising from loss-sharing agreements can be met.

### Manufactured payment

A payment from a borrower of securities compensating the lender of the securities for dividends or other income the lender would have received from the loaned securities.

### Margin

The amount or percentage by which the collateral's value exceeds the value of securities on loan. Margin sometimes refers to the total value of collateral as a percentage of the loan value (e.g., 102 percent). Margin serves to reduce replacement cost exposures resulting from changes in market prices. Initial margin is deposited at the start of the transaction. Variation margin is called during the life of the loan if the value of the collateral falls below the initial margin requirement.

### Margin call

A demand for additional funds or collateral, following the marking to market of securities involved in a loan, if the market value of the underlying collateral falls below a certain level relative to the loaned asset. If the value of the underlying collateral, following its revaluation, exceeds the agreed-upon margin, the lender may be required to return some of the collateral.

### Marking to market

The practice of revaluing securities and financial instruments using current market prices.

### Master agreement

An agreement that sets the standard terms and conditions on a securities lending transaction.

### Matching

The process by which an intermediary compares the trade or settlement details provided by the broker-dealer with those of its customer. If the details match, the intermediary affirms the trade and a confirmation is generated. The SEC has interpreted matching as a "clearing agency function" according to the definition of a clearing agency in the Securities Exchange Act of 1934. See clearing agency, confirmation/affirmation process.

### Multilateral netting

Netting among more than two parties.

### National Securities Clearing Corporation (NSCC)

Provides centralized clearance, settlement, and information services to broker-dealers, banks, and mutual funds. The NSCC was established in 1976 to handle clearance and settlement for its owners,

the New York Stock Exchange, American Stock Exchange, and the National Association of Securities Dealers, Inc. The NSCC is a clearing agency registered with the SEC. <http://www.nsc.com>

#### **Net credit or net debit position**

A participant's net credit or net debit position (in funds or in a particular security) at settlement time is called the net settlement position. These positions may be calculated bilaterally or multilaterally.

#### **Net Settlement**

A settlement in which a number of transactions between or among counterparties are settled on a net basis.

#### **Netting**

An agreement to offset mutual positions or obligations by participants in a clearance or settlement system. The netting reduces the number of individual positions. Netting may take several forms, some of which are more legally enforceable than others in the event of default of one of the parties.

#### **Nominee**

A person or entity named by another to act on his behalf. Securities are commonly held in nominee name (often the custodian's name) to facilitate their registration and changes in their legal ownership. A nominee does not have any rights of ownership.

#### **Omnibus account**

A collective account holding the securities that a custodian safeguards on behalf of some or all of its customers.

#### **One-stop shopping**

This represents the possibility of effecting all securities transactions worldwide via a single interface and availing of all related services.

#### **Open transactions**

Transactions having no fixed maturity date.

#### **Physical delivery**

Delivery of the security as actual paper stock or bond certificate.

#### **Physical securities**

Securities that are in certificate (paper) form.

#### **Pre-matching process**

Process by which counterparties compare trade or settlement information before other matching or comparison procedures are followed. Generally, pre-matching does not bind counterparties. See confirmation/affirmation process.

### Prime brokerage

The provision by firms (typically large securities houses) of credit, clearing, securities lending, and other services to clients (typically hedge funds). Principal A party to a transaction that acts on its own behalf. In acting as a principal, a firm is buying/selling (or lending/borrowing) for its own account.

### Provisional transfer

A conditional transfer in which one or more parties retain the right by law or agreement to rescind the transfer.

### Qualified vendor

A vendor of electronic confirmation and affirmation services that meets the standards prescribed by NYSE Rule 387. See Appendix D.

### Real-time

This stands for "instantaneous" processing. Real-time processing can be described as the immediate execution of existing and correct settlement instructions, whereby it is crucial that all processing stages (securities and money side) are executed simultaneously.

### Real-time gross settlement (RTGS)

In a real-time system, a transfer (of a payment or securities) will reach its destination within minutes (if not seconds) of being debited from the sending Comptroller's Handbook Custody Services 83 participant's account. In a gross settlement system, each transfer is handled individually. In a real-time gross settlement (RTGS) system, execution of each transaction or payment order will be handled individually when received, and acknowledgement will be sent to the participants in real-time. Fedwire, CHAPs, and TARGET are examples of RTGS payment systems.

### Rebate

The interest rate that a securities lender pays the borrower on cash collateral.

### Recall

A demand by a securities lender that a borrower return securities lent in an open transaction.

### Record date

The date on which the shareholder must officially own the security in order to be entitled to the dividend. After the record date, the security is ex-dividend. See ex-dividend.

### Repurchase agreement (repo)

A contract to sell securities and subsequently to repurchase them at a specified price and typically at a specified time. Repos, which are typically executed on U.S. government securities, are usually very short term.

### Reverse repurchase agreement (reverse repo)

A contract to purchase securities and subsequently to resell them at a specified date and price.

### Safekeeping

A custodian's or depository's holding of physical (certificated) or immobilized securities.

### Same day funds

Money balances that the recipient has a right to transfer or withdraw from an account on the day of receipt.

### SECB

This is the Swiss Euro Clearing Bank GmbH, domiciled in Frankfurt-on-Main, Germany. The SECB was set up by UBS AG, Credit Suisse Group and the Telekurs Group in order to facilitate euro transactions for the Swiss banking institutions. Postfinance (the financial wing of the Swiss post) also holds a share in this limited liability company. The SECB manages the accounts of all euroSIC participants while also providing liquidity in euro on a daily basis (against the deposit of collaterally covered securities on the lombard collateral system).

### SECOM

Settlement Communication System – a technical platform for the settlement of securities transactions. SECOM is one of the few RTGS (real-time gross settlement) systems in the worldwide securities industry, enabling the settlement of transactions on an immediate and instantaneous basis (see Real-time).

### Securities depository

See central securities depository.

### Securities Movement and Control (SMAC)

A written or computerized set of rules designed to ensure the safe movement of certificates or book-entry securities. Computerized SMAC systems are used as a control for book-entry securities and to monitor the purchases and sales of physical securities from the time a trade is executed until the securities arrive at the bank or leave it, or until the securities are transferred on the books of the depository. SMAC systems will generally contain security master files and client master files.

### Securities settlement system (SSS)

A system, frequently a central securities depository, in which the settlement of securities takes place. Sometimes called a clearing system.

### Stock Exchange Daily Official List (SEDOL)

Numbering system that the London Stock Exchange uses for UK securities and other securities.

### Segregation

Optional or compulsory separation of a participant's own securities from those held on behalf of its customers.

## Settlement

The completion of a securities transaction between participants. A trade has settled when the participants discharge their contractual obligations and exchange funds for securities. This term signifies the completion (booking) of securities transactions both on the securities and the money side.

## Settlement cycle

The amount of time that elapses between the trade date (T) and the settlement date. Typically measured relative to the trade date. For example, in a T + 3 settlement cycle settlement occurs on the third business day following the trade date.

## Settlement date

The date by which an executed trade order must settle or fail, or the date that the parties to a securities transaction agree that settlement is to take place. See contractual settlement.

## SFIDVP

Simultaneous final and irrevocable delivery versus payment. This signifies a settlement process whereby the money and the securities transactions are processed on a simultaneous, conclusive and irrevocable basis (delivery versus payment). This is only possible under real-time processing conditions.

## SIC

Electronic real-time gross settlement system (RTGS) of the Swiss National Bank for Swiss francs. On behalf of the Swiss National Bank, SIC is operated by Swiss Interbank Clearing, a wholly-owned subsidiary of Telekurs Holding Ltd.

## Special (collateral)

Securities that are highly sought after in the market by borrowers.

## Standard settlement instructions (SSI)

Delivery instructions established between counterparties that may be transmitted as part of an electronic trade confirmation (e.g., Society for Worldwide Interbank Financial Telecommunication) message.

## Straight-Through Processing

The ISSA definition: "To provide an open gateway to a common and standard transaction structure that eliminates repetitive data entry, from order generation to settlement completion for all markets, instruments, and participants." A comprehensive automated process from securities trading through to settlement. By means of a single mouse click, the trade, the securities side and the money side of securities transactions can be processed and settled without any manual interventions.

### Sub-custodian

The local custodian through whom the global custodian holds securities. See local agent, local custodian.

### Substitution

Recalling the securities lent from a borrower and replacing them with other securities of equivalent market value during the life of the securities loan.

### The Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.)

A bank-owned organization providing secure messaging services to thousands of banks in nearly 200 countries, S.W.I.F.T. is also officially designated by the International Organization for Standardization (ISO) to maintain message standards within the securities industry. Society for Worldwide Interbank Financial Telecommunication. SWIFT is a worldwide network operator for the exchange of settlement instructions in international payment and securities transfers. <http://www.swift.com>

### T+n

T+n determines the settlement time of a transaction. T+1 means that any trade concluded is to be carried out and settled one day later. T+3 means that the completion of any trade is to be executed three days after the transaction date.

### Trans-European Automated Real-time Gross Settlement Express Transfer System (TARGET)

A payment system that interlinks all of the national real-time gross settlement systems in the EU member states. TARGET is located at the European Central Bank. <http://www.ecb.int>

### Tax Reclaims

Service provided by global custodians involving reclaiming recoverable portions of taxes withheld from interest or dividend payments by foreign taxation authorities. Tax relief is governed by tax treaties between countries.

### Term transactions

Transactions with a fixed maturity date.

### Trade date

The date on which a securities transaction is executed.

### Tri-party repo

A repurchase agreement in which bonds and cash are delivered by the trading counterparty to an independent custodian bank, clearing house, or securities depository that is responsible for ensuring that the collateral's value remains adequate during the life of the transaction.

### Unwind

A procedure followed in certain clearing and settlement systems in which transfers of securities and funds are settled on a net basis at the end of the processing cycle. All transfers are provisional until all participants have discharged their settlement obligations. If a participant fails to settle, some or all

of the provisional transfers involving that participant are deleted from the system, and the settlement obligations from the remaining transfers are recalculated.

#### Value at Risk (VAR)

The estimate of the maximum amount that the value of covered positions could decline during a fixed holding period within a stated confidence level.

#### Withholding tax

A tax on income deducted at the source. A paying agent is legally obliged to deduct withholding tax from its payments of interest on deposits, securities, or similar financial instruments.

#### Zero hour rule

A law in some countries that allows a bankruptcy declared by a court during the day to be declared retroactive to 0.00 a.m. of the same day. This law retroactively renders invalid all transactions of the bankrupt entity that took place after 0.00 a.m. on that date.

## Corporate Actions

The different types of corporate actions, and the terminology used to describe them, may vary by country and market. This list identifies some common corporate actions. Actions marked by an asterisk (\*) are voluntary; such actions typically require a customer decision within a short time frame.

### Bond Calls

The right to redeem outstanding bonds prior to their scheduled maturity.

### Bonus Share Plan

Allows shareholders the option of receiving their cash dividend in the form of additional shares. Discounts toward the purchase of additional shares are usually offered. Similar to a dividend reinvestment plan.

### \* Capital Gains Distribution

Realization of capital either in shares or cash.

### \* Cash/Stock Option Dividend

Shareholder has the option of receiving cash dividends or additional shares. The shares are offered at a specific ratio (for example, one new share for each 50 shares owned).

### Class Action

Technically not corporate action but managed in a similar manner. A class action is a court action filed on behalf of a group of shareholders. In a class action, shareholders who purchased or sold the company's securities during a specific period of time, known as the class period, usually allege that the company and its officers and directors violated federal and state securities laws.

### \* Convertible Securities

Corporate bonds or preferred stock that the holder can exchange, at his or her option, for another type of security (typically common stock) at a set price. The conversion ratio determines how many shares of common stock will be received in exchange for the convertible security at the time of conversion.

### Dividend Option

A dividend payment that carries an option to accept stock in place of cash.

### \* Dividend Reinvestment Plan (DRIP)

A plan sponsored by an issuer that allows shareholders to buy the company's stock with their cash dividends.

## Mergers/Takeovers

The merger of two or more companies under a single corporate structure or the acquisition of one of more companies by another company. Payments may be in the form of shares of the resulting company, cash, or a combination of the two. A name change may also be involved.

## Mini-Tenders

Tender offers for less than 5 percent of a company's stock. Mini-tender offers typically do not provide the same disclosure and procedural protection that larger, traditional tender offers provide.

### \* Nominal Change

A change in a security's par value to its current price in the market.

### \* Optional Conversions

Conversions in which the customer has the option of converting a security into more than one other security (i.e., warrants, stock, bonds).

### \* Options and Warrants

These actions come in two forms, convertible at any time during their life, or convertible on a set date.

### \* Placings

Issues of new shares that are privately placed with larger institutions (or new issues for which larger institutions are given preference). Not generally offered to the public.

### \* Proxies

A document that enables shareholders to vote on a company's proposals without attending the shareholder meeting.

### \* Redemption

Maturity of a debt security when the nominal value becomes due and payable to the holder. Types of redemptions include maturities, calls, and sinking fund redemptions. Redemptions may be partial.

### \* Rights Issue

An offering allowing existing shareholders to purchase newly issued stock by means of rights which can be traded, exercised, or allowed to expire. The number of rights offered to each shareholder is calculated by inserting the shareholder's existing holding in a predetermined formula. In most cases, the price per share available to shareholders is lower than the market price.

## Stock Bonus Issue

Similar to a stock dividend. The issue of stock to existing shareholders at a set ratio.

## Stock Dividend

Dividend paid in additional shares of stock. In certain countries these issues may be traded for a short period of time.

### Stockholder Meeting Announcements

Announcements of regularly scheduled and special stockholder meetings. Meeting announcements and any accompanying proxy materials are typically passed on to the beneficial owners of the securities.

### Stock Split/Par Value Change

Issuance of additional stock to existing shareholders, typically expressed as a ratio (e.g., 2-for-1 split). In a reverse split, the number of shares are reduced (e.g., a 1-for-3 ratio of new shares for old).

### Subdivision

The division of existing stock into a greater number of shares of lesser value; the overall value of the holdings is unchanged. Similar to a stock split.

### Subscription

An issuance of stock in which preference is given to existing shareholders. An existing stockholder is allowed to purchase the new shares before the public can, typically at a discounted price.

### \*Tender Offer

A formal offer to purchase a holder's shares at a price higher than the market price. The offer may be for all of the outstanding shares or just a portion.