Trust and Asset Management Glossary

10b-10
SEC rule requiring written confirmations for securities transactions. Equivalent to FDIC Part 344.

12b-1
SEC rule permitting mutual funds to use a portion of the mutual fund's assets for promotional as well as other expenses. The fund must be specifically registered as 12b-1 fund and disclose the existence and amount of such charges against the fund.

13d
SEC rule requiring a filing by any person acquiring a direct or indirect 5% interest in a registered stock.

13f-1
SEC rule requiring quarterly Form 13F reports by institutions holding more than $100 million in discretionary equities.

13g
SEC rule requiring an annual filing by persons holding a direct or indirect 5% interest in a registered stock for passive investment purposes.

17f-1
SEC rule covering lost, stolen, counterfeit and missing securities certificates that require banks and transfer agents to register with the Securities Information Center.

156
SEC rule governing mutual fund advertising and sales literature that prohibits false and misleading materials.

401(a) PLAN
A qualified employee benefit pension plan in which a company is allowed a current deduction for its contributions to the plan; the employee pays no tax on money contributed for the employee's benefit until a distribution is made; earnings from investments made with funds in the plan accumulate tax-free; and distributions from the plan may be afforded favorable income tax treatment.

401(h) PLAN
An employee benefit plan that provides for the payment of benefits for sickness, accident, hospitalization and medical expenses for retirees, their spouses and dependents, subject to certain restrictions.

401(k) PLAN
A defined contribution pension plan established by an employer that offers participants an election to receive company contributions in cash or to have these amounts contributed to the plan. A 401(k) plan may also be in the form of a salary reduction agreement. Under this type of arrangement, each eligible employee may elect to reduce current compensation or elect to forgo a salary increase and have these amounts contributed to the plan. Benefits attributable to employer contributions to a 401(k) plan generally may not be distributed without penalty until the employee retires, becomes disabled, dies or reaches age 59 ½. Contributions made by the employer to the plan at the employee's election are nonforfeitable.

403(b) PLAN A defined contribution employee benefit plan established by certain tax-exempt organizations (501(c)(3) organizations) and public schools for their employees. Similar to a 401(k) plan but typically are in the form of an annuity.

457 PLAN
A deferred compensation plan for employees of state and local governments and certain tax-exempt organizations. Named after the governing section of the Internal Revenue Code, a portion of their income may be deferred and is not taxable until a distribution is made.

501(c)(9) TRUST
(1) Used by employers and jointly administered welfare funds to provide group employee benefits of the following types: medical, disability, term life insurance, severance compensation, vacation benefits, recreational facilities and unemployment compensation. Section 501(c) (9) of the Internal Revenue Code governs these trusts. (2) A type of self-insured or self-funded plan that is a tax-exempt trust. Under its terms, both employer and employee contributions are paid into the fund, with claims and expenses paid out of it. The fund's trustees invest excess funds as reserves. In a tax-qualified fund, the employer's deductions are immediately deductible, the trust's investment income is tax exempt, and employee contributions are not currently taxed. See also **VEBA** s.

Accretion of a Discount
In portfolio accounting, a straight-line accumulation of capital gains on discount bonds in anticipation of receipts of par at maturity.

Accrued Benefit
For any retirement plan which is not a defined benefit pension plan, a participant's accrued benefit is the balance in his/her plan account, whether vested or not. In the case of a defined benefit pension plan, a participant's accrued benefit is his/her benefit as determined under the terms of the plan expressed in the form of an annual benefit commencing at normal retirement age.

Accrued Interest
Interest due from issue or from the last coupon date to the present on an interest-bearing security. The buyer of the security pays the quoted dollar price plus accrued interest. In general, interest that has been earned since the date of the last payment.

Adjusted Gross Estate
The value of an estate after all allowable deductions has been subtracted from the gross estate but before federal estate taxes.

Administrator
An individual or a corporation appointed by a court to settle the estate of a person who has died without leaving a valid will. The primary difference between the duties of an administrator and an executor lies in the responsibility of the administrator to manage and distribute the property according to state law, whereas the executor acts according to the provisions of the will.

Administrator (Employee Benefit Plans)
Under ERISA in §3(16)(A), the person designated as administrator by the instrument under which the plan is operated. If the administrator is not so designated, "administrator" means the plan sponsor. If the administrator is not designated and the plan sponsor cannot be identified, the administrator may be such person as is prescribed by Department of Labor regulations.

Administrator Ad Litem
An administrator appointed by the court to supply a party to an action at law or in equity in which the deceased or his/her representative was, or is, a necessary party.

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Administrator de Bonis Nonadministrator as to property not yet distributed
An individual or a trust institution appointed by a court to complete the settlement of the estate of a person who has died without leaving a valid will when the administrator originally appointed has failed to continue in office.

Administrator with the Will Annexed
An individual or a trust institution appointed by a court to settle the estate of a deceased person in accordance with the terms of his/her will when no executor has been named in the will or when the one named has failed to qualify.

Ad Valorem Taxes
Taxes assessed according to the value of the property.

ADR
See **American Depository Receipt**.

Agency
An account in which the title to the property constituting the agency does not pass to the trust institution, i.e. the agent. Title remains with the owner of the property, who is known as the principal. The agent is charged in the governing agreement with specific duties regarding the funds held in the account.

Agent
A person who acts for another person by the latter's authority. The distinguishing characteristics of an agent are that:

- He/she acts on behalf and subject to the control of his/her principal.
- He/she does not have title to the property of his/her principal.
- He/she owes the duty of obedience to the principal's orders.

AIMR (Association for Investment Management and Research)
The AIMR Performance Presentation Standards were first introduced under the auspices of the Financial Analysts Federation. The Standards are a set of guiding ethical principles embraced by investment professionals for the presentation of investment performance, and have been interpreted as minimum standards for presenting investment performance. The Standards have been designed to improve the service offered to investment management clients, to enhance the industry's professionalism and to bolster self-regulation by promoting full disclosure and fair representation by investment managers. There are requirements and mandatory disclosures necessary to claim compliance with the Standards and recommended practices.

Alpha
Alpha is the premium that funds would be expected to earn if the market rate of return were equal to the Treasury bill rate, in other words, a premium of zero for the market rate of return. A positive alpha indicates that you have earned on the average, a premium above that expected for the level of market variability. A negative alpha would indicate that your fund received on the average, a premium lower than that expected for the level of market variability. Alpha may be used as a performance indicator or as a surrogate for selectivity.

American Depository Receipts (ADRs)
American certificates issued by New York banks or trust companies against foreign shares that are deposited in foreign branches of American banks. Those receipts facilitate the financing of foreign companies in this country. As foreign shares are deposited abroad, the equivalent ADRs are issued to buyers in New York. When transactions are made, the ADRs change hands, not the stock certificates. This

eliminates the actual shipment of stock certificates between the U.S. and foreign countries and expedites transactions in securities traded on foreign exchanges.

Amortization
As a tax concept, the recovery of the cost or other basis of an intangible asset over its estimated useful life in a manner similar to straight-line depreciation. Such intangible assets are sometimes referred to as "wasting assets." With respect to bonds purchased at a premium, the process by which a part of the income is set aside as received to reduce gradually the amount by which the cost of the bond exceeds its face value.

Ancillary
Subordinate or auxiliary to something or someone else; used in such terms as ancillary administration, ancillary administrator, and ancillary guardian.

Ancillary Administration
Occurs when an administrator or fiduciary is appointed to administer real estate or other property in another state, often occurring when a state prohibits a fiduciary from holding title to out-of-state property.

Annuity
The amount payable according to a contract either annually or at other regular intervals for either a certain or an indefinite period, as for a stated number of years or for life.

Annuity Certain
A contract that provides an income for a specified number of years, regardless of life or death. If an annuitant dies, the beneficiary will receive payments for the remaining number of specified years. Also called period certain, term certain or dollar temporary annuity.

Application
A computer program or set of programs that perform the processing of records for a specific business function.

Application Program
A software program designed to perform a specific task or group of tasks, such as word processing, communications, or database management.

Apportionment
The division or distribution of a receipt or a disbursement of property between or among two or more accounts, as between principal and income; to be distinguished from allocation.

Approved List
A list, statutory or otherwise, which contains the authorized investments that a fiduciary may acquire.

Arbitrage
The simultaneous buying and selling of separate but related currencies, securities or goods in separate markets to profit from a difference in their prices.

Archive File
A data file stored on tape, disk, or CD-ROM that is loaded onto the system only when it is required. Long-term data storage usually used for backup and security purposes.

Assignment
The transfer in writing by one person to another of the title to personal property.

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At The Money
An option is at-the-money if the underlying security is selling for the same price as the option's strike price.

Attorney in Fact
A person who, acting as agent, is given written authorization by another person to transact business for him out of court.

Automatic Dividend Reinvestment
A plan, offered by the issuer or by a mutual fund, whereby the investors can instruct the other party not to pay his/her dividends in cash ("suppress" them). Instead, the investor receives additional shares of the fund.

Back End Load
A sales charge due upon the sale, transfer or disposition of securities (usually mutual funds), partnership interests, annuities or life insurance.

Balloon Payment
A scaled method of bond interest or mortgage payment that allows for a final payment that is proportionally higher than previous payments.

Bankers Acceptances
An irrevocable obligation of an issuing bank and the borrower, whereby both are liable for payment. Used in domestic and/or international trade or commerce to finance the shipment and storage of goods or to facilitate dollar exchange transactions with foreign banks. A stronger instrument than a bank CD, there is no record of an investor sustaining a principal loss on an acceptance of a U.S. bank. Because of the varying dollar amounts involved in international and domestic trade transactions, acceptances are available in a wide variety of principal amounts. Maturities can range from any number of days (usually 30-60-90) up to a legal maximum of 180. Rates are posted and change infrequently.

Bans (Bond Anticipation Notes)
Municipal notes maturing in less than one year issued in advance of a new bond issue. Proceeds from the bond issue will repay the note with interest.

Basis
Basis is the investment in property for tax purposes. Before a determination can be made as to any gain or loss on a sale, exchange, or other disposition of property, or future allowable depreciation, the adjusted basis must be determined. The adjusted basis is the result of increasing or decreasing the original basis according to certain events. The original basis is usually the cost to acquire the asset.

Basis Convergence
In futures and forwards, the phenomenon where the market value of a futures contract approaches the spot price for the underlying item as the delivery date nears.

Basis Point
A basis point is one one-hundredth of a percent. For example, a 150 basis point rise in interest rate is the same as a 1.5% rise. A 10 basis point fee is the same as a 0.1% fee.

Basis Swap
A variable-for-variable interest rate swap.

Bearer Bonds
Bonds that are not registered as to the name of the owner but are the property of the holder.

Beneficial Interest
The interest of a beneficiary, as opposed to the interest of a trustee who holds legal title; the equitable interest in property held in trust which the beneficiary may enforce against the trustee, according to the terms of the trust.

Beneficiary
The person for whose benefit a trust is created. An income beneficiary is entitled to receive the income of the trust, while a remainder beneficiary is entitled to receive the property after the expiration of the income interest. The person to whom the amount of an insurance policy or annuity is payable.

Best Efforts
An underwriting method. The investment banker sells as much of an issue as possible, and charges the issuer on a commission- per-share basis.

Best Execution
The principal whereby a trust department has a duty to obtain the most favorable possible performance of securities purchases and sales. This is generally done through the selection of a broker for a particular transaction. Given the size and type of the transaction, its complexity and where it is traded, the most favorable mix of at least the following factors must be obtained: (1) most favorable price, (2) lowest commission or equivalent, (3) prompt and accurate execution of orders, (4) prompt and accurate confirmation of orders, and (5) prompt and accurate delivery of securities or proceeds. A broker's special abilities, access to, or knowledge of a particular type of investment or transaction could have an impact on best execution.

Beta
Beta (market sensitivity) is a measure of the extent to which individual securities or a portfolio fluctuates with the market as represented by a national market indicator. Beta is a statistical estimate of the average change in a fund's rate of return corresponding to a 1 percent change in the market.

Bequeath
To give personal property by will, to be distinguished from devise.

Bequest
A gift of personal property by will, a legacy.

Bid and Ask Prices
Prices quoted by market-makers on over-the-counter stocks. The "bid" is the price at which the market-maker will buy the security. The "asked" is the proposed selling price of a security by its owner.

BIC
A bank investment contract "BIC" is an investment contract issued by a bank where interest is guaranteed by the bank in a portfolio over a specific time frame with a specific yield. Unlike, guaranteed investment contracts (GICs), BICs do not include annuity provisions.

Blue List (of current Municipal Offerings)
A daily service published by Standard and Poor's Corporation that lists municipal bonds offered publicly by dealers. (This accounts for approximately 40 percent of the municipals available in the national market.)

Blue Sky Laws
State laws concerning the registration and issuance of securities. They are generally different from federal laws and regulations and must be adhered to if a security is to be sold in that state.

Bond Anticipation Note
-term notes sold in anticipation of a bond issue and retired with the proceeds bonds.

Book-
An accounting method for settlement of securities transactions, funds movement, etc., whereby no physical -versa posted to the accounts of the transaction's principals. Those parties must be members of the same securities depository, clearinghouse, Federal Reserve System, or they must maintain special accounts with

The valu less amortization or plus accretion, which may differ significantly from market value. It can be further defined as "accreted book" or" amortized book" valu

Boot
The process of loading the operating system of a computer into the random-access memory from a storage device such as a floppy disk (in the case of a personal computer). This is generally an automatic loading procedure issued by the read-only memory chip. During the boot, several diagnostic tests are performed to check the working order of internal and external devices such as printers or disk drives.

Breach of Trust
Violation of a duty of a trustee to a beneficiary.

Broker
A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; the broker does not take a position.

Bullet
A term used with BIC's and GIC's when a lump sum of money is invested at a fixed interest rate, and repaid at maturity. Interest may be compounded or paid out periodically.

Business Resumption Planning/Contingency Planning
A process of reviewing an institution's various departments, business units, or functions and assessing each area's importance for the viability of the organization and providing customer services. Plans are then developed to restore critical areas should they be affected by physical disasters, such as fires or flooding; environmental disasters, such as power failure or telecommunication failure; or, other disasters.

Cafeteria Plan
A benefit program under which employees have a choice of benefits insurance, health programs, stock options, vacation time, and/or retirement plans. They determine how dollars are to be allocated for each type of benefit from the total amount due them from the employer.

Under a cafeteria plan, participants can elect to receive either taxable or nontaxable benefits. Employer contributions under the plan are excludable from the income of the participant to the extent he or she chooses nontaxable benefits. Nontaxable benefits that can be chosen include group term life insurance up to $50,000 of coverage, disability benefits, accident and health benefits and group legal services to the extent that such benefits are excluded from gross income.

Callable Security
Securities redeemable at the option of the issuer. Applied to a bond or preferred stock that is subject to the purchase, usually on or after a specified date or dates, under designated terms and at a stated price or scale of prices.

Call Option
The contractual right to purchase a security at a specified price and within a specific time period.
Covered: The seller of the option possesses the securities he/she is writing the option on in his/her portfolio.
Naked: The seller does not possess the security he/she is writing the option on in his/her portfolio.

Cap
An option contract that protects the holder from a rise in interest rates or some other underlying index beyond a certain point.

Capital Gains
The difference between purchase price and selling price in the sale of assets. Federal tax rates on such gains fluctuate depending on the amount of time the assets were held but generally they are lower than regular income tax rates.

Cash Equivalents
Short-term investments held in lieu of cash and readily converted into cash within a short time span (i.e., CDs, commercial paper, Treasury bills).

Cash Settlement
Cash settlement takes place on trade date, avoiding the usual five-day settlement delay. Customers with frequent trade fails may be required to settle on a cash basis to avoid further fails.

CATS (Certificates of Accrual on Treasury Securities)
CATS represent ownership in serially maturing interest payments or principal payments on specific underlying United States Treasury notes and bonds. Each CATS entitles the holder to receive a single payment at its maturity.

CEDE & CO.
Depository trust company's nominee name used on all registered securities it holds in storage.

Cemetery Trust
A trust that has as its purpose the upkeep of a grave, burial plot or cemetery.

Charitable Remainder Trust
An arrangement wherein the remainder interest goes to a legal charity upon the termination or failure of a prior interest.

Chattel
Any property, movable or immovable, except a freehold estate in real property.

Chinese Wall
A policy barrier between the trust department and the rest of the bank designed to stop the flow of information for the purpose of preventing use by the trust department of any material inside information, which may come into the possession of other bank departments, in making investment decisions.

Churning
A term used to describe excessive trading in an account for the purpose of generating commissions. The overly frequent buying or selling of a security in the absence of a supportable investment decision would ordinarily constitute churning.

Clearing Corporation
Provides a mechanism for brokers and other parties to a security trade to conveniently settle trades with a minimum of paperwork and exchange of securities. The clearing corporation simplifies settlement by combining and netting transactions for each issue traded. Brokers settle in net amounts rather than by individual trades, normally on a book-entry basis.

Client/Server
A technique with which processing can be distributed between nodes requesting information (clients) and those maintaining data (servers). Computing power is distributed among computer workstations in the network but some shared resources are centralized on a file server.

Clifford Trust
See **Short-Term Trust**.

Closed-End Fund
A mutual fund that allows only the original prescribed number of shares to be distributed. The value of its shares is determined in the open market by supply and demand, instead of by market value.

Closely Held Company
A corporate entity whose stock is owned by a limited number of individuals and is not actively traded on any local market or on any major exchange.

Codicil
An amendment or supplement to a will executed with all the formalities of the will itself. When inconsistent with the provisions of the will, a properly executed codicil takes precedence.

Collar
An upper and lower limit on the coupon of a floating rate note. The issuer pays a premium for the collar.

Collective Fund - Common Trust Fund
A pooled fund, operated by a bank or trust company in conformity with 12 CFR §9.18 and §584 of the Internal Revenue Code or Rev. Ruling 81-100. Used for the investment of the assets of separate trust accounts. Primary advantages of a collective investment fund (common trust fund) are that greater diversification of investments and more efficient investing can be achieved for small and medium-size accounts (the meaning of which will vary from department to department). May be referred to as a common trust fund, a commingled fund or a group trust. Many institutions pool only employee benefit plan assets in collective funds that must be operated in accordance with Rev. Rul. 81-100. They generally use common trust funds which are operated in accordance with §584 of the Internal Revenue Code to pool personal trust assets. Both common and collective funds must adhere to the provisions of 12 CFR §9.18. The OCC uses this term to refer to all types of pooled funds. These funds would have to be registered with the SEC but banks as well as thrifts have an exemption from the securities laws and the funds do not have to be registered. However, note that the SEC requires certain conditions to be met and it strictly interprets these conditions.

Commercial Paper
Negotiable, short-term, unsecured promissory notes issued in bearer form on a discount or coupon basis by a corporation to raise working capital, for up to 270 days. A direct obligation of the issuer, it is sold in

multiples of $25,000 and is rated by Standard & Poor's (A-1, A-2, and A-3) and Moody's (Prime 1, Prime 2, and Prime 3). Interest is paid at maturity. Payment is required in Federal Funds on settlement date (usually at the buyer's option) and payment is required by Federal Funds on the maturity at the issuer's bank. The principal types are Prime Finance Paper issued by sales finance companies and certain large bank holding companies, Prime Industrial Paper issued by leading industrial companies, and Finance Paper of less-than-prime quality. For Prime Finance Paper, investors may specify both the issue and maturity dates. For Prime Industrial Paper, only those maturities listed on the market are available.

Commission
A percentage of principal or income or both which a fiduciary receives as compensation for its services. To be distinguished from allowance, charge and fee.

Committee for Incompetent
An individual or a trust institution appointed by a court to care for the property or the person (or both) of an incompetent, similar to a guardian, conservator or curator.

Common Law
The law of a state based on custom, usage and the decisions of the courts, as distinguished from statutory law. The common law is another source, in addition to the terms of the governing instrument, statutory law and OTS policies that govern the actions of a fiduciary by imposing duties and conferring powers.

Common Trust Fund
A fund maintained by a bank or a trust company for the collective investment of money contributed to the fund by the bank or trust company in its capacity as trustee, executor, administrator or guardian. It operates in conformity with the rules and regulations of 12 C.F.R. §9 and §584 of the Internal Revenue Code. See collective investment fund above.

Commodities
Economic goods, such as raw or semi-processed materials, which are quoted either on a cash immediate delivery or future basis. The commodity prices are quoted daily in the financial or business sections of newspapers and the commodities have agreed upon standard units of quality and size.

Community Property
Property in which a husband and wife each have an undivided one-half interest by reason of their marital status; recognized in all civil law countries and in certain states of the Southwest and Pacific Coast area of the United States.

Complex Trust
A trust in which the trustee is not required to distribute income currently. Trustees may also distribute principal as well as income or make a charitable contribution, if such actions are in accordance with the trust document and applicable law. The trustee files a tax return for the trust each year.

Configuration
The arrangement of a computer system or network as defined by the nature, number, the interconnection and chief characteristics of its functional units. This term may refer to software configuration or hardware configuration.

Conservator
An individual or a trust institution appointed by a court to care for and manage the property of an incompetent person, in the same way as a guardian cares for and manages the property of a minor.

Construction
A legal process involving the interpretation by the court of ambiguous or inconsistent language in a document, such as a will.

Constructive Trust
A trust imposed by a court of equity as a means of doing justice, without regard to the intention of the parties. A situation in which a person who holds title to property is under a duty to convey it to another person; to be distinguished from, an express trust or a resulting trust.

Contingent Beneficiary
The beneficiary whose interest is conditioned upon a future occurrence, which may or may not take place. Unless or until the condition takes place the interest is only contingent.

Contingent Interest
A future interest in real or personal property that is dependent upon the fulfillment of a stated condition. Thus, the interest may never come into existence. To be distinguished from vested interest.

Contractual Derivative
These investment instruments represent a one-of-a-kind arrangement between two parties and include swaps, floors, collars and options. They are not standardized contracts nor do they trade on a regulated exchange. While they offer enticing return potential, some carry high degrees of both market risk and income risk. Because they are not standardized or exchange traded, they are subject to valuation risk (the potential for inaccurate pricing) and liquidity risk (the potential that it cannot be sold at a reasonable price). See also **Derivatives.**

Control Stock
Securities belonging to the individual or individuals who have controlling interest in a company.

Convertible Bond
A bond containing a provision that permits conversion to the issuer's common stock at some fixed exchange ratio.

Convertible Security
Securities that may be exchanged at the holder's option for another class of security, usually common stock. Preferred stocks and bonds may also carry conversion privileges.

Corporate Agent
An account relationship where the institution may perform a variety of services for a corporation with respect to its securities. For example, as paying agent the institution is responsible for making all periodic payments of dividends and interest to the bondholders. Other types of corporate agency services include acting as escrow, exchange, conversion or warrant agent.

Corporate Fiduciary
An institution serving in a fiduciary capacity, such as executor, administrator, trustee, or guardian. As opposed to an individual performing such services.

Corporate Trust
A trust usually created by a corporation to administer and secure a bond issue. When a corporation issues debt as a means of raising funds from investors it executes an agreement (called an "indenture") setting forth the terms and conditions of the borrowing, remedies available in the event of a default, etc. That indenture is administered by a trustee on behalf of all the bondholders (otherwise there would have to be a separately-executed agreement with each bondholder).

Corpus
The principal or capital of an estate or trust, as distinguished from the income.

Counterparty
A principal party to a transaction, other than an intermediary. When looked at from the buyer's viewpoint, the seller is the counterparty and vice versa.

Court Account
Accounts that require court accountings and approval in their normal conduct. Probate, guardianship, conservatorship and testamentary trust accounts are the most common.

Covered Call
A type of stock option in which a trust account sells to a third party the right (the option) to purchase a specific stock (the call) at a specific price until a specific expiration date. Possession of the stock by the trust account (covered) is the final element for a covered call option. It is different from a naked call option, in which the trust account does not own the stock.

Covered Put
A type of option on an instrument or commodity in which the writer has a short position.

Credit Risk
The risk of default as reflected by the financial and operating risks of the issuer. Relevant to corporate fixed income securities as well as municipal and institutional obligations.

Crummey Trust
A trust established granting a beneficiary a limited power to withdraw income or principal or both ("Crummey power"). Thrifts may see this most often in the case of life insurance trusts. The trust acts as owner of a life insurance policy. The trust receives the donor's cash payments for the policy premiums on a periodic basis, from which the beneficiary of the trust (usually the children of the grantor of the trust) has a specified period to request the cash be distributed to him or her. Notice must be given to the trust beneficiaries that such cash is being put into the trust and they have a right to demand it be paid to them instead. The IRS has ruled that such an arrangement allows a donor to make a gift of present value interest to the trust beneficiaries. Since it is a gift of present value, the donor may contribute to the trust up to $10,000 ($20,000 if two donors, husband and wife, contribute) per year in premium payments and enjoy the gift tax exclusion. When the donor dies, the life insurance policy in the trust is effectively removed from the donor's estate into the hands of the trust beneficiaries without any estate tax consequences.

Cumulative Voting System (or Rights)
A provision of some common stock issues which allows the stockholder to cast all of his/her votes for one director instead of splitting the votes among the several directors who may be standing for election. This privilege may give minority shareholders greater influence on the board of directors.

Current Yield
Annual interest (or dividends) divided by current market price of a bond (or stock). For stocks, the "annual dividends" figure is the latest quarterly dividend times four.

CUSIP
(Acronym for Committee on Uniform Securities Identification Procedures). A uniform numbering system widely used to identify specific securities and their issuers. It includes corporate, municipal, state, federal and some foreign issues. The CUSIP number appears on the certificate and in documents relating to securities processing.

Custody Account or Custodial Agent
An agency account for which the main duties of the custodian are to safeguard and preserve the property and to perform various acts with respect to the property as directed by the principal. The agent may or may not have investment responsibilities. When an agent has investment discretion, it will be deemed to be performing in a fiduciary capacity. If an agent is giving investment advice for a fee, it is also deemed to be acting in a fiduciary capacity.

Database
A collection of interrelated or nonrelated data stored together. A data structure for accepting, storing and providing data on demand.

Data Processing System Security
The technological and administrative safeguards established and applied to a data processing system to protect hardware, software and data from accidental or malicious modifications, destruction or disclosure.

Day Order
An order to buy or sell securities, which, if not executed, expires at the end of the trading day on which it was entered.

Dealer
A party that purchases securities and then sells them at a markup price. The difference between the purchase and sale prices is the dealer's gross profit for the transaction.

Dealer Market Maker
The dealer market maker trades in the over-the-counter market. Those firms hold inventories of the stocks they trade, but do not look to make profits from speculation or investment in those issues. Instead, their profits are based on a large, rapid turnover at a favorable price differential.

Debenture
A bond or promissory note backed by the general credit of the issuer, but not secured by specific assets of the issuer.

Debt Securities
An obligation that evidences a debt usually repayable on a specified date or dates and which carries a specific rate or rates of interest payable periodically. Also may be non-interest bearing. Includes commercial paper, bonds, notes, mortgages, etc.

Decedent
A deceased person.

Defalcation
The misappropriation of money or property by one to whom it has been entrusted, usually by reason of his/her employment.

Default
With regard to a bond or promissory note, the failure to make a payment either of principal or interest when due.

Defeasement
A type of municipal debt financing which enables the issuing government entity to reduce the amount of interest it pays on existing outstanding bonds. As an example, an entity that has high-rate outstanding bonds issues new debt at a lower rate. The proceeds are used to buy Treasuries, which generate enough

interest to pay the interest on the old outstanding bonds. The Treasuries can be sold when the old bonds reach their call date, providing a source of funds to retire the old debt. The net effect is the government entity pays less on a current basis.

Defined Benefit Plan
A pension plan that guarantees the payment of a specified benefit at retirement age and provides annual contributions equal to an actuarially determined amount sufficient to produce the specified benefit.

Defined Contribution Plan
A pension plan that provides for an individual account for each participant and for benefits based upon the amount contributed to the participant's account including any income, expenses, gains or losses. See also **Individual Account Plan**, **Money Purchase Plans**, **Profit Sharing Plans**, **Target Plans**, and **Employee Stock Ownership Plans** (ESOP's).

Delay Rental
A fixed amount of money per acre usually paid annually to the lessor until drilling commences or until production is begun. However, under a paid up lease, delay rentals are computed and paid at the time the lease is executed.

Delivery vs. Payment
A delivery of securities whose terms require payment. Normally, payment is due on a scheduled settlement date, even if securities are delayed.

Depletion
The exhaustion of a natural resource by actual extraction of the mineral or gas, etc. The decrease in value (of mineral or gas rights, timberland, etc.) caused by production operations.

Depository Trust Company (DTC)
A limited purpose trust company and a member of the Federal Reserve System. The company was established to meet a recognized need for a system to reduce the volume of physical transfer of securities. Depositories simplify securities trading by immobilizing the securities and by offering book- entry settlement between participants. They also provide dividend and interest collection. A financial institution can be a "direct" participant if it has a one-on-one relationship with DTC or an "indirect" participant if it "piggy-backs" into DTC through its account with a correspondent bank.

Derivative
A financial instrument that derives value from an underlying asset or index and transfers the price risk of the asset or index among the parties to the transaction. Generally, derivatives fall into two broad categories: forward-type contracts and option-type contracts. They may be traded on exchanges or traded privately.

Determination Letter
A letter issued by the District office of the Internal Revenue Service that states whether a qualified employee benefit plan meets the qualification requirements under the Internal Revenue Code §401(a).

Devise
A gift of real estate made by a decedent in his/her will. The party receiving the gift is called the devisee.

Directed Trust Account
An account where investment decisions are made by the grantor, an authorized investment manager or by another authorized party (such as a defined contribution pension plan participant). The trustee of such an account has been determined to be a fiduciary by the Department of Labor as the trustee reviews the

investment directions to make sure they are in accordance with ERISA requirements. A trustee of such an account also has administrative duties that subject the trustee to a level of risk.

Discount

(1) The difference between the original offering price of a security and the price to which it may fall in the "after offering" market.

(2) The amount by which a security sells below its face value (par value). A $1,000 par value bond selling at 95 (worth $950) would be selling at a $5 or 5 percent discount. The opposite of premium.

Discretionary Trust

A trust where the trustee has managerial authority and decision-making responsibilities. Most often refers to an account where the trustee exercises investment discretion. It also refers to personal trusts where distribution decisions of income and principal are made by the trustee in its discretion using guidelines established in the will, trust document or applicable law. Discretionary powers give the trustee the right, but not necessarily the duty, to perform or omit certain actions.

Distribution

The apportionment of personal property (or its proceeds) among those entitled to receive the property according to the applicable statute of distribution or under the terms of the will or trust agreement.

DOL

Department of Labor.

Domicile

The place which a person regards as his/her permanent home and principal establishment; the place to which, whenever he/she is absent, he/she has the intention of returning. A person's domicile may or may not be the same as his/her residence.

Donee

One who receives a gift.

Donor

One who makes a gift.

Dower

The life estate of a widow in real property of her husband. At common law, a wife had a life estate in one-third (in value) of the real property of her husband who died without leaving a valid will or from whose will she dissented. In many states, common law dower has been abolished by statute or never has been recognized.

Dow Theory

A theory of market analysis based upon the performance of Dow Jones industrial and transportation stock price averages. The theory says that the market is in a basic upward trend if one of the averages advances above a previous important high, accompanied or followed by a similar advance in the other. When the averages both dip below previous important lows, this is regarded as a confirmation of a basic downward trend. The theory does not attempt to predict how long either trend will continue, although it is widely misinterpreted as a method of forecasting future action.

DRIP

Dividend Reinvestment Plan.

Due Bill
An instrument evidencing the obligation of a seller to deliver securities sold to the buyer.

Duration
A numerical measure of the price change of a bond due to a change in its yield to maturity. Duration summarizes the various characteristics that cause bond prices to fluctuate in response to interest rate changes. The lower the duration number, the less change that can be expected in a bond's price.

Embedded Derivatives
Derivatives that are part of another financial instrument. For example, a callable bond consists of the bond and a call option. The call option is the embedded derivative.

Employee Benefit Plan
A plan established or maintained by an employer or employee organization, or both, for the purpose of providing employees certain benefits, such as pension benefits or medical, sickness, accident or disability benefits.

Employee Benefit Trust
A trust established to hold and manage the assets of employee benefit plans.

Employee Stock Ownership Plan
An employee benefit plan in which employees may become stockholders of the employer. These plans are qualified under the Internal Revenue Code and are not subject to the 10% ERISA limits on holdings of employer stock. Typically, an employer's contributions to an ESOP are used to purchase existing or new shares of the employer's stock, thus providing a means for the employer to raise new capital while, at the same time, getting a tax deduction for the annual contributions. When such purchases are from insiders, the IRS has special requirements concerning the valuation of the stock's price. Often, ESOP’s borrow funds to purchase employer stock; such plans are termed "leveraged" ESOP's.

Encumbrance
Any right to or interest in real property that lowers its value but does not prevent its transfer, subject to the encumbrance.

End User
A person, device, program or computer system that utilizes a computer network for the purpose of data processing and information exchange.

Enrolled Actuary
A person who performs actuarial services for an employee benefit plan which is subject to ERISA and who is enrolled with the federal joint board for enrolling actuaries. ERISA plans may use only enrolled actuaries to perform services for the plan.

Environmental Systems
Equipment used to maintain specific conditions necessary in computer operation areas such as HVAC (heating, ventilation, air conditioning), humidification, etc.

Equipment Trust
A corporate trust established to finance the purchase of equipment; commonly used by railroads to purchase rolling stock.

Equitable Title
A right to the benefits of property that is recognized by and enforceable only in a court of equity, to be distinguished from legal title.

Equity Ownership
The estate or interest of a person who has a beneficial right in property, the legal ownership of which is in another person. For example, a beneficiary of a trust has an equitable estate or interest in the trust property.

Equity Securities
Securities evidencing ownership of a corporation. Includes preferred and common stock of all types.

ERISA
An acronym for the Employee Retirement Income Security Act of 1974, which established federal minimum standards for employee benefit plans, including those regulating the conduct of plan fiduciaries and trustees. The act also established an insurance program designed to guarantee workers receipt of pension benefits if their defined benefit pension plan should terminate.

Escheat
Reversion of property to the state when there are no legal heirs or claimants.

Escrow
Money, securities, instruments, other property or evidence of property deposited by two or more persons with a third person, to be delivered on a certain contingency or on the happening of a certain event. The subject matter of the transaction (the money, securities, instruments or other property) is the escrow; the terms upon which it is deposited with the third person constitute the escrow agreement; the third person is termed the escrow agent.

ESOP
See **Employee Stock Ownership Plan**.

Estate
The property of a decedent.

Estoppel
The preclusion of a person from alleging in an action what is contrary to his/her previous action or admission or that bars him/her from denying a misrepresentation of a fact when another person acted upon that misrepresentation to his/her detriment. The person so precluded or barred is said to be estopped.

Eurodollars
Many foreign banks as well as foreign branches of U.S. banks accept deposits of U.S. dollars and grant the depositor an account denominated in dollars. Those dollars are called “eurodollars.” Eurodollars never leave the U.S. There are differences from the U.S. banking system in regards to Eurodollars. All deposits, with the exceptions of call money, have a fixed maturity that may range from 1 day to 5 years. Interest is paid on all deposits. There are no reserve bank requirements and Eurodollars do not receive FDIC insurance coverage.

Excess Benefit Plan
A nonqualified plan maintained by an employer solely for the purpose of providing benefits for certain employees in excess of those which, because of Internal Revenue Code limitations on contributions and benefits, can be provided by the employer's qualified plan.

Exculpatory Provision
A provision in a will or trust instrument relieving or attempting to relieve an executor or trustee from liability for breach of trust; sometimes called an immunity provision. Courts do not always uphold exculpatory provisions.

Ex-Dividend Date
The ex-dividend date, also known as the "ex-date," is the day on and after which the right to receive a current dividend is not transferred automatically from seller to buyer. For securities purchased before the ex-date, the purchaser is entitled to the dividend. For securities purchased on or after the ex-date, the seller will receive the dividend.

Execution (of a Trade)
Occurs when buyer and seller (through their brokers) agree on quantity and price.

Executor
An individual or a trust institution nominated in a will and appointed by a court to settle the estate of the testator. If a woman, she is an executrix.

Exercise Price
Price set in an option. Also called striking price. The owner of the option has the right to buy (or sell) the security named in the option at the exercise price within a set time period.

Expiration Date
The final date on which an option may be exercised. After the expiration date, the option is worthless.

Express Trust
A trust stated orally or in writing, with the terms of the trust definitely prescribed, to be distinguished from a resulting trust and a constructive trust.

Fail
Failure of the seller to deliver securities to the buyer on settlement date; and/or failure of the buyer to accept and pay for the securities. Also called a settlement fail.

FAS
Financial Accounting Standard. Authoritative accounting pronouncement on handling different specific accounting situations. Issued by FASB.

FASB
Financial Accounting Standards Board. Nongovernmental authority for establishing accounting standards in the United States.

Federal Estate Tax
A tax imposed by the Federal government on a decedent's estate and not on the distributive shares of the estate or on the right to receive the shares; to be distinguished from an inheritance tax.

Federal National Mortgage Association (Fannie Mae)
The Federal National Mortgage Association is a government-sponsored corporation established by Congress in 1938, owned entirely by private stockholders to serve as a secondary market for Federal Housing Administration, Veterans Administration or Farmers Home Administration insured or guaranteed mortgages. The association provides liquidity on mortgage investments by buying mortgages from financial institutions, such as savings and loan associations and life insurance companies, when investment funds are in short supply and selling mortgages when funds are plentiful. To finance its operations, Fannie Mae issues

debentures, bonds and common stock, the latter being bought by institutions who sell mortgages to Fannie Mae, as well as by private investors. FNMA stock is listed on the New York Stock Exchange. The bonds and debentures are highly liquid investments that enjoy an active secondary market and have varying maturities up to 25 years. Fannie Maes come in bearer form only, in amounts of $10,000, up to $500,000. The maturities on those securities vary and interest is paid semiannually by coupon.

Federal Reserve Requirements (Fed Funds)
The dollar amount a member bank of the Federal Reserve System must deposit with a Federal Reserve Bank or hold in cash on its own premises. The purpose of the requirement is to assure that a bank remains liquid and does not lend out more money than it can afford to lend. An individual bank may have more or less funds in this deposit than it is required to have. A bank with a deficit deposit borrows "Fed Funds" from a bank that has an excess deposit. It pays interest to the lending bank for the overnight use of these "Fed Funds."

Fee Simple
An absolute fee; an estate of inheritance without limitation. This form of estate is not qualified by any other interest and upon the owner's death passes unconditionally to the heirs.

Fidelity Bond
A bond covering the risk of loss due to larceny, embezzlement, or culpable negligence of an employee. Blanket fidelity bonds cover groups of employees.

Fiduciary
An individual or a trust institution charged with the duty of acting for the benefit of another party for matters coming within the scope of the relationship between them. The relationship between a guardian and his ward, an attorney and his client, one partner and another partner, and a trustee and a beneficiary, each is an example of fiduciary relationship.

Fiduciary (Under ERISA)
A fiduciary is defined in 3(21) of ERISA as any person who:
(1) Exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets.
(2) Renders investment advice for a fee with respect to the funds or property of a plan, or has the authority to do so.
(3) Has any discretionary authority or responsibility in the administration of a plan.

Finance Paper
Promissory notes of sales finance companies, with a maturity of 3 to 270 days, issued either directly or through commercial paper dealers.

Financial Futures
These contracts are interest rate futures, which, under Section 2 of the Commodities Exchange Act, as amended (7 U.S.C. §2), are commodities contracts traded on a national exchange, registered with and regulated by the Commodities Futures Trading Commission. These contracts represent a commitment to purchase or sell a standardized amount of deliverable grade security at a specified price during a specified delivery month in accordance with the exchange rules regarding delivery procedures.

FINS (Financial Industry Numbering System)
A numerical code identifying financial institutions such as banks and brokerage firms. Used in securities trade documents, depository trust company accounting procedures, etc.

Fiscal Agent
A bank or trust company acting under an agreement with a governmental body or corporation to disburse funds for payment of dividends, redeem bonds and coupons at maturity and pay rent. The fiscal agent is responsible only for those duties as required under the agency agreement.

Floater
A floating rate instrument that pays interest at a rate that adjusts periodically, relative to a spread over a specific benchmark or index.

Floor
An option contract that protects the holder against a decline in interest rates.

Flower Bonds
A type of U. S. government Treasury bond, last issued March 4, 1971, which cannot be redeemed before maturity except on the death of the investor. These bonds paid a lower rate than other Treasury bonds with the same maturity. As a result, they normally may be bought at a discount. However, they are valued at par to pay the federal estate tax of a decedent in whose estate the bonds are included. There is only one issue of Treasury bonds still outstanding: 3½% Treasury Bonds issued 10-3-60 and maturing 11-15-1998.

Fourth Market
The trading of securities directly from one institutional investor to another without the services of a brokerage firm.

Formula Investing
An investing technique. One formula calls for the shifting of funds from common shares to preferred shares or bonds as the market, on an average, rises above a certain, predetermined point and the return of the funds to common share investments as the average market value declines.

Forward Contracts
Over-the-counter contracts for delayed delivery of securities in which the buyer agrees to purchase and the seller agrees to make a delivery of a specified security at a specified price for future delivery. Forward contracts are not traded on organized exchanges and their terms are not standardized and the contracts can only be terminated by agreement of both parties to the transaction.

Fractional Rights
The residual portion of the total rights received by a stockholder in a rights offering which is too small to allow the purchase of a full share.

Front Running
A practice where an investment manager purchases securities for his/her own personal interest prior to an anticipated purchase of the same securities by the accounts for which he/she acts as investment manager.

Fully Registered Bonds
A term generally applied to bonds that are registered as to principal and income. In this form, a bond is not negotiable and the disbursing agent remits interest to the registered owner.

Fundamental Research
Analysis of industries and companies based on such factors as sales, assets, earnings, products, markets and management. The objective is to derive an "intrinsic value" for the asset and compare this to the current market price.

Funded Insurance Trust
An insurance trust in which, in addition to life insurance policies, cash and securities have been placed in trust to provide sufficient income for the payment of premiums and other charges on or assessments against the insurance policies.

Funding
Funding is a systematic program under which assets are set aside in amounts coincident with the accruing of benefit rights under a retirement system.

Funding Policy
The agreement on a policy of funding benefits.

Futures or Financial Futures
Standardized contracts traded on registered futures exchanges to purchase or sell a specified security, an index representing the market value of securities or a money market instrument on a future date at a specified price. Participants can execute contracts to buy (long contract) or sell (short contract) the underlying instrument or cash equivalent.

General Obligation Bonds
Bonds that are secured by all of the assets of the corporation rather than by specified property.

General Partnership
A form of business whose partners include only general partners. Profits, losses and deductions are passed through to the individual partners involved in the business.

Generally Accepted Accounting Principles (GAAP)
Uniform minimum standards of and guidelines to financial accounting and reporting which govern the form and content of financial statements. GAAP encompasses principles necessary to define accepted accounting practice at a particular time and includes detailed procedures as well as broad guidelines.

Generation-Skipping Tax
A tax imposed on any generation-skipping transfer at a flat rate computed with reference to the maximum federal estate rate applicable at the time of the transfer.

Generation-Skipping Transfer
Any taxable distribution or taxable termination with respect to a generation-skipping trust or any direct skip from a transferor.

Generation-Skipping Trust
Any trust having beneficiaries who belong to two or more generations younger than the grantor.

Gift Tax
An excise tax levied by the federal government and many states on the gift or transfer of property during the donor's lifetime. Most taxes on gifts are progressive and have minimum exceptions.

Good Delivery
A term referring to all conditions of a securities delivery that must be met by the seller. These include:

- Correct type of security.
- Issuer.
- Quantity.
- Denomination of certificate(s).
- Presence of any outstanding interest coupons.

- Proper endorsement on the power of assignment.
- Timeliness of delivery.

Governing Instrument
Any writing under which a fiduciary relationship is created, including a will, trust agreement, declaration of trust or order of court.

Governmental Plan
An employee benefit plan established or maintained by the employees of the U.S. government or any state or political subdivision thereof or by any agency or instrumentality of the foregoing.

Grantor
A person who transfers property by deed or who grants property rights by means of a trust instrument or some other document. Also called settlor, trustor or donor.

Grantor Retained Income Trust (GRIT)
A trust in which the grantor retains the right to all of the trust income for a fixed term and gives the principal to others, such as the grantor's children, at the end of that term. If the grantor survives until the end of the income term, all of the trust principal will be excluded from the grantor's estate for death tax purposes. When used in connection with a personal residence it is known as a qualified personal residence trust (QPRT). A QPRT is an irrevocable trust to which a residence is transferred for a term of years, with the grantor retaining the use of the residence for that term. At the end of the term, the residence becomes the property of the remainder beneficiary. The tax advantage is that the donor is deemed to make a gift of the remainder interest in the home to the beneficiaries of the trust at the time the trust is created. The value of the gift is discounted from the fair market value of the home. The exact amount of the discount depends on the age of the donor, the trust's term of years and the IRS published interest rate for the month of the gift. If the donor does not live to the end of the trust's term, the home becomes a part of the donor's estate.

Group Annuity Contract
A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with provisions of a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Growth Stock
Refers to common stocks of companies whose operations and market values are expanding at a rate more rapid than the general economy or are likely to expand over a period of years, irrespective of the trend of the general economy.

Guaranteed Investment Contract (GIC)
A contract that pays a fixed interest rate for a fixed term, typically one to five years. Some 401(k) plans offer a GIC fund, often called a stable value fund or an insurance contract fund, which buys GICs from many different insurers. A GIC fund invests only in guaranteed investment contracts (GICs). The contracts are issued by insurance companies and sold only to pension plans and certain other types of retirement funds. The insurer, not the government guarantees the contracts themselves.

Guardian
An individual or trust institution appointed by a court to care for the property and/or person of a minor or incompetent person. In some states, the terms committee, conservator, curator or tutor are used to designate one who performs substantially the same duties as those of a guardian.

Guardian Ad Litum
A person appointed by a court to represent and defend a minor or an incompetent person in connection with court proceedings; sometimes called a special guardian.

Hard Dollars
Goods or services purchased with cash are said to be purchased with "hard" dollars. Purchases made with brokerage commissions are said to be made with "soft" dollars.

Hedging
The temporary purchase and sale of a contract calling for future delivery of a specific quantity of a particular commodity at an agreed-upon price to offset a present (or anticipated) position in the cash market. An operation intended to protect against loss in another operation.

Heir
A person who inherits real property; to be distinguished from next of kin and from distributee. An heir of the body is an heir in the direct line of the decedent. A son, for example is the heir of the body of his father or mother.

Highly Compensated Employee (HCE)
A term defined in the Internal Revenue Code at §414(q). Currently §414(q) states that a highly compensated employee is any employee who, during the current or preceding plan year: (1) owned more than 5% of the company, (2) received more than $80, 000 (indexed) in annual compensation, or (3) was in the top paid group (generally, top 20% in annual compensation). Discrimination in favor of this group is prohibited in qualified pension plans.

Holographic Will
A will entirely in the handwriting of the testator.

HR 10 PLAN
See **Keogh plan**.

Immunization (Bonds)
The design of a bond portfolio to achieve a target level of return in the face of changing reinvestment rates and price levels. It is the combining of short- and long-term bonds in the same portfolio to produce a predictable rate of return regardless of movements in interest rates.

Bond immunization attempts to protect investors from rate fluctuation by staggering bond maturities, typically using duration, so that if rates move higher, the portfolio has maturing bonds that can be reinvested at higher rates. Conversely, if rates fall, the portfolio appreciates in value, reflecting higher bond prices.

Income
The returns from property, such as rent, interest, dividends, profits and royalties; as distinguished from principal, capital or corpus.

Income Beneficiary
The beneficiary who is entitled to receive the income of the trust.

Indenture Of a Bond
A legal statement spelling out the obligations of the bond issuer and the rights of the bondholder.

Index Fund
An investment fund (or account) composed of securities the characteristics of which will produce a return that will replicate (or substantially replicate) a designated securities index.

Indicia of Ownership
Indications, signs or circumstances that lend support to a belief of probable ownership. With respect to ERISA, in general plan fiduciaries may not maintain or transfer the indicia of ownership of plan assets outside the jurisdiction of the U.S. District courts (ERISA §404(b)).

Individual Retirement Account (IRA)
A retirement savings program for individuals to which yearly contributions up to a specified limit can be made. The amounts contributed or the earnings are not taxed until withdrawal. Withdrawal is not permitted, without penalty, until the individual reaches age 59 ½.

Inheritance Tax
A tax on the right to receive property by inheritance; to be distinguished from an estate tax.

Initial Public Offering (IPO)
The original sale of a company's securities to the public.

Instinet
Institutional Network System. A computerized privately owned trading network that allows its fee-paying members to deal privately with each other without paying brokerage commissions. An offer to buy or sell a given amount of an issue is held in the computer until a contra party searches for and locates the offer. The two parties are put in contact via computer and close the trade themselves. Those trades are recorded on consolidated tape.

Institutional Investor
An organization that invests its own assets and those held in accounts by it for others. Includes pension funds, investment companies, insurance companies, universities and banks.

Insurance Guaranty Fund
A fund maintained by a state guaranty association that pays claims of insolvent insurance companies. The fund is financed by contributions from insurance companies.

In The Money
A call option is in the money if the underlying security's price is higher than the option's strike price. A put option is in the money if the underlying security's price is below the option's strike price. An option in the money has intrinsic value.

In The Money Option
A call option whose exercise price is lower than the spot price of the underlying instrument or a put option whose exercise price is greater than the spot price of the underlying instrument.

Interest Rate Futures
A transferable agreement to make or take delivery of a fixed income security at a specific time, under terms and conditions established by the federally designated market upon which futures trading is conducted.

Interest-Rate Risk
When interest rates rise, the market value of fixed income securities declines. Similarly, when interest rates decline, the market value of fixed income securities increases. Interest rate risk is the risk associated with those fluctuations.

Interlocks
Directors of one corporation who are at the same time directors of other(s) in the same or similar line of business. By this meaning, a community of interest is established between or among the corporations concerned, which could be conducive to the lessening or elimination of competition if the corporations concerned are competitors.

Inter Vivos Trust
Inter vivos: "between living persons" (Latin). A trust created during the settlor's lifetime; the same as a living trust; to be distinguished from trust under will or testamentary trust.

Intestate
A person who dies leaving property, but no will, is said to have died intestate.

Intrinsic Value
The value of an option were it to be exercised. Only in-the-money options have intrinsic value.

Inventory
(1) An account, schedule, or catalogue, made by an executor or administrator of all goods and chattels and sometimes real property of a deceased person. (2) A list of the property of a person or estate. (3) An itemized list of goods or valuables with their estimated worth.

Inverse Floater
A floating rate instrument that adjusts inversely with changes in the benchmark index.

Investment Adviser
A person who advises the public concerning the purchase or sale of securities. Such persons must generally register with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Banks and bank trust departments are normally exempt from registration as investment advisers although thrifts (under current law) are not exempt.

Investment Advisor Agent
An agency account in which the trust department provides investment recommendations on various types of assets, without necessarily having custody or safekeeping of those assets. The act of rendering investment advice for a fee changes a custodial account into a fiduciary account.

Investment Company
Legal term for a mutual fund. The Investment Company Act of 1940 provides the framework for SEC regulatory authority over mutual fund operations.

Investment Manager [ERISA]
A term defined in ERISA at §3(38) to mean any fiduciary (other than a trustee or named fiduciary, as defined in Section 402(a)(2)):

- Who has the power to manage, acquire, or dispose of any plan assets.
- Who is:
  - Registered as an investment advisor under the Investment Advisor's Act of 1940.
  - Is a bank, as defined in the Investment Advisor’s Act of 1940.
  - Is an insurance company qualified to perform services described in subparagraph (A) of ERISA under the laws of more than one state.
- Has acknowledged in writing that he/she is a fiduciary for the plan.

Investment Management Agent
An agency account in which the trust department contracts to analyze and review the various assets, to make recommendations for changes in existing investments and to make recommendations for new investments. The department also performs safekeeping and custodial functions for the assets of the account. The act of giving investment advice for a fee changes a custodial account into a fiduciary account.

Investment Powers
The powers of a fiduciary regarding the investments in the account.

IO (Interest Only)
The holder of this derivative instrument receives interest payments from a specific regular interest class or from a piece of the collateral.

IPO
See **Initial Public Offering**.

Irrevocable Trust
A trust which by its terms cannot be revoked by the settlor which, therefore, shifts the assets held by the trust out of the estate of the settlor. It also shifts the income tax consequences associated with the assets held by the trust from the settlor. The settlor only with the consent of the beneficiaries may terminate an irrevocable trust. To be distinguished from a revocable trust.

Issue
(1) All persons who have descended from a common ancestor; a broader term than children. (2) Any of a company's securities or the act of distributing such securities.

Issuer
An entity that is selling or has sold its securities to the public.

Item
A registered transfer agent term defined in SEC Rule 17Ad-1(a)(1), as follows: (i) A certificate or certificates of the same issue of securities covered by one ticket (or, if there is no ticket, presented by one presentor) presented for transfer, or an instruction to a transfer agent which holds securities registered in the name of the presentor to transfer or to make available all or a portion of those securities; (ii) Each line on a "deposit shipment control list" or a "withdrawal shipment control list"; or (iii) In the case of an outside registrar, each certificate to be countersigned.

Joint and Several Liability
The term is used when compensation for liability may be obtained from one or more parties either individually or jointly, whichever may be most advantageous. Example: general partners are responsible for their own and the others' actions in business.

Joint Tenancy
Property held by two or more persons together with the distinct character of right of survivorship. If one owner dies, survivor takes full ownership.

Jumbos
General term for a large-denomination security. In bank CDs, a face value of $100,000 or more qualifies the CD as a jumbo. Broker-dealers may assemble a jumbo and sell portions of it to individual investors.

Junk Bonds
Bonds that are issued by organizations that often are encountering financial setbacks. A junk bond may be issued as a low quality security or its issuer may encounter setbacks so that a quality bond is reduced to junk level. They offer high interest and high risk. Assurance of interest and principal payments in the future is limited; repayment often depends on asset sales rather than the ongoing profitability of the business. Junk bonds are often issued in conjunction with takeovers, leveraged buyouts and restructurings.

KEOGH Plan
A retirement plan for self-employed persons and their employees to which yearly tax deductible contributions up to a specified limit can be made, if the plan meets certain requirements of the Internal Revenue Code. Also known as an “HR 10 plan.”

Land Contract
A legal instrument to deliver a deed to the property given to the purchaser of the real estate, who customarily pays a small portion of the purchase price when a contract is signed and agrees to pay additional sums at specified intervals and in specified amounts until the total purchase price is paid. Possession of the land, that is, the ownership, does not become final until the all payments have been made.

Large Blocks
Refers to the number of shares one investor buys or sells in one trade. The New York Stock Exchange defines a "large block" as a trade for 10,000 shares or more. The daily volume of shares traded in large blocks is considered to be a measure of institutional activity in the stock market.

Last Will and Testament
A legally enforceable declaration of a person's wishes regarding matters to be attended to after his/her death and not operative until his/her death; usually but not always relating to property; revocable (or amendable by means of a codicil) up to the time of his/her death or loss of mental capacity to make a valid will. Originally, "will,” related to real property; "testament," to personal property; but at the present time, "will" is applicable equally to real and personal property.

Lease
A contract whereby one party, known as the lessor, grants to another party, known as the lessee, the rights of use, tenancy or occupancy to property owned by the lessor. This property may be land, buildings, equipment or other chattel property. The lease agreement describes the rights of the owner (lessor) and the renter (lessee), and recites the terms of periodic payment and the tenure of the lease.

Leasehold Improvement
The sums expended to improve or upgrade the property over a period of years. Because such improvements normally accrue to the landlord or owner at the expiration of the lease, their costs are amortized over the life of the lease.

Legacy
A gift of personal property by will; the same as a bequest. A person receiving such a gift is called a legatee.

Legal Investment
An investment that conforms to the requirements of the statutes. A term used principally with reference to investments by trustees and other fiduciaries and by savings banks; often abbreviated to "legals,” to be distinguished from an authorized investment.

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Legal List
A list of securities legal for fiduciary investments, as compiled and promulgated by a state agency (such as the state banking department) for the use and guidance of fiduciaries, lawyers, trustees, and savings banks. Used infrequently now, as most states have adopted either the prudent man or prudent investor rules.

Legal Ownership
An estate or interest in property that is enforceable in a court of law, to be distinguished from equitable ownership.

Letter Stock
Also called restricted stock. A special issue of common stock a corporation is legally permitted to sell without SEC registration to a small group of investors. The buyer must sign a letter of intent stating that the purchase is for investment purposes and not for resale.

Letters of Administration
A certificate of authority to settle a particular estate issued to an administrator by the appointing court, to be distinguished from letters testamentary.

Letters of Conservatorship
A certificate of authority issued by the court to an individual or corporate fiduciary to serve as conservator of the property of a person; corresponds with letters of guardianship.

Letters of Indemnification
A written agreement to secure against loss or damage which may occur in the future, or to provide compensation for loss or damage already suffered.

Letters Testamentary
A certificate of authority to settle a particular estate issued by the appointing court to the executor named in the will; to be distinguished from letters of administration.

Leverage
The issuance by a corporation of senior securities, or the use of borrowed money (on which only stated dividends or interest must be paid), to increase the return possible on equity capital. The issuer who sells preferred stock (which has a fixed maximum dividend) is leveraging its common stock.

Leveraged ESOP
An employee stock ownership plan (ESOP) in which money is borrowed by the ESOP trust for the purpose of buying stock of the employer. The stock is normally held as security by the lender and is released for allocation to participant accounts as the loan is paid off.

Lien
Guaranteed right of a lender or investor to specific property in case the issuer defaults on its obligations. A legal right to enforce a charge against another's property until some legal claim is paid or otherwise satisfied.

Life Estate
Either an entitlement for the life of the life tenant alone or an entitlement for the life or lives of some other person or persons. If the entitlement is for the life of a person other than the life tenant, it is known as an estate pur auter vie.

Life Insurance Trust
A trust created by an individual for the benefit of his/her heirs, the principal portion of the corpus being in the form of life insurance policies. The individual creating the trust assigns the life insurance to a trustee.

Life Tenant
A beneficiary having possession of certain property or some other entitlement for the duration of his/her life. An interest in property held during the life of a specified person is termed a life estate.

Liquidity Risk
The ease with which the issue can be sold at or near prevailing market prices.

Limit(ed) Order
An order to buy or sell a stated amount of a particular security, with a limit set on the price or the time when the order is to be executed.

Limited Partnership
A type of partnership comprised of one or more general partners who manage the business and are personally liable for partnership debts. There are also one or more limited partners who contribute capital and share in profits but who do not take part in management and incur no liability for partnership debts beyond their contributions to capital.

Liquidation
(1) The dissolution of a company, with all cash remaining after the sale of its assets and payments of its liabilities distributed to shareholders on an equitable basis. Usually less than book value, as assets sold in a hurry are often sold at a discount from book to move them. Also, in portfolio management, the sale of all portfolio assets. (2) The process of converting securities or other property into cash.

Listed Securities
The term applies to any bonds or stocks which have been admitted for trading on a stock exchange and whose issues have complied with the listing requirements of the exchange.

Living Trust
A trust that becomes operative during the lifetime of the settlor as opposed to a trust under will. Also called an inter vivos trust.

Living Will
A document that allows a person to state in advance his/her wishes regarding the use or removal of life-sustaining or death-delaying procedures in the event of terminal illness or injury.

Load; Loading Charge
(1) The premium of a net asset value, generally up to 8.5 percent, charged by open-end investment companies (mutual funds) to cover sales commissions and all other distribution costs on the sale of new shares. A “front-end” load is charged at the initial transaction; a “back-end” load is charged at the termination of the transaction.

Long Position
An investor, dealer or market maker with a "long" position in a particular security owns the securities. The term generally is used when the owner has taken, or is prepared to take, steps to change the position. For instance, the owner may be willing to sell, or be actively buying, or may have written put options against part of the holdings. The term also can mean that the securities are in transit during a trade settlement.

Managing Agent
A fiduciary relationship where, in addition to custodial services, the financial institution has managerial duties and responsibilities appropriate to the kind of property and in conformity with the terms of the agency.

Margin Account
An investor's credit account with a broker or dealer that permits the investor to pay only part of the purchase price of a security at the outset and pay the remainder later, plus the broker's interest charge. The part paid initially, the "margin" is a percentage (of the total price) set by the Federal Reserve Board. This percentage is called the "margin requirement." Regulation T (of the Federal Reserve Board) governs margin accounts. The Securities and Exchange Commission also regulates the use of margin by broker-dealer customers.

Margin Call
A demand upon a customer to pay up money or securities owed to the broker.

Marital Deduction
The portion of a decedent's estate that may be given to the surviving wife or husband without its becoming subject to the federal estate tax levied against the decedent's estate; a term that came into general use under the Internal Revenue Act of 1954.

Mark-to-Market
A process of valuing a portfolio, a securities position or a trade by multiplying the number of shares by the current market price per share. If a trade settlement has failed, the price agreed on in the original trade may no longer be binding; the buyer and seller (or their brokers, clearing corporation or depository) may mark-to-market daily until the problem is resolved. An adjustment for the change in price may be necessary.

Market Maker
A dealer that buys and sells specific issues in the over-the-counter market or on stock exchanges.

Market Order
A trade order in which the buyer/seller does not specify an exact dollar price per share but agrees to trade immediately at the best price available in the market at the time.

Market Risk
That portion of a stock price (or portfolio) movement that can be attributed to movement of the market as a whole.

Market Value
The highest price estimated in terms of money which a buyer would be willing to pay and a seller willing to accept, provided both parties were fully informed, acted intelligently and voluntarily, and further, that all the rights and benefits inherent in or attributable to the property were included in the transfer.

Marketable Securities
Refer to the securities that are actively traded in recognized markets where they may be readily converted into cash. Specifically marketable securities include common and preferred stocks, U.S. government securities, corporate bonds, municipal securities, mutual funds and cash management instruments.

Marketable Title
A title that a reasonably prudent person, knowing all the facts, regards and accepts as good.

Marketability
The degree of investment or speculative interest that underlies any security, in other words, the ease with which it can be sold.

Master Trust
An arrangement designating the custodianship and accounting for all employee benefit assets of a corporation or a controlled group of corporations to a single trustee. This arrangement facilitates uniform administration of the assets of multiple plans and multiple investment managers.

Minority Stockholders
A group with corporate holdings too small to significantly influence actions of the corporation under regular voting procedures.

Modern Portfolio Theory (MPT)
The theoretical constructs that enable investment managers to classify, estimate and control risk and return in managing investment portfolios. In popular usage, the term is not limited to "portfolio" theory. Instead, the term encompasses all notions of modern investment as well as portfolio, theory. Accordingly, MPT is synonymous with such terms as New Investment Technology (NIT) and Modern Investment Theory (MIT). In connection with the prudent investor rule, the theory that justifies judging the prudence of a portfolio as a whole as opposed to individual assets within it.

Money Purchase Plan
A defined contribution plan in which the company’s contributions are mandatory and are usually based solely on each participant’s compensation. The obligation to fund the plan makes a money purchase pension plan different from most profit sharing plans. In most profit sharing plans, there are generally no unfavorable consequences for the company if it fails to make a contribution. However, if the company maintains a money purchase pension plan, its failure to make a contribution can result in the imposition of a penalty tax. Forfeitures that occur because of employee turnover may reduce future contributions of the company or may be used to increase the benefits of remaining participants. Retirement benefits are based on the amount in the participant’s account at the time of retirement, that is, whatever pension the money can purchase.

Money Market Investments
Private and government obligations with a maturity of one year or less. These include U.S. Treasury bills.

Money Rate Risk
The risk of price depreciation of fixed income securities, should interest rates and yields rise. Market prices of such securities have to adjust downward in order to return the higher prevailing yields.

Mortgage Pass-Through Securities
A security consisting of a pool of residential mortgages, with monthly distribution of 100% of the interest and principal to the investor. There are both government (Freddie Mac and Ginnie Mae) and commercial versions of these instruments.

Multi-Employer Plan
For purposes of ERISA, a pension plan maintained pursuant to one or more collective bargaining agreements to which more than one employer is required to contribute.

Multiple Listing
The record of property for sale or lease being booked or sold by brokers or agents who have been authorized in writing by the owners and/or managers to act as their agents or representatives.

Municipal Bonds
Debt issues of state and local governments and their agencies. In general, interest paid on municipal bonds is exempt from federal income taxes and from state and local income taxes within the state of issue.

Mutual Wills
Wills made by two or more persons (usually but not necessarily husband and wife) containing similar or identical provisions in favor of each other or of the same beneficiary.

Named Fiduciary (ERISA)
A term used in ERISA at §402(a)(2) that means a fiduciary who is named in the plan instrument, or who, pursuant to a procedure specified in the plan, is identified as a fiduciary (A) by a person who is an employer or employee organization with respect to the plan or (B) by such an employer and such an employee organization acting jointly.

National Association of Securities Dealers, Inc. (NASD)
Primary regulator of the market in securities not listed on an exchange. The NASD is an organization of securities dealers, brokers, and industry-affiliated organizations, most of which are either members of national exchanges or member affiliates. The NASD governs its members concerning trading policy and procedures, recordkeeping and reporting requirements and customer relations.

National Association of Securities Dealers Automated Quotation (NASDAQ) System
NASDAQ is an automated price quotation service for over-the- counter securities. Subscribers are provided instantly with recent bid and asked prices simply by requesting data through a CRT terminal.

Negotiable Time Certificate of Deposit
Interest bearing negotiable certificate attesting to the existence of a time deposit at a commercial bank.

Nominee
An official of a bank or another appointed agent into whose name securities or other funds are transferred by agreement. This is done to facilitate the purchase or sale of securities. Banks and thrifts hold trust account securities at DTC or otherwhere, in their nominee name.

No Load Fund
A mutual fund that charges little or no commission (load charge) to the buyer of its shares.

NonParticipating Royalties
Usually refers to all payments relived by the mineral or royalty owner other than from actual production, such as bonuses, delay-rentals and shut-in royalties.

NonQualified Plan
An employee benefit pension plan that does not meet the requirements of §401(a) of the Internal Revenue Code. Therefore, payments made by the employer to the plan or trust will not be deductible from income for federal income tax purposes.

Notional Principal Amount
In an interest rate swap, the contractual amount on which interest payments are calculated.

Nuncupative Will
An oral will made by a person on his deathbed or by one who is conscious of the possibility of meeting death in the near future, such as by a person in active military service. It is declared in the presence of at least two witnesses and later reduced to writing by someone other than the testator and offered for probate in the manner prescribed by statute.

Offset Well
A well drilled adjacent to another well or a property line of an adjoining tract of land.

Oil Payment
The right to receive a definite amount of revenue from a specific percentage of the oil produced, free from operational and development costs and terminating when that definite amount has been paid. It is similar to royalty interest except that it expires when a given amount of money has been received.

Open-End Funds
Open-end funds are mutual funds that issue their own shares to investors continuously and stand ready to repurchase them as required. Within the group, there are "load" and "no-load" funds, the former involving a charge to cover salesmen's commissions and all of the costs of distribution. In the latter case, there is no charge, the shares being offered at net asset value. Participants buy and sell in at a unit price based on appraised value of total assets. Participants can leave and enter at any time.

Operating Agreement
An agreement between or among concurrent owners for the operation of a jointly owned tract or leasehold for oil, gas, coal, uranium and other minerals.

Operating System
Software required to manage the hardware and logical resources of the system. Software that controls the execution of computer programs. An organized collection of routines and procedures for operating a computer. Functions performed include: (1) scheduling, loading, initiating, and supervising the execution of programs; (2) allocating storage; (3) initiating and controlling input/output operations; and (4) handling errors.

Optimization
The process of selecting a securities portfolio that minimizes risk. An example would be an aim that a portfolio have no more than 5% of its value in a single stock and/or that the current yield be at least 4%. Optimization includes expected return, variances of expected return and covariance of return with every other security under consideration.

Option
A right to buy (call) or sell (put) a fixed amount of a given stock at a specified price within a limited period of time. The purchaser hopes that the stock's price will go up (if he bought a call) or down (if he bought a put) by an amount sufficient to provide a profit greater than the cost of the contract and the commission and other fees required to exercise the contract.

Option Overriding
A type of options management where an options manager writes options on stocks managed by another manager. The goal is to provide an incremental return to the equity portfolio without interfering with the equity manager.

Option Premiums
The dollar amounts paid to the writer for the option. The amount is determined generally by supply and demand, duration of the contract and difference between the fluctuations, among various considerations.

Out Of The Money
An option whose exercise price is above the stock's current price.

Overdraft
The amount by which a debit or charge against an account exceeds the cash balance of the account.

Overriding Royalty
A royalty created or carved out of the leasehold or working interest and having the same term as the lease. It is free of all operating and developing expenses.

Over-the-Counter Market
A market for securities made up of securities dealers who may or may not be members of securities exchanges. Thousands of companies have insufficient shares outstanding, stockholders or earnings to warrant application for listing on exchanges. Securities of those companies are traded in the over-the-counter market among dealers who act either as principals or agents. The over-the-counter market is the principal market for U.S. government bonds.

Owner's Title Guaranty Policy
Insurance against financial loss resulting from claims arising out of defects in the title to real property that are existent but undisclosed at the time the policy is issued by the title company.

PAC (Planned Amortization Class)
A type of derivative instrument with scheduled payments over a range of prepayment speeds (PAC bands or ranges).

Par Value
When applied to common stock, it refers to an arbitrary dollar amount assigned to each share by the company's charter. The amount has little significance to the actual market value. In the case of preferred stock, and bonds, par value is important, however, as the preferred dividend or interest on the bond are often based on par value assigned to each issue. An 8 percent bond is a promise to pay that percentage of the bond's par (100 percent of face value) value annually. Also, the amount to be received at maturity of a bond.

Participation Mortgage
A form of mortgage that represents an undivided interest in a pool of mortgages held by a firm, agency or institution.

Party in Interest (ERISA)
A term in ERISA at 3(14), which states that a party in interest means:
(1) A fiduciary, counsel or employee of the plan.
(2) A person who provides services to the plan.
(3) An employer any of whose employees are covered by the plan.
(4) An employee organization any of whose members are covered by the plan.
(5) A 50 percent or more owner of an employer or employee organization.
(6) A relative of any of the foregoing except (4).
(7) A corporation, partnership, trust or estate 50 percent or more owned by persons in (1)-(5) above.
(8) An employee, officer or director of the plan or of a person in (2)-(5) and (7) above.
(9) A 10 percent or more shareholder, partner or joint venturer of a person described in (2)-(5) and (7) above.

Pass-Through Securities
Securities that represent undivided interests in pools of mortgages. Principal and interest payments from the mortgages are passed-through to certificate holders as received. Since mortgagors may prepay mortgages, the pass-through payments to certificate holders fluctuate.

Past Service Benefit
Credit toward a pension, provided by the employer, for all or part of a participant's years of service with the company before the adoption of a pension plan.

Payable Date
The date established by the board of directors for payment of a dividend to the stockholders of record. Usually 15 to 20 days after the record date.

Paying Agent
An agent that receives funds from an obligor to pay maturing bonds and coupons or from a corporation for the payment of dividends.

Pension Benefit Guaranty Corporation (PBGC)
Congressionally chartered corporation responsible for guaranteeing private defined benefit pension plans. Membership in PBGC and the payment of premiums to PBGC is mandatory for all such plans. If a covered plan terminates, retirees and beneficiaries are entitled to the benefit calculated under the plan (subject to certain phase-in rules for new plans to preclude abuse), up to a maximum monthly benefit payment. The maximum monthly payment is based on the year a plan terminates.

Per Capita (By the Head)
A term used in the distribution of property; distribution to persons as individuals (per capita) and not as members of a family (per stirpes). For example, "I give my estate in equal shares to my son A and to my grandsons C, D, and E (the sons of my deceased son B) per capita. "C, D, and E take as individuals (not as the sons of B), each taking the same shares as A, namely, one-fourth of the estate.

Personal Representative
A general term applicable to both executor and administrator.

Per Stirpes (By the Branch)
A term used in the distribution of property: distribution to persons as members of a family (per stirpes) and not as individuals (per capita). Two or more children of the same parent take per stirpes when together they take what the parent, if living, would take. For example, "I give my estate to my son A and to my grandsons C, D, and E (the sons of my deceased son B). My grandsons are to take per stirpes. "C, D, and E take as the sons of B (not as individuals), each receiving one-sixth of the estate (one-third of the one-half to which B would be entitled if living), while A receives one-half of the estate. Taking per stirpes is also known as taking by right of representation.

Piggyback Bank
A bank that obtains access to DTC or other depository services indirectly by retaining, as agent, a bank that has access to DTC.

Plan Administrator
See **Administrator**.

Plan Sponsor
See **Sponsor**.

Platform
The hardware or operating system (or both) on which a program runs.

Pour-Over
A term referring to the transfer of property from an estate or trust to another estate or trust upon the happening of an event as provided in the instrument.

Power of Appointment
A power or authority conferred by one person by deed or will upon another (called the "donee") to appoint, that is, to select and nominate, the person or persons who are to receive and enjoy an estate or an interest therefrom, after the testator's death, the donee's death or after the termination of an existing right or interest. Under a general power, the donee has a right to appoint to whomever he/she pleases, including himself or herself. A special power limits the donee as to those in whose favor he/she may exercise the power.

Power of Attorney
A document sometimes witnessed and acknowledged, authorizing the person named therein to act as agent, called attorney-in-fact, for the person signing the document. If the attorney-in-fact is authorized to act for his principal in all matters, he/she has a general power of attorney. If he/she has authority to do only certain specified things, he/she has a special power of attorney. If the authority granted in the power of attorney survives the disability of the principal, the attorney in fact has a durable power of attorney. If the authority granted in the power of attorney commences in the future only upon the occurrence of a specific event or contingency, the power of attorney is known as a springing power. A power of attorney can be limited to property concerns or to health care matters.

Power of Retention
Power expressed or implied in a will or trust agreement permitting the trustee to retain certain or all of the investments comprising the trust property at inception, even though they may not be of a type suitable for new investments made by the trustee.

Precatory Words
Expressions in a will requesting, but not directing, that a thing be done or not done.

Premium
(1) The difference between the original offering price of a security and the price to which it may rise in the "after-opening" market.
(2) The amount by which a security sells over its face (par value). A $1,000 par value bond selling at 105 (worth $1,050) would be selling at a $50 or 5 percent premium. The opposite of a discount. The premium is also that part of an investment paid at the time of purchase that will not be returned at maturity.
(3) The price paid by the purchaser of an option and the amount received by the seller (writer).

Prepayment
A payment made ahead of the scheduled payment date.

Principal
(1) One who employs an agent to act for him.
(2) One who is primarily liable on an obligation.
(3) The assets of an estate other than the income from the property; the same as capital.

PO (Principal Only)
The holder of this instrument receives principal payments only and do not receive any interest. POs are offered at substantial discounts to their original principal amounts.

Point

(1) *Bonds*: A point means 1%. Since bonds are quoted based on $1,000 face value, it also means $10. A bond that has increased by 3 points has gone up 3% or $30.
(2) *Stocks*: A point means $1. If XYZ stock goes up 3 points, it has increased $3 per share.
(3) *Mortgages*: A point is 1% of the principal amount of the mortgage. For Truth in Lending/Regulation Z purposes, a point is considered part of the finance charge disclosure and is included when calculating the APR.

Prospectus

A detailed statement prepared by an issuer of a security and filed with the SEC prior to the sale of a new issue. The prospectus gives detailed information on the security and on the issuer's condition and prospects. The term is used most often when referring to mutual funds.

Prudent Man Rule

A rule originally stated in a 1830 opinion issued by the Supreme Court of Massachusetts in Harvard College v. Amory [9 Pick. (Mass.) 446], that, in investing, all that can be required of a trustee is that he conduct himself faithfully, exercise a sound discretion and observe how men of prudence, discretion, and intelligence manage their own affairs not in regard to speculation but in regard to the permanent disposition of their funds considering the probable income as well as the probable safety of the capital to be invested. It is also the subject of a model uniform rule enacted in only a few remaining states that categorizes certain types of assets as automatically imprudent, looks at each investment separately in determining prudence and prohibits the delegation of responsibilities. Most states, when the uniform rule was first promulgated, adopted the rule as a part of state fiduciary law. Each state is permitted to make changes to model rules, so the specifics of uniform rules, such as the prudent man rule, differ from state to state. The Prudent Man Rule has been replaced in many states with the Uniform Prudent Investor Rule.

Prudent Investor Rule

The latest development in evaluating prudence investments. The current (1992) model uniform act differs from the traditional prudent man rule in that it indicates that: (1) no asset is automatically imprudent but must be suitable to the needs of the beneficiaries, (2) the entire portfolio is viewed when evaluating the prudence of a fiduciary, and (3) certain actions can be delegated to other agents and fiduciaries. ERISA [§ 404(a)(1)(c)] generally follows the approach of the prudent investor rule. A number of states have enacted some version of the model Uniform Prudent Investor Rule.

Present Value

The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Primary Recovery

That oil or gas which is produced without the continuing injection of foreign material into the reservoir to increase the recovery therefrom. Usually production occurs primarily as a result of its own inherent energy.

Prime Rate

The minimum interest rate on bank loans as set by commercial banks and granted to only top business borrowers. The rate is influenced by the size of the loan, and by general business conditions, geographic area, availability of reserves, etc.

Principal
(1) The amount of a debt or loan to be repaid, exclusive of interest charges.
(2) The buyer or seller in a securities transaction.
(3) Cash, securities, realty and other assets that are deposited to create a trust.

A trust may have separate income and principal beneficiaries so the trustee must know whether cash or property held by the trust should be credited as income or principal. Disbursements from these two types of accounts must also be distinguished. Principal is also called the corpus of the trust.

Private Placement
The direct sale of a new issue of securities by the issuer to certain types of investors without using an underwriter as a middleman. SEC registration is not necessary, as these securities are not permitted to be offered to the retail population.

Probate (verb)
To present a will to the court for appointment of the executor or administrator. The act of proving before a court that a will is valid.

Profit Sharing Plan
A defined contribution employee benefit plan established by an employer (usually a corporation) as a means of having the employees share in the profits of the enterprise.

Prototype Plan
A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by banks, insurance companies and mutual funds for the use of employers.

Proxy
A proxy is the authority or instrument that permits a shareholder's voting right to be granted to an agent of the shareholder. Proxy also may mean the person empowered to act as agent to vote in place of the shareholder.

Purchase Money Mortgage
A mortgage given by a purchaser of real property to the seller in part payment of the purchase price.

Put Option
A right to sell a fixed amount of a given stock at a specified price within a limited period of time. The purchaser of the option hopes that the stock's price will go down by an amount sufficient to provide a profit greater than the cost of the contract and the commission and other fees required to exercise the contract.

Qualified Plan
An employer's trust or plan that qualifies under the Internal Revenue Code of 1986 for the exclusive benefit of his employees or their beneficiaries in such manner and form as to entitle the payments made by the employer to the plan to be deductible and the assets held by the trust or plan to remain tax free until distribution.

QDRO (*pronounced "cue-dro"*) qualified domestic relations order.
Court order which may be issued upon a divorce, specifying a spouse's share in certain employee benefit plans. IRA's, 401(k) plans, and defined benefit pension plans are often covered by QDRO's.

QPAM (Qualified Professional Asset Manager)
Term used in ERISA prohibited transaction class exemption (PTE) 84-14 for a bank, thrift, insurance company or registered investment adviser which meets certain minimum capital, net worth or total managed asset thresholds. PTE 84-14 permits transactions between parties in interest with respect to a plan and an investment fund in which the plan invests, provided a "qualified professional asset manager" manages the fund.

QTIP Trust
A Qualifying Terminable Interest Property (QTIP) trusts. A terminable interest that will qualify for the marital deduction if an appropriate election is made by the donor or executor. In order to be QTIP property, the surviving spouse must be entitled to all of the income of the property during the spouse's life and no person including the spouse, may have the right to appoint the property to anyone other than the spouse during the spouse's life. The major benefit of a QTIP marital trust to a grantor is that, at the surviving spouse's death, the remaining trust property is not subject to a general power of appointment in the spouse, but instead passes to beneficiaries selected by the grantor.

Qualified Plan or Trust
An employer's trust or plan that qualifies under §401(a) of the Internal Revenue Code of 1986

Rabbi Trust
A form of employee benefit in which an employer establishes a trust to provide nonqualified deferred compensation to certain key employees. The trust usually contains restrictions on revocation and is subject to claims of general creditors of the employer. Employer contributions are not taxable as income to the employee at the time of contribution. Any income earned prior to distribution to the employee is taxed to the employer. The term "*rabbi*" arose because the first trust of this type approved by the Internal Revenue Service involved a rabbi.

Ram (random access memory)
The generic term for read/write memory, memory that permits bits and bytes to be written to it as well as read from it, in any order or sequence. This type of memory is used for temporary information storage. Access to and from ram is very fast. Ram requires electrical power to function and information in ram is lost when power is turned off.

RAN's (Revenue Anticipation Notes)
Municipal notes maturing in less than one year, issued in expectation of revenue from particular projects.

Real Estate Investment trust
See **REIT**

Record Date
The date set by the directors of the corporation, which determines eligibility to receive the current declared dividend. All shareholders of record on the date set are entitled to the dividend.

Red Herring
Short preliminary form of a prospectus available to potential investors in a new issue before the prospectus is published. Contains company and industry information, financial statements, etc., but does not indicate price per share, which is determined just before the issue is offered for sale. Called a red herring because the front cover bears notices printed in red announcing that it is not the final official prospectus.

Refunding
Redemption of securities by funds raised through the sale of a new issue.

Registered Bond
A bond whose owners' names and addresses are recorded on the issuer's books.

Registered (Bond) as to Interest Only
Bonds of this type have bearer certificates but the issuer records the owner's name and address so that interest checks can be sent automatically when due.

Registered (Bond) as to Principal Only
A bond whose owner's name is inscribed on the certificate and recorded on the issuer's books. Interest coupons are detached from the bond and presented for payment when interest is due.

Registrar
(1) In connection with stock, the agent that affixes its signature to each stock certificate issued, the object being the prevention of over-issuance. (2) In connection with bonds, the agent that maintains the records of who owns an issue of registered bonds, similar to a transfer agent.

REIT
Real Estate Investment Trust; an organization similar to an investment company (mutual fund) in some respects but concentrating its holdings in real estate investments. The yield generally is liberal since REITs are required to distribute as much as 90 percent of their income.

Remainder
The interest in an estate or a trust that is left when there are no more life tenants or income beneficiaries. For example, A conveys Blackacre to B for life upon B's death to C in fee simple. C's interest is a remainder interest. The term "remainder over" is sometimes used in such phrases as "To A for life, with remainder over to B," calling attention to the fact that there is a prior estate or interest.

Remainder Beneficiary or Remainderman
The person who is entitled to a remainder interest of an estate or trust after the income beneficiaries or life tenants has expired. For example, "I devise Blackacre to A for life, remainder to B." A is the life tenant, B, the remainderman. Originally the term applied, and in most states still does apply, to real property only.

REMIC
Acronym for a real estate mortgage investment conduit. This is a pass-through type of investment vehicle created by the Tax Reform Act of 1986 to issue multi-class mortgage-backed securities. REMIC's may be organized as corporations, partnerships or trusts. Those meeting certain qualifications are not subject to double taxation. Interests in REMIC's may be senior or junior, regular (debt instruments) or residual (equity interests). REMIC's generally provide the issuer with more flexibility than a collateralized mortgage obligation (CMO), as they permit mortgage pools to be separated not only into maturity classes but also into risk classes. While CMO's usually have AAA ratings, REMIC's represent a range of risk levels.

Reportable Event
Serious situations involving a defined benefit pension plan or the plan sponsor of such a plan that require a notice to be filed with the PBGC. Events covered include loss of tax qualification, 80% or more drop in participation from the previous year, full or partial plan termination, inability to pay benefits, merger with another plan, bankruptcy of the plan sponsor, etc.

Repurchase Agreement
A repurchase agreement is the transfer of a security for the immediate acquisition of funds with a simultaneous agreement to reacquire the security at a later date.

Residuary Trust
A trust which is composed of the property of the testator, remaining in the estate after the payment of all taxes, debts, expenses, charges and the satisfaction of all other gifts under the will.

Restricted Securities
Restricted securities are nonregistered securities that have been obtained in a transaction not involving a public offering. In selling "restricted" securities, the trust department must comply with the provisions of Rule 144 of the Securities and Exchange Commission.

Resulting Trust
A trust that results in law from the acts of the parties, regardless of whether they intend to create a trust. An example is when a person disposes of property under circumstances which raise an inference that he does not intend that the person taking or holding the property shall have the beneficial interest in it; to be distinguished from an express trust and a constructive trust.

Revenue Anticipation Note
A debt obligation issued by a state or political subdivision to be repaid from the receipt of the anticipated revenue.

Revenue Bonds
A state or local bond whose interest and principal payments are met from the revenues produced by the project financed by the bond issue.

Reverse Repurchase Agreement
An agreement in which “Party A” purchases an asset (financial instrument) from “Party B” and agrees to sell it back to “Party B” for a specified price at a specified date.

Reverse Swap
A swap that has terms opposite those of another swap, therefore effectively canceling the former swap.

Revocable Trust
A trust in which the settlor reserves the right to end the trust and reclaim the trust property at any time.

Round Lot
The usual unit of trading in a security or a multiple thereof. A round lot of stock is generally 100 shares; for bonds, $1,000 par value is typical.

Routine
A registered transfer agent term defined in SEC Rule 17Ad-1(i), as follows: An item is "routine" if it does not:
(1) Require requisitioning certificates of an issue for which the transfer agent, under the terms of its agency, does not maintain a supply of certificates;
(2) Include a certificate as to which the transfer agent has received notice of a stop order, adverse claim or any other restriction on transfer;
(3) Require any additional certificates, documentation, instructions, assignments, guarantees, endorsements, explanations or opinions of counsel before transfer may be affected;
(4) Require review of supporting documentation other than assignments, endorsements, stock powers, certified corporate resolutions, common and ordinary guarantees or tax waivers;
(5) Involve a transfer in connection with a reorganization, tender offer, exchange, redemption or liquidation,
(6) Include a warrant, right or convertible security presented for transfer of record ownership within five business days before any day upon which exercise or conversion privileges lapse or change;
(7) Include a warrant, right or convertible security presented for exercise or conversion; or

(8) Include a security of an issue that within the previous 15 business days was offered to the public, pursuant to a registration statement effective under the Securities Act of 1933, in an offering not of a continuing nature.

Royalty
The right to receive from a given property a share of the oil and/or gas produced or the revenue from the sale thereof. The base royalty payment is usually, but not always, 1/8 of the production. Royalty owners, as such, are not obligated to pay development or operational costs.

Rule Against Perpetuities
A rule of common law that ensures that all trusts come to an end after a certain amount of time. The rule indicates that a trust can only last for a period measured by a life in being at the time of the creation of the trust plus 21 years. In many states, the rule has been modified or been struck by statute.

Safekeeping Account or Agent
An agency account where the institution accepts, holds and returns upon request assets that the principal has delivered.

SAR
Summary Annual Report for ERISA employee benefit plans.

Scale Order
An order to buy (or sell) a security that specifies the total amount to be bought (or sold) and the amount to be bought (or sold) at specified price variations.

SEC
The Securities and Exchange Commission, a government commission of five members organized July 6, 1934, to supervise registration of securities issues and transactions of outstanding securities. The Securities and Exchange Commission administers the Securities Act of 1933, the Securities Exchange Act of 1934, the Trust Indenture Act, the Investment Company Act, the Investment Advisor's Act, and the Public Utility Holding Company Act.

Secondary Distribution
Also known as secondary offering. The redistribution of a block of stock sometime after it has been sold by the issuing company. The sale is handled on the stock exchange by a securities firm and the shares usually are offered at a fixed price that is related to the current market price of the stock.

Secondary Market
Stock exchanges and the over-the-counter markets where securities are sold by one investor to another.

Secondary Recovery
That oil or gas which is produced over and above primary recovery as a result of continuing injection of a foreign material into the reservoir, creating pressure thereon. The oil and/or gas is pushed ahead of the injected material (most commonly, but not always, gas or water) to a producing well.

Securities Lending
A practice where owners of securities, either directly or indirectly, lend their securities to (primarily) brokerage firms for a fee. The borrower pledges either cash, securities or a letter of credit to protect the lender. Securities are borrowed to cover fails of deliveries or short sales, provide proper denominations and enable brokerage firms to engage in arbitrage trading activities.

Security-Based Derivative
These investment instruments are specially tailored from other securities, such as municipal, corporate or U.S. Government agency bonds. While they offer enticing return potential, some carry high degrees of both market risk and income risk. They range from the highly predictable to the highly unpredictable. Examples of the highly unpredictable include inverse floaters, interest-only or principal-only STRIPS. Also called Synthetic Derivatives. See also **Derivatives**.

Short-Term Trust
Also known as a Clifford Trust. The Tax Reform Act of 1986 eliminated the 10-year or clifford trusts exception from grantor-trust taxation rules. It was an irrevocable trust running for a period of ten years or longer, in which the income is payable to a person other than the settlor. At the end of the income term, the property returns to the settlor. The income from a trust of this kind was taxable to the income beneficiary and not to the settlor.

Sell Short
To sell stock one does not own, in the belief that the stock's price will fall and the stock can then be purchased at a lower price than the sale price, thus producing a profit.

Serial Bond
Bonds of the same issue maturing at fixed intervals, over a period of years rather than all at one time.

Settlement Date
The date on which securities delivery and payment are expected as a result of a securities trade. The number of business days permitted between trade date and settlement date vary by type of security and by nature of the transaction. Other types of settlement dates may be:
1) Cash -- securities and payment are delivered on the day the trade is negotiated; 2) When Issued/when distributed -- settlement date depends on when the issue will be issued or distributed; and 3) Seller's option -- settlement date agreed on by buyer and seller.

Settlor
A person who creates a trust, such as a living trust, to become operative during their lifetime; also called a donor, grantor and trustor.

Short Covering
Buying stock to return stock previously borrowed to make delivery on a short sale.

Short Position
Term describing the status of a dealer or trader that has sold more shares than it owns.

Short Term Tax-Exempts
Notes of states, municipalities and local public housing agencies that usually come due within a year.

Signature Guarantee
A guarantee (normally obtained from a commercial bank or securities dealer) of the seller's endorsement that appears on the stock or bond power accompanying the stock certificate that is being sold. The signature guarantee is a requirement of good delivery unless the certificate is in street name.

Simple Trust
A term known only in tax laws to describe a trust that is required to distribute all its income currently and that does not provide for any charitable distribution; opposed to complex trust.

Sinking Fund
Provision in some bond issues which requires the issuer to set money aside during the life of the issue to retire bonds.

SIPC
Securities Investor Protection Corporation. Congressionally chartered corporation that protects investor funds at broker-dealers. In general, when a broker-dealer registers with the SEC, it automatically becomes a member of SIPC. SIPC covers an investor's account for an aggregate of $500,000 in cash and securities, with a maximum of $100,000 cash coverage.

Soft Dollars
The purchase of research materials from brokerage firms and paid for by commissions (or part of the commissions) generated by securities transactions of trust accounts. Covered by Section 28(e)(1) of the Securities Exchange Act of 1934. Opposed to this is the purchase of materials by "hard dollars," which is when payment is made by the trust department itself, typically by issuing a check.

Sole Proprietorship
An unincorporated business owned by one individual.

Special Tax Bonds
Municipal bonds backed by the proceeds of a specific related tax.

Specialist Stock
A member of a stock exchange who has two functions:

- To maintain an orderly market, insofar as reasonably practicable, in the stocks in which he/she is registered as a specialist. The exchange expects the specialist to buy or sell from his/her own account when there is a temporary disparity between supply and demand.
- To act as a broker's broker.

Spendthrift Clause
The provision in a will or trust instrument which limits the right of the beneficiary to dispose of his/her interest, as by assignment and the right of his/her creditors to reach it, as by attachment.

Spendthrift Trust
A trust in which the interest of a beneficiary cannot be assigned or disposed of by him/her or attached or otherwise reached by his/her creditors.

Sponsor
The party that establishes and maintains an employee benefit plan. This is normally the employer or an employee organization (union).

Sprinkling Trusts
Trusts in which the income or principal is distributed among the members of a designated class in amounts and proportions as may be determined in the discretion of the trustee. Also called spraying trusts.

STIF
Acronym for a short term investment fund, a fund that is only invested in money-market securities.

Stock Bonus Plan
A defined contributions employee benefit plan similar to a profit sharing plan, except that employer contributions are not necessarily dependent upon profits and benefits are in the form of employer stock.

Stock Option
Right to purchase stock of employer, generally at a fixed price for a fixed period of time.

Stock Purchase Trust
A trust under which a surviving stockholder of a close corporation may purchase the stock of a deceased stockholder; usually, but not necessarily, an insurance trust.

Stock Split
Division of an outstanding stock issue into a larger number of shares. The intent is to reduce price per share, thus making the stock more affordable for investors and also to increase trading activity. (A stock split does not require the issuer to adjust its capital accounts. A stock dividend does; the capital account is credited and surplus debited for the added shares.)

Stock Transfer Agent
The agent of a corporation appointed for the purpose of effecting transfers of stock from one stockholder to another by the actual cancellation of the surrendered certificates and the issuance of new certificates in the name of the new stockholder. See also **Transfer Agent**.

Stop Payment
A notification to be sent immediately to the paying agent if a bearer bond or its coupon is lost or stolen. The owner, custodian bank or depository, which had the bond or coupon in its possession at the time of theft or loss, issues the stop payment. Stop payments cannot be placed on Treasury obligations or certain municipals. Lost or stolen securities also must be reported to the SEC.

Street Name
Shares of stock owned by a broker's customer but held in the name of the broker.

Sub-Chapter S Corporation
An election available to a corporation to be treated as a partnership for income tax purposes. To be eligible to make the election, a corporation must meet certain requirements as to kind and number of shareholders, classes of stock and sources of income.

Subordinated Debenture
A debt obligation that has unsecured junior claims to interest and principal that is subordinated to ordinary debentures or other debt of the issuing corporation.

Subrogation
The substitution of one person for another with reference to a lawful claim or right and frequently referred to as the doctrine of substitution. It is a device adopted or invented by equity to compel the ultimate discharge of a debt or obligation by him who in good conscience should pay it.

Subscription Right
A right present in some common stock issues that gives the common stockholder the right to buy a proportionate amount of any new common stock issued by the company ahead of the general public.

Successor Trustee
A trustee following the original or a prior trustee.

Surcharge (noun)
An amount that the fiduciary is required by court decree to make good because of negligence or other failure of duty.

Surety
An individual or a company that, at the request of another, usually called the principal, agrees to be responsible for the performance of some act in favor of a third person in the event that the principal fails to perform as agreed; as the surety on an administrator's or a guardian's bond.

Suspense Account
An account in the general ledger used to hold over unposted items so the business day can be closed in a state of balance.

Swap
A forward-type contract in which two parties agree to exchange streams of payments over time according to a predetermined rule. In an **interest rate swap**, one party agrees to pay a fixed interest rate in exchange for receiving a floating interest rate from another party. An **equity index swap** may involve swapping the returns on two different stock market indices or swapping the return on a stock index for a floating interest rate.

Sweep
A function of an accounting system provided by some banks and brokerage houses to customers whose accounts receive funds (perhaps from securities sales), which temporarily await reinvestment. Such funds may be "swept" into an interest- bearing account until there is new investment direction.

Syndicate
A group of investment bankers who together underwrite and distribute a new issue of securities or a large block of an outstanding issue.

Synthetic Derivative
A type of security dependent on other securities. Includes inverse floaters and STRIPS.

TAC (Transfer Agent Custodian Program)
A depository service to speed the transfer process when new physical certificates must be issued. Part of the depository's COD (Certificate on Demand) program. The depository sends all or part of its certificates for one issue to the transfer agent. The transfer agent cancels those certificates, prepares a matching large balance certificate in the nominee name of the depository and holds it in safekeeping. The depository requests physical certificates when needed; the transfer agent registers and forwards the certificates and reduces the amount of the balance certificate. Turnaround time for this TAC program is 72 hours. A refinement that speeds turnaround to three hours is called FAST/TAC.

Tangible Costs
Those costs incurred for equipment used to drill and produce an oil and/or gas well.

TANS (Tax Anticipation Notes)
The most common type of municipal note sold in anticipation of tax receipts.

Target Plan
A type of employee benefit plan that combines elements of both defined contribution and defined benefit plans. It is like a defined benefit plan in that the annual contribution is determined by the amount needed each year to accumulate (at an assumed rate of interest) a fund sufficient to pay a projected retirement benefit (the target benefit) to each participant on reaching retirement age. This is where the similarity ends. In a defined benefit plan, if the actual experience of the plan differs from the actuarial assumptions used (for example, if the interest earned is higher or lower than the assumptions), then the employer either increases or decreases its future contributions to the extent necessary to provide the promised benefits. In a target benefit plan, however, the contribution, once made, is allocated to separate accounts maintained for each

participant. Thus, if the earnings of the fund differ from those assumed, this does not result in any increase or decrease in employer contributions; instead, it increases or decreases the benefits payable to the participant.

Tax Free Rollover
Provision whereby an individual receiving a lump sum distribution from a qualified pension or profit sharing plan can preserve the tax deferred status of these funds by a "rollover" into an IRA or another qualified plan if rolled over within sixty days of receipt.

Technical Analysis
Predicting future stock prices based on analysis of past stock prices and other internal market factors, such as volume, breadth, highs and lows.

Tenancy by the Entirety
Denotes joint ownership by husband and wife. Each has full ownership but cannot dispose of the security without permission from the spouse. Upon the death of one, the survivor becomes the full owner.

Tenancy in Common
Denotes ownership by two or more persons without rights of survivorship. Upon death of one owner, the decedent's share passes to his/her heirs.

Tender Offer
A public offer to buy shares from existing stockholders of one public corporation by a third party under specific terms for a certain period of time. Stockholders are asked to tender (surrender) their holdings for a stated value, usually at a premium above current market price, subject to the tendering of a minimum number of shares.

Term Life Insurance
A form of life insurance written for a specified period that requires the policyholder to pay only for the cost of protection against death; that is, no cash value is built up as in whole life insurance. Every time the policy is renewed, the premium is higher, since the insured is older and statistically more likely to die.

Testamentary Trust
A trust established by the terms of a will that becomes effective after the death of the testator. Also called a trust under will, as distinguished from a living trust.

Testate (adjective)
Having made and left a valid will; opposed to intestate.

Testator
A man who has made and left a valid will at his death.

Testatrix
A woman who has made and left a valid will at her death.

Thin Market
A market in which there are comparably few bids to buy or offers to sell or both. The phrase may apply to a single security or to the entire security market. In a thin market, price fluctuations between transactions are usually larger than they are when the market is liquid. A thin market in a particular security may reflect a lack of interest or a lack of demand for the security.

Third Market
Trading of stock exchange listed securities in the over-the-counter market by nonexchange member brokers and all types of investors.

Tickler
Any record established to serve as a reminder of action to be taken on a fixed future date. It is always arranged in the order on which such action is to be taken.

Time Value
The difference between the total value of an option and the option's intrinsic value.

"Totten" Trust
Trust created by deposit of one's own money in his own name as trustee for another. Title is vested in the record owner (trustee), who during his life holds it on a revocable trust for the named beneficiary. At the death of the depositor a presumption arises that an absolute trust was created as to the balance on hand at the death of the depositor.

Trade Date
Date on which a securities trade was actually made (executed).

Tranches
(1) Risk maturity or other classes into which a multi-class security, such as a collateralized mortgage obligation (CMO) or real estate mortgage investment conduit (REMIC) is split. (2) Sub-units of a large ($10 - $30 million) Eurodollar certificate of deposit that are marketed to smaller investors in $10,000 denominations. These are represented by separate certificates and have the same issue date, interest rate and maturity as the original instrument.

Transfer Agent
A corporate agency account whose duties are to transfer stock from one owner to another. A transfer agent maintains records of shareholders and issues stock certificates. Transfer agents which transfer stock of companies with, generally, 500 stockholders and $1 million in assets must register with either the SEC or its banking agency (as appropriate) under section 17a of the Securities and Exchange Act of 1934. A transfer agent for bonds usually is known as a registrar.

Treasury Bills
Short-term direct obligations of the U.S. Government. Often referred to as T-Bills. They are issued with maturities of three months, six months or one year, in denominations of $10,000 and up in multiples of $5,000.

Treasury Bonds
Long-term direct obligations of the U.S. Government issued with maturities of five to 30 years, paying interest semiannually.

Treasury Notes
Short- to intermediate-term direct obligations of the U.S. Government issued with maturities of one to seven years, paying interest semiannually.

Treasury Stock
Issued stock that a corporation has bought back from its stockholders. Not entitled to vote or receive dividends.

Triple Witching
The last trading hour on the third Friday of March, June, September and December when options and futures on stock indexes expire concurrently. Massive trades in index futures, options and underlying stocks by hedge strategists and arbitragers cause abnormal activity and volatility.

Trust
A fiduciary relationship in which one person (the trustee) is the holder of legal title to property (the trust property) subject to an equitable obligation (an obligation enforceable in a court of equity) to keep or use the property for the benefit of another person (the beneficiary).

Trust Committee
A committee of directors or officers or both of a trust institution charged with general or specific duties relating to its trust business.

Trust Agreement/Instrument
An instrument in writing that contains:

- A description of all property originally placed in trust.
- The duties of the trustee in administering the property.
- The rights of the beneficiaries named, along with their proportionate share in the trust.
- The duration of the trusteeship.
- The distribution of income from the trust principal to the life tenants.
- The distribution of the trust property to the remainder beneficiaries at the termination of the trust.

Trust Relationship
When an individual or other legal entity takes over legal title to certain property to hold it in trust for another individual or other legal entity as specified in the "trust indenture" (see definition). The legal entity taking possession of the property is the "trustee"; the legal entity who will benefit from the relationship is the beneficiary. The beneficiary has an equitable interest in the property and may bring suit in courts of equity to maintain his/her rights as set forth in the trust agreement and to prevent mishandling of the property by the trustee.

Trust Under Agreement
A trust evidenced by an agreement between the settlor and the trustee.

Trust Under Deed
A trust evidenced by a deed of conveyance, as distinguished from an agreement; originally confined to real property but now frequently applied to personal property as well.

Trust Under Will
A trust created by a valid will, to become operative only on the death of the testator, opposed to a living trust and the same as testamentary trust.

Trustee
An individual or a trust institution that holds legal title to property for the benefit of someone else.

Trusteed Pension Plan
A pension plan in which the corporation's contributions to the plan are placed in a trust for investment and reinvestment as distinguished from a plan in which the benefits are secured by life insurance.

Trustor
A person who creates a trust; a broad term that includes settlor, testator, grantor and donor.

Unified Credit
A dollar amount allocated to each taxpayer that can be applied against the gift tax, the estate tax and, under certain circumstances, the generation-skipping tax.

Uniform Gifts to Minors Act
An act adopted by most states providing for a means of transferring property to a minor.

Unit Investment Trust
An investment vehicle registered with the SEC under the Investment Company Act of 1940 that purchases a fixed portfolio of securities. Units in the trust are sold to investors, who receive a proportionate undivided interest in the principal and income of the portfolio. The portfolio of securities remains fixed until the securities mature or, unusually, are sold.

Unit Operator
The individual or firm elected by the owners of a unit to perform drilling and/or producing functions.

Universal Life Insurance
A form of life insurance that combines the low-cost protection of term life insurance with a savings portion, which is invested in a tax-deferred account earning money-market rates of interest. The policy is flexible, that is, as age and income change, a policyholder can increase or decrease premium payments and coverage or shift a certain portion of premiums into the savings account, without additional sales charges or complications.

Unsecured Loan
A loan made by a bank based upon credit information on the borrower and his/her ability to repay his/her obligations. The loan is not secured by collateral but is made on the signature of the borrower.

Variable Amount Note
Note evidencing the amount the trust department lends to a borrower from cash held in various fiduciary accounts; the amount of the loan outstanding fluctuates depending on the amount of cash on hand.

Variable Life Insurance
Innovation in whole life insurance gives policyholders the opportunity to earn substantial capital gains on their insurance investment. Insurance companies began to underwrite a variable life policy that allows its cash value to be invested in stock, bond or money market portfolios. Investors can elect to move from one portfolio to another or can rely on the company's professional money managers to make such decisions for them. As in whole life insurance, the annual premium is fixed but part of it is earmarked for the investment portfolio. The policyholder bears the risk of securities investments and the insurance company guarantees a minimum death benefit unaffected by any portfolio losses. Variable life insurance differs from universal life insurance. Universal life allows policyholders to increase or decrease premiums and change the death benefit. It also accrues interest at market-related rates on premiums in excess of insurance charges and expenses.

VEBA
Acronym for Voluntary Employees' Benefit Association. A tax exempt fund that pays death, health, accident or other benefits to plan participants, their dependents and/or beneficiaries. Generally covered under Section 501(c)(9) of the Internal Revenue Code.

Vest (Verb)
To confer an immediate, fixed right of immediate or future possession and enjoyment of property.

Vested Interest
An immediate, fixed interest in real or personal property, although the right of possession and enjoyment may be postponed until the happening of some event, to be distinguished from a contingent interest.

Vesting
An employee's right to receive a present or future pension benefit vests when it is no longer contingent upon his/her remaining in the service of the employer. Employee contributions are always fully vested; however, interest upon such contributions may not be vested or may be paid at a specified rate, depending upon plan provisions. A vested benefit may be paid as a lump sum or, frequently, is paid as a deferred annuity upon retirement. Under ERISA, certain minimum vesting standards are prescribed.

Volatility
The degree of price fluctuation for a given asset, rate or index. Usually expressed as variance or standard deviation.

Voting Right
The stockholder's right to vote his/her stock in the affairs of a company. Most company shares have one vote each. Preferred stock usually has the right to vote when preferred dividends are in default for a specified period. T he right to vote may be delegated by the stockholder to another person.

Voting Trust
A form of business organization wherein the owners of a part or all of the stock of a company transfer their shares to trustees to vote them. They receive in return transferable voting trust certificates that entitle them to any dividends on the stock.

Waiver
The voluntary relinquishment of a right, privilege or advantage. The document by which the relinquishment is evidenced.

Ward
A person who by reason of minority, mental incompetence or other incapacity is under the protection of the court either directly or through a guardian, committee, curator, conservator or tutor.

Warrants
Certificates given to its stockholders or bondholders by an issuer that allows the holder to purchase a specific amount of its securities at a set price. A warrant can be sold to another investor if the holder chooses not to exercise the warrant.

Wasting Asset
Assets that are exhausted through use or lose their value through the passage of time, such as oil wells, mining claims and patents.

Welfare Plans
A term defined by Section 3(1) of ERISA as employee benefit plans which provide the following types of benefits: medical, surgical, hospital care or benefits, sickness, accident, disability, death or unemployment or vacation benefits. Also includes apprenticeship or other training programs, day care centers, scholarship funds, prepaid legal services and similar types of benefits other than pensions.

Whole Life Insurance
A form of life insurance policy that offers protection in case the insured dies and builds up cash value. The policyholder usually pays a set annual premium for whole life that does not rise as the person grows older (as in the case with term insurance). The earnings on the cash value in the policy accumulate tax-deferred

and can be borrowed against in the form of a policy loan. The death benefit is reduced by the amount of the loan, if the loan is not repaid. Because whole life insurance traditionally offered a low return on the policyholder's investment, many policyholders beginning in the 1970s switched to new, higher-earning forms of whole life, such as universal life insurance and variable life insurance.

Will
A legally enforceable declaration in writing of a person's wishes regarding matters to be attended to after his/her death. A will usually, but not always:

- Relates to the testator's property
- Is revocable (or amendable by means of a codicil) up to the time of his/her death.
- Is applicable to the situation that exists at the time of his/her death.

Working Interest
A type of participation in mineral rights. The holder shares in the cost of developing and maintaining the mineral lease. This holder therefore receives a proportionally higher percentage return of income than a holder of a royalty interest, where costs are not shared.

Wrap
A wrap account is an account offered by a broker or investment dealer where the investor is charged an annual management fee for all services, usually based on the value of invested assets. Wrap fees are paid in lieu of commissions in such an account.

Wrap-Around Mortgage
A refinancing technique used in times of increasing or higher interest rates in which the lender assumes payment of the existing mortgage and gives a new, increased mortgage to the borrower at a higher interest rate. As defined by its name, the new mortgage "wraps around" the original one. The increased amount is always second to the existing lien.

Yield
Annual percentage rate of return on capital. The dividend or interest paid by a company expressed as a percentage of the amount invested.

Yield-to-Maturity
The rate of return calculated by dividing the total income received from an investment, plus the increments through appreciation minus the loss through amortization, by the original cost of the investment.

Z PAC
A derivatives term. Similar to a Z Tranche but holders also receive principal if prepayments fall within a specified range.

Z Tranche
A derivatives term for a tranche with a stated interest but where the interest is not paid until certain other classes have been paid.

Zero Coupon Bond
A term applied to debt securities that are offered initially by the issuer at a deep discount from face value. The final repayment at maturity date covers principal and all interest payments for the life of the security.