10/03/11: Deciphering the Code

Deciphering "the Code" (otherwise known as: financial jargon)

With the debate over the U.S. government debt, the debt woes in the Euro zone, and talk of a double-dip recession--not to mention protestors camping out on Wall Street--suddenly fairly complex economic issues are showing up in the mainstream news. In our own conversations with clients, we recognize that sometimes the lingo used in the financial services and economic world can be very confusing--especially to people whose idea of a good time is not to follow macroeconomic or investment data.

Recently, to help its viewers cope with the overflow of jargon, the British Broadcasting Corporation developed a guide to the business terms that professionals throw around when describing economic and financial developments, as well as some of the more exotic words coined to describe some of the social effects of the financial crisis. Some of its glossary refers to particularly British issues ("Base Rate" is the key interest rate set by the Bank of England), but many of them are relevant no matter which side of the Atlantic you happen to be living on.

Here are some of the more relevant terms, many of which will be familiar to you, some of which may be new or not understood as well as you would have liked. You can either use this guide to decipher what you've suddenly been reading about in the headlines, or you can test yourself and see if you know most of the terms. If there are only ten terms that you couldn't define before reading this, consider yourself among the economically/financial sophisticates.

Glossary of macroeconomic and financial terminology (and jargon):

AAA-rating - The best credit rating that can be given to a borrower's debts, indicating that the risk of borrower's defaulting is minuscule.

Assets - Things that provide income or some other value to their owner

Fixed assets (also known as long-term assets) are things a business might own that have a useful life of more than one year, for example buildings and machinery; there are also intangible fixed assets, like the good reputation of a company or brand. Current assets are the things on the corporate books that can easily be turned into cash and are expected to be sold or used up in the near future.

Investment assets refers to stocks, bonds, mutual funds and all the other things that might be in an investor's portfolio.

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Bankruptcy - A legal process in which the assets of an insolvent borrower - which can be an individual, a company or a bank - are valued, and possibly sold off (liquidated), in order to repay debts. At the end of the process, the borrower is free of debt and able to start a new beginning.

Where the borrower's assets are insufficient to repay its debts, the debts have to be written off. This means the lenders must accept that some of their loans will never be repaid, and the borrower is freed of its debts. Bankruptcy varies greatly from one country to another, some countries have laws that are very friendly to borrowers, while others are much more friendly to lenders.

Basel accords - The Basel Accords refer to a set of agreements by an international committee with representatives of many nations, called the Basel Committee on Bank Supervision (BCBS), which provide recommendations on banking regulations. The purpose of the accords is to ensure that financial institutions have enough capital to meet obligations and absorb unexpected losses.

Basis point - One hundred basis points make up a percentage point, so an interest rate cut of 25 basis points might take the rate, for example, from 3% to 2.75%.

Bear market - a period when security prices are falling and investors, fearing losses, tend to sell. This can create a self-sustaining downward spiral.

BIS - The Bank for International Settlements is an international association of central banks based in Basel, Switzerland. Crucially, it agrees international standards for the capital adequacy of banks - that is, the minimum buffer banks must have to withstand any losses. In response to the financial crisis, the BIS has agreed on a much stricter set of rules. As these are the third such set of regulations, they are known as "Basel III".

Bond - a debt security, or more simply, an IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. Bonds can be issued by companies, banks or governments to raise money. Banks and investors buy and trade bonds.

Bull market - A bull market is one in which prices are generally rising and investor confidence is high.

Capital - For investors, it refers to their stock of wealth, which can be put to work in order to earn income. For companies, it typically refers to sources of financing such as newly issued shares.

For banks, it refers to their ability to absorb losses in their accounts. Banks normally obtain capital either by issuing new shares, or by keeping hold of profits instead of paying them out as dividends. If a bank writes off a loss on one of its assets - for example, if it makes a loan that is not repaid - then the bank must also write off a corresponding amount of its capital. If a bank runs out of capital, then it is insolvent, meaning it does not have enough assets to repay its debts.

Capital adequacy ratio - A measure of a bank's ability to absorb losses. It is defined as the value of its capital divided by the value of risk-weighted assets (i.e. taking into account how risky they are). A low capital adequacy ratio suggests that a bank has a limited ability to absorb losses, given the amount and the riskiness of the loans it has made.

A banking regulator - typically the central bank - sets a minimum capital adequacy ratio for the banks in each country, and an international minimum standard is set by the BIS. A bank that fails to meet this minimum standard must be recapitalized, for example by issuing new shares.

Capitulation (market) - The point when a flurry of panic selling induces a final collapse - and ultimately a bottoming out - of prices.

Carry trade - Typically, the borrowing of currency with a low interest rate, converting it into a different currency with a high interest rate and then lending it by purchasing bonds in that other currency. The most common carry trade currency used to be the yen, with traders seeking to benefit from Japan's low interest rates. Now the dollar, euro and pound can also serve the same purpose. The element of risk is in the fluctuations in the currency market.

Chapter 11 - The term for bankruptcy protection in the US. It postpones a company's obligations to its creditors, giving it time to reorganize its debts or sell parts of the business, for example.

Collateralized debt obligations (CDOs) - A financial instrument that groups individual loans, mortgages, bonds or other assets in a portfolio, which can then be traded. In theory, CDOs attract a stronger credit rating than individual assets due to the risk being more diversified. But as the performance of many assets fell during the financial crisis, the value of many CDOs was also reduced.

Commercial paper - Unsecured, short-term loans taken out by companies. The funds are typically used for working capital, rather than fixed assets such as a new building. The loans take the form of IOUs that can be bought and traded by banks and investors, similar to bonds.

Commodities - Commodities are products that, in their basic form, are all the same so it makes little difference from whom you buy them. That means that they can have a common market price. You would be unlikely to pay more for iron ore just because it came from a particular mine, for example. (Remember that the next time you make a major purchase of iron ore.)

Contracts to buy and sell commodities usually specify minimum common standards, such as the form and purity of the product, and where and when it must be delivered.

The commodities markets range from soft commodities such as sugar, cotton and pork bellies to industrial metals such as iron, copper and zinc.

Correction (market) - A short-term drop in stock market prices. The term comes from the notion that, when this happens, overpriced or underpriced stocks are returning to their "correct" values.

CPI - The Consumer Price Index is a measure of the price of a bundle of goods and services from across the economy. It is the most common measure used to identify inflation in a country. CPI is used as the target measure of inflation by the U.S. Federal Reserve Board, and can influence such wide-ranging financial issues as the bond market rates, Social Security and pension payments, and the negotiation of salaries.

Credit crunch - A situation where banks and other lenders all cut back their lending at the same time, because of widespread fears about the ability of borrowers to repay. If heavily-indebted borrowers are cut off from new lending, they may find it impossible to repay existing debts. Reduced lending also slows down economic growth, which also makes it harder for all businesses to repay their debts.

Credit default swap (CDS) - A financial contract that provides insurance-like protection against the risk of a third-party borrower defaulting on its debts. For example, a bank that has made a loan to Greece may choose to hedge the loan by buying CDS protection on Greece. The bank makes periodic payments to the CDS seller. If Greece defaults on its debts, the CDS seller must buy the loans from the bank at their full face value. CDSs are not just used for hedging - they are used by investors to speculate on whether a borrower such as Greece will default.

Credit rating - The assessment given to debts and borrowers by a ratings agency according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay. Ratings range from AAA, the safest, down to D, a company that has already defaulted. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as junk.

Currency peg - A commitment by a government to maintain its currency at a fixed value in relation to another currency. Sometimes pegs are used to keep a currency strong, in order to help reduce inflation. In this case, a central bank may have to sell its reserves of foreign currency and buy up domestic currency in order to defend the peg. If the central bank runs out of foreign currency reserves, then the peg will collapse.

Pegs can also be used to help keep a currency weak in order to gain a competitive advantage in trade and boost exports. China has been accused of doing this. The People's Bank of China has accumulated trillions of dollars in US government bonds, because of its policy of selling Yuan and buying dollars - a policy that has the effect of keeping the Yuan weak.

Debt restructuring - A situation in which a borrower renegotiates the terms of its debts, usually in order to reduce short-term debt repayments and to increase the amount of time it has to repay them. If lenders do not agree to the change in repayment terms, or if the restructuring results in an obvious loss to lenders, then it is generally considered a default by the borrower. However, restructurings can also occur through a voluntary debt swap, in which case it can be very hard to determine whether it counts as a default.

Default - Strictly speaking, a default occurs when a borrower has broken the terms of a loan or other debt, for example if a borrower misses a payment. The term is also loosely used to mean any situation that makes clear that a borrower can no longer repay its debts in full, such as bankruptcy or a debt restructuring.

A default can have a number of important implications. If a borrower is in default on any one debt, then all of its lenders may be able to demand that the borrower immediately repay them. Lenders may also be required to write off their losses on the loans they have made.

Deflation - Negative inflation - that is, when the prices of goods and services across the whole economy are falling on average.

Deleveraging - A process whereby borrowers reduce their debt loads. Primarily this occurs by repaying debts. It can also occur by bankruptcies and debt defaults, or by the borrowers increasing their incomes, meaning that their existing debt loads become more manageable. Western economies are experiencing widespread deleveraging, a process associated with weak economic growth that is expected to last for years. Households are deleveraging by repaying mortgage and credit card debts. Banks are deleveraging by cutting back on lending. Governments are also beginning to deleverage via austerity programs - cutting spending and increasing taxation.

Derivative - A financial contract which provides a way of investing in a particular product without having to own it directly. For example, a stock market futures contract allows investors to make bets on the value of a stock market index such as the FTSE 100 without having to buy or sell any shares. The value of a derivative can depend on anything from the price of coffee to interest rates or what the weather is like. Credit derivatives such as credit default swaps depend on the ability of a borrower to repay its debts. Derivatives allow investors and banks to hedge their risks, or to speculate on markets. Futures, forwards, swaps and options are all types of derivatives.

Dividends - An income payment by a company to its shareholders, usually linked to its profits.

Ebitda - Earnings (or profit) before interest payments, tax, depreciation and amortization. It is a measure of the cash flow at a company available to repay its debts, and is much more important indicator for lenders than the borrower's profits.

ECB - The European Central Bank is the central bank responsible for monetary policy in the euro zone. It is headquartered in Frankfurt and has a mandate to ensure price stability - which is interpreted as an inflation rate of no more than 2% per year.

EFSF - The European Financial Stability Facility is currently a temporary fund worth up to 440 billion Euros ($589 billion) set up by the euro zone in May 2010. Following a previous bail-out of Greece, the EFSF was originally intended to help other struggling euro zone governments, and has since provided rescue loans to the Irish Republic and Portugal. More recently, the euro zone agreed to broaden the EFSF's mandate, for example by allowing it to support banks.

EFSM - The European Financial Stability Mechanism is 60 billion Euros ($80 billion) of money pledged by the member governments of the European Union, including 7.5 billion Euros ($10 billion) pledged by the United Kingdom. The EFSM has been used to loan money to the Irish Republic and Portugal. It will be replaced by the ESM from 2013.

Equity - The value of a business or investment after subtracting any debts owed by it. The equity in a company is the value of all its shares. In a house, your equity is the amount your house is worth minus the amount of mortgage debt that is outstanding on it.

Euro zone - The 17 countries that share the euro.

Fiscal policy - The government's borrowing, spending and taxation decisions. If a government is worried that it is borrowing too much, it can engage in austerity - raising taxes and cutting spending. Alternatively, if a government is afraid that the economy is going into recession it can engage in fiscal stimulus - cutting taxes, raising spending and raising borrowing.

Fundamentals - Fundamentals determine a company, currency or security's value in the long-term. A company's fundamentals include its assets, debt, revenue, earnings and growth.

Futures - A futures contract is an agreement to buy or sell a commodity at a predetermined date and price. It could be used to hedge or to speculate on the price of the commodity. Futures contracts are a type of derivative, and are traded on an exchange.

G7 - The group of seven major industrialized economies, comprising the US, UK, France, Germany, Italy, Canada and Japan.

G8 - The G7 plus Russia.

G20 - The G8 plus developing (also known as emerging) countries that play an important role in the global economy, such as China, India, Brazil and Saudi Arabia. It gained in significance after leaders agreed how to tackle the 2008-09 financial crisis and recession at G20 gatherings.

GDP - Gross domestic product. A measure of all economic activity in a country, (public, private, and government expenditures), which includes all the goods and services produced in a year. There are three main ways of calculating GDP - through output, through income and through expenditure.

A recession is defined as a period of time when the GDP growth turns negative, which is why GDP figures are so widely followed.

Haircut - A reduction in the value of a troubled borrower's debts, imposed on, or agreed with, its lenders as part of a debt restructuring.

Hedge fund - A private investment fund which uses a range of sophisticated strategies to maximize returns including hedging, leveraging and derivatives trading. Hedge Funds are not regulated like other investment vehicles, such as mutual funds, are. Authorities around the world are working on ways to regulate them.

Hedging - Making an investment to reduce the risk of price fluctuations to the value of an asset. Airlines often hedge against rising oil prices by agreeing in advance to buy their fuel at a set price. In this case, a rise in price would not harm them - but nor would they benefit from any falls.

IMF - The International Monetary Fund is an organization set up after World War II to provide financial assistance to governments. Since the 1980s, the IMF has been most active in providing rescue loans to the governments of developing countries that run into debt problems. Since the financial crisis, the IMF has also provided rescue loans, alongside the European Union governments and the ECB, to Greece, the Irish Republic and Portugal. The IMF is traditionally - and of late controversially - headed by a European.

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Impairment charge The amount written off by a company when it realizes that it has valued an asset more highly than it is actually worth.

Inflation - The upward price movement of goods and services.

Insolvency - A situation in which the value of a borrower's assets is not enough to repay all of its debts. If a borrower can be shown to be insolvent, it normally means they can be declared bankrupt by a court.

Investment bank - Investment banks provide financial services for governments, companies or extremely rich individuals. They differ from commercial banks where you have your savings or your mortgage. Traditionally investment banks provided underwriting, and financial advice on mergers and acquisitions, and how to raise money in the financial markets. The term is also commonly used to describe the more risky activities typically undertaken by such firms, including trading directly in financial markets for their own account.

Junk bond - A bond with a credit rating of BB+ or lower. These debts are considered very risky by the ratings agencies. Typically the bonds are traded in markets at a price that offers a very high yield (return to investors) as compensation for the higher risk of default.

Keynesian economics - The economic theories of John Maynard Keynes. In modern political parlance, the belief that the state can directly stimulate demand in a stagnating economy, for instance, by borrowing money to spend on public works projects like roads, schools and hospitals.

Leverage - Leverage means using debt to supplement investment. The more you borrow on top of the funds (or equity) you already have, the more highly leveraged you are. Leverage can increase both gains and losses. Deleveraging means reducing the amount you are borrowing.

Liability - A debt or other form of payment obligation, listed in a company's accounts.

Limited liability - Confines an investor's loss in a business to the amount of capital they invested. If a person invests £100,000 in a company and it goes under, they will lose only their investment and not more.

Liquidity - How easy something is to convert into cash. Your current account, for example, is more "liquid" than your house. If you needed to sell your house quickly to pay bills you might have to drop the price substantially to get a sale.

Liquidity crisis - A situation in which it suddenly becomes much more difficult for banks to obtain cash, due to a general loss of confidence in the financial system. Investors (and, in the case of a bank run, even ordinary depositors) may withdraw their cash from banks, while banks may stop lending to each other, if they fear that some banks could go bust. Because most of a bank's money is tied up in loans, even a healthy bank can run out of cash and collapse in a liquidity crisis. Central banks usually respond to a liquidity crisis - as they did in 2008-09 - by acting as "lender of last resort" and providing emergency cash loans to the banks.

Liquidity trap - A situation described by economist John Maynard Keynes in which nervousness about the economy leads everybody to cut back on their spending and to hold cash, even if the cash earns no interest. The widespread fall in spending undermines the economy, which in turn makes households, banks, investors and companies even more nervous about spending and investing their money. The problem becomes particularly intractable when - as in Japan over the last 20 years - the weak spending leads to falling prices, which creates a stronger incentive for people to hold onto their cash, and also makes debts more difficult to repay. In a liquidity trap, monetary policy can become useless, and Keynes said that the onus is on governments to increase their spending.

Loans-to-deposit ratio - For financial institutions, the sum of their loans divided by the sum of their deposits. It is used as a way of measuring a bank's vulnerability to the loss of confidence in a liquidity crisis. Deposits are typically guaranteed by the bank's government, and are therefore considered a safer source of funding for the bank. Before the 2008 financial crisis, many banks became reliant on other sources of funding - meaning they had very high loan-to-deposit ratios. When these other sources of funding suddenly evaporated, the banks were left critically short of cash.

Mark-to-market (MTM) - Recording the value of an asset on a daily basis according to current market prices. So for a Greek government bond, the MTM is how much it could be sold for today. Banks are not required to mark to market investments that they intend to hold indefinitely (in what is called the "banking book" in accounting jargon). Instead, these investments are valued at the price at which they were originally purchased, minus any impairment changes - which might arise following a default by the borrower.

Monetary policy - The policies of the central bank. A central bank has an unlimited ability to create new money. This allows it to control the short-term interest rate, as well as to engage in unorthodox policies such as quantitative easing - printing money to buy up government debts and other assets. Monetary policy can be used to control inflation and to support economic growth.

Money markets - Global markets dealing in borrowing and lending on a short-term basis. A money market fund might invest in loans whose duration is as short as a single day.

Monoline insurance - Monolines were set up in the 1970s to insure against the risk that a bond will default. Companies and public institutions issue bonds to raise money. If they pay a fee to a monoline to insure their debt, the guarantee helps to raise the credit rating of the bond, which in turn means the borrower can raise the money more cheaply.

Mortgage-backed securities (MBS) - These are securities that pass through payments received on a large collection of mortgage debts. Banks repackage debts from a number of mortgages into MBS, which can be bought and traded by investors. By selling off their mortgages in the form of MBS, it frees the banks up to lend to more homeowners.

Naked short selling - A version of short selling, illegal or restricted in some jurisdictions, where the trader does not first establish that he is able to borrow the relevant asset.

Nationalization - The act of bringing an industry or assets such as land and property under state control.

Negative equity - Refers to a situation in which the value of your house is less than the amount of the mortgage that still has to be paid off.

Options - A type of derivative that gives an investor the right to buy (or to sell) something - anything from a share to a barrel of oil - at an agreed price and at an agreed time in the future. Options become much more valuable when markets are volatile, as they can be an insurance against price swings.

Ponzi scheme - Similar to a pyramid scheme, an enterprise where funds from new investors - instead of genuine profits - are used to pay high returns to current investors. Named after the Italian fraudster Charles Ponzi, such schemes are destined to collapse as soon as new investment tails off or significant numbers of investors simultaneously wish to withdraw funds.

Prime rate - A term used to describe the standard lending rate of banks to most customers. The prime rate is usually the same across all banks, and higher rates are often described as "x percentage points above prime".

Private equity fund - An investment fund that specializes in buying up troubled or undervalued companies, reorganizing them, and then selling them off at a profit.

PPI - The Producer Prices Index, a measure of the wholesale prices at which factories and other producers are able to sell goods in an economy.

Profit warning - When a company issues a statement indicating that its profits will not be as high as it had expected. Also profits warning.

Quantitative easing - Central banks increase the supply of money by "printing" more. In practice, this may mean purchasing government bonds or other categories of assets, using the new money. Rather than physically printing more notes, the new money is typically issued in the form of a deposit at the central bank. The idea is to add more money into the system, which depresses the value of the currency, and to push up the value of the assets being bought and to lower longer-term interest rates, which encourages more borrowing and investment. Some economists fear that quantitative easing can lead to very high inflation in the long term.

Rating - The assessment given to debts and borrowers by a ratings agency according to their safety from an investment standpoint - based on their creditworthiness, or the ability of the company or government that is borrowing to repay. Ratings range from AAA, the safest, down to D, a company that has already defaulted. Ratings of BBB- or higher are considered "investment grade". Below that level, they are considered "speculative grade" or more colloquially as junk.

Rating agency - A company responsible for issuing credit ratings. The three major rating agencies are Moody's, Standard & Poor's and Fitch.

Recapitalization - To inject fresh equity into a firm or a bank, which can be used to absorb future losses and reduce the risk of insolvency. Typically this will happen via the firm issuing new shares. The cash raised can also be used to repay debts. In the case of a government recapitalizing a bank, it results in the government owning a stake in the bank. In an extreme case, such as Royal Bank of Scotland, it can lead to nationalization, where the government owns a majority of the bank.

Recession - A period of negative economic growth. In most parts of the world a recession is technically defined as two consecutive quarters of negative economic growth - when real output falls. In the United States, a larger number of factors are taken into account, such as job creation and manufacturing activity. However, this means that a US recession can usually only be defined when it is already over.

Repo - A repurchase agreement - a financial transaction in which someone sells something (for example a bond or a share) and at the same time agrees to buy it back again at an agreed price at a later day. The seller is in effect receiving a loan. Repos were heavily used by investment banks such as Lehman Brothers to borrow money prior to the financial crisis.

Repos are also used by speculators for short selling. The speculator can buy a share through a repo and then immediately sell it again. At a later date the speculator hopes to buy the share back from the market at a cheaper price, before selling it back again at the pre-agreed price via the repo.

Reserve currency - A currency that is widely held by foreign central banks around the world in their reserves. The US dollar is the pre-eminent reserve currency, but the euro, pound, yen and Swiss franc are also popular.

Reserves - Assets accumulated by a central bank, which typically comprise gold and foreign currency. Reserves are usually accumulated in order to help the central bank defend the value of the currency, particularly when its value is pegged to another foreign currency or to gold.

Retained earnings - Profits not paid out by a company as dividends and held back to be reinvested.

Securities lending - When one broker or dealer lends a security (such as a bond or a share) to another for a fee. This is the process that allows short selling.

Securitization - Turning something into a security. For example, taking the debt from a number of mortgages and combining them to make a financial product, which can then be traded (see mortgage backed securities). Investors who buy these securities receive income when the original home-buyers make their mortgage payments.

Security - A contract that can be assigned a value and traded. It could be a share, a bond or a mortgage-backed security. Separately, the term "security" is also used to mean something that is pledged by a borrower when taking out a loan. For example, mortgages in the UK are usually secured on the borrower's home. This means that if the borrower cannot repay, the lender can seize the security - the home - and sell it in order to help repay the outstanding debt.

Shadow banking - A global financial system - including investment banks, securitization, SPVs, CDOs and monoline insurers - that provides a similar borrowing-and-lending function to banks, but is not regulated like banks. Prior to the financial crisis, the shadow banking system had grown to play as big a role as the banks in providing loans. However, much of shadow banking system collapsed during the credit crunch that began in 2007, and in the 2008 financial crisis.

Short selling - A technique used by investors who think the price of an asset, such as shares or oil contracts, will fall. They borrow the asset from another investor and then sell it in the relevant market. The aim is to buy back the asset at a lower price and return it to its owner, pocketing the difference. Also known as shorting.

Spread (yield) - The difference in the yield of two different bonds of approximately the same maturity, usually in the same currency. The spread is used as a measure of the market's perception of the difference in creditworthiness of two borrowers.

SPV - A Special Purpose Vehicle (also Special Purpose Entity or Company) is a company created by a bank or investment bank solely for the purpose of owning a particular set of loans or other investments, and distributing the risk to investors. Before the financial crisis, SPVs were regularly used by banks to offload loans that they owned, freeing the banks up to lend more. SPVs were a major part of the shadow banking system, and were used in securitization and CDOs.

Stagflation - The dreaded combination of inflation and stagnation - an economy that is not growing while prices continue to rise. Most major western economies experienced stagflation during the 1970s.

Sub-prime mortgages - These carry a higher risk to the lender (and therefore tend to be at higher interest rates) because they are offered to people who have had financial problems or who have low or unpredictable incomes.

Swap - A derivative that involves an exchange of cash flows between two parties. For example, a bank may swap out of a fixed long-term interest rate into a variable short-term interest rate, or a company may swap a flow of income out of a foreign currency into their own currency.

Tier 1 capital - A calculation of the strength of a bank in terms of its capital, defined by the Basel Accords, typically comprising ordinary shares, disclosed reserves, retained earnings and some preference shares.

Toxic debts - Debts that are very unlikely to be recovered from borrowers. Most lenders expect that some customers cannot repay; toxic debt describes a whole package of loans that are unlikely to be repaid. During the financial crisis, toxic debts were very hard to value or to sell, as the markets for them ceased to function. This greatly increased uncertainty about the financial health of the banks that owned much of these debts.

Underwriters - The financial institution pledging to purchase a certain number of newly-issued securities if they are not all bought by investors. The underwriter is typically an investment bank who arranges the new issue. The need for an underwriter can arise when a company makes a rights issue or a bond issue.

Unwind - To unwind a deal is to reverse it - to sell something that you have previously bought, or vice versa, or to cancel a derivative contract for an agreed payment. When administrators are called in to a bank, they must do the unwinding before creditors can get any money back.

Warrants - A document entitling the bearer to receive shares, usually at a stated price.

Working capital - A measure of a company's ability to make payments falling due in the next 12 months. It is calculated as the difference between the company's current assets (unsold inventories plus any cash expected to be received over the coming year) minus its current liabilities (what the company owes over the same period). A healthy company should have a positive working capital. A company with negative working capital can experience cash flow problems.

World Bank - Set up after World War II along with the IMF, the World Bank is mainly involved in financing development projects aimed at reducing world poverty. The World Bank is traditionally headed by an American, while the IMF is headed by a European. Like the IMF and OECD, the World Bank produces economic data and research, and comments on global economic policy.

Write-down - Reducing the book value of an asset, either to reflect a fall in its market value (see mark-to-market) or due to an impairment charge.

Yield - The return to an investor from buying a bond implied by the bond's current market price. It also indicates the current cost of borrowing in the market for the bond issuer. As a bond's market price falls, its yield goes up, and vice versa. Yields can increase for a number of reasons. Yields for all bonds in a particular currency will rise if markets think that the central bank in that currency will raise short-term interest rates due to stronger growth or higher inflation. Yields for a particular borrower's bonds will rise if markets think there is a greater risk that the borrower will default.

What have we missed? If you've come across a financial term or phrase that you're unsure of, either in our communications or in the media, please let us know. We'll try our best to explain.

(Source: http://www.bbc.co.uk/news/business-15060411)

Margie