2013

Risk Control Assessment Glossary

Term	Definition
1031 Tenancy in Common	A form of real estate asset ownership in the United States in which two or more persons have an undivided, fractional interest in the asset, where ownership shares are not required to be equal, and where ownership interests can be inherited.
529 Plans	A program established by a state as a "qualified tuition program" pursuant to Section 529 of the Internal Revenue Code. Under a 529 college savings plan, a person may make contributions to an account established for the purpose of meeting the qualified higher education expenses of the designated beneficiary of the account.
Agency	Securities issued by government-sponsored enterprises such as Ginnie Mae, Fannie Mae or Freddie Mac.
Algorithms	A set of rules generated by computer-based decision making for order initiation, generation, routing, or execution for individual transactions without human direction.
Anti-Spyware Software	A program that specializes in detecting both malware and non-malware forms of spyware.
Anti-Virus Software	A program that monitors a computer or network to identify all major types of malware and prevent or contain malware incidents.
Application Firewall	A hardware/software capability that limits access between networks and/or systems in accordance with a specific security policy.
Asset-Backed Commercial Paper (ABCP)	Short-term debt secured by assets.
Asset-Backed Securities	A financial security backed by a loan, lease or receivables against assets other than real estate and mortgage-backed securities.
Auction Rate Securities	A debt security for which the interest rate resets on a periodic basis through an auction process. The typical auction process is one referred to as a Dutch auction in which securities are sold at the lowest interest rate, or "clearing rate," at which all of the securities that have been offered for sale by current holders of the securities will clear the market.
Biometrics	A measurable physical characteristic or personal behavioral trait used to recognize the identity, or verify the claimed identity, of an applicant. Facial images, fingerprints and iris scan samples are all examples of biometrics.
Business Development Companies	A category of closed-end funds that are operated for the purpose of making investments in small and developing businesses and financially troubled businesses.
Certificates of Deposit (CD)	A FDIC-insured savings certificate issued by a bank to a depositor for a specified length of time. The bank pays a predetermined interest rate to the depositor for the duration of the CD.
Clearing	The practice of handling clearance and settlement activities for the firm itself or performing clearing activities for correspondents.

Term	Definition
Closed-End Funds	An investment company that issues shares like any other corporation and usually does not redeem its shares. A closed-end fund is a publicly traded fund sold on stock exchanges or over the counter that may trade above or below its net asset value.
Closed-End Mutual Funds (CEF)	A type of investment company whose shares are traded on the open market and invests in a portfolio of securities and is typically managed by an investment management firm. CEFs are closed, in the sense that capital does not regularly flow into them when investors buy shares, and it does not flow out when investors sell shares.
Cloud Computing	Internet-based computing, whereby shared resources, software, and information are provided to computers and other devices on demand.
Collateral Transformation	The practice of offering cash for collateral to companies and/or funds in exchange for less liquid securities.
Collateralized Loan Obligations	A security backed by a pool of commercial or personal loans, structured so that there are several classes of bondholders with varying maturities, called tranches.
Commercial Paper	An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates.
Commodities Futures Funds	A fund that holds commodity-linked derivative instruments (futures).
Commodity Swaps	A swap in which exchanged cash flows are dependent on the price of an underlying commodity.
Commodity-Linked Notes	A structured product that pays a return linked to the performance of a commodity or basket of commodities over a defined period. On the maturity date, the note pays the initial principal amount plus return, if any, based on the percentage change in the underlying commodity (or basket).
Correspondent Clearing	The practice of servicing non-clearing broker-dealers by comparing and settling the correspondent's contra broker trades.
Credit Default Swaps (CDS)	A credit derivative contract between two parties where the buyer makes periodic payments (over the maturity period of the CDS) to the seller in exchange for a commitment to a payoff if a third party defaults. Generally used as insurance against default on a credit asset, but can also be used for speculation.
Credit-Linked Notes	A structured product linked to an underlying index.
Currency Swaps	An agreement to swap a series of specified payment obligations denominated in one currency for a series of specified payment obligations denominated in a different currency (usually fixed for fixed).
Day Trading	The practice of rapidly buying and selling stocks throughout the day.
Denial of Service	An attack that prevents or impairs the authorized use of networks, systems or applications by exhausting resources.
Direct Market Access	This refers to electronic facilities that give investors a way to interact directly with the order book of an exchange.
Direct Participation Plans (DPPs)	A business venture designated to let investors participate directly in the cash flow and tax benefits of the underlying investment.

Term	Definition
Electronic Communications Network (ECN)	An electronic system that disseminates information to interested parties about the orders entered into the network and allows these orders to be executed. ECNs internally match buy and sell orders or represent the highest bid prices and lowest ask prices on the open market.
Encryption of Data (in storage)	The process of changing plain text into cipher text for the purpose of security or privacy.
Equity Indexed Annuities	An insurance company product purchased either in a lump sum or with a series of payments. The insurance company credits the holder with a return that is based on performance of an equity index, such as the S&P 500 Composite Stock Price Index. The insurance company may guarantee a minimum return. After the accumulation period, the insurance company makes periodic payments under the terms of the contract or in a lump sum.
Equity-Linked Notes	A structured product linked to an underlying index.
Execution	The completion of a buy or sell order for a security.
Exchange Non-Floor Broker	Firms that execute transactions away from an exchange floor on behalf of the firm's clients and other broker/dealers.
Exchange-Traded Funds (ETF)	A basket of stocks similar to an index mutual fund. The ETF can be traded within the day, can be shorted and purchased on margin (and options even exist on some ETFs).
Exchange-Traded Notes	Unsecured, unsubordinated debt securities that are traded on an exchange and offer returns based on the performance of a market index upon maturity. As they are issued by an underwriting bank, their value also depends on the credit rating of the issuer.
Exploitation of a User's Social Network Profile	The process of attempting to trick someone into revealing information (e.g., a password) or performing certain actions, such as downloading and executing files that appear to be benign but are actually malicious.
External Penetration Testing	The act of mimicking the action of an attacker exploiting weaknesses in the network security.
Financial Planning	The practice of providing financial planning services.
Fixed Annuities	Contracts in which an insurance company or issuing financial institution pays a fixed dollar amount of money per period.
Floor Broker	Firms that execute transactions on an exchange floor on behalf of the firm's clients and other broker/dealers.
Foreign Exchange-Linked Notes	A type of currency-linked note that pays a return linked to a foreign exchange market or a select basket of currencies.
Foreign Sovereign Debt	Bonds issued by a national government in a foreign currency.
Forensic Investigation	The practice of gathering, retaining and analyzing computer-related data for investigative purposes in a manner that maintains the integrity of the data.
Forensic Tools	Tools used for a computer forensics investigation. Typical forensic analysis includes a review of material on the media, reviewing the Windows registry for suspect information, discovering and cracking passwords, keyword searches for topics related to the crime, and extracting email and pictures for review.
Forwards	A contract that specifies the price and quantity of an asset to be delivered in the future. Forward contracts are not standardized and are traded over the counter.

Term	Definition
Fund of Funds	An investment company that acquires securities issued by any other investment company registered under the 1940 Act in excess of the amounts permitted under paragraph (A) of Section 12(d)(1) of the 1940 Act.
Futures	A legally binding agreement to buy or sell a commodity or financial instrument in a designated future month at a price agreed upon at the initiation of the contract by the buyer and seller. Futures contracts are standardized according to the quality, quantity, and delivery time and location for each commodity or financial instrument.
Hedge Fund Management	Firms that manage a portfolio of investments that employ advanced strategies including, but not limited to leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating absolute returns or returns over a particular benchmark.
Hedge Funds	Hedge funds are organized by professional investment managers who frequently have a significant stake in the funds they manage and receive a management fee that includes a substantial share of the performance of the fund. Hedge funds do not make public offerings of their securities.
High-Frequency Trading	A form of automated trading that employs algorithms for decision-making, order initiation, generation, routing or execution for each individual transaction without human direction. This form of trading utilizes low-latency technology designed to minimize response times, and high-speed connections to markets for order entry.
High-Yield Corporate Debt	Corporate bonds that are below investment grade, commonly defined as bonds receiving a Standard & Poor's (S&P) rating below BBB or a Moody's rating below Baa. Therefore, a fund using the term "high-yield" in its name generally must have a policy to invest at least 80 percent of its assets in bonds that are below investment grade.
Illiquid or Hard-to-Price	The state of a security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value. Illiquid assets also cannot be sold quickly because of a lack of ready and willing investors or speculators to purchase the asset.
Interest Rate Swaps	A binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. For example, one party will pay fixed and receive variable.
Interest Rate-Linked Notes	A structured product that pays their return based upon the movement of an interest rate index such as LIBOR, Constant Maturity Treasury (CMT) rates, Constant Maturity Swap (CMS) rates, Fed Funds, or Treasury securities.
Intermediary for Foreign Brokers	The practice of acting as an intermediary for foreign brokers which have both domestic and foreign offices.
Internal Penetration Testing	The act of mimicking the action of what an insider attack could accomplish.
Intrusion	Unauthorized act of bypassing the security mechanisms of a system.
Intrusion Prevention System	System(s) that can detect an intrusive activity and can also attempt to stop the activity, ideally before it reaches its targets.
Inverse Exchange-Traded Funds	Inverse ETFs (also called "short" funds) seek to deliver the opposite of the performance of the index or benchmark they track.
Investment Advisory Services	The practice of providing investment advisory services.

Term	Definition
Investment Grade Corporate Debt	A bond that is assigned a rating in the top four categories by commercial credit rating companies. S&P classifies investment-grade bonds as BBB or higher, and Moody's classifies investment-grade bonds as Baa or higher.
Leveraged Exchange-Traded Funds	Leveraged ETFs seek to deliver multiples of the performance of the index or benchmark they track.
Leveraged Loan Financing	Loans extended to companies or individuals that already have considerable amounts of debt. Lenders consider leveraged loans to carry a higher risk of default and, as a result, a leveraged loan is more costly to the borrower.
Leveraged Loan Products	Debt from companies with below investment-grade credit ratings. Leveraged loans are typically secured with a lien on the company's assets and are generally senior to the company's other debt.
Life Settlement / Viaticals	A financial transaction in which a policy owner sells an existing life insurance policy to a third party for more than the policy's cash surrender value, but less than the net death benefit.
Lines of Credit	An arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the bank will permit the borrower to maintain. The borrower can draw down on the line of credit at any time, as long as he or she does not exceed the maximum set in the agreement.
Listed Equities	A stock or any other security representing an ownership interest that sells on a registered exchange.
Listed Options	An option that has been accepted for trading on an exchange.
Malware Infection	A program that is inserted into a system, usually covertly, with the intent of compromising the confidentiality, integrity, or availability of the victim's data, applications, or operating system or of otherwise annoying or disrupting the victim.
Market Making	Firm that maintains a bid and ask price in a given security by standing ready, willing, and able to buy or sell securities at publicly quoted prices.
Market-Linked Notes	A structured product linked to an underlying index.
Mergers and Acquisition Advisory	The practice of assisting the firm's corporate clients in recommending, structuring, and acting as an intermediary in mergers and acquisitions.
Money Market Mutual Funds	A mutual fund that invests only in short-term securities, such as bankers' acceptances, commercial paper, repurchase agreements and government bills. The net asset value per share is maintained at $1. Such funds are not federally insured, although the portfolio may consist of guaranteed securities and/or the fund may have private insurance protection.
Mortgage-Backed Securities	Securities backed by a pool of mortgage loans.
Municipal Debt	A general term referring to securities issued by local governmental subdivisions such as cities, towns, villages, counties or special districts, as well as securities issued by states and political subdivisions or agencies of states.
Mutual Funds	An investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money-market instruments and similar assets. Mutual funds are operated by money managers, who invest the fund's capital and attempt to produce capital gains and income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

Term	Definition
Network or System Application Penetration by Outsider	Unauthorized act of bypassing the security mechanisms of a system.
Non-Agency	Securities not issued by government-sponsored enterprises such as Ginnie Mae, Fannie Mae or Freddie Mac.
Options	A contract that, in exchange for the option price, gives the option buyer the right, but not the obligation, to buy (or sell) a financial asset at the exercise price from (or to) the option seller within a specified time period, or on a specified date (expiration date).
OTC Equities	A stock or any other security representing an ownership interest that sells over the counter.
OTC Options	Options traded on the over-the-counter (OTC) market, where participants can choose the characteristics of the options traded.
Password Sniffing	A passive technique that monitors network communication, decodes protocols, and examines headers and payloads for passwords and other information of interest.
Penny Stocks/Low-Priced Securities	A non-Nasdaq and non-exchange-listed equity security, currently priced under $5 per share, that is issued by a company with less than a specified amount of net tangible assets, continuous operations or annual revenues.
Pension Plan Administration Services	Offering any administrative, accounting or any other non-investment related services to a pension plan/fund.
Personally Identifiable Information (PII)	Information that can be used to distinguish or trace an individual's identity, such as their name, social security number, biometric records, etc., alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother's maiden name, etc.
Phishing	Tricking individuals into disclosing sensitive personal information through deceptive computer-based means.
PIPE/SPAC Financing	A special-purpose acquisition company (SPAC) allows public stock market investors to invest in private equity type transactions. A Private Investment in a Public Entity (PIPE) involves the selling of publicly traded securities to private investors.
Principal Protected Notes	A fixed-income security that guarantees a minimum return equal to the investor's initial investment (the principal amount).
Private Cloud	Has data centers inside your company's firewall. It may also be a private space dedicated to your company within a cloud provider's data center.
Private Equity Funds	Any private fund that is not a hedge fund, liquidity fund, real estate fund, securitized asset fund or venture capital fund and does not provide investors with redemption rights in the ordinary course.
Private Placement Underwriting (Non-Pipe)	The practice of engaging in the structuring, distribution or retailing of private placement of securities pursuant to one or more of the exemptions from registration.
Private Securities	Securities not registered with the SEC nor filed with FINRA, and are not publicly traded
Private Wealth Management / Private Banking	Firms that offer premium financial services to high net worth individuals or accredited investors.

Term	Definition
Producing Manager	A Producing manager is a branch office manager, sales manager, regional or district sales manager, or any person who performs a similar supervisory function AND who services customer accounts in a capacity requiring registration.
Promissory Notes	A written, dated and signed two-party instrument containing an unconditional promise by the maker to pay a definite sum of money to a payee on demand or at a specified future date.
Proprietary Mutual Funds	An investment program funded by shareholders that trades in diversified holdings and is professionally managed by the sponsoring firm or an affiliate of the sponsoring firm.
Proprietary Trading	Firm that engages in trading activity on behalf of its own accounts and assumes the market, credit and other financial risks associated with that activity.
Public Cloud	Cloud Services offered over the public Internet and available to anyone who wants to purchase the service.
Real Estate Investment Trusts (REITs)	REITs invest in real estate or loans secured by real estate and issue shares in such investments.
Real Estate Investment Vehicle	A security that sells like a stock and invests in real estate directly, either through properties or mortgages.
Reverse Convertible Securities	Reverse-convertibles are debt obligations of the issuer that are tied to the performance of an unrelated security or basket of securities. These are structured products that generally consists of a high-yield, short-term note of the issuer that is linked to the performance of an unrelated reference asset—often a single stock but sometimes a basket of stocks, an index or some other asset. The product works like a package of financial instruments that typically has a debt instrument component and a derivative component.
Reverse Merger Support	The practice of being involved in any manner with the structuring or participation in reverse merger activity.
Securities Lending	The practice of lending out securities for a fee.
Securities or Debt Underwriting	The practice in which investment banks raise investment capital from investors on behalf of corporations and governments that are issuing securities.
Securitization of Debt	The financial practice of pooling various types of contractual debt and selling said debt as bonds, pass-through securities, or Collateralized Mortgage Obligation (CMOs) to various investors.
Sponsored Access	The practice of a "Sponsoring Member" providing access to the Nasdaq Execution System ("Nasdaq") and other exchanges on an agency basis to another firm or customer.
Stress	A simulation technique used on asset and liability portfolios to determine their reactions to different financial situations. Stress tests are also used to gauge how certain stressors will affect a company or industry. They are usually computer-generated simulation models that test hypothetical scenarios.
Structured Product Manufacturing	The practice of engaging in the creation of structured products
U.S. Government Debt	Bonds issued by the United States government in order to finance the country's growth.

Term	Definition
Unit Investment Trusts	An investment company that (A) is organized under a trust indenture, contract of custodianship or agency or similar instrument, (B) does not have a board of directors, and (C) issues only redeemable securities, each of which represents an undivided interest in a unit of specified securities; but does not include a voting trust.
Unregistered Securities	A stock that does not have an effective registration statement on file with the SEC.
Variable Annuities	A contract between an investor and an insurance company, under which the investor makes a lump-sum payment or series of payments. In return, the insurer agrees to make periodic payments to the investor beginning immediately or at some future date.
Variable Life Insurance	A variation of whole life insurance that offers a fixed premium schedule and a minimum death benefit. But it differs from traditional whole life insurance in that cash values are invested in portfolios of securities in an account separate from the general assets of the insurance company. A policyholder has discretion in choosing the mix of investments the policy offers. The insurance company does not guarantee investment returns and your cash value will fluctuate.
Variable Rate Demand Notes	A note that is payable on demand and bears interest tied to a money-market rate.
Web/URL Filtering	A program that prevents access to undesirable websites, typically by comparing a requested website address to a list of known bad websites.
Website Defacement	An attack on a website that changes the visual appearance of the site.

Investor protection. Market integrity.

1735 K Street, NW
Washington, DC 20006-1506

www.finra.org
© 2013 FINRA. All rights reserved.

13_0200.1 – 04/13