DEFINITIONS FOR THE PURPOSES OF THIS RULE

Actual distribution means a distribution of market values or exposures at a future time period where the distribution is calculated using historic or realised values such as volatilities calculated using past price or rate changes.

Asset-backed commercial paper programme ('ABCP' programme) means a programme of securitisations the securities issued by which predominantly take the form of commercial paper with an original maturity of one year or less.

Cash assimilated instrument means a certificate of deposit or other similar instrument issued by the lending credit institution.

Central banks include the European Central Bank unless otherwise indicated.

Clean-up call option means a contractual option for the originator to repurchase or extinguish the securitisation positions before all of the underlying exposures have been repaid, when the amount of outstanding exposures falls below a specified level.

Counterparty credit risk (CCR) means the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Central counterparty means an entity that legally interposes itself between counterparties to contracts traded within one or more financial markets, becoming the buyer to every seller and the seller to every buyer

Credit valuation adjustment means an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the market value of the credit risk due to any failure to perform on contractual agreements with a counterparty. This adjustment may reflect the market value of the credit risk of the counterparty or the market value of the credit risk of both the credit institution and the counterparty.

Cross-product netting means the inclusion of transactions of different product categories within the same netting set pursuant to the Cross-Product Netting rules set out in this Annex.

Current exposure means the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy.

Current market value (CMV) refers to the net market value of the portfolio of transactions within the netting set with the counterparty. Both positive and negative market values are used in computing CMV.

Consolidating authority means the authority exercising supervision on a consolidated basis. Where a parent undertaking is a parent credit institution in a member state or an EU parent credit institution, supervision on a consolidated basis shall be exercised by the competent in that member state.

Conversion factor means the ratio of the currently undrawn amount of a commitment that will be drawn and outstanding at default to the currently undrawn amount of the commitment. The extent of the commitment shall be determined by the advised limit, unless the unadvised limit is higher.

Credit enhancement means a contractual arrangement whereby the credit quality of a position in a securitisation is improved in relation to what it would have been if the enhancement had nto been provided, including the enhancement provided by more junior tranches n the securitisation and other types of credit protection.

Credit risk mitigation means a technique used by a credit institution to reduce the credit risk associated with an exposure or exposures which the credit institution continues to hold.

Dilution risk means the risk that an amount receivable is reduced through cash or non-cash credits to the obligor.

Distribution of market values means the forecast of the probability distribution of net market values of transactions within a netting set for some future date (the forecasting horizon), given the realised market value of those transactions up to the present time.

Distribution of exposures means the forecast of the probability distribution of market values that is generated by setting forecast instances of negative net market values equal to zero.

Effective maturity under the Internal Model Method, for a netting set with maturity greater than one year, means the ratio of the sum of expected exposure over the life of the transactions in the netting set discounted at the risk-free rate of return divided by the sum of expected exposure over one year in a netting set discounted at the risk-free rate. This effective maturity may be adjusted to reflect rollover risk by replacing expected exposure with effective expected exposure for forecasting horizons under one year.

Expected exposure (EE) means the average of the distribution of exposures at any particular future date before the longest maturity transaction in the netting set matures.

Effective expected exposure (Effective EE) at a specific date means the maximum expected exposure that occurs at that date or any prior date. Alternatively, it may be defined for a specific date as the greater of the expected exposure at that date, or the effective exposure at the previous date.

Effective expected positive exposure (Effective EPE) means the weighted average over time of effective expected exposure over the first year, or, if all the contracts within the netting set mature before one year, over the time period of the longest maturity contract in the netting set, where the weights are the proportion that an individual expected exposure represents of the entire time interval.

Excess spread means finance charge collections and other fee income received in respect of the securitised exposures net of costs and expenses.

Expected loss (EL) means the ratio of the amount expected to be lost on an exposure from a potential default of a counterparty or dilution over a one year period to the amount outstanding at default.

Expected positive exposure (EPE) means the weighted average over time of expected exposures where the weights are the proportion that an individual expected exposure represents of the entire time interval. When calculating the minimum capital requirement, the average is taken over the first year or, if all the contracts within the netting set mature before one year, over the time period of the longest-maturity contract in the netting set.

Funded credit protection means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of a credit institution derives from the right of the credit institution – in the event of the default of the counterparty or an the occurrence of other specified credit events related to the counterparty – to liquidate, or to obtain transfer or appropriation of, or to retain certain assets or amounts, or to reduce the amount of the exposure to, or to replace it with, the amount of the difference between the amount of the exposure and the amount of a claim on the credit institution.

General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors.

Hedging set means a group of risk positions from the transactions within a single netting set for which only their balance is relevant for determining the exposure value under the Standardised Method (Method 3) set out in Annex IV .

Institutions for the purposes of this Rule, 'institutions' means credit institutions and investment firms

Kirb means 8% of the risk-weighted exposure amounts that would be calculated under Articles 84 to 89 in respect of the securitised exposures had they not been securitised plus the amount of expected losses associated with those exposures calculated under those Articles.

Liquidity facility means the securitisation position arising from a contractual agreement to provide funding to ensure timeliness of cashflows to investors.

Long settlement transactions mean transactions where a counterparty undertakes to deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodities, or vice versa, at a settlement or delivery date that is contractually specified as more than the lower of the market standard for this particular transaction and five business days after the date on which the credit institution enters into the transaction.

Loss means economic loss, including material discount effects, and material direct and indirect costs associated with collecting on the instrument.

Loss given default means the ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default.

Margin Agreement means a contractual agreement or provisions to an agreement under which one counterparty shall supply collateral to a second counterparty when an exposure of that second counterparty to the first counterparty exceeds a specified level.

Margin lending transactions mean transactions in which a credit institution extends credit in connection with the purchase, sale, carrying or trading of securities. Margin lending transactions do not include other loans that happen to be secured by securities collateral.

Margin period of risk means the time period from the last exchange of collateral covering a netting set of transactions with a defaulting counterpart until that counterpart is closed out and the resulting market risk is re-hedged.

Margin threshold means the largest amount of an exposure that remains outstanding until one party has the right to call for collateral.

Mortgages: For the purposes of this Rule, mortgages shall include hypothecs on property as defined by related legislation.

Netting set means a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised under Annex IV and Appendix 2 Section III.1. Each transaction that is not subject to a legally enforceable bilateral netting arrangement, which is recognised under Annex IV, should be interpreted as its own netting set for the purpose of this Rule. Under the Internal Model Approach (Method 4) set out in Annex IV, all netting sets with a single counterparty may be treated as single netting set if negative simulated market values of the individual netting sets are set to 0 in the estimation of expected exposure (EE).

One-sided credit valuation adjustment means a credit valuation adjustment that reflects the market value of the credit risk of the counterparty to the credit institution, but does not reflect the market value of the credit risk of the credit institution to the counterparty.

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk.

Originator means either of the following:

(a) an entity which, either iself or through related entities, directly or indirectly, was involved in the original agreement which created the obligations or potential debtor giving rise to the exposure being securitised; or,

(b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them.

Peak exposure means a high percentile of the distribution of exposures at any particular future date before the maturity date of the longest transaction in the netting set.

Probability of default means the probability of default of a counterparty over a one year period.

Public sector entity means non-commercial administrative bodies responsible to central governments, regional governments or local authorities, or authoirites that in the view of the authority exercise the same responsibilities as regional and local authorities, or non-commercial undertakings owned by central governments that have explicit guarantee arrangements, and may include self administered bodies governed by law that are under public supervision.

Rated position means a securitisation position which has an eligible credit assessment by an eligible ECAI as defined in paragraph 13.1 of Appendix 3 Section I.1.

Ratings based method means the method of calculating risk-weighted exposure amounts for securitisation positions in accordance with Appendix 3 Section I.4.

Re-securitisation means a securitisation where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation position.

Re-securitisation position means an exposure to a re-securitisation.

Risk position means a risk number that is assigned to a transaction under the Standardised Method set out in Annex IV following a predetermined algorithm.

Risk-neutral distribution means a distribution of market values or exposures at a future time period where the distribution is calculated using market implied values such as implied volatilities.

Rollover risk means the amount by which expected positive exposure is understated when future transactions with a counterpart are expected to be conducted on an ongoing basis. The additional exposure generated by those future transactions is not included in calculation of expected positive exposure.

Securitisation means a transaction or scheme, whereby the credit risk associated with an exposure mo pool of exposures is tranched, having the following characteristics:

(a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and
(b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Securitisation position means an exposure to a securitisation.

Securitisation special purpose entity (SSPE) means a corporation trust or other entity, other than a credit institution, organised for carrying on a securitisation or securitisations, the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the SSPE from those of the originator credit institution, and the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.

Specific wrong-way risk arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty. A credit institution shall be considered to be exposed to specific wrong-way risk if the future exposure to a specific counterparty is expected to be high when the counterparty's probability of default is also high.

Sponsor means a credit institution other than an originator credit institution that establishes and manages an asset baked commercial paper programme or other securitisation scheme that purchases exposures from third party entities.

Supervisory formula method means the method of calculating risk-weighted exposure amounts for securitisation positions in accordance with Appendix 3 Section I.4.

Synthetic securitisation means a securitisation where the tranching is achieved by the use of credit derivatives or guarantees, and the pool of exposures is not removed from the balance sheet of the originator credit institution.

Traditional securitisation means a securitisation involving the economic transfer fo the exposures being securitised to a securitisation special purpose entity which issues securities. This shall be accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through subparticipation. The securities issued do not represent payment obligation of the originator credit institution.

Tranche means a contractually established segment of the credit risk associated with an exposure or number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments.

Unfunded credit protection means a technique of credit risk mitigation where the reduction of the credit risk on the exposure of a credit institution derives from the undertaking of a third party to pay an amount in the event of the default of the borrower or on the occurrence of other specified credit events.

Unrated position means a securitisation position which does not have an eligible credit assessment by an eligible ECAI as defined in paragraph 13.1 of Appendix 3 Section I.1.